

## AGENDA

### ASSEMBLY BUDGET SUBCOMMITTEE NO. 2 ON EDUCATION FINANCE

**Assemblymember Kevin McCarty, Chair**

**TUESDAY, APRIL 4, 2017**

**9:00 AM - STATE CAPITOL, ROOM 447**

<b>ITEMS TO BE HEARD</b>		
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	GOVERNOR'S 2017-18 BUDGET PROPOSALS:	
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**ITEMS TO BE HEARD****6100 DEPARTMENT OF EDUCATION****5180 DEPARTMENT OF SOCIAL SERVICES**

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**ISSUE 1: CHILD CARE AND PRESCHOOL FUNDING**

The Subcommittee will hear an overview the Governor's proposed funding level for child care and preschool programs.

**PANELISTS**

- Virginia Early, Legislative Analyst's Office
- Brianna Bruns, Department of Finance
- Debra Brown, Department of Education
- Public Comment

**BACKGROUND**

The State provides subsidized child care and preschool for parents through a variety of programs. Parents participating in or transitioning out of welfare-to-work activities are eligible for child care through the California Work Opportunity and Responsibility to Kids (CalWORKs) program, which is offered in three “stages.” The Department of Social Services (DSS) administers Stage 1, and the California Department of Education (CDE) administers Stages 2 and 3. CDE also administers non-CalWORKs child care. The largest programs are: General Child Care, which includes contracted centers and family child care homes; the California State Preschool Program, which provides developmentally appropriate curriculum to eligible three and four-year olds; and Alternative Payment Programs, which provide vouchers that can be used to obtain child care in a center, family child care home, or from a license-exempt provider.

California currently provides subsidized child care and preschool for approximately 436,000 children. The figure on the next page provides a description of the state’s various early education programs and the number of children served in these programs.

Overview of State's Child Care and Preschool Programs		
<i>(2015-16)</i>		
Program	Description	Estimated Number of Slots
<b>CalWORKs Child Care</b>		
Stage 1	Begins when a participant enters the CalWORKs program.	44,154
Stage 2	Families transition to Stage 2 when the county welfare department deems them stable.	50,971
Stage 3	Families transition to Stage 3 two years after they stop receiving cash aid. Families remain in Stage 3 until the child ages out (at 13 years of age) or they exceed the income eligibility cap.	35,845
Subtotal		130,970
<b>Non-CalWORKs Child Care</b>		
General Child Care	Program generally for low-income, working families that are not current or former CalWORKs recipients.	28,738
Alternative Payment	Another program generally for low-income, working families that are not current or former CalWORKs recipients.	32,852
Migrant Child Care	Program for migrant children.	3,060
Care for Children With Severe Disabilities	Program for children with severe disabilities. Program limited to the San Francisco Bay Area.	105
Subtotal		64,755
<b>Preschool</b>		
State Preschool-part day	Part-day, part-year preschool program for low-income families.	98,956
State Preschool-full day	Full-day, full-year preschool program for low-income, working families.	58,504
Transitional Kindergarten	Part-day, part-year preschool program for all four-year olds with birthdays between September 2 and December 2.	83,000
Subtotal		240,460
<b>Total</b>		<b>436,185</b>

Source: Legislative Analyst's Office

### Child Care and Preschool Eligibility

Families are typically eligible for subsidized child care if their income is below 70 percent of the 2007-08 State Median Income (about \$42,000 for a family of three), if the parents have a need for care related to work, training, or education, and if the children are under 13 years-old.

### Reimbursement Rates

The State reimburses child care providers offering subsidized care using two different rate structures.

- The Standard Reimbursement Rate (SRR) is used for contract-based providers, such as State Preschool and General Child Care programs, and is based on the number of children enrolled and the hours of care provided. Families may also be required to pay a family fee if they earn above a certain threshold income for their family size. The SRR for general child care programs, as adopted in the 2016 Budget Act, is \$42.12 per child per full day of care, effective January 1, 2017. Additionally, adjustment factors are applied to the SRR in some instances to reflect the increased cost of care for the different ages and needs of children.

- The Regional Market Rate (RMR) is used to reimburse voucher providers and certain General Child Care providers. The RMR is based on regional surveys of private providers on the cost for child care in each of California’s 58 counties. The RMR sets the maximum amount the state is willing to pay for a certain type of care. States are required to conduct a market rate survey every two years, but the state does not always use the most recent survey to set rates. Currently, voucher providers are funded at the 75th percentile of the 2014 RMR survey. The state reimburses license-exempt providers at 70 percent of the RMR for family child care homes.

**Funding**

During the recession, child care and preschool programs experienced significant cuts. Between 2008-09 and 2012-13, overall funding for child care and preschool programs decreased by \$984 million (31 percent), resulting in the loss of approximately 110,000 slots. During this time, the state also froze provider rates, cut license-exempt provider payments, and lowered income eligibility for families.

Since the recession, the State has invested a total of \$786 million (\$388 million in Proposition 98 General Fund and \$448 million in non-Proposition 98 General Fund) back into the child care and early education system, including \$289 million in 2014-15, \$283 million in 2015-16 and \$239 million in 2016-17 (once annualized).

