

The 2020-21 Budget:
Early Education Analysis



Executive Summary

The Governor's budget for 2020-21 includes a total of \$5.4 billion for child care and preschool programs. In this report, we analyze the Governor's early education proposals and make associated recommendations. Below, we highlight key messages from the report.

State Preschool

Recommend Providing a More Modest Amount of Additional Slots. The Governor's budget includes \$32 million non-Proposition 98 General Fund to provide 10,000 additional full-day State Preschool slots for non-local education agencies (non-LEAs) starting April 1, 2021. We think the State Preschool program is unlikely to accommodate such a large increase, since more than half (about 5,400) of the additional 10,000 slots provided in 2019-20 will go unused. As such, we recommend the Legislature provide a more modest amount of additional slots. Specifically, we find that 1,000 additional slots, along with the slots available from 2019-20, are sufficient to fund demand for full-day State Preschool in 2020-21.

Recommend Simpler Application Process for Current Providers. Although recent State Preschool slots have gone unused because of low demand, the California Department of Education's application process also often results in experienced State Preschool providers being denied expansion funds. In 2018-19, 10 of 75 current providers that applied for additional full-day State Preschool slots were disqualified for not including more thorough descriptions of their program, even though the department already has these descriptions on file from prior applications. We recommend allowing current providers to expand their State Preschool program using a simpler application that does not require these descriptions. This change likely will decrease the share of current providers who are disqualified from receiving expansion funding. By making the application less burdensome, a greater number of current providers might also be willing to apply for State Preschool expansion slots.

Department of Early Childhood Development

Recommend Against Creating New Department to Administer State Child Care Programs. The Governor's budget proposes to establish the Department of Early Childhood Development under the California Health and Human Services Agency. The budget includes \$6.8 million non-Proposition 98 General Fund for 26 new positions in 2020-21 to support first-year transition efforts. This amount increases to \$10.4 million ongoing for 52 new positions in 2021-22, when the department is set to begin administering the state's child care programs and initiatives. We recommend the Legislature reject the proposal, as it lacks sufficient detail and does not provide any clarity on how the restructuring would lead to more effective or efficient services to children and families. While the proposed governance structure could eliminate some fragmentation that currently exists in the child care system, the proposed changes also could create new ones. Moreover, we think making significant changes to the administration of early childhood development programs prior to the release of the forthcoming master plan on early learning and care is premature. The master plan, set to be released by October 1, 2020, is expected to make several recommendations to improve the state's early childhood development programs. The Legislature may want to consider a revised proposal from the administration

next year. This would allow the administration to fully develop a plan and to incorporate any recommendations from the master plan.

Preschool Facilities for LEAs

Recommend Rejecting Additional Funds for Inclusive Early Education Expansion Program. The Governor's budget adds \$75 million one-time Proposition 98 General Fund to the Inclusive Early Education Expansion Program, an existing program intended to increase access to child care and preschool programs for children with disabilities. We recommend the Legislature reject this augmentation. Since the original funding for the Inclusive Early Education Expansion Program still has not been allocated to providers, it is unclear whether the program design is an effective way to achieve the program's goal of increasing access for children with disabilities.

Recommend Creating Preschool Facility Grant for LEAs Using Different Fund Source. The Governor's budget includes \$150 million non-Proposition 98 General Fund for LEAs to construct or renovate preschool facilities on elementary school campuses. Funding for this proposal would come from reducing the amount provided last year for the Kindergarten Facility Grant Program. To the extent that facility issues are the key barrier for certain LEAs, the Governor's proposal would help increase access to preschool programs. However, it is premature to redirect funds from the Kindergarten Facility Grant Program, as the state still does not have any information on interest in the program from school districts. (The next application round is currently scheduled to be in April 2020.) Instead of reducing the amount for kindergarten facility grants, we recommend the Legislature use the \$75 million proposed for the Inclusive Early Education Expansion program towards the Governor's proposed preschool facility grants.

INTRODUCTION

In this report, we provide an overview of the Governor's early education proposals, then analyze his three major early education proposals. Specifically, we analyze his proposals to (1) expand

the number of full-day preschool slots, (2) create a new department to administer child care programs, and (3) fund facilities for more preschool programs.

OVERVIEW

In this section, we provide an overview of the Governor's early education budget proposals.

Governor's Budget Includes \$5.4 Billion for Child Care and Preschool Programs in 2020-21. As **Figure 1** (see next page) shows, this is a decrease of \$218 million (4 percent) from the revised 2019-20 level. The budget includes a \$235 million decrease in non-Proposition 98 General Fund and a \$130 million net decrease in federal funding—both decreases largely due to the expiration of one-time funds provided in 2019-20. These decreases are partially offset by an \$86 million increase in Proposition 98 General Fund and a \$60 million increase in Proposition 64 funds. Under the Governor's budget, proposed funding would support 515,000 child care and preschool slots—a 3 percent increase from 2019-20.

