AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 2

ON EDUCATION FINANCE

ASSEMBLYMEMBER KEVIN MCCARTY, CHAIR

TUESDAY, MARCH 21, 2023

9:00 A.M. – STATE CAPITOL, ROOM 447

This hearing can be viewed via live stream on the Assembly's website at https://assembly.ca.gov/todayevents.

We encourage the public to provide written testimony before the hearing. Please send your written testimony to: BudgetSub2@asm.ca.gov. Please note that any written testimony submitted to the committee is considered public comment and may be read into the record or reprinted.

*To provide public comment, please call toll-free number: **877-692-8957 / Access Code: 131 54 47***

EARLY CHILDHOOD EDUCATION & GOVERNOR'S BUDGET PROPOSALS

ITEMS TO BE HEARD

ITEM	DESCRIPTION	
6100	**CALIFORNIA DEPARTMENT OF EDUCATION**	
5180	**CALIFORNIA DEPARTMENT OF SOCIAL SERVICES**	
6670	**OFFICE OF PUBLIC SCHOOL CONSTRUCTION**	
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ISSUE 1: UNIVERSAL TRANSITIONAL KINDERGARTEN IMPLEMENTATION & JANUARY BUDGET PROPOSALS

The 2021-22 Budget Act launched the state's commitment to Universal Transitional Kindergarten for all children. This panel will discuss January Budget proposals relevant to implementation of this state priority.

PANEL

- Hanna Melnick, Learning Policy Institute
- Jodi Lieberman, DOF
- Michelle Nguyen, DOF
- Sara Cortez, LAO
- Sarah Neville Morgan, CDE
- Lisa Silverman, Office of Public School Construction
- Stephanie Ceminsky, San Diego Unified School District

BACKGROUND

Transitional Kindergarten

The 2021-22 Budget Act authorized Universal Transitional Kindergarten. Budget trailer legislation gradually expands TK eligibility from 2022-23 through 2025-26. The table below shows the expansion schedule. 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. (Under current law, a child is eligible for TK if their fifth birthday is between September 2 and December 2 of the coming school year.) This plan is anticipated to cost approximately $2.7 billion at full implementation in 2025-26, though costs will be driven by student enrollment. The Legislature and the Governor have reached an agreement to cover these costs by "rebenching" (adjusting) the Proposition 98 formulas to increase the share of General Fund revenue allocated to schools.

Transitional Kindergarten Expansion Schedule

Year	Eligibility
2021-22	Must have fifth birthday between September 2 and December 2.
2022-23	Must have fifth birthday between September 2 and February 2.
2023-24	Must have fifth birthday between September 2 and April 2.
2024-25	Must have fifth birthday between September 2 and June 2.
2025-26	Must have fourth birthday by September 1.

Note: Some school districts may allow younger students who do not meet the criteria above to enroll in Transitional Kindergarten. These students do not generate state funding until their fifth birthday and must turn five before the end of the school year

Source: LAO

Please see the LAO report under Appendix A for a more comprehensive background on Transitional Kindergarten.

Universal Transitional Kindergarten Policy

Universal TK statute established new quality standards for TK, distinct from Kindergarten. Budget Act agreements set class size requirements for TK—specifically, requiring that school districts and charter schools maintain an average TK classroom enrollment of no more than 24 students at each school site. Trailer legislation also specifies a minimum number of adults required in a TK classroom. Starting in 2022-23, TK classrooms must on average have 1 adult for every 12 students. Starting in 2023-24 and contingent on additional funding, TK classrooms must on average have one adult for every ten students.

Statute specifies that eligibility for TK does not affect a family's eligibility for other subsidized preschool or child care programs. For example, if a child is eligible for TK and State Preschool, the family could choose to enroll the child in either of the programs. The budget package also delayed implementation of additional child development requirements for TK teachers that were adopted in the 2015-16 Budget Act. State law previously required that, by August 1, 2021, TK teachers have a Child Development Teacher Permit, at least 24 units of early childhood education or child development, or comparable experience. Trailer legislation delayed this requirement to August 1, 2023.

Universal TK Planning. The 2021-22 Budget package included $200 million Proposition 98 funding to support State Preschool or TK expansion and planning. Of these funds, each LEA that operates a kindergarten program received a base grant based on its kindergarten enrollment and unduplicated kindergarten pupil count. Funds can be used for a variety of purposes such as recruitment, training, and materials. The budget package also included $100 million

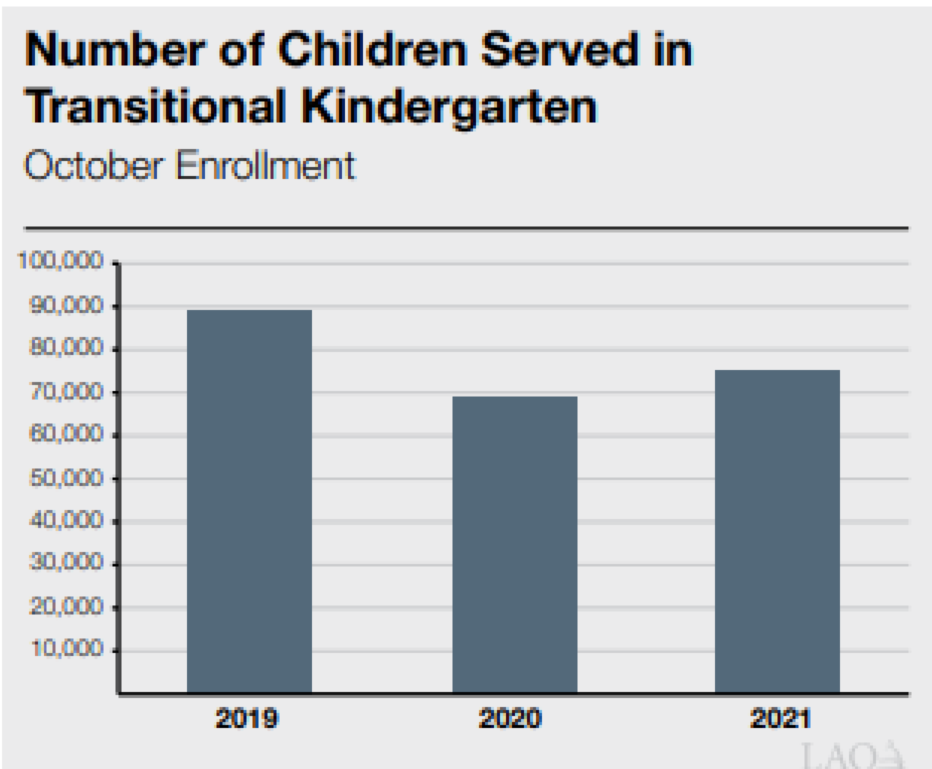
Proposition 98 in competitive grant funding for LEAs to increase the number of highly qualified State Preschool and TK teachers. Funds will be used to provide State Preschool, TK, and kindergarten teachers with training in specific areas, such as providing instruction in inclusive classrooms and supporting dual language learners.

