California State Assembly

Agenda

Assembly Budget Subcommittee No. 2
on Human Services, & Assembly Budget Subcommittee No. 3
on Education Finance

Assemblymembers Dr. Corey Jackson & David Alvarez, Chairs

Wednesday, April 24, 2024

Upon Adjournment of the Joint Hearing of Budget 2 and Budget Sub 3
State Capitol, Rm 444

JOINT HEARING

ITEMS TO BE HEARD

Public Comment will be taken in person after the completion of all panels and any discussion from the Members of the committees.

Items To Be Heard

6100 California Department of Education
5180 California Department of Social Services
7760 Office of Public School Construction

Issue 1: Transitional Kindergarten Facilities Proposal

This panel will review the existing facility investments for Transitional Kindergarten, and the January Budget proposal to delay $550 million in new funding.

Panel

- Alex Anaya Velazquez, DOF
- Sara Cortez, LAO
- Rebecca Kirk, Office of Public School Construction (OPSC)
- Sarah Neville-Morgan, CDE

Background

***TK and Full-day Kindergarten (FDK) Facilities*.** The 2018-19 budget provided $100 million in one-time non-Proposition 98 General Fund for the Full-Day Kindergarten Facilities Grant Program, in order to address unique kindergarten classroom facility needs that may be inhibiting LEAs from offering full day kindergarten. Priority for the grants was provided to districts with financial hardship or districts that have a high population of low-income students. According to the Office of Public School Construction (OPSC), LEAs submitted a total of $405 million in applications for this initial FDK program. In the 2019-20 Budget Act, another $300 million in funding was provided to support three additional rounds of grants. However, this money was rescinded in the 2020-21 Budget Act in anticipation of a COVID-19 recessionary impact on the overall State Budget.

The 2021-22 Budget Act provided $490 million non-Proposition 98 General Fund in additional funding for this program, and expanded eligible classrooms for schools to construct or renovate State Preschool, TK, and full-day kindergarten classrooms.

The 2022-23 Budget Act included a multi-year agreement on TK/FDK facilities, to increase the program with $100 million, and an additional $550 million, one-time General Fund, in the 2023-24 Budget. The final 2023-24 Budget Act delayed the final $550 million to 2024-25.

The California Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program provides one-time grants to school districts (and community colleges for preschool

only) to increase the number of full-day preschool, TK or kindergarten classrooms by either: 1) constructing new school facilities; or, 2) retrofitting existing school facilities. Applicants must hold title to the real property where the facilities will be located, and funds do not impact School Facility Program eligibility.

CDE Universal Pre-Kindergarten Survey Data

As part of CDE's surveys for UTK implementation, facility needs were assessed in Fall 2022. A total of 1,386 local educational agencies responded to this survey (828 school districts and 558 charter schools) based on their 2022–23 school year. 250 LEAs reported insufficient classroom space to accommodate UTK in 2025-26, for an estimated 947 unfunded classrooms statewide.

269 LEAs reported that planned UTK classrooms were not in compliance with Kindergarten space requirements, needing a range of modifications including:

- The classroom needs to be bigger to meet the square footage requirements.
- Need to build appropriately sized classrooms or buy and install portables that meet the criteria.
- Need new playground facilities that meet the requirements.
- A restroom needs to be added to the classroom.
- Classrooms do not have a wet/dry area.

304 (22%) LEAs reported no or lacking adequate adaptive equipment for UTK classrooms to accommodate students with disabilities.

According to OPSC, a total of $680.9 million has been appropriated to LEAs, and $4.6 million has been encumbered by OPSC for administrative purposes. More than $1 billion in applications for over 1,500 classrooms remains on the program's unfunded list.

LAO Comments

Early Education Facility Funds Would be Too Late to Support TK Expansion. Delaying early education facilities funding provides non-Proposition 98 General Fund savings in 2024-25 to address the projected budget problem. If enacted, the proposed delay would no longer be aligned with a key intent to support school districts with TK expansion. Under the Governor's budget, the funding will become available after school districts are required to provide TK to a full cohort of students.

Consider Including Early Education Facilities in Potential Bond. Given the significant operating deficits facing the state in the out years, the Legislature may want to forego the $550 million for early education facilities entirely. If the Legislature is interested in supporting early education facilities, it may want to explore including it in the potential bond as an allowable use.

Staff Comments

Is there need for more UTK facility funding? The Office of Public School Construction has an unfunded application list of over $1 billion. While there is insufficient General Fund in the Budget Year to accommodate this program, the need certainly exists. Insufficient classroom space could put full implementation of quality UTK at risk on the current 2025-26 timeline.

Questions:

- What is the current estimated demand for TK facility funds, beyond the $1 billion on OPSC's unfunded list?

- Should TK facilities be considered as a unique program category for the next statewide School Bond?

Staff Recommendation: Discussion Only. This proposal was adopted as part of the early action Budget package in AB 106 (2024).

Issue 2: Childcare Access Expansion Oversight & Methodology Proposals

This panel will consider the January Budget proposals to change DSS's methodology for estimating the annual appropriation costs for new child care program slots in General Child Care (GCC) and the California Alternative Payment Program (CAPP), in the context of the state's historic child care access expansion goals.

Panel

- Tamar Weber, DOF
- Jackie Barocio, LAO
- Lupe Jaime-Mileham, DSS
- Erik Saucedo, California Budget and Policy Center
- Jacqueline Wyse, Folsom Cordova Unified School District

Background

Child Care Access Expansion

2021-22 Budget Agreement committed to add a historic increase of 206,000 new Child Care Slots by 2025-26 to the General Child Care and CAPP programs. Since 2021-22, the state has added funding for approximately 146,000 new slots (from about 108,000 in 2021 to about 254,000 total estimated slots). These new child care slots were split between the voucher-based program (about 96,000) and the direct contract programs (about 50,000). The 2023-24 Budget Agreement extended the date for the final 206,000 goal to the 2026-27 Budget Year.

Child Care Slot Expansion Plan Under 2023-24 Budget Act[a]

New Slots Added by Program

Programs	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	Total
General Child Care and Development	46,080	4,000	—	4,000	4,000	4,000	62,080
Alternative Payment	62,620	32,000	—	16,000	16,000	16,000	142,620
Migrant Alternative Payment	1,300	—	—	—	—	—	1,300
Emergency Child Care Bridge	500	—	—	—	—	—	500
Totals	**110,500**	**36,000**	**—**	**20,000**	**20,000**	**20,000**	**206,500**

[a]Does not include proposed changes to CCTR ramp up under *2024-25 Governor's Budget*.

Source: LAO

In the voucher-based child care program, contracts with 70 existing AP agencies are proportionally increased to reflect the additional funding for the new slots. In the case of GCC providers, DSS awards funding for new slots through a request for application (RFA) process. In the first year of increased slot appropriations, the Budget Act provides partial year funding to reflect the time necessary for DSS (and CDE for preschool, when applicable) to provide the expanded funds to AP agencies and GCC providers, and to initiate new child care services.