Total child care and preschool funding provided in 2016–17 is approximately \$3.7 billion (including state and federal funds). This includes funding for Transitional Kindergarten, which serves four-year-olds within a small age range and is funded through the K-12 Local Control Funding Formula.

**The 2016-17 Budget**

The 2016-17 budget agreement included a multi-year investment 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 \$527 million by 2019-20. The chart below summarizes the planned increases.

2016-17 Budget Agreement	Rates		Slots	Total Package Funding by Year
	Prop. 98 (in millions)	General Fund (in millions)	Prop. 98 (in millions)	
2016-17 BA over 2016-17 MR	27.000	78.000	7.838	112.838
2017-18 over 2016-17 MR	83.000	238.000	39.624	360.624
2018-19 over 2016-17 MR	110.000	317.000	73.050	500.050
2019-20 over 2016-17 MR	110.000	317.000	100.000	527.000

In addition to this investment, the 2016 Budget Act includes \$53 million of one-time General Fund to pay for a RMR hold-harmless provision for 2016-17 and 2017-18. This hold-harmless provision would ensure that no provider payments would be reduced due to updating the RMR to the 2014 survey.

Specifically, the 2016-17 budget agreement made the following changes:

- Increases early childhood education rates over four years by a total of \$427 million annually to accommodate increases to the minimum wage. These include:
  - An increase of the Standard Reimbursement Rate (SRR), paid to center-based care and preschools by 10 percent beginning January 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. Increase the RMR to the 75th percentile of the 2014 survey for that region beginning July 1, 2018.
  - An increase to licensed exempt rates from 65 percent to 70 percent of the Family Child Care Home rate beginning January 1, 2017.
  - Expresses legislative intent to reimburse child care providers at the 85th percentile of the most recent RMR survey and update the RMR ceilings with each new survey, based on available funding. Also expresses legislative intent to further increase the RMR ceilings through the 2018-19 fiscal year to reflect increased costs to providers resulting from the increases in the state minimum wage.
- Expands preschool by 8,877 full-day preschool slots over three years, at a cost annualizing to \$100 million per year.

### **Preschool Slots**

The State has provided a total of almost 10,000 full-day State Preschool slots in the last two years. The 2015 Budget Act provided about 7,000 additional full-day preschool slots. Of these slots, about 5,800 were provided for local educational agencies (LEAs), or school districts, charter schools and county offices of education, and 1,200 slots for non-LEAs. The 2016 Budget Act provided an additional 3,000 full-day preschool slots for LEAs. The CDE requested applications for these slots, but LEAs have not shown significant interest in the full-day preschool slots. In addition to these full-day slots, the 2014 Budget Act provided 11,500 part-day preschool slots.

In 2015-16 CDE issued only 1,646 of the 5,800 full-day preschool slots, due to a lack of applicants. With the remaining funding, the CDE issued part-day preschool slots for LEAs and non-LEAs. In 2016-17 LEAs have applied for a total of 1,312 of the nearly 3,000 available slots to date. Of these requested slots, only 519 were for full-day preschool slots. The remaining 793 slots requested were for part-day preschool slots. The CDE is in the process of issuing another request for application to fill these slots.

The reason for these slots not being utilized is not due to the lack of need. The LAO estimates that at least one in five four-year olds eligible for State Preschool (either part- or full-day) are unserved by State Preschool, TK, or Head Start. This ration equates to roughly 60,000 four-year olds. The exact reason for LEA's lack of interest in these preschool slots is

unknown, but some factors may include: lack of classroom space available, competing programs for four-year-olds, such as Head Start and Transitional Kindergarten, insufficient reimbursement rates and the state's outdated income eligibility threshold.

### The Governor's 2017-18 Budget

The Governor's January budget includes a total of \$3.8 billion for child care and preschool funding in 2017-18. This is a slight increase (two percent) from the revised 2016-17 funding level. This amount includes funding for Transitional Kindergarten, which is provided through the Local Control Funding Formula.