TK Curricula. The budget package provided $10 million non-Proposition 98 General Fund to update the *California Preschool Learning Foundations*, a publication that describes the skills preschool children typically attain in school.

Student to Adult Ratios. The 2022-23 Budget Act included $383 million Proposition 98 General Fund to add one additional certificated or classified staff person to every transitional kindergarten class to bring the student-to-adult ratio to 12-to-1, as required by law.

TK Staff Qualifications. The 2021-22 Budget Act authorized the Commission on Teacher Credentialing to convene a workgroup on updating TK teacher requirements.

The 2022-23 Budget Act provided flexibility for the one-year emergency teaching permits for self-contained TK classrooms, through the CTC. This flexibility will expand under current law in the 2023-24 school year.



Source: LAO

Preschool Impacts. The 2022-23 Budget required the CDE to convene a stakeholder workgroup, and by January 15, 2023, provide recommendations to the Legislature and DOF on best practices for increasing access to universal preschool, updating preschool standards to support both preschool and TK, and support the mixed delivery system of preschool. Oversight of this statute will be discussed in Panel 5.

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, LEAs submitted a total of $405 million in applications for this 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 an additional $550 million, one-time General Fund, in the 2023-24 Budget.

OPSC expects to fully award all existing funding by the Fall of 2023, and may have a further update at this hearing.

The Governor's 2023-24 January Budget

The Governor's January Budget contains proposals to delay TK facility funding and lower student to adult ratios. The Budget also proposes to create new TK classroom aide standards, authorize summer month ADA for early TK, and clarify that TK ratios cannot be waived by the State Board of Education.

Student to Adult Ratios. The proposed budget includes $165 million in ongoing Proposition 98 General Funds to maintain the additional certificated or classified staff person to every transitional kindergarten class. This investment will maintain the student-to-adult ratio to 12-to-1. Statute declares that beginning in 2023-24, the student-to-adult ratio is expected to be 10-to-1, contingent on available funds. The Administration is proposing to delay this timeline.

TK Facility Funding. The enacted 2022-23 Budget includes legislative intent to increase CSPP/TK/FDK Facility funding by $550 million in the Budget Year. The Administration is proposing to delay this new facility funding to the 2024-25 Budget Year.

TK Staff Qualifications. The Administration is proposing new standards for the second school employee (aide) in all TK classrooms. The standards would require an aide to have at least one of the following to be employed in a TK classroom, beginning in the 2028-29 school year:

- Have a CTC credential or child development permit.
- Participate in an educator apprenticeship or residency program.
- Participate in a Classified School Employee Teacher Credentialing program.
- Participate in a teacher preparation pathway program.

- Participate in a supervised practicum experience via various programs, including a CTC Child Development permit.

Early TK. The Administration is proposing the allow 4 year olds born during the summer months to participate in Early TK, in those LEAs implementing universal TK prior to the 2025-26 deadline.

LAO Comments

Workforce Challenges Appear to Be More Prevalent Compared to Facility Challenges. Workforce issues appear to be a key barrier to TK implementation. Only 23 percent of school districts report having enough multiple subject teaching credential holders to meet the need for TK expansion. Facility challenges appear to be less of an issue, with 75 percent of school districts reporting they have adequate space to meet the projected enrollment of TK students. Some school districts report planning to make facility updates, such as paving an area. However, 41 percent of school districts and charter schools report they do not intend to make updates to facilities.

Recommend Rejecting Additional TK Staffing Requirements. The Governor's budget proposes additional requirements for adults assigned to TK classrooms starting in the 2028-29 school year. In practice, these would be additional requirements for instructional aides. In light of staffing challenges, we recommend rejecting this proposal. These requirements would make hiring instructional aides for TK classrooms more difficult.

STAFF COMMENTS & QUESTIONS

According to CDE, many LEAs are accelerating TK enrollment. Based off of 1546 LEA UPK Program Report Submissions, 648 LEAs have indicated they plan to serve students eligible with birthdays after February 3 through ETK. Additionally, 500 LEAs have indicated "Maybe" they will serve students eligible for ETK. This feedback shows that more than 74% of LEAs are admitting or planning to admit more young 4-year-olds to TK than is currently required by law. It is important to note that larger, urban districts with more resources and community demand for TK are accelerating implementation at a faster pace than rural districts with limited TK enrollment.

According to the Learning Policy Institute, UTK instructional and environmental standards across LEA's vary greatly, including class sizes, instructional minutes, age ranges, ratios, curricula, and facility quality.

Is the UTK Ratio funding formula already supporting a 1 to 10 ratio? According to DOF, the $383 million for 2022-23 TK ratios, and $165 million estimate in the 2023-24 Budget would support ratio reductions in all existing TK classrooms as well as the new cohorts eligible in the 2023-24 school year. DOF's methodology already assumes an average TK classroom loading standard of approximately 20 students per classroom, and then funds the costs for an additional, full-time, classified employee. The LCFF grade span adjustment incentivizes a 24 student classroom maximum for kindergarten, but the 2016 AIR report on TK found a state average ratio of 1 to 17, early in implementation. Some LEAs, like LAUSD and San Diego Unified, already support lower TK and early TK ratios.