In recent years, the DSS has released an RFA in the fall or winter following the legislative approval of additional funds to award new CCTR slots. Under the current DSS RFA process, providers (including existing direct contractors) must fill out an application explaining their program philosophy, intended service levels, staff qualifications, facility capacity, family engagement strategies, and finances. DSS approves applications and issues slot award letters in the spring.

Additionally, the department allocates funds for new CCTR slots to selected providers by either amending existing provider contracts or issuing new contracts to providers not currently involved in the CCTR program. It can take DSS several months to finalize these contracts.

Funding for Slot Expansion Typically Not Fully Spent in Initial Years. After DSS allocates and awards new CAPP and CCTR slots, it typically takes agencies and providers a few months to ramp up capacity to recruit, enroll, and serve additional children. Additionally, some budgeted new CCTR slots may ultimately go unawarded to the extent the department does not receive enough applications. In both cases, a portion of budgeted funds for new slots would go unspent, resulting in one-time savings. Historically, the state would continue to appropriate the same amount of funding needed to fully implement all new CAPP and CCTR slots regardless if the actual number of filled or awarded slots fell below budgeted levels. Any unspent funds result in state savings in subsequent years.

E*xpansion Methodology Not in Statute.* The methodology for estimating the cost of new child care slots, for all programs, is not in statute. Current methodology is an administrative function, by department, that looks at the various “take-up rates” and unique cost factors, including child age and contract geography, as well as the timeline for contract awards and the initiation of new child care services.The methodology is crucial for ensuring that budget appropriations match intended service levels each budget year, in child care programs that are capped, including General child Care, CAPP, and state preschool.

Slot Expansion Requires Budget Authority**.** *Historically, DSS does not initiate CAPP and CCTR contracts expansions until after the Budget Act authorizes increased appropriations to allow contract increases.* Overall, DSS does not release any program funds until contracts have been finalized and executed. In past years, DSS would not award or place into contract funds for new slots until the funds were approved and appropriated by the Legislature through the annual budget process. For example, in 2022-23, the department began to amend initial CAPP

contracts after July 1, 2022 with the goal of implementing all the new 2022-23 slots as early as October 1, 2022. The CAPP slot increase was negotiated in the 2022-23 Budget Act with a methodology that assumed an October 1, 2022 service start.

For CCTR, the department released an RFA in the fall of 2022, with the goal of awarding and implementing new 2022-23 slots as early as April 1, 2023. The department also released an RFA in the fall of 2023 and is currently in the process of determining provider award amounts. The *2023-24 Budget Act* appropriated $1.1 billion to support up to 50,080 new CCTR slots intended to be awarded through these RFAs. The CCTR slot increase was negotiated in the 2022-23 and 2023-24 Budget Acts with a methodology that assumed an April 1st service start.

The Governor's 2024-25 Budget

The Governor's Budget increases total funding levels for child care programs in 2024-25 by $510 million (8 percent) relative to revised 2023-24 levels—from $6.7 billion to $7.2 billion. The year-over-year net increase in child care expenditures reflects the net effect of cost increases, savings, and cost shifts, consistent with prior year Budget actions.

Despite a lack of specificity in the January Budget documents, the Administration has articulated four goals for the 2024-25 Budget Act, regarding child care slot expansion fiscal policy:

1) Delay service start date of new General Child Care slots.
2) Create new cost methodology for estimating the Budget Year costs for new General Child Care and CAPPs slots.
3) Sweep General Fund savings for CCTR underspending in 2022-23 and Current Year.
4) Create new Budget Bill language authority for increasing child care slots beyond Budget appropriations.

The Department of Finance and DSS will outline each of these proposals in more detail at this hearing. The analysis below is the LAO and staff understanding of the proposals to date:

1. Proposes to Reduce and Delay New Non-CalWORKs Slots.

The multi-year Budget agreement was to serve 206,000 more children (exclusive of CalWORKs) in the state's subsidized childcare system by 2025-2026, however this commitment is not codified. The 2023-24 Budget Act delayed a planned 20,000 new slots would have been added in the current year, and pushed the full commitment of 206,000 slots to 2026-27. The LAO estimates these new 20,000 slots would cost $134 million, in the Budget Year.

The Governor's budget includes about $460 million to increase CCTR and CAPP slots in 2024-25, to partially offset by the expiration of one-time funding in 2024-25 ($336 million total savings). Additionally, the Governor's budget shifts about $900 million in program costs to the

General Fund in 2024-25 as a result of the expiration of COVID-19 federal relief funds. As shown in the LAO table below, under the Governor's budget, proposed funding would support about 374,000 child care slots in 2023-24 and 422,000 child care slots in 2024-25. The year-to-year slot increase includes projected growth in CalWORKs child care programs (about 17,200 net slot increase) and scheduled slot increases in CAPP and CCTR (28,000 total slot increase).

Child Care Budget *(Dollars in Millions)*

	2022-23 Revised[a]	2023-24 Revised[b]	2024-25 Proposed[b]		Change From 2023-24	
					Amount	Percent
Expenditures						
CalWORKs Child Care Programs						
Stage 1	$532	$649	$709		$61	9%
Stage 2[c]	310	470	691		221	47
Stage 3	608	604	572		-31	-5
Subtotals	**($1,450)**	**($1,723)**	**($1,973)**		**($250)**	**(15%)**
Non-CalWORKs Child Care Programs						
Alternative Payment	$1,834	$2,054	$2,242		$189	9%
General Child Care and Development[d]	960	1,204	1,500		296	25
CFCC Family Child Care[e]	53	54	54		—[f]	1
Emergency Child Care Bridge	97	94	94		—	—
Migrant Child Care[g]	69	71	71		—[f]	—
Care for Children With Severe Disabilities	2	2	2		—[f]	2
Subtotals	**($3,015)**	**($3,478)**	**($3,964)**		**($486)**	**(14%)**
Support Programs	**$2,187**	**$1,539[h]**	**$1,313[i]**		**-$226**	**-15%**
Totals	**$6,653**	**$6,740**	**$7,250**		**$510**	**8%**
Funding						
Proposition 98 General Fund[j]	$2	$3	$2		-$1	-37%
Non-Proposition 98 General Fund	2,275	3,283	4,756		1,473	45
Proposition 64 Special Fund	292	270	247		-23	-8
Federal	4,084	3,183	2,245		-938	-29

[a]Reflects 2023-24 May Revision estimates with LAO adjustments.
[b]Reflects *2024-25 Governor's Budget*.
[c]Does not include $11.2 million provided to community colleges for certain child care services.
[d]Reflects funding for centers and family child care home education network providers operating through general child care and development contract.
[e]Reflects funding for family child care home education networks operating through CFCC contract.
[f]Less than $500,000.
[g]Reflects costs associated with Migrant Child Care and Development program and Migrant Alternative Payment program.
[h]Includes cost estimates for quality programs, child care infrastructure, Child and Adult Care Food Program, CCPU Retirement Benefit Trust, accounts payable, whole child community equity, court cases, and costs associated with 2023-24 collective bargaining and parity agreement.
[i]Includes cost estimates for quality programs, Child and Adult Care Food Program, accounts payable, whole child community equity, and costs associated with 2023-24 collective bargaining and parity agreement.
[j]Reflects Proposition 98 funds for Child and Adult Care Food Program.
CCPU = Child Care Providers United.