New Proposals Build on Augmentations From Previous Years. **Figure 2** (see page 5) shows the various changes to child care and preschool spending included in the Governor's budget for

2020-21. The budget reappropriates \$75 million in unspent State Preschool funds for the Inclusive Early Education Expansion Program, which provides grants for facility construction, renovations, equipment, or professional development to make early education programs more accessible for children with special needs. The Governor's budget also provides \$32 million to expand the number of full-day State Preschool slots and \$10 million to provide additional General Child Care slots. All other adjustments are either statutorily required or made to annualize the cost to certain policies initiated in 2019-20. In addition to the changes shown in **Figure 2**, the Governor proposes \$6.8 million in General Fund (increasing to \$10.4 million ongoing) to create a new department to administer child care programs within the California Health and Human Services Agency. The budget also sets aside \$150 million one time for preschool facilities from funds initially provided for kindergarten facilities in 2019-20.

STATE PRESCHOOL

In this section, we provide an overview of the State Preschool program, describe and assess the Governor's preschool proposals, and offer associated recommendations.

Background

State Preschool Fosters Kindergarten Readiness for Participating Children. Children are eligible for State Preschool if their family earns less than 85 percent of the state median income (\$69,620 for a family of three). Participating children

either receive a part-day or full-day option. The part-day program provides at least 3 hours of developmentally appropriate activities per day for 175 days per year. The full-day program offers between 6.5 and 10.5 hours of care per day for 250 days per year. In the full-day program, providers must give priority to children whose parents are working or in school. Providers choose whether to operate part-day or full-day programs. We estimate that, in 2019-20, State Preschool is

servicing 101,000 children in part-day programs and 71,000 children in full-day programs.

State Preschool Serves Mostly Four-Year Olds. The total number of State Preschool slots funded in any given year is determined by the state as part of its annual budget process. Providers must first serve all eligible four-year olds, with

children from the lowest-income families getting priority. If space remains available, providers may serve three-year olds—also prioritizing the lowest-income families. After enrolling all interested and eligible children, providers may enroll children from families who are not income eligible (up to 10 percent of slots). In addition, providers located

Figure 1

Child Care and Preschool Budget

(Dollars in Millions)

	2018-19 Revised	2019-20 Revised ^a	2020-21 Proposed	Change From 2019-20	
				Amount	Percent
Expenditures					
CalWORKs Child Care					
Stage 1	\$291	\$324 ^b	\$333	\$9	2.7%
Stage 2 ^c	563	615	588	-26	-4.3
Stage 3	441	503	583	80	16.0
Subtotals	(\$1,295)	(\$1,441)	(\$1,504)	(\$63)	(4.3%)
Non-CalWORKs Child Care					
General Child Care	\$412	\$522	\$533	\$12	2.2%
Alternative Payment Program	427	536	537	1	0.2
Bridge program for foster children	41	58	60	2	3.5
Migrant Child Care	40	45	45	— ^d	0.2
Care for Children With Severe Disabilities	2	2	2	— ^d	0.2
Subtotals	(\$922)	(\$1,162)	(\$1,177)	(\$15)	(1.3%)
Preschool Programs^e					
State Preschool—full day	\$804	\$883	\$1,013	\$130	14.7%
State Preschool—part day ^f	538	548	549	1	0.2
Transitional Kindergarten ^g	847	874	893	19	2.2
Preschool QRIS Grant	50	50	50	—	—
Subtotals	(\$2,239)	(\$2,355)	(\$2,504)	(\$150)	(6.4%)
Support Programs	\$144	\$642	\$197	-\$445	-69.4%
Totals	\$4,600	\$5,600	\$5,382	-\$218	-3.9%
Fund Source					
Proposition 98 General Fund	\$2,063	\$1,847	\$1,933	\$86	4.7%
Non-Proposition 98 General Fund	1,496	2,382	2,147	-235	-9.9
Proposition 64 Special Fund	—	80	141	60	74.9
Federal CCDF	755	931	794	-138	-14.8
Federal TANF	311	342	348	6	1.8
Federal Title IV-E	10	17	19	2	12.2

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

^b Includes one-time data sharing automation costs.

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

^d Less than \$500,000.

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

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

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

QRIS = Quality Rating and Improvement System; CCDF = Child Care and Development Fund; and TANF = Temporary Assistance for Needy Families.

Figure 2

2020-21 Changes in Child Care and Preschool Spending^a
(In Millions)

Change	
Funds Inclusive Early Education Expansion Program	\$75
Makes CalWORKs caseload and average cost of care adjustments	66
Provides 10,000 full-day State Preschool slots at non-LEAs starting April 1, 2021	32
Provides 621 General Child Care slots starting July 1, 2020 ^b	10
Makes other statutory and technical adjustments	-402
Totals	-\$218

^a Does not reflect changes in state operations. The Governor also proposes \$6.8 million to administer all child care programs in a new department. Also does not reflect the Governor's proposal for preschool facilities.

^b Increase associated with the administration's projected increase in cannabis revenues (Proposition 64 funds).
LEA= local education agency.

State Contracts Directly With Local Providers Who Offer Program. State Preschool is offered by various local government and nonprofit agencies. Roughly 60 percent of State Preschool slots are provided by school districts and county offices of education (local education agencies or LEAs). Nonprofit agencies, county welfare departments, and cities (non-LEAs) also operate State Preschool, accounting for about 40 percent of slots.