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

	2015-16 Revised	2016-17 Revised <sup>a</sup>	2017-18 Proposed	Change From 2016-17	
				Amount	Percent
<b>Expenditures</b>					
<b>CalWORKs Child Care</b>					
Stage 1	\$334	\$418	\$386	-\$32	-8%
Stage 2 <sup>b</sup>	419	445	505	60	13
Stage 3	257	287	303	15	5
<b>Subtotals</b>	<b>(\$1,010)</b>	<b>(\$1,150)</b>	<b>(\$1,193)</b>	<b>(\$43)</b>	<b>(4%)</b>
<b>Non-CalWORKs Child Care</b>					
General Child Care <sup>c</sup>	\$305	\$321	\$319	-\$1	— <sup>d</sup>
Alternative Payment Program	251	267	279	12	4%
Migrant Child Care	29	31	31	— <sup>d</sup>	— <sup>d</sup>
Care for Children With Severe Disabilities	2	2	2	— <sup>d</sup>	— <sup>d</sup>
Infant and Toddler QRIS Grant (one-time)	24	—	—	—	—
<b>Subtotals</b>	<b>(\$611)</b>	<b>(\$620)</b>	<b>(\$630)</b>	<b>(\$10)</b>	<b>(2%)</b>
<b>Preschool Programs<sup>e</sup></b>					
State Preschool—part day <sup>f</sup>	\$425	\$447	445	-\$2	— <sup>d</sup>
State Preschool—full day	555	627	648	21	3%
Transitional Kindergarten <sup>g</sup>	665	704	714	10	1
Preschool QRIS Grant	50	50	50	—	—
<b>Subtotals</b>	<b>(\$1,695)</b>	<b>(\$1,828)</b>	<b>(\$1,857)</b>	<b>(\$29)</b>	<b>(2%)</b>
<b>Support Programs</b>	<b>\$76</b>	<b>\$89</b>	<b>\$82</b>	<b>-\$7</b>	<b>-8%</b>
<b>Totals</b>	<b>\$3,392</b>	<b>\$3,688</b>	<b>\$3,763</b>	<b>\$76</b>	<b>2%</b>
<b>Funding</b>					
Proposition 98 General Fund	\$1,550	\$1,679	\$1,709	\$30	2%
Non-Proposition 98 General Fund	885	984	1,002	18	2
Federal CCDF	573	639	606	-32	-5
Federal TANF	385	385	446	61	16
<sup>a</sup> Reflects Department of Social Services' revised Stage 1 estimates. Reflects budget act appropriation for all other programs.					
<sup>b</sup> Does not include \$9.2 million provided to community colleges for certain child care services.					
<sup>c</sup> General Child Care funding for State Preschool wraparound care shown in State Preschool—full day.					
<sup>d</sup> Less than \$500,000 or 0.5 percent.					
<sup>e</sup> Some CalWORKs and non-CalWORKs child care providers also use their funding to offer preschool.					
<sup>f</sup> Includes \$1.6 million each year used for a family literacy program at certain State Preschool programs.					
<sup>g</sup> Reflects preliminary LAO estimates. Transitional Kindergarten enrollment data not yet available for any year of the period.					
QRIS = Quality Rating and Improvement System; CCDF=Child Care and Development Fund; TANF=Temporary Assistance for Needy Families; CDE = California Department of Education; and DOF = Department of Finance.					
Posted January 2017.					

Source: Legislative Analyst's Office

The Governor's budget includes a total increase of \$76 million from the revised 2016-17 funding level (\$30 million in Proposition 98 funding, \$18 million in non-Proposition 98 General Fund and \$28 million in federal funds). These increases are due to annualizing certain full-year costs of the 2016-17 budget agreement (an increase of \$91 million) and caseload and other changes (a decrease of \$15 million).

The Governor's budget annualizes certain increases provided in the 2016-17 budget, but not all. Specifically, the Governor's budget includes \$68 million to annualize the RMR and license-exempt rate increase. Additionally, the Governor's budget includes \$24 million for the full-year cost of the additional State Preschool slots. However, the Governor's budget does not include funding for the full 10 percent increase for the SRR. Instead the Governor annualizes a five percent increase for the SRR. The Administration argues that this is due to the fact that CDE administered a 5 percent increase at the beginning of the 2016-17 fiscal year, instead of a 10 percent increase in the middle of the fiscal year (due to administrative challenges).

The Governor's budget proposes to "pause" the additional increases agreed upon for 2017-18 due to the lower than expected revenue growth and a more constrained budget environment. The Governor proposes pausing additional augmentations until 2018-19 and extending the agreement over four years, instead of three years. The Administration estimates that pausing these increases will save \$121.4 million non-Proposition 98 General Fund and \$105.4 million in Proposition 98 General Fund. The Governor's proposed budget also does not provide a cost-of-living adjustment for child care or preschool programs. The specific savings identified by the Department of Finance under the Governor's proposal is outlined below.

	Description	Savings (\$'s in 000s)
<b>General Fund</b>		
1	Suspend Additional Child Care Reimbursement Rate Increases Planned in 2017-18	\$85,600
2	Reduce 2016-17 Increase in Child Care SRR from 10 Percent to 5 Percent	\$23,930
3	Suspend Child Care Cost-of-Living Adjustment	\$11,863
	<b>TOTAL</b>	<b>\$121,393</b>
<b>Prop. 98 General Fund</b>		
4	Add 2,959 Full-Day State Preschool Slots	\$7,944
5	Suspend 2017-18 State Preschool Reimbursement Rate Increases	\$39,836
6	Reduce 2016-17 Increase in State Preschool SRR from 10 Percent to 5 Percent	\$43,667
7	Suspend State Preschool Cost-of-Living Adjustment	\$13,980
	<b>TOTAL</b>	<b>\$105,427</b>

Source: Department of Finance

**Alternative Payment Program Budget Proposal**

The California Alternative Payment Program Association (CAPPA) is requesting to extend the two-year hold-harmless provision indefinitely for providers whose reimbursement rates would be reduced by updating the RMR to the 2014 survey.

CAPPA estimates that roughly ten percent of provider rates in each county will fall below what they are currently reimbursed if the hold-harmless provision expires, dropping them below what they were reimbursed in 2005. The Department of Finance projects a savings of approximately \$32 million when the hold harmless provision expires July 1, 2018.