Source: LAO

Child Care Subsidized Slots

Source: LAO

	2020-21 Final	2021-22 Revised	2022-23 Revised	2023-24 Revised	2024-25 Proposed	Change From 2023-24		
						Amount	Percent	
CalWORKs Child Care								
Stage 1	25,018	29,066	48,095	58,322	63,241		10,227	18%
Stage 2	55,484	25,718	26,705	38,427	57,220		11,722	31
Stage 3	66,073	62,464	56,191	51,421	47,782		-4,770	-9
Subtotals	**(146,575)**	**(117,248)**	**(130,991)**	**(148,170)**	**(168,243)**		**(17,179)**	**(12%)**
Non-CalWORKs Programs								
Alternative Payment	66,712	129,332	161,332	161,332	177,332		16,000	10%
General Child Care & Development[a]	28,375	37,179	49,569	49,569	61,569		12,000	24
CFCC Family Child Care[b]	3,816	3,816	3,816	3,816	3,816		—	—
Emergency Child Care Bridge	5,037	5,537	5,537	5,537	5,537		—	—
Migrant Child Care[c]	3,962	5,262	5,262	5,262	5,262		—	—
Care for Children with Severe Disabilities	111	111	111	111	111		—	—
Subtotals	**(108,013)**	**(181,237)**	**(225,627)**	**(225,627)**	**(253,627)**		**(28,000)**	**(12%)**
Totals	**254,588**	**298,485**	**356,618**	**373,797**	**421,870**		**45,179**	**12%**

[a]Reflects slots for centers and family child care home education network providers operating through general child care and development contract.
[b]Reflects slots for family child care home education networks operating through CFCC contract.
[c]Reflects slots for Migrant Child Care and Development program and Migrant Alternative Payment program.

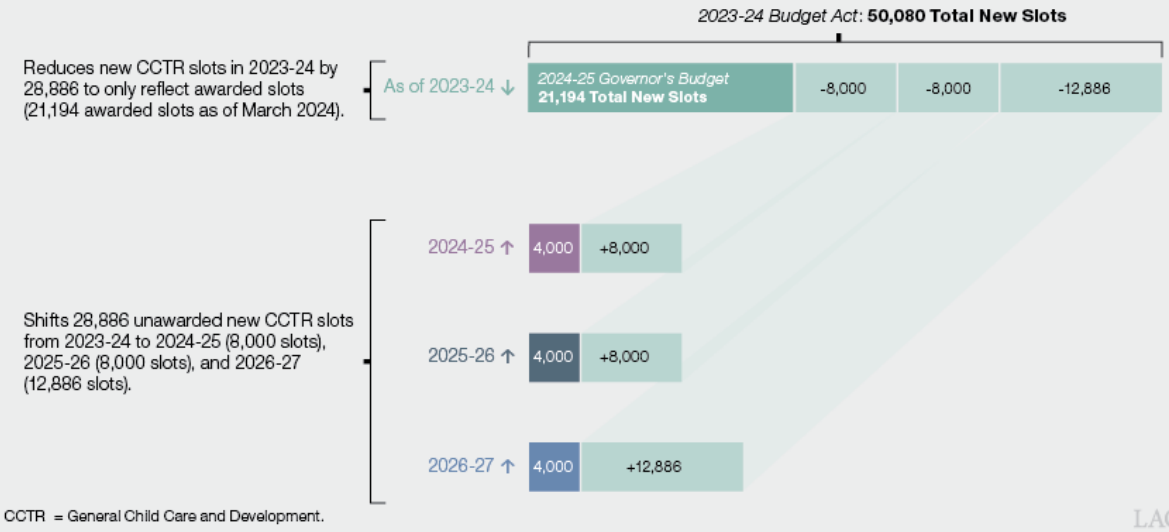
Note: Reflects Department of Social Services slot estimates. Under the *2024-25 Governor's Budget*, the number of budgeted slots in each program reflects projections of filled or awarded slots beginning in 2021-22, which is different from historical budgeting practices. Stage 2 does not include certain community college child care slots (less than 1,000 slots annually).

The Governor's budget reduces the number of budgeted new CCTR slots by 28,886 in 2023-24—from 50,080 to 21,194—to reflect the current number of awarded slots. As shown in the LAO graphic below, the Governor's budget assumes the 28,886 unawarded CCTR slots are phased in across 2024-25 to 2026-27 instead.

Figure 6

Governor's Budget Pushes Out Unawarded 2023-24 CCTR Slots to Later Years

The Governor's budget changes CCTR slot ramp-up schedule relative to the *2023-24 Budget Act* in the following ways:



Source: LAO

2. Proposes New Slot Expansion Methodology.

The Governor's Budget proposes to change the methodology for estimating and appropriating the costs for new/expanded CCTR and CAPP slots.

Under the *2023-24 Budget Act*, DSS estimated each new CCTR slot would cost about $22,470 annually across 2021-22 to 2026-27. The Governor's Budget estimates that the average costs of new CCTR slots awarded between 2021-22 and 2022-23 is about $26,380 annually (17 percent higher than past estimates), increasing total costs for the slot expansion plan by $81 million in 2023-24. Similarly, the Governor's budget assumes the annual cost per slot after 2023-24 is about $23,150 (3 percent higher than past estimates), increasing total costs for the slot expansion plan by $8 million annually from 2024-25 to 2026-27. We understand that the revised cost per slot estimate reflects more recent data on actual program costs.

Assumes Later Implementation Date for CCTR Slots Awarded Through Fall 2023 RFA. Although the state did not provide funding for new slots in 2023-24, the department was able to issue an RFA in the fall of 2023 given the significant amount of previously appropriated ongoing funding that had not yet been awarded to providers. As a result of the fall 2023 RFA, the department anticipates awarding at least 12,000 CCTR slots in April 2024. Under the state's current budgeting practices, the state appropriates sufficient funding for new CCTR slots to provide child care services beginning in April 2024, resulting in three months of costs in 2023-24. However, the Governor's Budget proposes all awarded CCTR slots from the fall 2023 RFA would be implemented in July 2024. As a result, the Governor's budget proposes to reduce slot funding in 2023-24 by $22 million General Fund. The administration assumes the new July implementation date will apply to all new CCTR slots appropriation estimates in future years.