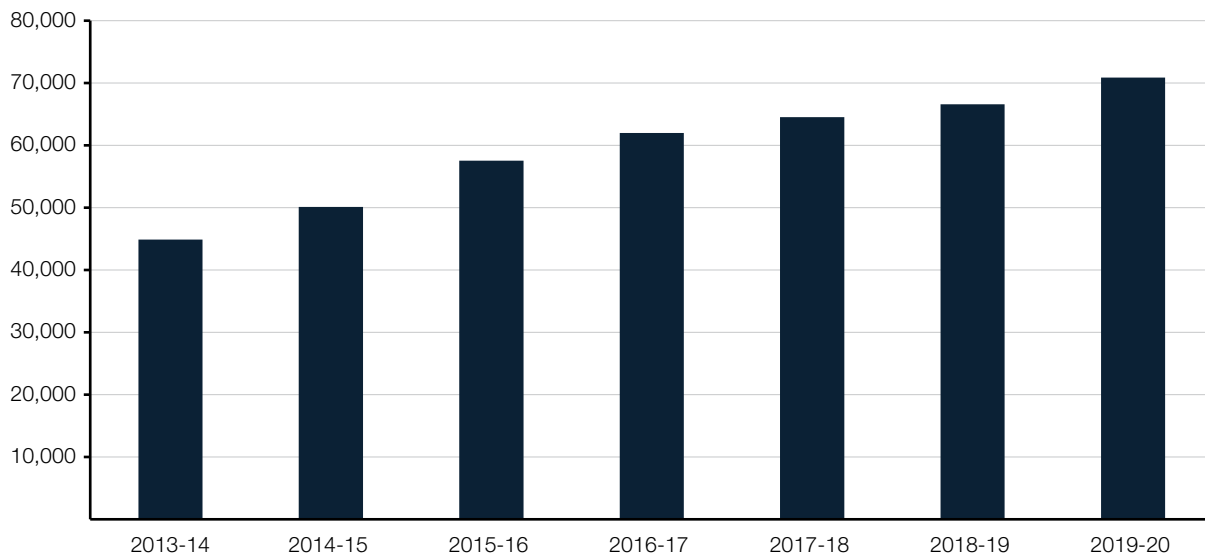
in low-income areas may enroll four-year olds who are otherwise ineligible if the family also lives in a low-income area. Specifically, both the provider and the family must reside within a public school attendance boundary where 80 percent of students enrolled are eligible for free or reduced priced meals. We estimate State Preschool in 2019-20 is serving 123,000 four-year olds and 49,000 three-year olds.

State Has Increased Full-Day Slots in Each of the Past Six Years. The state has significantly increased full-day State Preschool slots over the past six years. As **Figure 3** shows, the state added roughly 26,000 full-day slots over this period—an increase of 58 percent from 2013-14 to 2019-20.

Expansion Funds Are Competitively Distributed to Interested and Eligible Providers. State law authorizes the California Department

Figure 3

State Has Significantly Increased Full-Day State Preschool Slots
Number of Full-Day Slots by Year



LAO

of Education (CDE) to determine a process for awarding additional State Preschool funds. CDE uses a competitive application process to determine who among interested applicants is to receive additional funds. At the beginning of the fiscal year, CDE develops the application, reviews submitted applications, scores applications, processes appeals, awards funds, and amends contracts to include awarded expansion funds. Final awards are typically announced in the spring. Existing providers that plan to deliver the same level of services are only required to submit a brief continued funding application annually. Existing providers that are interested in expanding must submit both the continued funding application and the expansion application.

CDE Evaluates Applications to Determine Eligibility and Qualification. The department's application review process for expansion funds consists of two components. First, CDE conducts a preliminary screening to ensure applications include all required information. As part of the preliminary screening, providers must demonstrate they meet certain minimum eligibility requirements, such as having a valid business license and, if they are an existing contractor, being in good standing with CDE. Providers also must submit a variety of information related to the structure of the proposed program, such as a program calendar, an annual budget, and a list of expected staffing positions. In addition to the preliminary screening, CDE requires a program narrative, which is a written description of the program intended to demonstrate the provider's capacity to operate a preschool program under the state's rules and regulations. The program narrative is scored by CDE based on the thoroughness of an applicant's responses. For example, a provider who describes their program quality using three examples merits a higher score than a provider who uses two examples. Applicants must meet a minimum score on their program narrative to qualify for expansion funds. If a provider is awarded funding, the program narrative remains on file with CDE and is used by the department as part of its ongoing program monitoring.

Application Process Varies by Year and Circumstance. Over the years, CDE has made changes to its application process to respond

to particular challenges in awarding funds to providers. In some years when initial demand for expansion funding was limited, CDE ran a second application collection period. For the 2019-20 application, CDE changed the program narrative questions and provided more detail to applicants regarding how the program narrative would be scored. The department also offered additional assistance to interested providers through several workshops and webinars. In certain circumstances, CDE also has simplified its application process to ensure State Preschool funding is not shifted away from certain regions. For example, if a provider notifies CDE that it plans to close its State Preschool program, CDE will contact nearby providers to see if they are interested in taking over the closing provider's existing contract. In these cases, CDE typically does not require the identified providers to go through the normal application process. Providers must submit some documents to pass the preliminary screening but are not required to submit a program narrative since they already have one on file with CDE.

Governor's Proposal

Funds More Full-Day Slots for Non-LEAs.