Is there need for more UTK facility funding? The Office of Public School Construction awarded the first round of the new $490 million in UTK/FDK facility funding in the Fall of 2022, with a cap in the first round of $225 million. They will report on demand versus available funds in this hearing.

According to CDE's UPK planning surveys, LEAs reporting inadequate classroom space were fairly evenly divided among geographic locales; they were slightly more likely to be in suburban areas, followed by cities and rural areas, and then towns. However, when you break it down by LEA type, inadequate space was common among rural school districts and suburban charter schools. The next largest groups are in Los Angeles-Long Beach area and the Bay Area (20 percent). When broken down by LEA types, inadequate classroom space was most common among rural districts (in no major metropolitan area) and Los Angeles charter schools. The UPK P&I survey also asked about areas of facilities that LEAs intend to make updates:

- Two of the top areas that LEAs with inadequate classroom space intend to make updates are increasing the total square footage and getting land for buildings.
- About 40 percent of LEAs report planned updates to outside areas, including paver areas, apparatus areas, and turfed areas.
- A smaller group of LEAs with inadequate classroom space reported that they intended to make no updates to facilities.

Would Aide Qualifications Create Workforce Shortages? According to labor and management groups opposed to the trailer bill, the proposed aid qualifications "creates a new barrier to entry for educators in TK classrooms that will make it more difficult both to retain existing employees and to fill the countless jobs that will open as expansion continues." The proposed aide standards do not have a parallel in any other school-site or preschool aide standard for the state.

How are LEAs leveraging TK Educator Funds? The 2021-22 Budget Act provided $100 million for professional preparation and support for UTK educators, including administrators, teachers, and classroom aides. The Administration's proposal places the threshold of classroom aide on the employee, who may not have access these new standards prior to placement in a TK classroom. Further, TK aides in a 3 or 4 hour TK classroom may be braiding a full-time position with other classified responsibilities on the school site that could impact their ability to participate in these strenuous programs. Would it be more appropriate to place ongoing professional supports for TK educators on employers?

The Subcommittee should anticipate revisiting the UTK package as part of the overall Proposition 98 package, and with further information on facility and workforce needs. Implementation of an impactful UTK will require adequate resources in key quality areas like professional support, ratios, and developmentally appropriate classroom tools.

Questions:

- What is the Administration's expected cost to bring the student-to-adult ratio to 10-to-1 in 2023-24? Does the LAO have an alternative cost estimate?
- Why does the Administration believe the TK aide qualifications are possible during the current education workforce shortage?
- Will unique TK aide qualifications complicate the braiding of funds for full-time aide positions?
- Is there anything that the state can do to further support LEAs as you implement the expansion of transitional kindergarten?
- Is there anything additional needed to support preschool systems adapt and adjust to UTK implementation and Expanded Learning options?

Staff Recommendation: Hold Open.

ISSUE 2: CHILD CARE SYSTEM OVERSIGHT: PANDEMIC RELIEF POLICIES

Numerous pandemic relief packages have been passed over the past three years, to support and stabilize the child care industry. All relief measures expire at the end of this fiscal year. This panel will discuss the ECE field's needs emerging from the current year.

PANEL

- Kim Johnson, Department of Social Services (DSS)
- Anna Powell, Center for the Study of Child Care Employment
- Jackie Barocio, LAO
- Dr. Lupe Jaime-Mileham, DSS
- Andrea Fernandez, Vice President of Education, California Children's Academy
- Karina Esquer, Parent Voices
- Kimberly Rosenberger, Child Care Providers Unified

BACKGROUND

Pandemic Impacts and Response

The COVID-19 pandemic continues to place increased fiscal and emotional pressures on child care providers and families. Providers are also reporting higher costs. Families receiving child care also have been affected, particularly due to cyclical school and child care closures and quarantines that have required families to find new child care arrangements.

DSS track an estimate of providers that remain open, and those that are closed permanently or temporarily. This data is from the Department of Social Services' (DSS) Community Care Licensing (CCL) and reflects both private and subsidized providers. An update on this data was not available at the time of this agenda's publication.

According to the DSS data, roughly 12% of licensed child care capacity in the state closed permanently during the COVID-19 pandemic. New licensed capacity growth rates remains lower than permanent closure rates.

Budget Actions to Date

The final 2020-21 Budget Act took actions to support and stabilize child care programs during the pandemic. The vast majority of these actions were provided on a one-time basis and most of these actions were funded with one-time federal funds provided through the Coronavirus Aid, Relief, and Economic Security (CARES) Act. In addition to the $350 million in CARES Act funding specifically for child care, the state also used $110 million from the Coronavirus Relief Fund (CRF) to support child care programs. These pandemic relief policies included: essential worker child care access, flexibility to fund providers regardless of attendance or parent signature, and provide additional funded closure days, waive family fees, fund center-based closures, fund cleaning supplies, fund the additional hours of school-aged care during school closures, and provide stipends to state-subsidize child care providers.

AB 82 (Ting, 2021) was passed by the Legislature, and signed into law by Governor Newsom on February 23, 2021, as part of the Early Budget Action and pandemic relief package. The legislation appropriates $512 million in federal CRF funds, and one-time CCDBG funds, and ratifies the agreement between CalHR and the Child Care Providers United - California (CCPU) to address COVID relief funding. This package expanded the one-time essential worker care vouchers, extended the funding hold harmless policies, created a $525 per child stipend for subsidized child care providers, and extended the family fee waiver.

The final 2021-22 Budget Act took further actions to extend the pandemic child care supports through June 2022, at an estimated cost of $546 million in federal CRF and CCDBG funds.

The final 2022-23 Budget Act extended select relief policies, to extend family fee waivers, extend direct-contract attendance hold harmless policies, and provide an additional rate supplement stipend to DSS-funded childcare providers.