**LAO Recommendation**

The LAO has no assessment or recommendation regarding the Governor's proposed funding level for child care and preschool. The LAO recommends the Legislature allow all types of providers to apply for new full-day State Preschool slots, not only LEAs.

**STAFF COMMENTS**

The Governor's proposed budget does not address the following challenges within California's early education system:

- **California's child development system still has unmet need.** Despite the state's increases in funding for child development programs in recent years, California still has significant unmet need for subsidized child care and preschool. According to the California Budget and Policy Center's analysis, in 2015, an estimated 1.5 million children from birth through age 12 were eligible for care, while only 218,000 children were enrolled in programs that could accommodate families for more than a couple of hours per day and throughout the entire year.
- **Reimbursement rates for providers are too low.** Currently, the state reimburses child care and preschool providers at rates that have failed to keep pace with inflation. Inadequate provider rates impact access for families and quality of subsidized care. If reimbursement rates are too low, providers are less likely to provide subsidized care, limiting access for families. Additionally, insufficient provider rates hinder child care and preschool providers from investing in quality improvements and retaining skilled caregivers and teachers. The state has invested in increasing provider reimbursement rates in recent years. However, the current rates are still low, especially with the planned increases to the minimum wage.

Increasing access to care and increasing reimbursement rates is essential in the sustainability of the state's subsidized child development system. The Governor's budget not only does not honor the budget deal made by the Legislature and Governor, but it also hurts families and providers. For example, many providers that contract with the state and receive reimbursement through the SRR were anticipating the full 10 percent increase in 2017-18 and budgeted accordingly. Under the Governor's proposal, many providers will have to make cuts within their programs.

Staff recommends rejecting the Governor's proposed "pause" in additional funding for early education. Instead, staff recommends providing \$121.4 million non-Proposition 98 General Fund and \$105.4 million in Proposition 98 General Fund in order to honor the 2016-17 budget agreement. These increases include:

- Provide an additional 2,959 Full-Day State Preschool Slots (\$7.9 million Proposition 98 funding)
- Increase the SRR from 5 percent to 10 percent (\$43.7 million Proposition 98 funding and \$23.9 million General Fund)
- Provide further increased provider reimbursement rates (\$39.8 million Proposition 98 funding and \$85.6 million General Fund)
- Include a cost-of-living adjustment for child care and preschool programs (\$14 million Proposition 98 funding and \$11.9 million General Fund)

Additionally, staff recommends the Subcommittee consider options to allow all providers to access the new State Preschool slots, not just LEAs. The Subcommittee could consider allowing the CDE to issue part-day preschool slots for LEAs and non-LEAs, once the full-day slots are allocated.

#### SUGGESTED QUESTIONS

- Why does the Governor annualize funding provided in the 2016 Budget Act for the RMR increases and the State Preschool slots, but does not complete the agreed upon SRR increase?
- Has CDE received any feedback on why LEAs are not applying for more State Preschool slots? How could the state incentivize LEAs to contract with other preschool providers for unused slots?

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**Staff Recommendation: Reject the Governor's proposed funding pause. Adopt the staff recommendation.**

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**ISSUE 2: PRESCHOOL ALIGNMENT PROPOSALS**

The Subcommittee will hear the Governor’s proposed trailer bill language aimed at aligning some of the early education requirements and providing administrative efficiencies for early education providers.

**PANELISTS**

- Brianna Bruns, Department of Finance
- Virginia Early, Legislative Analyst’s Office
- Debra Brown, California Department of Education
- Public Comment

**BACKGROUND**

The State operates two main preschool programs: the California State Preschool Program and Transitional Kindergarten. These programs have different program requirements, such as eligibility criteria, program length, staffing requirements, and funding rates. Transitional Kindergarten is available to four-year-olds with birthdays between September 2<sup>nd</sup> and December 2<sup>nd</sup> and is run by local educational agencies (LEAs), while State Preschool is for low-income families who are working or in school and is run by both LEAs and non-LEA child care centers. The chart below outlines the different program requirements for State Preschool and Transitional Kindergarten. In addition to State Preschool and Transitional Kindergarten, the federal government operates the Head Start preschool program, which serves low-income families.

**Figure 8**  
**Comparing California’s Two Major Preschool Programs**

	State Preschool	Transitional Kindergarten
<b>Eligibility criteria</b>	Four-year olds from families with incomes at or below 70 percent of state median income as calculated in 2007. <sup>a</sup> Children in full-day program must have parents working or in school.	Four-year olds with birthdays between September 2 and December 2. <sup>b</sup>
<b>Providers</b>	Local education agencies and subsidized centers.	Local education agencies.
<b>Program length</b>	At least 3 hours per day, 175 days per year for part-day program. At least 6.5 hours per day, 250 days per year for full-day program.	At least 3 hours per day, 180 days per year.
<b>Teacher qualifications</b>	Child Development Teacher Permit (24 units of ECE/CD plus 16 general education units). <sup>c</sup>	Bachelor’s degree, Multiple Subject Teaching Credential, and a Child Development Teacher Permit or at least 24 units of ECE/CD or comparable experience. <sup>c,d</sup>
<b>Staffing ratios</b>	1:24 teacher-to-child ratio and 1:8 adult-to-child ratio.	1:33 teacher-to-child ratio.
<b>Annual funding per child<sup>e</sup></b>	\$4,386 (part-day) and \$10,114 (full-day).	Average of \$8,810.