The Governor's budget includes \$32 million non-Proposition 98 General Fund to provide 10,000 additional full-day State Preschool slots for non-LEAs starting April 1, 2021. The budget also includes \$96 million non-Proposition 98 General Fund to annualize the cost of 10,000 full-day State Preschool slots for non-LEAs that were initially approved as part of the 2019-20 budget and set to be initiated April 1, 2020. The additional slots proposed in the Governor's budget are the second of his three planned augmentations to provide additional State Preschool slots for non-LEAs (10,000 slots in each year). The Governor's intent is for all low-income four-year olds to have access to a preschool program by 2021-22.

Assessment

Program Unlikely to Accommodate Such a Large Increase. In recent years, a significant amount of State Preschool funding has gone unused. This is primarily due to a lack of interest in expansion funding and reductions in provider

contracts. For example, in 2019-20, CDE has \$100 million in unused Proposition 98 funds to award to LEAs. Similarly, a large portion of new slots provided for non-LEAs in 2019-20 will go unused. Of the 10,000 full-day slots available for expansion in 2019-20, CDE reports non-LEAs requested the equivalent of 4,600 full-day slots. The department has not yet determined how many of these requested slots meet the eligibility criteria and qualify for additional funding. Given this level of interest in the current year, we think funding all interested, eligible, and qualifying non-LEA applicants in 2020-21 is unlikely to require all 10,000 additional slots included in the Governor's budget.

Various Reasons for Lack of Interest in Expansion Funds. The state currently lacks data to identify the reasons for limited interest in State Preschool expansion funding. Based on our conversations with providers, acquiring facilities is one key challenge. Providers also expressed concerns with recruiting and retaining staff. The state took several actions as part of the 2019-20 budget to address these issues. For example, the state provided a total of \$458 million in one-time funding for non-LEAs to acquire or renovate facilities and improve the supply and training of child care and preschool workers. These funds are expected to be awarded to providers in 2020-21. In addition, the state funded the development of a master plan for early learning and care. The master plan is to include research on a wide variety of child care and preschool issues, including a study of statewide facility needs. Although these actions might address facility and workforce issues in the long term, their effects on provider interest for 2020-21 are unclear.

Current Providers Often Disqualified From Expanding. In addition to slots going unused because of low demand, the department's application process also often results in experienced State Preschool providers being denied expansion funds. In 2018-19, of the 75 existing providers who applied for expansion funding, 10 did not pass the preliminary screening and another 10 were disqualified due to the program narrative. We have no concerns with CDE denying funds to those that do not pass the

preliminary screening, as this ensures providers have developed a concrete implementation plan. The value of the program narrative for existing providers is less clear, as these providers already have a program narrative on file with the department and have demonstrated they are capable of running a preschool program under the state's existing rules. The 10 existing providers disqualified because of the program narrative had requested to serve an additional 211 full-day slots and 502 part-day slots.

Program Structure Makes Meeting Governor's Goal Challenging. The augmentations included in the Governor's three-year plan are based on his estimate of the number of unserved income-eligible four-year olds. The state, however, is unlikely to meet the Governor's goal after the three-year plan is fully funded. This is because the programmatic flexibility in State Preschool makes it unlikely all additional slots will be used exclusively for income-eligible four-year olds. Since State Preschool serves three- and four-year olds, some newly added slots are likely to be used for three-year olds. As previously mentioned, the state also allows some children who are not income eligible to be enrolled in the program. In addition, providers have flexibility to shift between offering full-day and part-day programs. Any shifts change the number of children that a provider can serve. For example, funding for 2.3 part-day slots can instead be used to fund one full-day slot.

Recommendations

Expand by a More Modest Amount of Slots. Given that more than half of the expansion funding added in 2019-20 will be available to distribute in the budget year (about 5,400 slots), we think an additional 1,000 slots is sufficient to fund demand for full-day slots. Adding 1,000 full-day State Preschool slots still leaves funding for at least 6,400 new slots in 2020-21 — more than was requested by providers in 2019-20.

Allow Simpler Application for Current Providers in Good Standing. We recommend exempting current State Preschool providers from the program narrative component of the application for expansion funds. (Providers would still be required to pass the preliminary screening.) This

change likely will decrease the share of current providers who are disqualified from receiving expansion funding. By making the application less burdensome, a greater number of current providers might also be willing to apply for State Preschool expansion slots. We do not recommend making any application changes for new providers.

Consider Whether Legislature’s Goals Aligns With Governor’s Plan. If the Legislature is interested in pursuing the Governor’s plan to provide access to preschool for all income-eligible

four-year olds, it may want greater certainty that new State Preschool slots are used to meet this goal. For example, the Legislature could consider restricting the use of new slots to providers that agree to run full-day programs for four-year olds. Such actions would ensure funds are used to meet the stated goal, but would likely make finding interested providers more difficult. Alternatively, the Legislature could consider leaving current program flexibility in place to maximize use of additional slots, even if this results in a smaller share of new slots being used for four-year olds.

DEPARTMENT OF EARLY CHILDHOOD DEVELOPMENT

In this section, we provide an overview of the child care and preschool programs administered by the state. We then describe the Governor’s proposal to create the Department of Early Childhood Development—a new department to administer child care programs. We end by providing our assessment of the Governor’s proposal and making associated recommendations. (In our recent report, *The 2020-21 Budget: Assessing the Governor’s Reorganization Proposals*, we outline a broad framework

for considering the administration’s various 2020-21 reorganization proposals.)