Key COVID-19 Relief Activities Set to Expire on June 30, 2023

(In Millions)

Policy	2022-23 Costs
Child care relief stipends	$320
Supplemental rates	184
Family fee waivers	136
Reimbursement flexibility for voucher-based providers	108[a]
Resource and Referral Capacity Support	5[b]
Licensing incentive	2
Total	**$755**

[a] Reflects costs to pay voucher-based program providers based on the maximum certified hours of care for the child and costs for the COVID-19 non-operational days policy.

[b] Reflects net amount of COVID-19 federal relief funds that will not be backfilled with General Fund in 2023-24 and ongoing.

Souce: LAO

The Governor's 2022-23 January Budget

The Governor's January Budget does not extend pandemic relief funding or policies.

STAFF COMMENTS & QUESTIONS

The pandemic investments and policies funded in the 2020-21 Budget Act, the 2021-22 Budget Act, and the 2022-23 Budget Act were all intended to be one-time in nature. The Legislature may want to consider the policy and fiscal pandemic actions from prior Budgets to stabilize the ECE system, over a multi-year period. Child care leaders report ongoing family anxiety, quarantine, and other pandemic-related issues that impact program stability, funding, and provider burn-out.

The ECE field is asking specifically that pandemic flexibilities for family fees and enrollment/schedule-based funding be extended. While enrollment-based funding may be contributing to historically low service rates, post-pandemic attendance trends and their relationship to excused absence policies require re-examination.

The ECE field is also requesting increases to program funding/reimbursement rates. To the extent rates remain below market costs, families are also potentially paying large co-pays, in addition to family fees. The alternative is that child care providers are absorbing the cost difference in their own business model, as a loss.

The Subcommittee may want to consider extending pandemic stabilization efforts and increasing program reimbursement rates in the context of May Revision revenues, federal fund availability, and ongoing impacts to the child care system. Multiple legislative vehicles have proposed longer term solutions to family fee policy.

Questions:

- What would reinstituting a family fee, after three years, do to family enrollment? What percentage of our current families have never paid a fee before?

- How does the magnitude of family co-pays, for the difference between a subsidy rate and a private market rate, look like regionally?

- Are there any important patterns to the permanent closures that the state should address?

- How are providers able to leverage existing excused absences to prevent loss of baseline funding?

Staff Recommendation: HOLD OPEN.

ISSUE 3: CHILD CARE FUNDING RATES, RATE REFORM & JANUARY BUDGET PROPOSALS

This panel will review recent rate reform recommendations and January Budget proposals relevant to child care funding rates, including preschool and COLA.

PANEL

- Dr. Lupe Jaime-Mileham, Department of Social Services
- Jodi Lieberman, DOF
- Jackie Barocio, LAO
- Virginia Early, CDE
- Kimberly Rosenberger, CCPU
- LaWanda Wesley, ECE Coalition

BACKGROUND

California's Child Care Programs

California's diverse subsidized child care system has twin objectives: to support working parents and support healthy child development. Children, from birth to age thirteen, are cared for and instructed in a number of state and federally subsidized child care and school-based support programs, including the CalWORKs Stages child care programs, the California Alternative Payment Program (CAPP), General Child Care (GCC), Migrant Child Care, the Expanded Learning Opportunities Program (ELO-P), the California State Preschool Program (CSPP), Transitional Kindergarten (TK) , and the federal Head Start program.

Please see the LAO's reports in Appendix A and B for more comprehensive overviews of the State Preschool and child care programs.

Commencing July 1, 2021, the administration of state "child care" programs transitioned from the Department of Education (CDE) to the Department of Social Services (DSS). DSS now administers all the CalWORKs Stages child care programs, the California Alternative Payment Program, General Child Care, Migrant Child Care, and the various quality and infrastructure investments and program, including Resource & Referral agencies. CDE still administers the State Preschool program. TK and ELO-P are administered directly by LEAs, and Head Start grants are administered by direct federal contracts to local agencies.

Rate Reform

California has two different child care and preschool provider rates: the Regional Market Rate (RMR) and the Standard Reimbursement Rate (SRR). The RMR varies based on the county in which the child is served and is based on regional market surveys of a sample of non-subsidized, licensed child care providers. The SRR is a flat rate for providers across the state. Historically, the voucher-based child care programs (i.e. CAPP and Stages childcare) received the RMR while direct contract child care providers (i.e. GCC, Migrant, and CSPP) received the SRR.

The 2021-22 Budget Act increased rates for voucher-based providers to the 75th percentile of the 2018 market survey, beginning in January 2022 (The state was previously using the 75th percentile of the 2016 survey.). In addition, the Budget agreement shifted direct contract providers to the RMR, to the extent the RMR was higher than the SRR – a policy change that aligned all child care and preschool programs to a single rate system.

Currently, the state still provides a statutorily required annual COLA—the same rate provided to TK-12 education programs—to the SRR. The 2022-23 budget included a 6.56 percent COLA to the SRR. The state typically has not provided annual rate COLAs to providers whose rates are based on the RMR. These providers only receive rate increases when the state takes action to update the RMR (usually by using a higher percentile of the RMR or updating to a more recent survey).

Rate Reform Recommendations. The 2021-22 Budget Act established two workgroups to make recommendations for implementing a single child care reimbursement rate structure. First, DSS, in consultation with the California Department of Education (CDE), is to convene a workgroup to assess the methodology for establishing a new reimbursement rate and quality standards. The workgroup is to include a range of child care stakeholders and must provide recommendations by August 15, 2022. The workgroup's recommendations are to include a definition of child care workforce competencies and suggestions for how to align these competencies to a new rate structure. Second, the state and Child Care Providers United–California shall establish a Joint Labor Management Committee that will make recommendations for a single reimbursement rate structure that addresses quality standards for equity and accessibility while supporting positive learning and developmental outcomes for children. The budget includes $20 million for DSS to hire a contractor that would assist the Joint Labor Management Committee. This committee is to provide its recommendations to the Department of Finance by November 15, 2022, to inform the Governor's 2023-24 budget proposal. An update on this workgroup's recommendations will be presented in this panel.

