

April 5, 2018

Child Care and Preschool: Overview of Programs and Budget Proposals

LEGISLATIVE ANALYST'S OFFICE

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On Education Finance
Hon. Anthony Portantino, Chair





Child Care and Preschool Programs



State Subsidizes Child Care and Preschool for an Estimated 435,000 Children Through Several Programs

Program	Description	Estimated Slots in 2017-18
CalWORKs Child Care		
Stage 1	Child care becomes available when a participant enters the CalWORKs program.	38,795
Stage 2	Families transition to Stage 2 child care when the county welfare department deems them stable.	52,913
Stage 3	Families transition to Stage 3 child care two years after they stop receiving cash aid. Families remain in Stage 3 until the child ages out (at 13 years old) or they exceed the income eligibility cap.	33,516
Subtotal		(125,224)
Non-CalWORKs Child Care		
General Child Care	Program for other low-income, working families.	28,563
Alternative Payment	Another program for low-income, working families.	29,804
Migrant Child Care	Program for migrant children from low-income, working families.	3,046
Care for Children with Severe Disabilities	Program for children with severe disabilities living in the Bay Area.	106
Subtotal		(61,519)
Preschool		
State Preschool	Part-day, part-year program for low-income families. Full-day, full-year program for low-income, working families.	165,630
Transitional Kindergarten	Part-year program for four-year olds with birthdays between September 2 and December 2. May run part day or full day.	82,596
Subtotal		(248,226)
Total		434,968



Funding Model Varies Across Programs

State Funds Programs Through Vouchers, Direct Contracts, and the Local Control Funding Formula (LCFF)

Program	Payment Type
CalWORKs Child Care	Voucher
Alternative Payment	Voucher
General Child Care	Direct Contract
State Preschool	Direct Contract
Care for Children with Severe Disabilities	Direct Contract
Migrant Child Care	Voucher and Direct Contract
Transitional Kindergarten	Local Control Funding Formula

- Voucher-based providers are reimbursed using a Regional Market Rate (RMR) survey, with rates varying regionally.
- Direct contract providers are reimbursed using the Standard Reimbursement Rate set by the state.
- Transitional Kindergarten is funded using the LCFF per-student rate for the K-3 grade span.



Funding by Program

(Dollars in Millions)

	2016-17 Revised	2017-18 Revised ^a	2018-19 Proposed	Change From 2017-18	
				Amount	Percent
Expenditures					
CalWORKs Child Care					
Stage 1	\$418	\$320	\$330	\$10	3.2%
Stage 2 ^b	445	519	518	-1	-0.3 ^d
Stage 3	284	315	335	21	6.6
Subtotals	(\$1,147)	(\$1,154)	(\$1,183)	(\$30)	(2.6%)
Non-CalWORKs Child Care					
General Child Care ^c	\$308	\$360	\$378	\$17	4.9%
Alternative Payment Program	283	292	308	15	5.2
Migrant Child Care	31	35	36	2	5.1
Bridge program for foster children	—	20	40	20 ^d	100.0
Care for Children With Severe Disabilities	2	2	2	— ^e	5.1
Subtotals	(\$623)	(\$709)	(\$764)	(\$55)	(7.7%)
Preschool Programs^f					
State Preschool—part day ^g	\$447	\$503	\$537	\$34	6.8%
State Preschool—full day	627	738	802	65	8.8
Transitional Kindergarten ^h	718	738	779	41	5.5
Preschool QRIS Grant	50	50	50	—	—
Subtotals	(\$1,842)	(\$2,028)	(\$2,168)	(\$140)	(6.9%)
Support Programs					
Existing support programs	\$89	\$93	\$101	\$8	8.1%
Inclusive Early Education Expansion Program (one time)	—	—	167	—	—
Subtotals	(\$89)	(\$93)	(\$268)	(\$175)	(187.8%)
Totals	\$3,702	\$3,984	\$4,383	\$399	10.0%

^a Reflects Department of Social Services' revised Stage 1 estimates. Reflects budget act appropriation for all other programs.