Background

State Subsidizes Child Care and Preschool, Primarily for Low-Income Children. The state subsidizes child care and preschool through several programs, serving an estimated 413,000 children. As **Figure 4** shows, these programs have somewhat different eligibility requirements. In 2019-20, these programs are receiving \$4.7 billion in state and federal funding.

Figure 4

State Child Care and Preschool Programs

Program	Description
CalWORKs Child Care	
Stage 1	Child care becomes available when a participant enters the CalWORKs program.
Stage 2	Families transition to Stage 2 child care when the county welfare department deems them stable.
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.
Non-CalWORKs Child Care	
General Child Care	Program for other low-income, working families.
Alternative Payment	Another program for low-income, working families.
Bridge Program for Foster Children	Temporary access to child care for foster children.
Migrant Child Care	Program for migrant children from low-income, working families.
Care for Children With Severe Disabilities	Program for children with severe disabilities living in the Bay Area.
Preschool	
State Preschool	Program for three- and four-year olds from low-income families.

Two Departments Administer Child Care Programs. The Department of Social Services (DSS) administers California Work Opportunity and Responsibility to Kids (CalWORKs) Stage 1 child care and the bridge program for foster children. CDE administers all other child care and preschool programs.

State Works With a Variety of Local Entities to Provide Child Care and Preschool. The administration of child care and preschool programs differs based on the type of program and the state level entity administering the program. For example, DSS provides funding for CalWORKs Stage 1 child care to county welfare departments that, in turn, use this funding to determine eligibility and issue voucher payments to the child care provider of the family's choice. CDE also administers voucher programs such as CalWORKs Stages 2 and 3, and the Alternative Payment (AP) program. For these programs, CDE provides funds directly to AP agencies to make child care voucher payments, with a specified share set aside to cover the AP agencies' operational costs. General Child Care and State Preschool are direct contract programs. For these programs, CDE directly contracts with child care and preschool providers to serve a specified number of eligible children.

State Also Administers Other Programs for Children and Families. A variety of state-administered programs provide specific services to targeted populations of children. Among these are:

- Programs providing early intervention services to children under age 3 who have disabilities or developmental delays, which are administered by both the Department of Developmental Services (DDS)—which serves the vast majority of children—and CDE.
- Home-visiting programs pairing new and expecting parents with a nurse or other trained professional to support healthy early childhood development, which are administered by both DSS (through the CalWORKs program) and the California Department of Public Health (CDPH).
- Programs to support children of specific ethnic or racial backgrounds that have

experienced historic disparities in health outcomes, including the Black Infant Health Program administered by CDPH and various tribal children's programs supported by DSS, CDE, and other departments.

- The Women, Infants, and Children (WIC) program, which provides nutritional assistance and education for low-income pregnant women, postpartum mothers, and infants and children up to age 5. CDPH administers this federally funded program.

Last Year, California Health and Human Services Agency (CHHSA) Authorized to Administer Two Child Development Initiatives.

The 2019-20 budget provided \$5 million one-time General Fund for CHHSA to develop an early learning and care master plan. In developing the master plan, CHHSA contracted with research entities to produce at least one report by October 1, 2020. The report will study several specified areas, including revenue options for expanding existing programs, statewide facility needs, and the need for early learning and care among eligible families. The 2019-20 budget also provided CHHSA \$2.2 million annually for three years to run an Early Childhood Policy Council. The council consists of stakeholders, including parents and child care providers, and is to provide recommendations to the Governor, Legislature, and Superintendent of Public Instruction on early education issues.

Governor's Proposal

Establishes New Department of Early Childhood Development. The Governor's budget proposes to establish the Department of Early Childhood Development (DECD) under the CHHSA. The budget includes \$6.8 million non-Proposition 98 General Fund for 26 new positions in 2020-21 to support first-year transition efforts. This amount increases to \$10.4 million ongoing for 52 new positions in 2021-22, when the department is set to begin administering programs. The entire \$10.4 million is associated with the overhead costs of creating a new department, such as hiring separate executive, legal, and human resources staff.

Shifts Child Care Administration to New Department. The budget proposes DECD administer the various state child care programs and initiatives beginning July 1, 2021. **Figure 5** provides a detailed list of these programs and initiatives. This change transfers the administrative responsibility of all state child care programs from DSS and CDE. The CDE, however, would continue to administer State Preschool. The DECD also would administer other early education initiatives such as the Early Childhood Policy Council. The Governor plans to shift some of the current staff at DSS and CDE to DECD, but has yet to determine the number of positions that will transfer and the total level of staff the new department will require.

Proposal Intended to Improve Coordination of Health and Human Services Programs. According to the administration, having all child care programs administered within CHHSA would allow for greater collaboration across the various departments and programs within the agency in supporting the needs of young children and their families. The proposed budget trailer legislation to

implement the reorganization indicates that one potential benefit of greater collaboration would be improved eligibility processes across various health and human services programs. It also notes that data from child care and development programs would be folded into the agency’s overall data integration efforts and that the new department would support a comprehensive strategy related to prevention and early intervention.