<u>Preschool Rates</u>

Starting January 1, 2022, State Preschool providers moved to the 75th percentile of the 2018 regional market rate (RMR) survey or stayed at their current SRR rate if it is higher.

As discussed above, the 2022-23 budget provided a COLA for preschool providers receiving the SRR, while providers receiving the RMR were not provided a COLA.

The 2022-23 budget package also increased rates for certain groups of children in the State Preschool program. These increased rates are provided through adjustment factors applied to the SRR rate the provider would typically receive. For example, an adjustment factor of 1.8 reimburses providers at 1.8 times the rate for four-year olds.

Changes in Preschool Adjustment Factors

	Previous Adjustment	Adjustment as of 2022-23
Exceptional needs	1.54	2.40
Severe disabilities	1.94	2.40
Three-year olds	1.00	1.80
Dual language learner	1.10	1.20
Receiving mental health consultation services	1.05	1.10

Source: LAO

The Governor's 2023-24 Budget

The January Budget proposes an 8.14% COLA for the State Preschool, General Child Care, and Alternative Payment Programs (CAPP).

CSPP Rates. The Governor's budget provides $176 million ($112 million Proposition 98 and $64 million non-Proposition 98 General Fund) to provide an 8.13 percent COLA for State Preschool. The Governor's budget does not make changes to current law where the COLA is provided only to State Preschool providers with rates based on the SRR. Providers with rates based on the RMR would not receive an increase in rates.

Childcare Rates. The Governor's budget provides $303 Million General Fund to apply an 8.13 percent COLA to GCC, AP, and other child care programs activities. The effect of the COLA-related augmentation, however, varies by program. For GCC and other direct contract programs, funding will be used to provide rate increases to those providers that receive the SRR. (Providers receiving the RMR would not receive a rate increase.) For the AP program, the COLA will be applied as an increase in total program funding, which effectively operates as a slot increase, due to statute.

2023-24 COLA[a] Costs for Certain Child Care Programs

As Reflected in 2023-24 Governor's Budget (In Millions)

Programs and Activities	COLA Costs
Alternative Payment	$151.7
General Child Care[b]	142.3
Migrant Child Care	5.6
Resource and Referral	1.8
Child and Adult Care Food Program	1.5
Care for Children With Severe Disabilities	0.2
Local Planning Councils	—
Total	**$303.2**

[a] Reflects 8.13 percent cost-of-living adjustment (COLA) estimate.
[b] Includes family child care home education networks.

Source: LAO

There are no January Budget proposals on Rate Reform, or increases or changes to the Regional Market Rate-funded programs.

The January Budget also proposes trailer bill clarifications on Rate Sheet Clarification and CAPP Reimbursement Categories and Documentation.

LAO Comments

Governor's Budget Overestimates 2023-24 COLA Costs for GCC. The Governor's budget calculates COLA costs by applying the 8.13 percent to the total costs of each child care program. In theory, this amount of funding reflects the costs associated with providing an across-the-board funding increase to all child care providers by 8.13 percent. Under current law, however, only GCC providers receiving the SRR receive an increase to their rates based on COLA. We estimate the COLA-related costs for SRR providers are $80 million to $100 million lower than budgeted by the administration. (The final estimate of the COLA will be available in the May Revision, which will impact our potential savings estimate.)

COLA for AP Agencies Would Result in Additional Slots, Running at Odds With Proposal to Delay Scheduled Slot Increases. The Governor's proposal to increase the AP program based on COLA and effectively provide additional AP slots is consistent with the state's longstanding budgeting practice for the program. However, the Legislature may want to consider taking a different approach in the budget year considering the significant number of additional slots added in recent years and the existing barriers to get slots used in the current year.

Legislature Has Various Options for Distributing COLA-Related Funding. The Legislature could choose to apply the COLA-related funds as proposed under the Governor's budget (and score the identified General Fund savings). This approach would increase the number of voucher-based slots and would help GCC providers funded on the SRR to address inflationary pressure. One drawback to this approach is that GCC providers on the RMR would not receive any additional funding to help address inflationary pressures. Below, we outline different ways the Legislature could distribute the COLA-related funding. While some options would maximize the number of child care providers receiving some form of a funding increase, they would require forgoing the $80 million to $100 million in possible General Fund savings.

- Provide an Across-the-Board Rate Increase to All Child Care Providers. The Legislature could use all COLA-related funds to provide a rate increase to all child care providers, regardless of program and reimbursement rate type. The state would need to direct the COLA-related funding for AP agencies to be used for rate increases rather than additional slots.
- Reduce the Gap Between the RMR and SRR. Currently, GCC providers can receive either the RMR or SRR, whichever is higher. Consistent with current law, the Governor's budget would only provide a rate increase to GCC providers receiving the SRR, resulting in a larger gap between the RMR and SRR among GCC providers. The Legislature could address this gap by only providing a rate increase to providers receiving the RMR and keeping SRR levels flat. (This approach would require statutory changes.)
- Redirect COLA-Related Funds for Another Child Care Program Purpose. Rather than use COLA-related funds to provide rate and slot increases to certain child care programs and activities, the Legislature could redirect the $303 million General Fund for other legislative priorities. For example, the funds could be used to backfill any additional Proposition 64 revenue losses included in the May Revision.
- Forgo the COLA and Score General Fund Savings in Light of Broader Budget Problem. To the extent the projected budget problem is worse in the May Revision, the Legislature could forgo using the $303 million in COLA-related funds to reduce total program expenditures.

STAFF COMMENTS & QUESTIONS

The Legislature should also continue to closely monitor the implementation of rate reform. Rate increases as implemented January 1, 2022, provide uneven support across different regions of the state, across various age-groups, and across provider types and may result in unintended consequences without further action to move towards a more consistent and comprehensive child care rate system.

As demonstrated by the table below from the California Budget and Policy Center, the rate increase to the 75th percentile of the 2018 RMR did not provide any funding increase to many providers, and a does not provide a significant increase for most providers.