<sup>a</sup> Programs may serve three-year olds from income-eligible families if all eligible and interested four-year olds have been served first.  
<sup>b</sup> Schools may serve younger four-year olds with birthdays before the end of the school year but those children do not generate state funding until they turn five.  
<sup>c</sup> Referenced permit and credential are issued by California’s Commission on Teacher Credentialing.  
<sup>d</sup> The requirements shown apply to teachers hired after July 1, 2015.  
<sup>e</sup> Funding rates are 2016-17 estimates.  
 ECE/CD = Early Childhood Education/Child Development.

Source: Legislative Analyst’s Office

State Preschool and Transitional Kindergarten also have different health and safety standards. 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 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.

Transitional Kindergarten programs are not required to meet the same CCL health and safety standards. Transitional Kindergarten programs are required to meet the same facility requirements as other K-12 buildings, and have some similar health and safety requirements outlined in the California Education Code. Transitional Kindergarten classrooms are not inspected by DSS and any complaints of violation are subject to the K-12 Uniform Complaint Procedure (UCP) process.

State Preschool programs run by LEAs are required to meet both the State Preschool and K-12 requirements. LEAs argue that having to meet two separate (but similar) sets of requirements is duplicative and over burdensome. Some LEAs have sited this as a reason for not applying for State Preschool slots.

### **Governor’s 2017-18 Budget**

The Governor’s 2017-18 budget proposes a number of policy changes through trailer bill language intended to provide more flexibility for local educational agencies (LEAs) that operate multiple early education programs. The Governor proposes the following changes aimed at aligning the State Preschool and Transitional Kindergarten program requirements:

- **Allow for increased adult-to-child ratios for certain State Preschool classrooms.**  
The Governor’s proposed trailer bill language allows for State Preschool classrooms to have a minimum of one adult for every 12 children (rather than the 1:8 ratio currently required) if the lead teacher has a multiple subject teaching credential. The Administration argues that this will better align State Preschool requirements with that of a typical TK classroom. Additionally, under the Governor’s proposal, programs that meet Tier 4 or higher of the Quality Rating and Improvement System (QRIS) matrix would be exempted from the State Preschool staffing ratio requirements. However, providers would still have to meet minimum licensing requirements, which is a 1:12 adult-to-child ratio. The Administration has indicated that this proposal would allow for LEAs to blend classrooms with State Preschool and Transitional Kindergarten students, if the program met the various developmental and classroom environment requirements for State Preschool programs.
- **Eliminate health and safety requirements for LEA run State Preschool programs.**  
The Governor proposes to eliminate the Title 22 health and safety licensing requirements for State Preschool programs located on K-12 campuses that meet K-12

building standards. The Governor's proposal also specifies that State Preschool programs that meet the K-12 building standards would be considered licensed for purposes of being rated on the QRIS matrix.

- **Align instructional minutes for State Preschool and Transitional Kindergarten.** The Governor's budget proposes to simplify the process for school districts to align program minutes for State Preschool and Transitional Kindergarten programs. Currently school districts must submit a waiver to the State Board of Education in order to de-link the minutes for Kindergarten and Transitional Kindergarten classes. The Governor's proposal would exempt districts from this process, if the purpose is to align their Transitional Kindergarten program with their State Preschool program.
- **Expand access to State Preschool for children with exceptional needs.** The Governor's proposed trailer bill language would allow children with exceptional needs whose families exceed income eligibility requirements to access part-day State Preschool, if all other eligible children have been served. Currently, part-day State Preschool programs can enroll up to 10 percent of their slots with children from families with up to 15 percent over the income threshold, if all other eligible children have been served. Under the Governor's proposal, children with exceptional needs above the income threshold would not count toward that cap. The intent of this proposal is to allow State Preschool providers to fill unused slots.

The Governor's 2017-18 budget also includes the following proposals intended to provide administrative efficiencies for early education providers:

- **Authorize the use of electronic applications.** The Governor's budget proposal would allow for providers to use electronic applications for families applying for subsidized child care. The Administration argues that this change will improve access for families and help providers process applications more efficiently. Many programs support this proposal, but also point out that there is no funding provided to develop and implement electronic applications. While larger programs may have the ability to do this on their own, smaller programs may not.
- **Align the state and federal definitions of homelessness.** The Governor's budget proposes to align the state's definition of homelessness with the federal McKinney-Vento Act for purposes of child care eligibility. This proposal slightly expands the definition of homelessness to include children that are temporarily staying with other people due to the loss of housing. The intent of this proposal is to alleviate the administrative burden for providers receiving both state and federal funds.

### **Alternative Payment Program Budget Proposal**

The California Alternative Payment Program Association (CAPPA) has a budget request of \$11 million in one-time non-Proposition 98 General Fund to support needed technology upgrades for child care and early education programs. Specifically, this funding would be used for Alternative Payment Programs to update their phone systems and servers, renew software licensures, transitioning to electronic applications and storage, and train staff.