Assessment

Unclear if Proposal Addresses Stated Problems. Although some opportunities exist to better administer child care programs, the Governor’s proposal lacks key details that make it difficult for the Legislature to assess. While the administration believes the proposal would improve program coordination, service delivery, and connections to other health and human services programs, it has not been able to provide at this time detailed information explaining how the reorganization would actually lead to improvements in these areas. Moreover, the proposed budget trailer legislation states

that the new organization would “strengthen a comprehensive strategy on prevention and early intervention.” The administration, however, has not specified what barriers currently exist to developing such a comprehensive strategy and how the proposal would effectively alleviate these barriers. Without this information, the Legislature is unable to determine if the Governor’s proposal is the best option or if other options are available to more effectively address the stated problems, including options that may not require a change in the organization of the state’s child care programs.

Proposal Could Eliminate Some Fragmentation in Child Care System. The administration claims its proposal could improve coordination and reduce

Figure 5	
Programs and Initiatives Proposed to Shift to New Department of Early Childhood Development	
	Current Department
Programs	
CalWORKs Stage 1	DSS
CalWORKs Stage 2	CDE
CalWORKs Stage 3	CDE
General Child Care	CDE
Alternative Payment	CDE
Bridge Program for Foster Children	DSS
Migrant Child Care	CDE
Care for Children With Severe Disabilities	CDE
Early Head Start	CDE
Initiatives	
Quality improvement activities	CDE
Early Childhood Data System	CDE
Head Start State Collaboration Office	CDE
Master Plan for Early Learning and Care (one-time initiative)	CHHSA
Early Childhood Policy Council ^a	CHHSA

^a Funded through 2021-22.
 DSS = Department of Social Services; CDE = California Department of Education; and
 CHHSA = California Health and Human Services Agency.

fragmentation of child care programs. However, at the time of this analysis, it has not identified the specific fragmentations that the proposal would address. We can see some potential for better coordination. For example, having all child care programs administered by the same agency could ensure that local agencies administering multiple child care programs receive consistent direction from the state. In particular, housing state level administration for CalWORKs Stages 1 and 2 within a single department (as opposed to its current split between DSS and CDE) could ensure local entities are receiving the same guidance from the state. Importantly, however, the Governor's proposal would not necessarily reduce fragmentation for families participating in these programs. These programs could still be delivered locally by separate agencies. For example, a CalWORKs family transitioning from Stage 1 to 2 may have to transition from receiving services at their county welfare department to receiving services through an AP agency.

Proposal Could Also Create Greater Fragmentation. Although the Governor's proposal could reduce the fragmentation resulting from the existing structure of child care programs, the proposal could actually create new fragmentations between General Child Care and State Preschool. Currently, CDE's administration for these programs is very similar. The programs use the same contract processes, have similar program standards, and are monitored by CDE in the same manner. At the local level, providers commonly have both a State Preschool and a General Child Care contract. In 2018-19, virtually all General Child Care providers also had State Preschool contracts. If the programs are offered on the same site, children will regularly move seamlessly between General Child Care as an infant and toddler to State Preschool. Providers that have both contracts can also transfer funds between programs to address unanticipated changes in enrollment. For example, a provider could shift some General Child Care funding to State Preschool if they had unexpectedly high demand from four-year olds. This flexibility allows providers to more effectively meet the enrollment needs of their communities. It is unclear if the programs would continue to have these benefits if

they were administered by different departments as proposed by the Governor.

Proposal Precedes Forthcoming Master Plan. The forthcoming master plan for early learning and care is expected to make several recommendations to improve the state's child care and preschool programs. The expectation is that the report will study several specified areas, including the appropriate role of government. The report will also include actionable plans to improve the quality of child care programs and provide universal access to preschool. In addition, it is possible that the work of the new Early Childhood Policy Council could inform potential changes to the state's child care system. Making significant changes to the administration of early childhood development programs before the state considers major reforms to these programs would be premature.

In the Near Term, New Department Less Efficient Than Current Structure. We find that the state's current structure for administering child care programs is more cost-effective than the new structure proposed by the Governor. Currently, the state is able to benefit from economies of scale by using systems within larger departments to administer child care programs. For example, CDE is able to use its legal and human resources teams for employees that work on child care and other K-12 education issues. Under the Governor's proposal, the new DECD would require additional staff and other resources to perform these functions. In fact, all of the additional funding requested for the new department in 2020-21 is associated with this increased overhead—meaning not for increased or improved services to children and families.

Proposal Excludes Several Child Development Programs. Although the Governor's proposal is intended to improve coordination of early childhood development services, it does not shift other programs that serve similarly aged children to the new DECD. For example, early intervention services—currently administered by DDS and CDE—would remain under those departments. Similarly, the WIC program and several maternal and infant health and home visiting programs would not shift to the new department. As currently proposed, the new department would include only

child care programs. This limits the potential to reduce fragmentation and improve coordination between related programs.

Recommendations

Reject Proposal. We recommend the Legislature reject the Governor’s proposal to consolidate various child care programs into a new state department. The proposal lacks sufficient detail and does not provide any clarity on how the restructuring would lead to more effective or efficient services to children and families. Moreover, we think making large governance changes this year is premature given the administration’s forthcoming master plan on early learning and care.