3. Proposes to Sweep Unused Slot Expansion General Fund

The Governor's budget includes a one-time reduction in 2023-24 to capture the unfilled new slots added in 2022-23. As a result of these and other changes to the CCTR budgeting process and RFA time line, the Governor's budget includes, on net, $581 million total savings in 2023-24 and $318 million total savings in 2024-25.

Between 2020-21 and 2022-23, the state increased funding to support up to 50,080 new CCTR slots, resulting in a $1.1 billion ongoing increase to total program costs. However, as of March 2024, only 21,194 of the 50,080 new CCTR slots have been awarded to providers. The Governor's budget proposes to reduce CCTR funding levels in 2023-24 to only reflect costs associated with the estimated number of awarded slots, resulting in $662 million total savings relative to the *2023-24 Budget Act*. Similarly, the Governor's budget proposes to fund a total of 33,194 new CCTR slots in 2024-25, which is about 21,100 fewer slots than what would have been funded under current budgeting practices. This slot difference results in $385 million savings in 2024-25.

4. Proposes New Slot Expansion Authority.

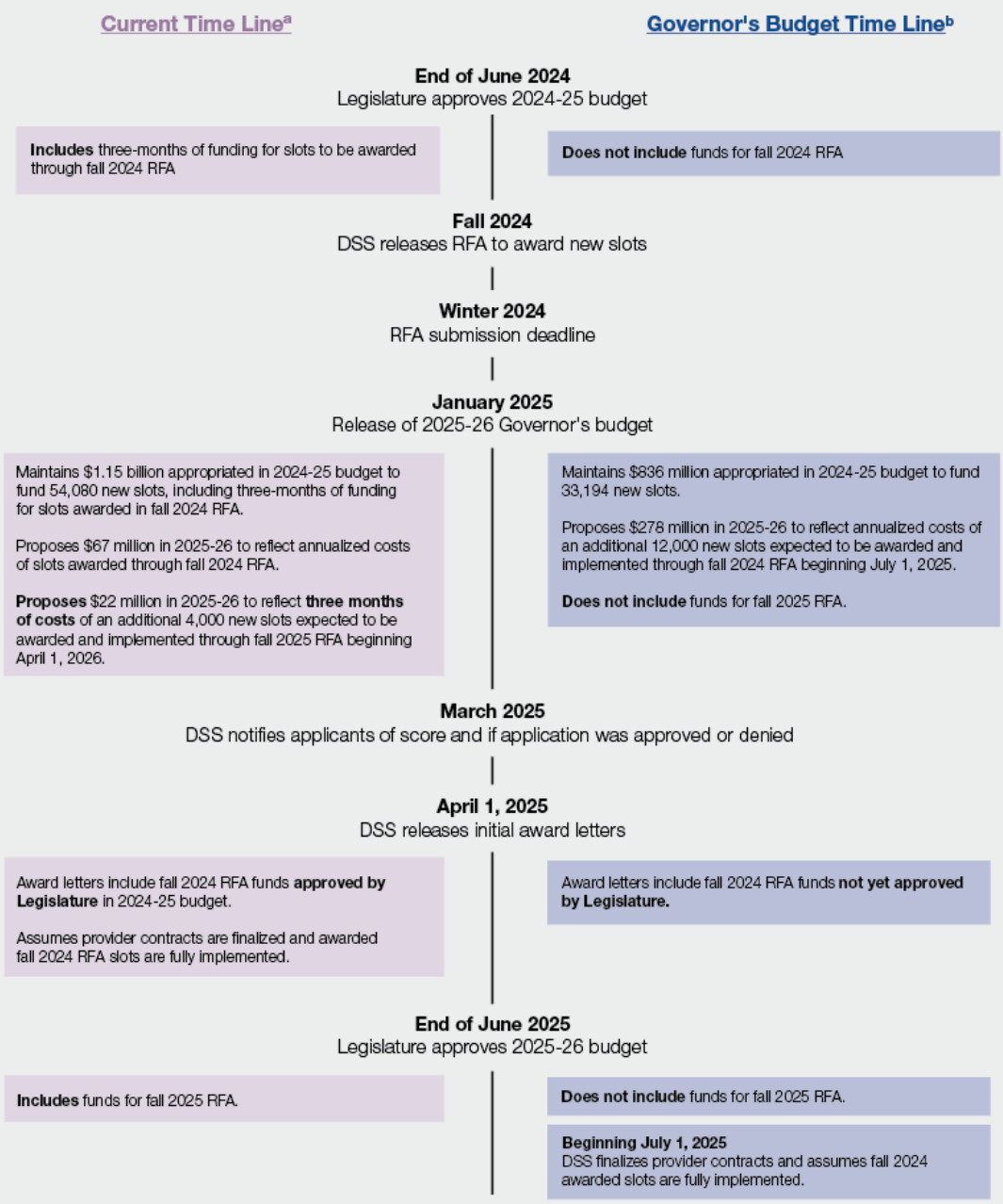
Assumes DSS Would Release Future RFAs and Award New CCTR Slots Prior to Statutory or Budget Act Approval. According to the Administration, DSS plans to release a fall 2024 RFA for new CCTR slots and issue award letters in the spring of 2025. Based on current budgeting practices, the administration would have sought legislative approval to set aside at least three months of new slot funding as a part of the 2024-25 budget process so that DSS has an authorized funding stream to release a fall 2024 RFA and award slots in the spring of 2025.

However, the Governor's budget does not propose to provide any funding in 2024-25 to support slots awarded through the fall 2024 RFA (see LAO figure 7 below). The administration instead plans to seek legislative approval for the necessary funding authority for the fall 2024 RFA as

part of the 2025-26 budget process. As a result of no longer proactively proposing a three month set-aside to support future RFAs and award letters, total CCTR program costs decrease by $22 million General Fund in 2024-25 relative to the *2023-24 Budget Act*.

Figure 7

Proposed Changes to CCTR RFA and Award Time Line



[a] Reflects maximum slot cost estimates from *2023-24 Budget Act*.

[b] Reflects revised slot cost estimates from *2024-25 Governor's Budget*.