### LAO Recommendations

The LAO has the following recommendations on the Governor's proposed changes to State Preschool and Transitional Kindergarten:

- Reject the Governor's three proposals that make certain changes to licensing, staffing, and program duration requirements for certain State Preschool and Transitional Kindergarten providers. Instead, pursue alignment more holistically by reconsidering eligibility criteria, program standards, and funding levels in tandem.
- Adopt Governor's proposal regarding program duration for Transitional Kindergarten and Kindergarten programs, but, in tandem, establish differential funding rates for full-day and part-day programs.
- Reject proposal to allow part-day State Preschool programs to serve children from families exceeding the income threshold. If providers cannot earn their contracts, recommend redistributing unearned funding to other part-day State Preschool providers that can serve additional low-income children.

The LAO has no concerns with the Governor's proposals to allow for the use of electronic applications or to align the state and federal definitions of homelessness.

### STAFF COMMENTS

Many LEAs that operate multiple preschool programs argue that the different program requirements for State Preschool, Transitional Kindergarten and Head Start are overly burdensome and have sought to align or streamline some of these requirements. The Governor's proposed trailer bill language aims to address these concerns. However, many of these proposals are significant policy changes that could impact the quality of care for three and four-year-olds. Issues for the Subcommittee to consider include:

- **Are credentialed teachers better prepared to handle more young children than a preschool teacher?** Under the Governor's proposal, a State Preschool classroom could have higher class sizes if taught by a credentialed teacher. However, the proposal does not require the teacher to have any early childhood experience or training. Under current law, Transitional Kindergarten teachers are required to have 24 units of early childhood education, or equivalent experience. The Governor's proposal does not require this for State Preschool credentialed teachers. The Subcommittee should consider whether credentialed teachers are equipped to handle more three and four-year-olds and if they should be required to have further early education experience. Additionally, how will increasing class sizes impact the quality of care for three and four-year-olds?
- **Health and safety requirements for LEA run State Preschool programs seem duplicative, but some significant differences.** Many LEAs argue that having to meet the State Preschool health and safety requirements and the K-12 facilities and Education Code requirements are duplicative and over burdensome. Although there is a lot of overlap in the requirements, there are some distinct differences. For example, Title 22 regulations require teachers to be vaccinated, while K-12 teachers do not have

this requirement. Another major difference is that under Title 22, State Preschool classrooms are inspected for health and safety standards every three years, while K-12 classrooms are not inspected (except for an annual inspection by the State Fire Marshal). Also, the process for filing a complaint for a health and safety or facilities violation is much different for State Preschool and the K-12 system.

- **Allow for different instructional minutes for full-day Kindergarten and Transitional Kindergarten and consider differentiated funding rates for full-day and part-day programs.** The State Board of Education typically receives about 40-50 requests per year to waive the instructional minute requirement for Kindergarten and Transitional Kindergarten programs. Most of these requests are approved by the State Board. In order to incentivize full-day Kindergarten programs, staff recommends specifying in the trailer bill language that this exemption only applies to full-day kindergarten programs that want to align their Transitional Kindergarten program minutes with their State Preschool program. Staff agrees with the LAO that the Legislature should consider different funding rates for full-day and part-day Kindergarten and Transitional Kindergarten programs, similar to State Preschool.
- **Will expanding eligibility for State Preschool to include children with exceptional needs reduce access for eligible low-income children?** Although children with exceptional needs may benefit greatly from being in an inclusive environment in State Preschool, the impact on eligible low-income children is unknown.

Staff has no concerns with the Governor's proposals to align the definition of homeless youth with the federal definition. No opposition has been raised on this proposal. Additionally, staff has no concerns with allowing providers to use electronic applications. Although no funding has been provided for this proposal, the Governor's proposal does not require providers to use electronic applications.

Staff recommends holding this issue open to further consider the policy implications of these proposals.

#### SUGGESTED QUESTIONS

- Would the Governor's proposal allow for LEAs to blend classrooms with State Preschool and Transitional Kindergarten students?
- What are the implications of increasing student-to-teacher ratios for three and four-year-olds?
- Since there are so many low-income children not being served in State Preschool, how will the state ensure that these children are being prioritized if eligibility is expanded to children with exceptional needs?
- What are the main differences between the health and safety requirements for State Preschool and Transitional Kindergarten?

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**Staff Recommendation: Hold Open**

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**ISSUE 3: CHILD CARE AND PRESCHOOL ELIGIBILITY**

The Subcommittee will hear a budget proposal to update the income eligibility requirements and provide 12 month continuous eligibility for families eligible for subsidized child care and preschool.

**PANELISTS:**

- Donna Sneeringer, Child Care Resource Center, representing the Early Childhood Education Coalition
- Monica Walters, Wu Yee Children's Services, representing the California Coalition for Equity in Early Care and Education
- Parent Leader, Parent Voices
- Public Comment

**BACKGROUND**

The income eligibility limit for subsidized child care and preschool is currently at 70 percent of the State Median Income (SMI) from 2005. California has not updated the income eligibility limit since 2007-08, and actually lowered the limit from 75 percent to 70 percent in 2011. This has resulted in many low-income families losing access to subsidized care. As the minimum wage increases go into effect, more and more families will become ineligible for subsidized child care and preschool.