Perhaps Revisit a More Detailed Proposal Next Year. The administration may wish to propose a new governance structure in 2021-22 based on recommendations from the master plan. Revisiting the proposal in a year allows the Legislature to assess whether (1) the stated priorities in the master plan align with those of the Legislature, (2) the proposed changes in the master plan merit a new governance structure, and (3) the creation of a new department is the best option for addressing the stated problems. Delaying a year also allows the administration to fully develop and share a

plan to smoothly transition programs to another department.

Revised Proposal Should Answer Key Questions. If the administration proposes a new child care governance structure for 2021-22 as part of next year’s budget deliberations, we recommend the Legislature request that the administration answer the following key questions as part of its revised proposal.

- What is the underlying problem the new governance structure will address, and how does the new governance structure specifically address that problem?
- How does the reorganization result in better services for children and families?
- How does the new governance structure eliminate duplication or overlap of government services?
- How does the new governance structure align with recommendations of the master plan?
- What is the total implementation and ongoing cost of the new governance structure? How would the benefits of this new department outweigh those costs? Why is the proposed additional spending an effective way to address the problem?

PRESCHOOL FACILITIES FOR LOCAL EDUCATION AGENCIES

Background

State’s School Facility Program (SFP) Provides Funding to Build and Renovate Facilities. The state and school districts share the cost of building new school facilities and modernizing old ones. The state generally covers 50 percent of the cost of new construction for districts unable to accommodate all existing or projected K-12 enrollment and 60 percent of the cost of renovating facilities that are at least 25 years old. For both types of projects, the state can contribute up to 100 percent of project costs if districts face challenges in raising their local

shares. In certain cases, the SFP allows districts completing projects below the budgeted cost to use project savings for other facility priorities. (The exception is for districts that receive state funding in excess of the standard cost shares. These districts are required to return any unspent funds to the state.) The enrollment calculation to determine eligibility for the SFP does not consider a district’s need for facilities to serve preschool aged children.

State Created Kindergarten Facility Grant Program in 2018-19. The 2018-19 budget package provided \$100 million in one-time non-Proposition 98 General Fund to help districts cover the facility costs associated with

converting part-day kindergarten programs into full-day programs. The program is administered by the Office of Public School Construction (OPSC). Virtually all of the initial \$100 million has been allocated. The 2019-20 budget package included an additional \$300 million one-time non-Proposition 98 General Fund for the program and made several programmatic changes. Most notably, the new funding was limited in the first two years to school sites that currently do not offer full-day kindergarten. Beginning in 2021-22, school sites that already offer full-day kindergarten also can apply for funds. The OPSC developed new regulations in the summer and fall of 2019 to incorporate the changes made to the program. The next application round is currently scheduled to be in April 2020. If funds remain available, OPSC plans to conduct additional rounds of applications in January 2021 and July 2021.

State Funded Inclusive Early Education Expansion Program for Facilities. In 2018-19 the state created this grant program with the intent to increase access to child care and preschool programs for children with disabilities. The state has provided a total of \$177 million one-time Proposition 98 General Fund for this grant program (\$167 million in 2018-19 and \$10 million in 2019-20). All LEAs who administer state funded child care or preschool programs are eligible to apply for grants. Although only LEAs may apply, they may pass through funds to non-LEAs within their attendance area that offer state child care and preschool programs. Funds may be used for facilities, professional development, or equipment. Regarding facilities, while both LEAs and non-LEAs may use funds to renovate or repair facilities, only LEAs can use funds for new construction. The department is currently reviewing applications and plans to announce awards in February 2020. During the application collection period, CDE received 107 applications requesting a total of \$308 million. Most applicants specified they plan to use the funds for all three purposes (facilities, equipment, and professional development).

Preschool Facilities Have Different Requirements Compared to Other Classrooms. State Preschool classrooms must meet more stringent facility requirements compared with

kindergarten or other elementary classrooms. For example, while state regulations require State Preschool and kindergarten restroom facilities be self-contained in the classroom or separate from those of older students, State Preschool programs also must have at least one toilet and sink for every 15 preschool children. Due to these more stringent requirements, LEAs often incur renovation costs to convert an elementary school classroom into a State Preschool classroom.

Funds Available for LEA State Preschool Providers to Expand Slots. The state currently has \$100 million in Proposition 98 funding available to award to interested LEAs. Most of these funds (\$66 million) are from recent expansions to the program made between 2016-17 and 2018-19. The remaining funds are available due to reductions in provider contracts. CDE annually requests applications for providers interested in expanding. In 2019-20, LEA providers requested roughly one-quarter of the funds available.

Governor's Proposals

Redirects \$150 Million in Kindergarten Facility Grant Program Funds to Preschool Facilities. The Governor's budget includes \$150 million non-Proposition 98 General Fund for LEAs to construct or renovate preschool facilities on elementary school campuses. Funding for this proposal would come from the \$300 million provided last year to the Kindergarten Facility Grant Program. Facilities must be used to operate full-day State Preschool or Head Start. Under the proposal, LEAs would receive up to \$450,000 to construct a preschool classroom and \$250,000 to renovate an existing classroom. Similar to the SFP and kindergarten facility grants, these funds are intended to cover 50 percent of the cost of constructing a new classroom and 60 percent of the cost of renovating an existing classroom, with LEAs expected to cover the remaining costs. Those LEAs unable to raise their local share could qualify for additional state funding. As with the Kindergarten Facility Grant Program, districts could use savings for professional development or instructional materials to support full-day preschool programs.