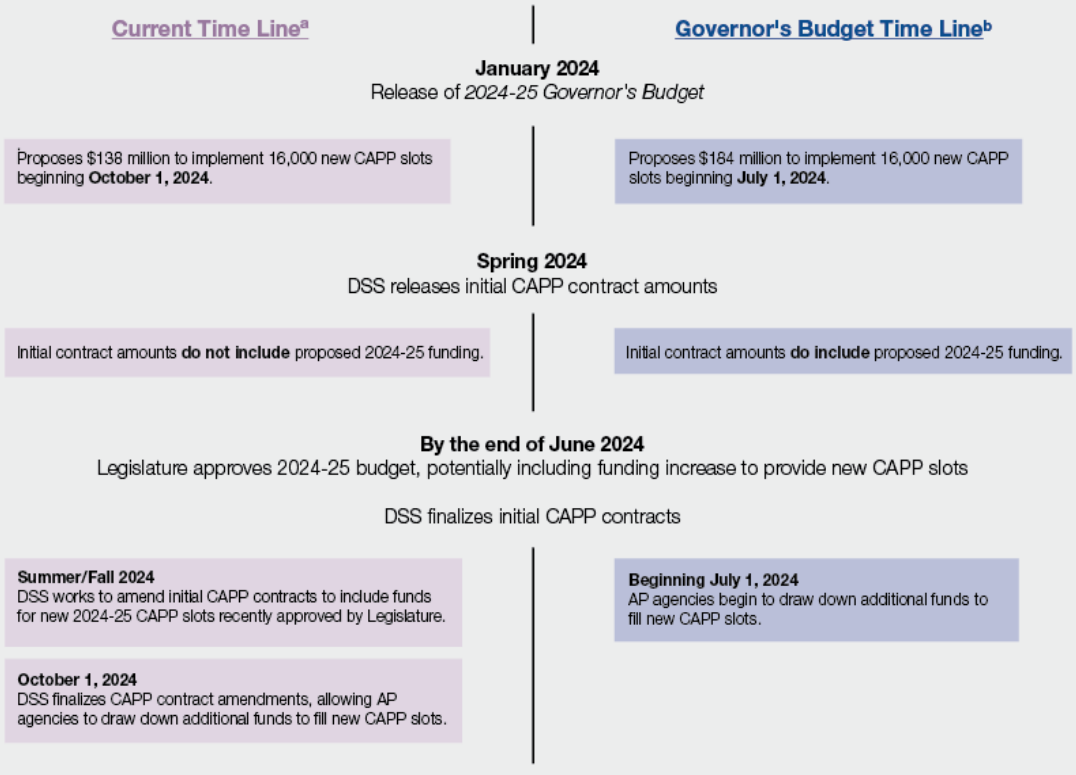
CCTR = General Child Care and Development; RFA = request for applications; and DSS = Department of Social Services.

LAO

Assumes DSS Would Allocate and Execute Contracts for Future New CAPP Slots Prior to Legislative Approval. Consistent with the multiyear expansion plan, the Governor's budget proposes to provide 16,000 new CAPP slots in 2024-25. Under current budgeting practices, the department would have waited until after July 1, 2024 (or when the Legislature approves the 2024-25 budget) to allocate the new CAPP slots and amend existing contracts to include additional funds. Under this practice, the state would have assumed new slots would be allocated and implemented beginning October 1 and would have provided nine months' worth of funding in the first year of implementation ($138 million General Fund). However, as shown in the LAO's Figure 8 below, the Governor's budget assumes new CAPP slots will be allocated and implemented beginning July 1 and provides 12 months' worth of funding in 2024-25 ($184 million General Fund). Compared to current budgeting practice of assuming an October 1 implementation date, this results in $46 million additional General Fund costs in 2024-25. Additionally, to meet the July start date, DSS would need to allocate and add funds for new CAPP slots to existing CAPP contracts in the spring of 2024—prior to enactment of the 2024-25 budget.

Figure 8

Proposed Changes to New CAPP Slot Contract Time Line



[a] Reflects maximum slot cost estimates from *2023-24 Budget Act*.

[b] Reflects revised slot cost estimates from *2024-25 Governor's Budget*.

CAPP = California Alternative Payment Program; DSS = Department of Social Services; and AP = Alternative Payment.

Includes Provisional Language Allowing Administration to Increase CCTR Funding Levels Mid-Year. The Governor's budget proposes provisional budget bill language is intended to allow the DOF to increase CCTR funding levels mid-year if expenditures are "estimated to exceed the expenditures authorized" in the 2024-25 budget. While DOF would be required to report any mid-year augmentations to the Legislature, legislative approval would not be required for the funding augmentation to take effect.

LAO Comments

We Estimate Roughly $700 Million of Child Care Funds May Go Unspent by the End of 2023-24. As a part of the 2023-24 budget, the Legislature adopted supplemental reporting language that required DSS to provide, on or before March 1, 2024, an estimate of child care program funds that may go unspent by the end of 2023-24 and what amount of unspent funds cannot be reappropriated and would revert back to the state or federal government. Thus far, the administration has provided a point-in-time estimate of unspent child care funds. Specifically, the administration estimates that about $1.4 billion of the funds that were obligated to be expended in 2023-24 and have been put into contract remain unspent as of the end of January 2024. To the extent monthly expenditure trends continue at current levels, we estimate that roughly $700 million ($450 million COVID-19 federal relief funds and $250 million other funds) could go unspent by the end of 2023-24.

LAO Recommend Scoring Additional One-Time General Fund Savings

LAO Estimates (In Millions)

Additional Savings	
Offset costs with unspent COVID-19 federal relief funds[a]	$450
Offset costs with Proposition 64 carryover funds[b]	415
Proactively sweep potential unspent 2023-24 funds[c]	280
Offset costs with additional CCDF[d]	89
Offset Emergency Child Care Bridge costs with 2022-23 carryover funds	40
Additional Costs	
Increase funding to cover higher than estimated MOU and parity costs	-$107
Increase funding to reflect actual CCTR award amounts	-22
Net Savings	**$1,145**

[a]Assumes funds can offset slot costs and free-up General Fund.
[b]Reflects administration's estimate of carryover balance by the end of 2023-24. Proposition 64 revenues are continuously appropriated, meaning the administration would need to redirect carryover funds to offset General Fund costs.
[c]Reflects rough LAO estimate of program funds that will go unspent by end of 2023-24, including estimate of $30 million unspent General Fund from the Emergency Child Care Bridge program. Assumes savings from non-General Fund sources can be used to offset General Fund costs in 2023-24.
[d]Reflects net amount of available CCDF dollars after backing out increase to federally required CCDF quality set aside (about $10 million).

CCDF = Child Care and Development Fund; MOU = Memorandum of Understanding; and CCTR = General Child Care and Development.

Seems Reasonable to Rightsize General Child Care and Development (CCTR) Budget Based on Awarded Slots. Between 2020-21 and 2022-23, the state approved adding up to 50,080 new CCTR slots, increasing ongoing program costs by $1.1 billion. However, as of March 2024, only 21,194 of the 50,080 new slots have been awarded to providers. The Governor's budget proposes to reduce CCTR funding levels to only reflect costs associated with the estimated number of awarded slots, resulting in $662 million total savings in 2023-24 and $385 million total savings in 2024-25 relative to the *2023-24 Budget Act*. (These savings are partially offset by costs associated with other proposed program changes.) Given the projected budget deficit, we believe it is reasonable to rightsize the CCTR budget to only reflect the amount of funding needed to implement the estimated number of awarded CCTR slots.