Percent Change in the Full-Time, Monthly Regional Market Rate Ceiling by County from January 1, 2018 to January 1, 2022

	Licensed Child Care Center Rate Increase		Licensed Family Child Care Home Rate Increase	
	Children Under Age 2	Children Ages 2 to 5	Children Under Age 2	Children Ages 2 to 5
Alameda	8%	16%	13%	17%
Alpine	0%	0%	0%	0%
Amador	0%	0%	2%	2%
Butte	5%	9%	12%	9%
Calaveras	0%	1%	7%	3%
Colusa	13%	0%	19%	11%
Contra Costa	5%	14%	10%	11%
Del Norte	0%	0%	0%	0%
El Dorado	19%	18%	24%	16%
Fresno	16%	11%	11%	14%
Glenn	0%	0%	19%	9%
Humboldt	7%	17%	11%	14%
Imperial	1%	0%	4%	1%
Inyo	4%	4%	5%	6%
Kern	15%	8%	8%	9%
Kings	13%	0%	0%	2%
Lake	0%	0%	12%	11%

Lassen	0%	0%	15%	5%
Los Angeles	6%	11%	21%	16%
Madera	9%	0%	3%	3%
Marin	6%	4%	5%	4%
Mariposa	0%	0%	1%	0%
Mendocino	0%	0%	4%	4%
Merced	0%	0%	10%	10%
Modoc	0%	0%	13%	12%
Mono	0%	0%	0%	0%
Monterey	0%	0%	6%	6%
Napa	0%	1%	9%	11%
Nevada	3%	0%	7%	6%
Orange	9%	16%	25%	20%
Placer	9%	17%	13%	15%
Plumas	0%	0%	3%	0%
Riverside	5%	4%	12%	13%
Sacramento	2%	10%	11%	6%
San Benito	5%	0%	7%	7%
San Bernardino	7%	2%	3%	4%
San Diego	6%	14%	11%	12%
San Francisco	8%	12%	6%	9%
San Joaquin	12%	8%	14%	11%
San Luis Obispo	3%	0%	10%	7%
San Mateo	9%	9%	9%	17%
Santa Barbara	0%	0%	10%	0%
Santa Clara	7%	11%	8%	15%
Santa Cruz	0%	1%	13%	11%
Shasta	3%	0%	10%	8%
Sierra	0%	0%	12%	8%
Siskiyou	4%	0%	9%	4%
Solano	7%	5%	12%	11%
Sonoma	7%	12%	17%	13%
Stanislaus	9%	1%	11%	9%
Sutter	15%	2%	9%	13%
Tehama	0%	0%	20%	12%
Trinity	0%	0%	15%	18%
Tulare	0%	0%	10%	8%
Tuolumne	0%	0%	9%	14%
Ventura	5%	8%	9%	11%
Yolo	5%	8%	11%	7%
Yuba	12%	0%	11%	9%

Source: Budget Center Analysis of Regional Market Rate Survey data
Contact: Kristin Schumacher (kschumacher@calbudgetcenter.org) or Erik Saucedo (esaucedo@calbudgetcenter.org)

The proposed COLA funds, and unencumbered ARPA rate and slot funds could be sufficient to provide a significant rate increase to the Regional Market Rate, rather than the Standard Reimbursement Rate alone.

Questions:

- Why are RMR rate increases not included in the January Budget to reflect extreme COLA pressures on all programs or statutory goals to reflect the 85^{th} percentile of most recent market survey?

- What is the current year trajectory of federal fund savings due to new slot delays and rate miscalculations?

- Does the Administration intend to propose an alternative rate methodology in time for the 2023-24 Budget Act? Is there a range of costs to the draft recommendations?

Staff Recommendation: Hold Open.

ISSUE 4: CHILD CARE SERVICES: ACCESS OVERSIGHT & JANUARY BUDGET PROPOSALS

This panel will review January Budget proposals relevant to the state's goal to serve 200,000 new children in child care by 2025-26.

PANEL

- Dr. Lupe Jaime-Mileham, Department of Social Services
- Jackie Barocio, Legislative Analyst's Office
- Kimberly Rosenberger, CCPU
- Lara Magnusdottir, Community Child Care Council of Sonoma County (4Cs)
- Michelle Graham, Children's Resource & Referral of Santa Barbara County
- Karina Esquer, Parent Voices

BACKGROUND

Child Care Access Expansion

2021-22 Budget Agreement committed to add 200,000 new Child Care Slots by 2025-26. Since 2021-22, the state has added about 146,000 new slots (from about 108,000 to about 254,000). These child care slots were split between the voucher-based program (about 96,000) and the direct contract programs (about 50,000).

In the voucher-based child care program, contracts with 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 funding, the state provided partial year funding to reflect the time necessary for DSS to provide the funds to AP agencies and GCC providers.

Child Care Infrastructure

The 2021-22 budget package also included $250 million one-time funding ($150 million General Fund, $100 million federal funds) for the Child Care and Development Infrastructure Grants Program to expand access to child care and development and preschool opportunities for children up to five years of age by providing resources to build new facilities or retrofit, renovate, repair, or expand existing facilities, with a focus on child care deserts. Of the total, $100 million of this funding needs to be used minor construction and repair to abide by federal American Rescue Plan Act guidelines. The 2022-23 Budget Act provided an additional $105 million for this program.

Resource and Referral Agencies. The budget package allocated $10 million one-time funds to support the MyChildCarePlan.org website for resource and referral agencies, and $20 million in one-time federal funds for a $10 million annual, ongoing increase in Resource and Referral agency operational funding in 2021-22 and 2022-23.

The Governor's 2023-24 Budget

Proposes to Delay New Slots. The multi-year Budget agreement is to serve 200,000 more children in the state's subsidized childcare system by 2025-2026. The January Budget suggests that 20,000 new slots would have been added in the 2023-24 Budget, but proposes to delay this new round of slots. It is unclear if the Administration is also proposing to delay the 2025-2026 goal. The LAO estimates these 20,000 slots would have cost $134 million, in the Budget Year.