Additionally, low-income families receiving subsidized care are required to report, within five days, any changes in family income, family size or activities requiring child care need. This requirement can be especially difficult for working parents who do not have predictable work schedules or student parents that have changing class schedules. Families with variable schedules are required to submit pay stubs, written statements from their employer, and other records showing their need for child care every four months. Families that do not submit the required paperwork can lose their child care.

**The Governor's 2017-18 Budget**

The Governor's budget maintains eligibility for child care and preschool at 70 percent of the 2005 SMI and does not propose any changes to the process for re-determining eligibility.

**Budget Proposal**

Members of the Legislature and many advocacy groups have a budget proposal to update the state's subsidized child care eligibility requirements. Specifically, the proposal:

- Updates the income eligibility requirements for subsidized child care and preschool to 70 percent of the most recent SMI (based on data published by the United States Census Bureau).
- Allows parents to remain eligible for subsidized child care and preschool until they reach 85 percent of the SMI.

- Provides continuous 12 month eligibility, allowing families to receive subsidized care for not less than 12 months prior to having their eligibility re-determined (unless the family established eligibility on the basis of seeking employment).

It is difficult to estimate the cost for updating the income eligibility requirements because the state does not currently track a family's income when they income-out of the CalWORKs program. The state would only incur additional costs for CalWORKs Stage 1 and 2, since these are essentially entitlement programs. There would be no additional costs associated with the capped programs, such as General Child Care and State Preschool. The Legislative Analyst's Office and the Department of Finance estimate that the maximum cost for these changes would be approximately \$30 million. This estimate assumes that no family would leave Stage 2 or 3 for any reason.

### **County Welfare Directors Association Proposal**

The County Welfare Director's Association (CWDA) has a budget proposal related to the eligibility criteria for children in foster care. The proposal would clarify that a foster care grant is not considered as income nor counted for purposes of family fees when determining eligibility for child care subsidies. Current CDE regulations require foster care grants to be counted as income, which could delay or deny their access to subsidized child care.

### **STAFF COMMENTS**

Since the income eligibility requirements for child care and preschool programs have not been updated since 2007-08, low-income families are losing access to subsidized care. Also, the increasing minimum wage is impacting families' ability to access child care. For example, a family of three, where both parents are working full-time and earning the minimum wage (making approximately \$43,800 per year), would not be eligible for subsidized child care. Instead, this family would likely have to pay between \$7,800 and \$13,300 per year on child care (depending on the age of the child), or 18-30 percent of their pre-tax income.

Families that are eligible for subsidized care are faced with over burdensome reporting requirements with even the slightest increase in income or changes in their work or school schedule. These requirements are time consuming and disruptive for families, especially since most families that are required to be re-determined remain eligible for services.

The early education community sites these eligibility issues as their top concern for the sustainability of the subsidized child care system. The 2016-17 budget agreement acknowledged the impact of the minimum wage on subsidized child care and preschool programs and made a commitment to increase provider rates. However, the agreement did not address the outdated eligibility requirements. The Subcommittee should consider updating the SMI and providing 12 month eligibility for child care and preschool programs.

**SUGGESTED QUESTIONS**

- Will updating the income eligibility allow for more full-day State Preschool slots to be utilized?
- How has the minimum wage increase impacted the ability for families to access child care? How will the future increases impact families if eligibility requirements do not change?

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**Staff Recommendation: Hold Open**

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**ISSUE 4: WOMEN'S CAUCUS BUDGET PRIORITIES**

The Subcommittee will hear from Assemblywoman Garcia on the Legislative Women's Caucus' budget priorities related to child care and preschool.

**PANELISTS**

- Assemblywoman Christina Garcia, Chair, Legislative Women's Caucus

**BACKGROUND/STAFF COMMENTS**

The Legislative Women's Caucus will release their budget priorities at a press conference on April 4<sup>th</sup> at 11:00 am. Assemblywoman Garcia will present these priorities to the Subcommittee prior to the press conference.

The Legislative Women's Caucus has been a champion for early childhood education issues for many years. The Subcommittee often looks to the Women's Caucus for recommended budget actions and priorities related to child care and preschool.

**SUGGESTED QUESTIONS**

- What is the Women's Caucus' highest priority? Have the Women's Caucus' priorities changed since last year?
- How will the Governor's child care budget impact families and women specifically?

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**Staff Recommendation: Information Only**

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**ISSUE 5: QUALITY IMPROVEMENT ACTIVITIES**

The Subcommittee will hear the Department of Education's proposed expenditure plan for the state's quality improvement activities.

**PANELISTS**

- Debra Brown, California Department of Education
- Virginia Early, Legislative Analyst's Office
- Brianna Bruns, Department of Finance
- Public Comment

**BACKGROUND**

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 approximately \$78 million on quality activities. 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. This funding is used for a combination of state-level activities and county-level activities. The budget provides CDE with some discretion on how these funds are allocated.