^b Does not include \$9.2 million provided to community colleges for certain child care services.

^c General Child Care funding for State Preschool wraparound care shown in State Preschool—full day.

^d Annualizes funding for bridge program for foster children.

^e Less than \$500,000.

^f Some CalWORKs and non-CalWORKs child care providers use their funding to offer preschool.

^g Includes \$1.6 million each year used for a family literacy program offered at certain State Preschool sites.

^h Reflects preliminary LAO estimates. Transitional Kindergarten enrollment data not yet publicly available for any year of the period.

QRIS = Quality Rating and Improvement System.



Changes in Child Care and Preschool Funding

(In Millions)

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

^a Under current law, the RMR hold harmless provision expires December 31, 2018.
^b Less than \$500,000.
^c Reflects statutory adjustment based on the projected decrease in the birth-through-four population.
 COLA= cost-of-living-adjustment; SRR = Standard Reimbursement Rate; RMR = Regional Market Rate; LEA= local education agency; and LCFF = Local Control Funding Formula.



State Preschool: Background



State Preschool Is Offered by Local Education Agencies (LEAs) and Non-LEAs

- Roughly half of State Preschool providers are LEAs (school districts or county offices of education). The remaining half are non-LEAs, typically nonprofit agencies. LEAs provide about two-thirds of all State Preschool slots.

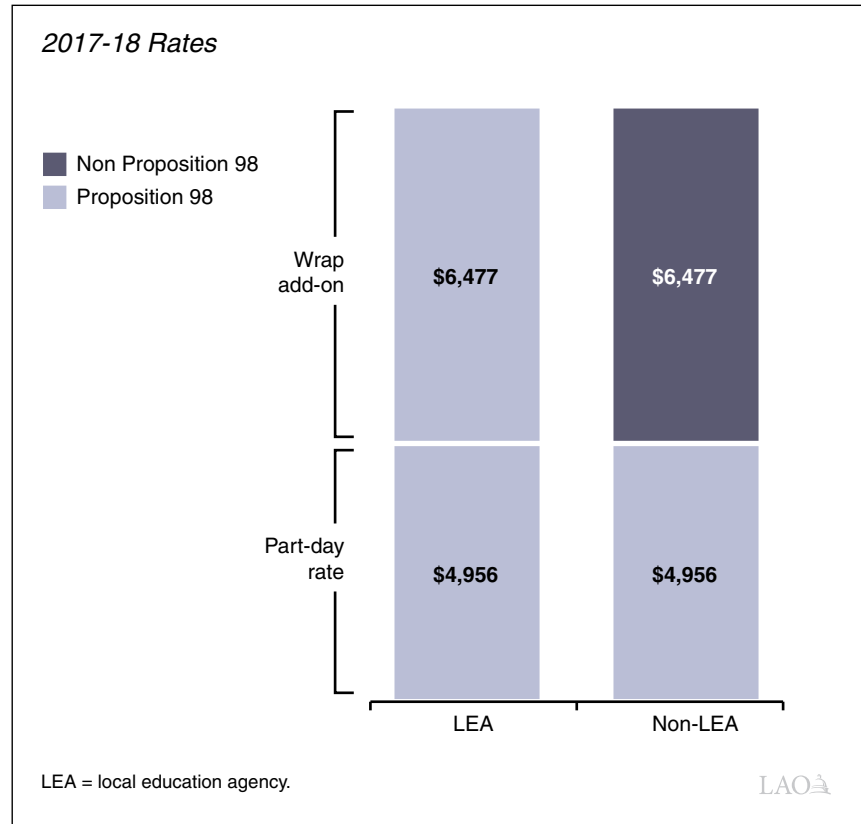


Program Length and Funding Rates Differ for Part-Day and Full-Day Programs

- A part-day program must operate at least 3 hours per day for 175 days of the year. In 2017-18, part-day providers received \$4,956 per child.
- A full-day program must operate at least 6.5 hours per day for 250 days of the year. In 2017-18, full-day providers received \$11,433 per child.