Recommend Rejecting Proposed Changes to Budgeting Process for New Child Care Slots and Developing an Alternative Approach. Historically, the Legislature would reach an agreement with the administration on the maximum number of new CCTR slots to be added in any given fiscal year and prospectively appropriate the necessary funds for DSS to award and implement all of the agreed upon slots. To rightsize the CCTR funding levels, the Governor's budget proposes various changes to current budgeting practices and the implementation time line for new CCTR slots. These changes would significantly reduce legislative oversight and input over the slot expansion plan. Specifically, the proposed CCTR time line changes would allow DSS to issue annual requests for applications (RFAs) and award slots without the necessary legislative funding authority. While these changes would result in some initial General Fund savings, we do not believe the savings outweigh the trade-off of side stepping the legislative budget process. We recommend the Legislature reject the Governor's proposal. The Legislature could continue to use existing budgeting practices or develop an alternative approach to achieve the same savings.

Recommend Directing Administration to Prioritize Spending COVID-19 Relief Funds to Minimize Federal Reversion and Maximize General Fund Savings. During the COVID-19 pandemic, the state received over $5 billion in one-time federal funds to support child care programs. Most of these funds expired September 30, 2023. The department is currently spending down the remaining $1.4 billion that expire September 30, 2024. Any unspent funds revert back to the federal government. We estimate that roughly $450 million of COVID-19 relief funds may remain unexpended by the end of 2023-24. We recommend the Legislature request the administration provide an updated May Revision estimate on (1) the total amount of COVID-19 relief funds (including funds obligated in prior years) that would likely go unspent by the end of 2023-24, and (2) what amount of these unspent funds could be used to effectively free-up General Fund in 2024-25. The Legislature could score the estimated amount of freed-up General Fund as budget savings.

Recommend Consideration of Additional Budget Solutions. Given the deterioration in the state's budget, additional solutions would help the Legislature close the deficit. Beyond the budget solutions included in the Governor's budget, we identify roughly $1 billion in additional

one-time General Fund net savings across 2023-24 and 2024-25. These savings include sweeping unspent 2023-24 funds and offsetting General Fund costs with newly available federal funds and carryover funds.

Reject Proposed Changes to Budget Process and Time Line for New CCTR Slots. We believe the administration's proposed changes to the process for issuing new CCTR slots would significantly reduce legislative oversight and input over the slot expansion plan. Specifically, the proposed CCTR time line changes would allow DSS to issue annual RFAs and award slots without the necessary legislative funding authority. While this change would result in some initial General Fund savings, we do not believe the savings outweigh the trade-off of side stepping the legislative budget process. Additionally, the proposed provisional language would allow the administration to independently change the total CCTR funding levels and potentially the total number of funded CCTR slots through mid-year adjustments. The Legislature could reject the Governor's proposal and continue to use the existing process, where RFAs are based on the amount of funding provided in the enacted budget. Under this approach, the Legislature could include a modest amount of funding in the 2024-25 budget as a way to provide DSS with the necessary funding authority to release a fall 2024 RFA. The Legislature could also develop an alternative budgeting approach that achieves the same amount of General Fund savings, avoids any cost increases, and maintains legislative oversight. For example, the Legislature could codify the ramp-up schedule for the child care slot expansion plan to maintain legislative input over the maximum number of slots the administration could award in any given year.

Reject Proposed Changes to Time Line for Awarding New CAPP Slots. Given the proposed changes to CAPP time line would eliminate legislative oversight of CAPP funding, we recommend rejecting the proposal and continuing to use the current time line, where new CAPP slots are not allocated and CAPP contracts are not finalized until after the Legislature enacts a budget. We also recommend assuming new slots are implemented beginning October 1 and reducing 2024-25 funding by $46 million General Fund.

Explore Ways CCTR Contract Process Can Be Streamlined to Increase Number of Awarded and Filled Slots. Given the concerns around CCTR contract delays, the Legislature may want to consider ways to streamline the contract process. For example, the Legislature could direct DSS to develop a simplified funding application for existing CCTR providers who have demonstrated success in enrolling and serving subsidized children. Additionally, the Legislature could request the department explore ways to improve coordination across various DSS teams that review and execute final contracts.

Consider Adjusting Cost Estimates of Slot Expansion Plan to Reflect More Recent Cost Per Slot Data. In order to effectively estimate the availability of state resources in future years, the Legislature could direct the administration to update the cost estimates of the slot expansion plan based on more recent cost per slot data. This would allow the Legislature to more accurately

plan for ongoing costs associated with the child care slot expansion plan, including assessing the capacity of future budgets to support this ongoing cost pressure.

Staff Comments

In the midst of the pandemic, California has appropriated funding for a historic 146,000 new child care slots to the overall care system. It is crucial to fully understand the dynamics of each delay in providing childcare services with these funds; child care waitlists remain long and each delay point may be resolvable in future expansions. A transparent and collaborative process to address systemic delays is welcome.

Before sweeping valuable child care funds to accommodate lengthy administrative processes at the state and local level, it seems more prudent to examine the contracting and RFA processes, to consider whether the timeline between appropriation and child services can be expedited.

The January Budget proposal also appears to assume the legality of contractual authority without Budget Authority, for increased child care services. It is unclear how local contractors could interpret a contractual increase that is subject to the Budget Act, without sufficient appropriation authority. What would provide contractors with actual authority to increase services on July 1st of a Budget Year?

Questions:

- DOF: What provides authority, under this proposal, for appropriation increases in child care contracts?
- Why does the RFA process require 12 full months, after an appropriation increase? Are there ways to shorten this process?
- Would CAPP agencies actually be willing to increase services on July 1st, if Budget authority was under debate for that contract year?
- Would CCTR agencies be willing to open classrooms on July 1st, if Budget authority was under debate in for that contract year?
- Could unawarded CCTR funds be used to address one-time system barriers to service expansion in child care deserts?
- Could a child care reversion account (similar to Proposition 98 process) create a fund for appropriation authority, similar to January Budget proposal?

Staff Recommendation: Hold Open. Direct staff and LAO to work with Administration on an alternative proposal to 1) expedite CCTR RFA and contract process and timeline, 2) create a reversion accounting process for unallocated child care program appropriations, 3) clarify authority for DSS to maximize existing appropriation authority.

Issue 3: Preschool January Budget Proposal

This panel will consider the January Budget proposal to sweep one-time savings in the California State Preschool Program, and review the impacts of recent policy changes on preschool attendance and enrollment rates.