**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.

**The 2016-17 Budget**

The 2016 Budget Act required the CDE to revise the State's quality improvement expenditure plan and submit the plan to the Legislature by February 1, 2017. In developing their plan, the Budget Bill language directed CDE to retain funding for Resource and Referral Agencies, Local Planning Councils and licensing enforcement. The language also directed CDE to prioritize other funding for QRIS. The CDE plans to submit a revised expenditure plan to the federal government after the enactment of the 2017-18 budget.

### Revised Quality Improvement Expenditure Plan

The CDE submitted its revised quality improvement plan to the Legislature last month. The plan reduces funding for nine programs in order to provide approximately \$5.1 million for an Infant/Toddler QRIS Block Grant. The figure below outlines the specific changes proposed by the CDE.

<b>Comparing Existing and Proposed Quality Improvement Expenditure Plans</b>				
<i>(In Thousands)</i>				
<b>Category</b>	<b>Activities</b>	<b>2016-17<sup>a</sup> Revised</b>	<b>2017-18 Proposed</b>	<b>Change</b>
<b>Parent resources</b>	Resource and Referral Agencies	\$22,280	\$22,280	—
	1-800-KIDS-793 Phone Line for Parents	91	91	—
	Subtotals	(\$22,371)	(\$22,371)	(—)
<b>Training and technical assistance</b>	Program for Infant and Toddler Care	\$6,846	\$6,453	-\$393
	California Preschool Instructional Network	4,000	4,000	—
	Child Care Initiative Project	3,057	3,027	-30
	Health and safety training grants and regional trainers	2,655	2,655	—
	Inclusion and Behavior Consultation Network	920	920	—
	Family Child Care at Its Best Project	767	767	—
	Map to Inclusive Child Care and CSEFEL	750	750	—
	Desired Results field training	667	667	—
	Developmental Screening Network	176	176	—
	California Strengthening Families Trainer Coordination	40	40	—
Subtotals	(\$19,877)	(\$19,455)	(\$-423)	
<b>Financial aid</b>	AB 212 Child Care Retention Program	\$10,750	\$8,063	-\$2,688
	Subsidized TrustLine Applicant Reimbursement	461	461	—
	Stipend for permit	435	435	—
	Child Development Teacher and Supervisor Grant Program	318	226	-92
	Subtotals	(\$11,964)	(\$9,184)	(\$-2,780)
<b>Enforcement</b>	Licensing enforcement for child care programs	\$8,000	\$8,000	—
<b>Support to community colleges</b>	Child Development Training Consortium	\$3,273	\$2,892	-\$381
	California Early Childhood Mentor Program	2,966	2,921	-45
	Subtotals	(\$6,239)	(\$5,813)	(\$-426)
<b>Early learning resources</b>	Desired Results system for children and families	\$1,025	\$1,025	—
	Development of early learning resources	959	500	-\$459
	Faculty Initiative Project	455	400	-55
	California Early Childhood Online	290	290	—
	Development of infant/toddler resources	180	180	—
Subtotals	(\$2,909)	(\$2,395)	(\$-514)	
<b>Local planning</b>	Local Planning Councils	\$3,353	\$3,353	—
<b>Quality Rating and Improvement System (QRIS)</b>	QRIS certification grants	\$2,000	\$1,000	-\$1,000
	Migrant QRIS Block Grant	800	800	—
	Infant/Toddler QRIS Block Grant	—	5,143	5,143
	Subtotals	(\$2,800)	(\$6,943)	(\$4,143)
<b>Program evaluations</b>	Evaluation of quality improvement activities	\$570	\$570	—
<b>Totals</b>		<b>\$78,084</b>	<b>\$78,084</b>	<b>—</b>

<sup>a</sup> Does not include \$6 million in one-time funding provided for quality improvement activities in 2016-17.  
CSEFEL = California Social Emotional Foundations of Early Learning.

Source: Legislative Analyst's Office

**LAO Recommendations**

The LAO has the following recommendations related to CDE's revised quality plan:

- Retain funding for Resource and Referral agencies, Local Planning Councils, licensing enforcement, and evaluation of quality improvement activities (\$34 million total).
- Repackage \$21 million from seven programs operated by county-level support entities into a single county block grant. Allow county-level support entities to serve all types of providers. Require county-level support entities to identify a lead agency and develop a plan for spending block grant funds. Require lead agency to report annually on how funds are spent.
- Retain funding for remaining programs (nearly \$23 million), but use planned evaluation funding to hire an independent evaluator to assess them over the next several years, starting with the largest programs in 2017-18. Revisit funding levels in the future based on the results of the evaluations.

**STAFF COMMENTS**

The CDE's revised quality plan is a good first step in re-evaluating how the state should allocate funding to improve the quality of child care and preschool programs and begin to prioritize funding for QRIS for infant and toddlers. Currently, the state does not collect enough data to assess the effectiveness of many of the quality improvement programs. Staff recommends CDE evaluate these programs over time to determine which quality improvement activities are most effective and update their plan accordingly.

**SUGGESTED QUESTIONS**

- How did CDE decide which programs to reduce funding for in order to fund QRIS?
- Is \$5.1 million for the Infant/Toddler QRIS Block Grant sufficient to make a statewide impact?
- Does CDE plan on making additional changes to the quality plan in the future?

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**Staff Recommendation: Hold Open**

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