Funding Source for Wrap Portion of Full-Day Program Varies by Provider Type





State Preschool: Governor's Slot Proposal



Provides Funding for Full-Day LEA Slot Increases

- Includes \$19 million to annualize the cost of 2,959 full-day State Preschool slots for LEAs approved in the 2017-18 budget.
- Also includes \$8 million to add 2,959 new full-day State Preschool slots at LEAs starting April 1, 2019.



State Preschool: Assessment

- Recent Slot Increases for LEAs Have Not Been Fully Utilized**
 - Of the 2,959 slots funded beginning April 2017, the California Department of Education (CDE) issued 1,768 to interested LEAs in its first round of applications.
 - CDE used its administrative flexibility to issue remaining funding as part-day slots to LEAs.

- Non-LEAs Have Utilized Full-Day Slots When Given the Opportunity**
 - In 2015-16 (the last year slots were earmarked for non-LEAs), non-LEAs fully utilized the 1,200 new State Preschool slots granted to them. In 2015-16, non-LEAs also utilized much of the funding initially set aside but unused for new full-day slots at LEAs.

- Different Funding Sources Reduces State Flexibility in Adding Full-Day Slots**
 - Prior to 2015-16, the state funded the wrap portion of all full-day State Preschool slots from the same fund source. Since 2015-16, splitting the fund source for wrap between Proposition 98 and non-Proposition 98 General Fund has complicated budgeting and the allocation of slots.
 - CDE typically has had to run multiple application rounds and has been unable to offer full-day slots to interested non-LEAs until the second or third rounds.



State Preschool: Recommendation



Shift Non-LEA State Preschool Wrap (\$176 Million) Into Proposition 98

- Having all State Preschool wrap funded within Proposition 98 allows the state more easily to distribute full-day slots to any interested provider.



Moving Forward, Make Any New Slots Available for All Providers

- If the Legislature is interested in supporting more full-day State Preschool slots in 2018-19 or future years, we recommend it make any new slots available to both LEA and non-LEA providers.
- Such an approach would increase the likelihood that all funded full-day slots are utilized.



RMR Hold Harmless: Background

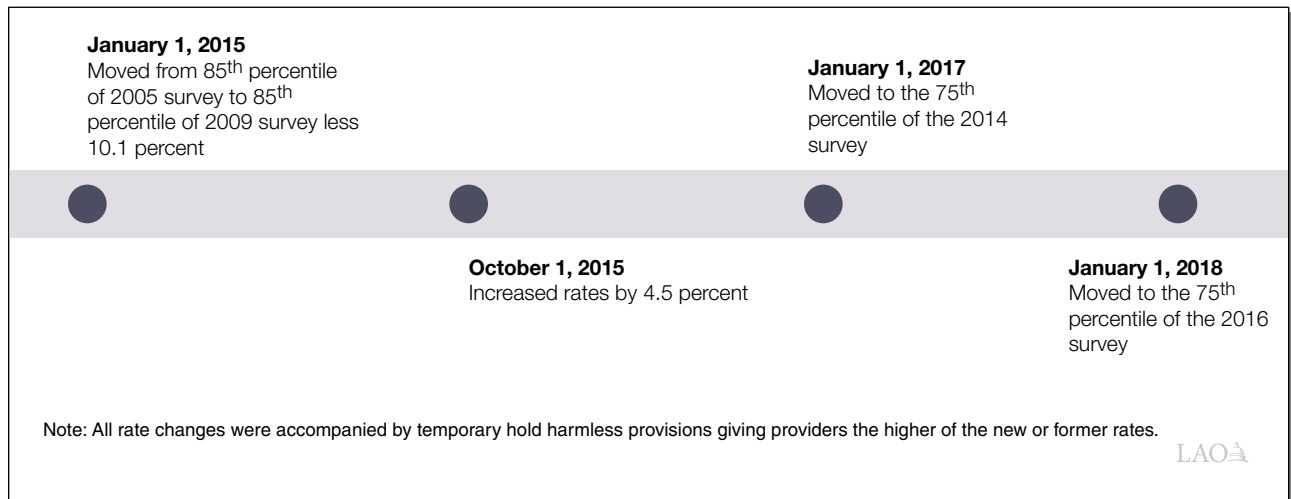


Voucher Providers Are Reimbursed Using the RMR

- RMR rates vary based on the county in which the child is served. Rates also vary according to the age of the children served and the child care setting.
- RMR rates reflect the maximum amount the state will pay.