Panel

- Sabrina Adams, DOF
- Sara Cortez, LAO
- Sarah Neville-Morgan, CDE

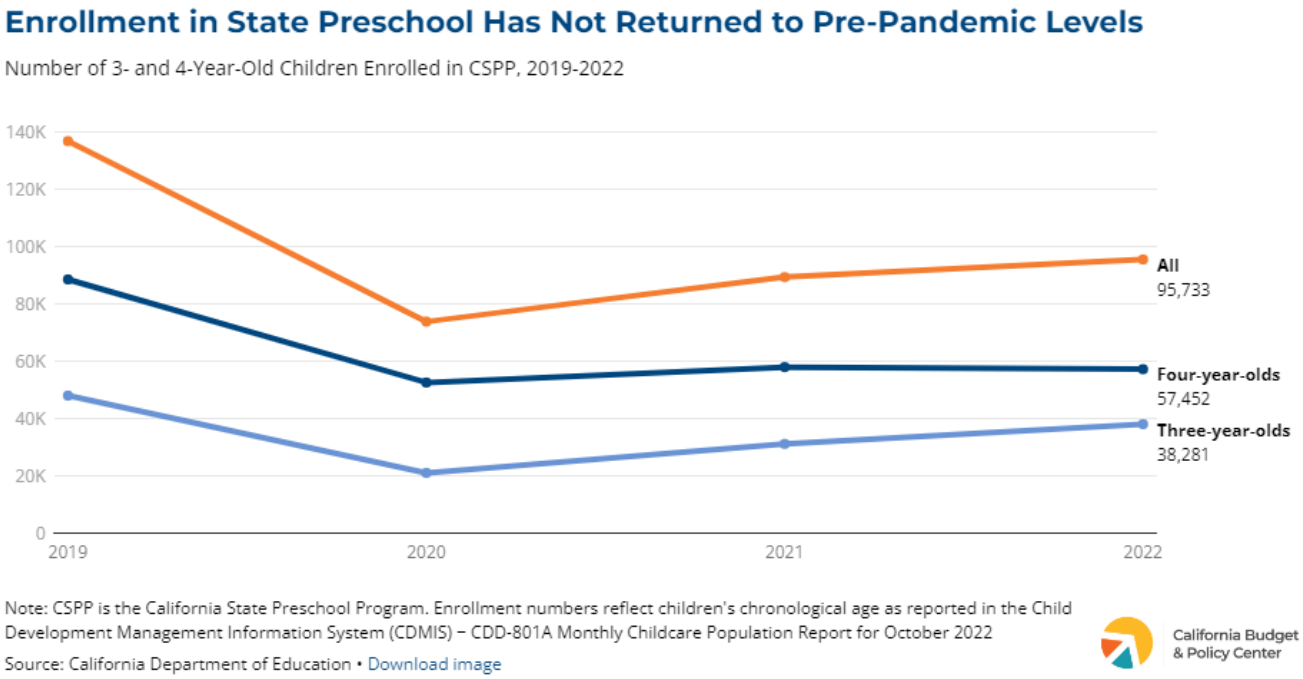
Background

Subsidized Preschool Programs in California

The state has several publicly subsidized "preschool" programs for three- and four-year olds, including TK, State Preschool, Head Start, and the CAPP program, which can support preschool services in a private market setting.

The LAO estimates that the 2023-24 Budget provides CSPP with funding to serve 211,000 children (69,000 in full-day and 142,000 in part-day).

However, CSPP enrollment experienced a significant decline in 2020 as a result of the pandemic. While enrollment has increased since 2020, it remains significantly below pre-pandemic levels. According to data collected by the National Institute for Early Education Research, California experienced the fourth largest decline nationwide in state funded preschool enrollment (inclusive of State Preschool and TK) as measured by the percent change between 2019-20 and 2020-21. The enrollment decline associated with State Preschool accounts for the majority of this decline. Two of the three states that experienced a larger decrease than California also had reduced spending in preschool programs between 2019-20 and 2020-21, while California preschool programs received stable funding. State Preschool providers cite the impact of the pandemic, workforce challenges, and TK expansion as reasons why enrollment has not returned to pre-pandemic levels.



Recent Major Changes to State Preschool

Universal TK to All Four-Year Olds by 2025. The 2021-22 Budget agreement gradually expands TK eligibility from 2022-23 through 2025-26. At full implementation in 2025-26, a child who has their fourth birthday by September 1 will be eligible for TK, making the grade available to all four-year olds in the year before kindergarten. As part of this UTK Budget agreement, four-year olds will retain eligibility for all other subsidized child care programs, to allow for parental choice. CSPP was also authorized as an before/after school funding option for TK and K students.

R*equirement to Serve Additional Students With Disabilities.* The 2022-23 budget package required at least 5 percent of children enrolled in State Preschool programs be children with disabilities in 2022-23. This requirement increases to 7.5 percent in 2023-24 and 10 percent in 2024-25 and future years. The share of children with disabilities a provider needs to serve is often referred to as the "set aside," as the state requires providers to reserve a certain share of spots in their programs for these children. The Budget also provided an increased adjustment factor of 2.4 for children with disabilities This new factor replaced the two related adjustment factors under prior law—an adjustment factor of 1.54 for most children with disabilities and an adjustment factor of 1.93 for children with severe disabilities. Federal law requires school districts to begin providing special education services to all children with disabilities upon their third birthday. The specific support provided to each student is detailed in his or her individualized education program, a legal document developed by the student's teachers, parents, and school administrators.

***Increased Income Eligibility*.** The 2022-23 budget package increased the income eligibility threshold from 85 percent of the state median income to 100 percent ($96,590 for a family of three). Students with disabilities served within the set aside do not need to meet the income criteria.

24-Month Eligibility. The 2022-23 Budget Act adopted 24-month family eligibility for CSPP, which allows three-year olds enrolled in State Preschool to continue participating in the program until they are eligible for kindergarten, regardless of change in family income.

***Enrollment Hold Harmless*.** Since 2020-21, the state has allowed State Preschool providers to receive the lesser of reimbursable program costs or the contract amount, but did not take attendance into consideration. This allows providers to receive their full contract amount regardless of how many children are enrolled in the program. Prior to the pandemic, reimbursement for direct contract programs was based on the lesser of reimbursable program costs, the contract amount, and the reimbursement rate multiplied by attendance. With this approach, providers had to serve a specified number of children to fully earn the contract. If a provider did not earn a contract, funds would be returned to the state. The 2022-23 budget temporarily extended the pandemic-related reimbursement flexibility until June 30, 2023. The 2023-24 budget extended this provision until June 30, 2025.

Inclusive Early Education Expansion Program. The 2018-19 budget provided $167 million Proposition 98 General Fund, and the 2023-24 Budget Act provided an additional $160 million one-time funding, for one-time competitive grants to LEA providers for the purpose of increasing access to inclusive early education programs. Grants could be used for a variety of one-time expenses, including training, facility renovations, and equipment. Grant recipients were required to provide $1 in local funds for every $2 received through the grant. Grant recipients also must commit to provide program data and participate in an evaluation.

***New Early Intervention Preschool Services Grant*.** The 2021-22 Budget authorized $260 million ongoing for a new early intervention preschool grant. The funding can be used to support early intervention services for preschool children at risk of being identified for special education, resources for preschool children with disabilities not required under special education, and other activities that improve school readiness and long-term outcomes for children under the age of five. Funding must supplement existing special education spending and, to the extent possible, promote inclusive practices. Funding is to be distributed to school districts based on the number of first graders with disabilities.