The Governor's budget includes an additional $149 million in 2023-24 to capture the annualized costs of new slots added in 2022-23.

Proposes Agency Contract Authority. The Administration is also requesting clean-up trailer bill, to allow for inter-agency contract adjustments. According to DSS, this authority was inadvertently omitted during the transfer of statutory authority from Education to Welfare and Institutions Code, during the transition of child care administration to DSS. This is separate from intra-agency transfers which allow a contractor to temporarily transfer funds between their own General Child Care and CSPP contracts pursuant to existing statute. This proposal would not allow for inter-agency adjustments between contractors with different program types, so could not be used to transfer funds between CSPP and CDSS-administered programs.

LAO Comments

Delay in Take-Up of New Slots Not Surprising Given Magnitude of Recent Increases. The increases enacted over the past two years more than doubled the number of slots available in the AP program (from about 66,700 to about 161,300) and GCC (from about 28,400 to about 78,500). It was expected these slots would not be immediately filled given the amount of time needed by DSS to allocate funds to providers. Specifically, the past two budgets assumed DSS would require at least three months to modify AP agency contracts to reflect new slot funding. Additionally, the past budgets assumed DSS would not begin to award new slot funding to GCC providers until the last two or three months of each fiscal year. Moreover, we have heard from providers that even after they receive new slot funding from DSS, it takes time to advertise the additional slots, complete the required paperwork, and for families to select a child care provider.

Delay Also Reasonable Given Majority of Direct Contract Funding Has Not Been Allocated to Fill New Slots. As previously mentioned, the state provided funding to add about 50,000 new slots in GCC across 2021-22 and 2022-23. We understand that the majority of this funding has not been allocated to providers to serve additional children. This, in part, is due to contracting delays associated with funding awarded to GCC providers in spring of 2022. Additionally, DSS plans to award the majority of new slot funding through the 2022-23 RFA process, meaning the earliest these funds would be available to GCC providers is April 2023.

Expected Growth in General Fund Backfill for Ongoing Rate and Slot Increases After 2023-24. One-time federal funds used to cover costs associated with rate increases are set to expire September 2023, while federal funds used to cover costs associated with slot increases are set to expire September 2024. As these one-time federal funds expire, the administration intends to use General Fund to backfill for these costs, resulting in higher General fund costs in 2024-25.

How Does the Governor's Budget Allocate Over $5 Billion in Federal Relief Funds? Based on our analysis of DSS budget documents, we do not know how the administration plans to use $232 million of the over $5 billion in federal relief funds. We are working with the administration to confirm that our estimate is correct and, if so, when and how the $232 million federal funds will be used. Additionally, we estimate that the administration has shifted hundreds of millions of federal relief funds initially allocated in 2021-22 to 2022-23. We believe this is likely due to actual costs for certain child care program changes, such as slot increases, coming in lower than expected.

What Amount of Additional Federal Funds Likely Will Be Freed-Up Due to Expected Current-Year Savings? Historically, child care program cost estimates are not based on the actual number of slots that likely will be filled in a given fiscal year. Instead, the Governor's budget fully funds each slot under the assumption that all slots will be filled immediately following the release of funds by DSS to providers. This means that the 2023-24 funding levels technically reflect costs of all 146,500 new slots being filled by July 1, 2023. If cost estimates for slot increases were rightsized to reflect a more reasonable ramp-up assumption, then hundreds of millions of one-time federal funds and General Fund would be freed-up in 2022-23 and 2023-24.

What Fund Source Will Be Used to Backfill Federal Relief Funds Set to Expire in September 2023? We calculate that under the Governor's budget, General Fund costs associated with rate and slot increases remain flat between 2022-23 and 2023-24. This suggests that the administration is using another fund source to backfill federal relief funds set to expire in 2023-24.

STAFF COMMENTS & QUESTIONS

In the midst of the pandemic, California has added 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.

One critical solution is certainty: when State Budget allocations are unknown until July, the apportionment process at the state and local agency-level take months, before any family intake can be contemplated. Delays in family access to their choice of care providers further compound the timeline.

Questions:

- Is the Administration's proposed slot expansion delay expected to impact the state's 2025-26 commitment for 200,000 more kids served?

- Is the Administration proposing the expansion delay for structural system reasons, or fiscal reasons alone?

- If there are structural reasons for the delay, what solutions are recommended, in addition to the trailer bill?

- Is DSS contemplating a new expansion methodology, based on take-up rates regionally?

- What is the current year trajectory of federal fund savings due to new slot delays? Can these funds be used for slot and rate increases in the Budget Year?

- How have recent funding CCDBG increases for Local Planning Councils and Resource & Referral agencies impacted family services?

Staff Recommendation: Hold Open.

ISSUE 5: CALIFORNIA STATE PRESCHOOL PROGRAM OVERSIGHT & JANUARY BUDGET PROPOSALS

This panel will review January Budget proposals unique to the California State Preschool Program (CSPP), and oversight of prior year actions.

PANEL

- Jodi Lieberman, Department of Finance
- Sara Cortez, Legislative Analyst's Office
- Sarah Neville-Morgan, Department of Education
- Lisa Wilkin, Executive Director, Child Care Consortium of Los Angeles