State Has Increased the RMR Four Times in Recent Years

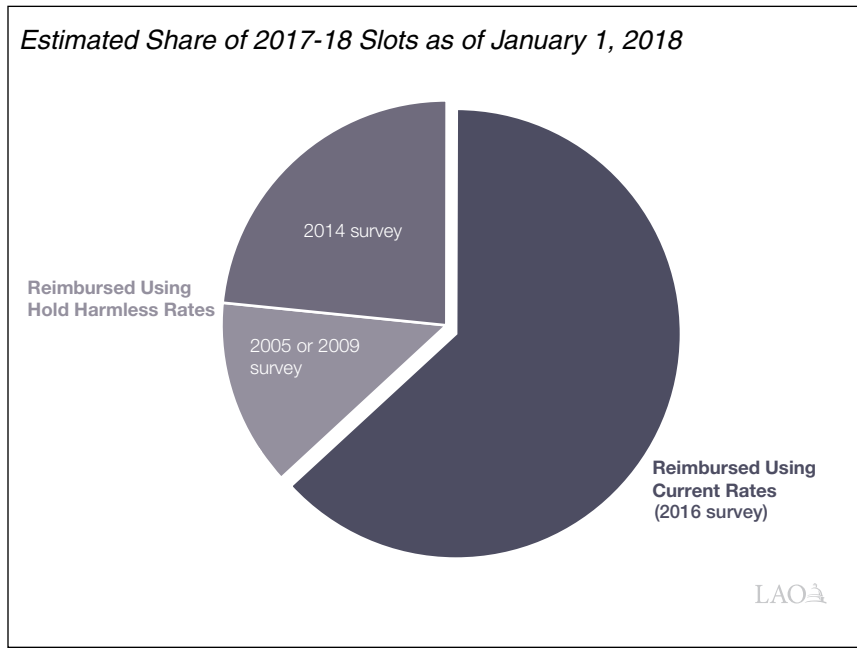


Amidst Rate Changes, Providers Held Harmless

- Rate changes were accompanied by temporary hold harmless provisions giving providers the higher of the new or former rates. The provisions ensured no provider received less than it received in the year prior to the rate changes.
- Beginning January 1, 2019, all providers are to receive rates set at the 75th percentile of the 2016 RMR survey, even if lower than the rates they had received based upon an earlier market survey.

RMR Hold Harmless: Background *(Continued)*

Most Slots Funded Based on Most Recent Survey





RMR Hold Harmless: Governor's Proposal



Permanently Extends Hold Harmless Provision

- Includes \$14 million to permanently extend the RMR hold harmless provision so that no provider moving forward receives less than it received on January 1, 2018.



RMR Hold Harmless: Assessment and Recommendation



Hold Harmless Provision Continues to Disconnect Rates From Child Care Market

- Hold harmless provision allows low-income families in certain areas of the state to access a larger share of their child care market by reimbursing some providers at rates higher than the 75th percentile of their regional markets.
- By extending the hold harmless provision, the Governor's proposal perpetuates inequities in access and reimbursement rates across the state.



Recommend Rejecting Governor's Hold Harmless Extension

- Recommend allowing existing hold harmless provision to expire December 31, 2018, as currently scheduled under state law.
- At the 75th percentile of the most recent survey, families in all areas of the state have access to the vast majority of child care providers in their areas.



With Same Amount of Proposed Funding, Could Add 1,500 Slots

- Rather than giving families in a few areas more access to care by extending the hold harmless provision, the Legislature could consider using the proposed \$14 million augmentation to fund about 1,500 additional child care slots.