The Governor's 2024-25 January Budget

The Governor's budget provides $2.1 billion for State Preschool, and proposes to reduce preschool funding in the 2024-25 Budget Year, due to an estimated one-time over-appropriation of $445.7 million Proposition 98 and $172 million General Fund.

Below, the LAO table shows the January Budget funding proposals for the state's "preschool" programs, including UTK, in context:

Preschool Budget

(Dollars in Millions)

	2022-23 Revised	2023-24 Revised	2024-25 Proposed	Change From 2023-24 Amount	Change From 2023-24 Percent
Expenditures					
Preschool Programs					
State Preschool[a]	$2,579	$2,548	$2,141	-$406	-15.9%
Transitional kindergarten[b]	1,430	2,288	3,068	780	34.1
Preschool QRIS Grant	50	50	50	—	—
Subtotals	**($4,059)**	**($4,885)**	**($5,259)**	**($374)**	**(7.7%)**
Other Support	$694	$204	$42	-$163	-79.6%
Totals	**$4,753**	**$5,090**	**$5,301**	**$211**	**4.2%**
Funding					
Proposition 98 General Fund	$3,698	$4,120	$4,455	$334	8.1%
Non-Proposition 98 General Fund	844	916	846	-69	-7.6
Federal one-time COVID-19 relief	210	54	—	-54	-100.0

[a]Includes up to $5 million each year for a family literacy program offered at certain State Preschool sites.

[b]Reflects LAO estimates.

QRIS = Quality Rating and Improvement System.

Source: LAO

LAO Comments

Governor's Budget Does Not Include $64 Million Increase for Additional Proposition 98 Costs in 2024-25. In 2022-23, the state began requiring that 5 percent of State Preschool enrollment be set aside for children with disabilities. This increased the costs of the program, since providers receive higher funding rates for serving children with disabilities. The requirement was initially set to increase to 7.5 percent in 2023-24 and 10 percent in 2024-25 and future years. The 2023-24 budget package delayed these requirements for two years and redirected the associated funding increases in 2023-24 and 2024-25 to the collective bargaining set-aside. As such, the state must provide additional Proposition 98 funding for State Preschool in 2024-25 consistent with the collective bargaining and parity agreement. The Governor's budget includes a $49 million non-Proposition 98 General Fund increase to cover these costs, but does not include the associated $64 million Proposition 98 funding increase for this purpose. The administration has indicated it intends to address this issue in the May Revision.

Governor's Budget Assumes Flat Enrollment. Some provisions of the two-year collectively bargained early education and parity agreement distributed funding to providers based on the number of children served. The Governor's budget uses April 2023 enrollment data to estimate the cost of these provisions—effectively assuming enrollment will remain the same through 2023-24 and 2024-25. For 2022-23, enrollment grew 8 percent compared to 2021-22. Preliminary enrollment data for 2023-24 indicate growth of less than one-half of 1 percent in 2023-24 compared to 2022-23. Given these trends, State Preschool enrollment is likely to increase in 2024-25. The Legislature may want to include additional funding in 2024-25 to address costs associated with enrollment growth. (The base funding State Preschool providers receive is not dependent on the number of children served given the extension of pandemic era reimbursement flexibility through 2024-25.)

Recommend Further Reducing State Preschool to Align Funding With Program Costs. The Governor's budget proposes reducing Proposition 98 funding for State Preschool by $446 million and non-Proposition 98 General Fund by $123 million on a one-time basis in 2024-25. This is intended to align funding with anticipated program costs. Instead, we recommend reducing State Preschool by $138 million Proposition 98 ongoing beginning in 2023-24. This would eliminate funds intended for expansion and prior rate increases where costs have come in lower. For 2024-25, we recommend increasing Proposition 98 funding for State Preschool by $78 million one time compared to the Governor's budget. This difference from the Governor's budget primarily accounts for a $64 million augmentation consistent with the two-year collectively bargained early education and parity agreement and likely enrollment growth in 2024-25. (While the majority of State Preschool funding is not based on the number of children served, some provisions of the early education and parity agreement are based on enrollment.) In total, relative to the Governor's budget, these actions would result in Proposition 98 savings of $138 million in 2023-24 and $60 million in 2024-25. (In 2024-25, the $138 million ongoing decrease is offset by a one-time $78 million increase.)

Recommend Repealing CDE Authority to Augment Rates. Chapter 4 of 2023 (AB 110, Committee on Budget and Fiscal Review) provided the California Department of Education (CDE) new authority to issue temporary rate increases to contractors if funding was available within the State Preschool budget appropriation. This fall, CDE used the recently granted authority to provide temporary rate increases, bringing rates for State Preschool providers up to the 87th percentile of the regional market rate (RMR). To fund these increases, CDE used $167 million temporary COVID-19 relief funds that were set to expire and $265 million Proposition 98 from the set-aside for collective bargaining. We recommend the Legislature remove this newly added authority, as it allowed CDE to provide a temporary increase without explicit legislative input or approval. This action resulted in $265 million in additional Proposition 98 spending that otherwise would have been available to address the Proposition 98 budget shortfall.

Staff Comments

The enrollment hold harmless policy has clear impacts on student attendance and service rates, which may impact child outcomes. Chronic absenteeism rates are not unique to preschool settings – elementary school absenteeism rates remain roughly double pre-pandemic rates, and require family-centered as well as system solutions to maximize child services, while balancing provider funding stability and family choice.

The rate of system transition has been remarkably slow, 1) to serving more three-year old children as four-year old child shift to UTK, and 2) increasing inclusive preschool classrooms. Barriers to CSPP system transition, in the context of UTK implementation and maximizing resources, should be examined.

Questions:

- How can the enrollment based-funding policy be adjusted, for actual parity with voucher-based child care programs?

- How will the state evaluate the impact of the rate changes for 3 year old children and children with disabilities?

- Should the state consider capping the inclusion requirement at the current 5%, considering the Budget deficit? Has the rate change for three year olds impacted CSPP provider service levels for this age group?

- Has the inclusive set-aside and rate change impacted CSPP provider service levels for special needs preschoolers? What percentage of programs are fully serving the 5% setaside under current law?

- In light of the IDEA mandate that LEAs provide preschool for children with special needs, how are LEAs going to support community preschools with meeting Part B requirements?

- How is the CSPP inclusive setaside interacting with the $260 million ongoing for early intervention preschool? Are LEAs allowed to use both funding sources to serve the same children?

- Is there statute preventing CSPP providers from expanding with private-pay families?

Staff Recommendation: Hold Open. Direct staff to work with LAO on enrollment policy alternative to better align to family care need estimates.

This agenda and other publications are available on the Assembly Budget Committee's website at: Sub 3 Hearing Agendas | California State Assembly. You may contact the Committee at (916) 319-2099. This agenda was prepared by Erin Gabel.