Provides Additional Funds for the Inclusive Early Education Expansion Program. The Governor's budget includes \$75 million one-time Proposition 98 intended to increase access to child care and preschool programs for children with disabilities. As with the original allocation to the program, funds would be available for equipment, professional development, and facility construction and renovation. The \$75 million reflects the administration's estimate of unspent Proposition 98 funds for State Preschool in 2019-20. The administration typically updates this estimate in May, with the amount of unspent funds available likely increasing.

Assessment

Too Soon to Know Interest in the Kindergarten Facility Grant Program. Given OPSC will not accept applications for the new version of the Kindergarten Facility Grant Program until April 2020, the state has little information regarding the demand from LEAs for this purpose. The state will have more information after the first application collection period.

Access to Preschool Facility Funding Might Address a Key Barrier to Expansion for Some LEAs. Although the state lacks data to clearly explain why demand for full-day slots from LEAs has been limited, the lack of available facilities is one barrier that is commonly mentioned in our conversations with providers. In addition to facility issues, providers have mentioned other concerns. Some providers have a strong preference for operating part-day State Preschool because it can be more efficient to administer (LEAs can run two part-day programs in one classroom with the same staff) and has a calendar that is aligned with the school year. Providers also mention challenges in retaining preschool staff and navigating the state contracting process. It is not clear which of these issues is the main reason for the slow take-up of additional slots provided in recent years. To the extent that facility issues are the key barrier for certain LEAs, the Governor's proposal would help increase access to preschool programs.

Difficult to Determine Appropriate Amount for Preschool Facility Grant Program. If the Legislature were to adopt a preschool facility

program for LEAs, deciding on the right amount of funding could be challenging. One option is to estimate the amount of additional capacity needed for LEAs to use the \$100 million in Proposition 98 funding currently available for operating State Preschool. Assuming LEAs build classrooms for 24 students, we estimate the state would need to build 333 classrooms to create this additional capacity. The cost of building 333 additional classrooms could range from about \$80 million to more than \$150 million, depending on the share of projects that are for new construction and the number of LEAs that are unable to raise their local match.

Preschool Facility Funds May Be Available to LEAs That Will Not Be Awarded Slots Down the Line. The Governor's preschool facility proposal is disconnected from the process that awards LEAs additional State Preschool slots. To be eligible for a preschool facility grant under the Governor's proposal, LEAs must either (1) be an existing preschool provider or (2) have their governing board pass a resolution stating their intent to apply for State Preschool slots. Under both these scenarios, however, an LEA could apply for slots to provide or expand its State Preschool program, but have their request denied. Providers commonly have their applications rejected. In 2018-19, for example, 35 percent of LEAs who applied for slots were denied their request during CDE's application review. The bulk of the rejected requests (80 percent of those denied) were from existing providers.

Too Soon to Know if Inclusive Early Education Expansion Program Is Effective. The program provides broad flexibility for recipients to increase access to child care and preschool programs for children with disabilities by constructing or renovating facilities, purchasing equipment, or providing professional development. However, since CDE has yet to allocate any previously appropriated funds for the program, it is unclear whether the program design is an effective way to achieve this goal.

Recommendations

Wait Until Next Year to Assess Interest in the Kindergarten Facility Grant Program. Since it is too early to know the level of interest

in the Kindergarten Facility Grant Program, we recommend the Legislature reject the Governor's proposal to reduce funding for the program in 2020-21. If the Legislature is interested in reducing funding for the program in the future, it could monitor interest from LEAs over the coming year and redirect funds to another priority in 2021-22 if demand is low.

Fund Preschool Facility Grants Using Unspent Proposition 98 Funds. We recommend the Legislature reject the Governor's proposal to increase funding for the Inclusive Early Education Expansion Program. Instead, we recommend using the \$75 million to fund the preschool facility grant program proposed by the Governor. This approach allows the state to more directly address preschool facility issues. To the extent that these funds are insufficient to address the demand for preschool facility grants, the Legislature could consider providing additional funds in the future.

Prioritize Grantees in Areas With Highest Need. In awarding preschool facility grants, we recommend giving priority to LEAs who reside

in counties with the highest shares of unserved eligible preschool aged children. Prioritizing funds in this way ensures both the preschool facility grant and State Preschool expansion funding is being directed to areas with the greatest need for preschool programs.

Require Facilities Be Used for State Preschool for Ten Years. We recommend the Legislature require grant recipients to use the grant-funded facility for State Preschool or Headstart for at least ten years after the facility is operational. If the LEA cannot continue offering the State Preschool or Headstart program, the Legislature could require the LEA to seek out another provider (either the county office of education or a non-LEA) to operate the State Preschool or Headstart program in the facility. This would ensure that the facility continues to be used for preschool. The Legislature could also require the LEA to pay back a portion of the facility grant funds if preschool is not offered in the facility for a minimum of ten years.

LAO PUBLICATIONS

This report was prepared by Sara Cortez, and reviewed by Edgar Cabral and Anthony Simbol. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

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