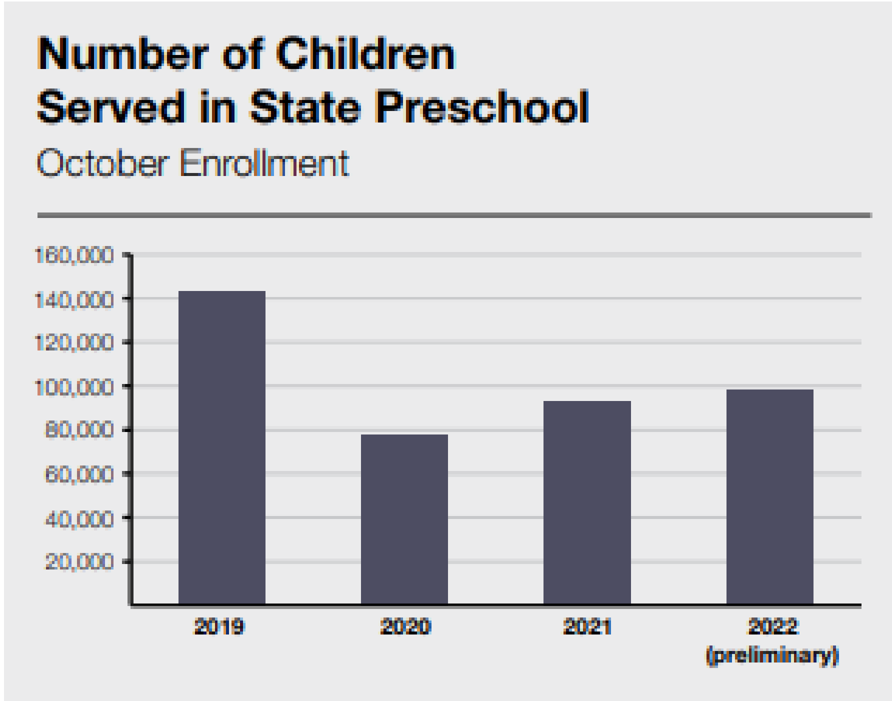
BACKGROUND

Subsidized Preschool Programs in California

The state has several publicly subsidized "preschool" programs for three- and four-year olds, including TK, CSPP, Head Start, and the CAPP and Stages childcare programs, which can support preschool services in a private market setting. For more background on the state's preschool programs, please see Appendix A.

The LAO estimates that the 2022-23 Budget provides CSPP with funding to serve 211,000 children (69,000 in full-day and 142,000 in part-day). According to the latest CDE report, four-year-olds make up approximately 63 percent of that enrollment.

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.



Source: LAO

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.

Requirement 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.

Increased Income Eligibility. The 2022-23 budget package increased the income eligibility threshold from 85 percent of the state median income to 100 percent (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.

Preschool for Students with Disabilities

Schools Must Provide Services for Students With Disabilities Beginning at Age Three. 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.

Inclusive Early Education Expansion Program (IEEEP). The 2018-19 budget provided $167 million Proposition 98 General Fund, and the 2022-23 Budget Act provided $250 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. Funding is available for expenditure though June 30, 2027.

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 2023-24 January Budget

General Fund Backfill. In addition to providing an 8.14% COLA, the January Budget includes $157 million non-Proposition 98 General Fund to account for expiring one-time federal funds. This action sustains the rate increase consistent with the 2021-22 budget agreement. As previously mentioned, the 2022-23 budget funded the costs of the rate increase with one-time federal funds.

Preschool Budget
(Dollars in Millions)

	2021-22 Revised	2022-23 Revised	2023-24 Proposed	Change From 2022-23	
				Amount	Percent
Expenditures					
Preschool Programs					
State Preschool[a]	$1,720	$2,579	$2,867	$288	11.2%
Transitional Kindergarten[b]	965	2,069	3,008	939	45.4
Preschool QRIS Grant	50	50	50	—	—
Subtotals	($2,736)	($4,698)	($5,925)	($1,227)	(26.1%)
Other Support	$1,040	$694	$19	-$674	-97.2%
Totals	**$3,775**	**$5,391**	**$5,944**	**$553**	**10.3%**
Funding					
Proposition 98 General Fund	$2,547	$4,337	$4,892	$556	12.8%
Non-Proposition 98 General Fund	988	844	998	154	18.3
Federal One-Time COVID-19 Relief	240	210	54	-157	-74.5

[a] Includes $1.2 million each year used for a family literacy program offered at certain State Preschool sites.
[b] Reflects preliminary LAO estimates as enrollment data are not yet publicly available. The 2022-23 and 2023-24 estimate includes Department of Finance's estimates for add-on and expansion policies.

QRIS = Quality Rating and Improvement System.

Setaside for Students with Disabilities. The Governor's budget provides $112 million ($64 million Proposition 98 General Fund and $48 million Non-Proposition 98 General Fund) for State Preschool providers to serve more children with disabilities. Specifically, the Governor funds the requirement that 7.5 percent of children enrolled be children with disabilities (an increase from 5 percent in the 2022-23 school year). Providing these additional funds is consistent with the 2022-23 budget agreement.

Community Eligibility. The January Budget proposes trailer bill to expand CSPP community-based eligibility to the parent's location of employment, in addition to location of family home. According to CDE, this proposal would allow higher-income families to pay according to the existing family fee schedule.

Transition Preschool Assessments. The January Budget proposes to shift the assessment of preschool environmental quality to the CLASS assessment.

Delay Preschool Workgroup Recommendations. January Budget proposes trailer bill language to postpone the Universal Preschool Workgroup Recommendations from January 2023 to March 31, 2024.

LAO Comments

Legislature Could Consider Action on Temporary Policies. The Governor's budget allows two temporary policies to lapse—reimbursement flexibility for State Preschool providers and family fee waivers. We recommend allowing the reimbursement flexibility to sunset, which would require State Preschool providers to serve a certain number of children to fully earn their contracts. If funding priorities allow, the Legislature may want to consider eliminating family fees for full-day State Preschool. (The state does not charge family fees for part-day State Preschool or TK.) This action would eliminate the fiscal incentive for families to enroll in TK rather than State Preschool, even when State Preschool would better meet a family's needs.

STAFF COMMENTS & QUESTIONS

California has made numerous policy and fiscal changes to CSPP during the sunrise of UTK, to stabilize the program, and to support moving toward a more inclusive service model that is integrated with our public education systems, in a mixed-delivery preschool system.

Questions:

- 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? Is the expansion to 7.5% necessary in the Budget Year, based on demand?

- 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?

- Should the State expand preschool to higher income families, at the expense of serving low income TK students with full-day wrap, or more low-income 3 year olds? Is there statute preventing CSPP providers from expanding with private-pay families?

- Why is the preschool workgroup delayed by over a year? How does that impact UTK implementation?

Staff Recommendation: Hold Open.