Date of Hearing: April 23, 2024

ASSEMBLY COMMITTEE ON HUMAN SERVICES
Alex Lee, Chair
AB 2381 (Bonta) – As Amended March 21, 2024

SUBJECT: California state preschool programs: reimbursement rates

SUMMARY: Requires, beginning July 1, 2025, the contract reimbursement for a California State Preschool Program (CSPP) be based on the lesser of the following:

1) The maximum reimbursable amount stated in the contract;

2) Net reimbursable program costs; or,

3) The product of the adjusted child days of enrollment for certified children times the contract rate.

EXISTING LAW:

1) Transfers responsibility for specified childcare programs, other than the CSPP, from the California Department of Education (CDE) to the California Department of Social Services (CDSS) effective July 1, 2021. (Welfare and Institutions Code [WIC] 10203 § *et seq.*)

2) Establishes the Child Care and Development Services Act to provide childcare and development services as part of a comprehensive, coordinated, and cost-effective system serving children from birth to 13 years of age and their parents, including a full range of supervision, health, and support services through full- and part-time programs. (WIC § 10207 *et seq.*)

3) States the intent of the Legislature is that all families have access to childcare and development services, through resource and referral (R&R) where appropriate, and regardless of demographic background or special needs, and that families are provided the opportunity to attain financial stability through employment, while maximizing growth and development of their children and enhancing their parenting skills through participation in childcare and development programs. (WIC § 10207.5)

4) Requires CDSS, in consultation with CDE, to establish a fee schedule for families using preschool and childcare and development services, and, further states legislative intent that the new fee schedule be simple and easy to implement. (Education Code [EDC] § 10290(a))

5) Defines "CSPP" to mean those programs that offer part-day and/or full-day educational programs for eligible three- and four-year-old children. These programs may be offered by a public, private, or proprietary agency, and operated in childcare centers or family childcare homes operating through a family childcare home education network. (EDC § 8205)

6) Requires the Superintendent of Public Instruction to use the fee schedule developed in conjunction with CDSS, as specified, for families using full-day preschool. (EDC § 8252(a))

7) Requires that CSPP contractors be reimbursed for services based upon the lesser of the following:

   a) The maximum reimbursable amount as stated in the annual preschool contract;

   b) The net reimbursable program costs; or,

   c) The product of the adjusted child-days of enrollment for certified children, times the contract rate per child day of enrollment, times the actual percentage of attendance plus 5%, but in no case to exceed 100% of enrollment. (5 California Code of Regulations § 17812)

FISCAL EFFECT: Unknown, this bill has not been analyzed by a fiscal committee.

COMMENTS:

Background: *Regional Market Rate (RMR) versus Standard Reimbursement Rate (SRR).* Voucher-based programs are reimbursed using the RMR, which is determined by a survey of licensed childcare providers and prevailing market rates within a specific region. This survey, conducted every two to three years, reflects the prices charged by providers to families, often tailored to local affordability rather than actual cost. This data is utilized by the Legislature to establish reimbursement ceilings for each county, different early learning and care environments, such as centers and family childcare homes, and based on additional service attributes, such as part-day or full-day care, and age group. Currently, the RMR ceilings, effective January 1, 2022, are set to either the 75th percentile of the 2018 RMR survey for that region or the RMR ceiling that existed in that region on December 31, 2021, whichever is higher. RMR levels typically only increase when the state takes action to use a higher percentile of the survey or the most recent survey.

Direct contracts with the state that cater to a specified number of eligible children, such as the CSPP and general childcare and development (CCTR) program determine their rates through the SRR, which is a fixed rate established annually in the state budget. The SRR is modified based on the duration of care and the child's age, with higher rates allocated for children with limited English proficiency or disabilities. Unlike the RMR, the SRR remains constant across different geographic areas, neglecting regional cost variations. Nonetheless, the SRR undergoes an annual adjustment to accommodate changes in the cost of living, as mandated by law. According to the February 2023 report by the LAO, the current SRR stands at $54.93 per day for childcare and $55.27 for state preschool. In 2021-22, the state shifted direct contract providers to the RMR to the extent the RMR was higher than the SRR.

The primary differences between RMR- and SRR-funded programs are, among others, as follows:

Regional Market Rate (RMR)	**Standard Reimbursement Rate (SRR)**
• Applies to voucher-based programs, such as CalWORKs and Alternative Payment Programs (APPs).	• Applies to direct-service programs, such as CSPP, Migrant Child Care and Development Programs, and CCTR.

• Must meet Title 22 licensing requirements, which relate to certain health and safety standards.	• Must meet both Title 22 and Title 5 licensing requirements, which require stricter staffing ratios, certain staff qualifications, and specific developmentally appropriate activities.
• Funded federally through the Child Care and Development Block Grant.	• Funded primarily through non-federal funding sources, e.g. Proposition 98 funds.

Actual Costs of Care. As also noted by this Committee in the AB 596 (Reyes) of 2023 analysis, a key component of the childcare reimbursement rate conversation is that oftentimes the reimbursement rates paid to providers do not cover the true cost of care. Recent increases in inflation have resulted in higher costs to providers when purchasing the supplies necessary to maintain quality care, such as milk, baby formula, and baby wipes. A March 2023 brief from the Child Care Resource Center demonstrates that the cost of providing care for a preschooler in a full-time childcare center exceeds the current reimbursement rate and the 2018 rate when adjusted for inflation. For example, in San Bernardino County, the 75th percentile of the 2018 RMR survey equates to a rate of $983.03; when adjusted for inflation in 2023, this reimbursement rate should be $1,092. The brief notes that the monthly cost of care in the region is approximately $1,908.17, which results in a funding gap of $925.14 for providers in San Bernardino County. In Los Angeles County, this gap is $987.33, in Alameda County this gap is $717.05, and in Butte County, this gap is $537.30.

Childcare reimbursement rates have also lagged when compared to increases in the minimum wage. A March 2023 report from the California Budget & Policy Center notes that, while minimum wage has increased 55% from 2016-17 to 2022-23,

> *…The rate ceilings for childcare providers across all 58 counties generally have not kept pace with the rising minimum wage after the most recent increase to payment rates enacted in 2021-22. In the state's most populous county – Los Angeles – payment rates for licensed centers care for preschool-age children increased by less than half as much as the statewide minimum wage. Providers in some counties, such as Riverside County, saw miniscule rate increases of less than 5%. And in 27 counties, due to weaknesses in the rate-setting methodology, licensed centers have not received a single rate increase for care for preschool-age children since 2016-17. Policymakers have not consistently updated the SRR each year so that contract providers can keep pace with rising staff costs and the increasing price of food and supplies. From 2016-17 to 2022-23, the SRR increased by 36.6%, falling short of the 55% increase in the state minimum wage.*

Rate and Quality Workgroup (RQWG) Final Report. AB 131 (Committee on Budget), Chapter 116, Statutes of 2021, established a RQWG to be convened by CDSS with diverse stakeholder representation to assess the methodology for establishing reimbursement rates and the existing quality standards for childcare and development and preschool programs. AB 131 required the workgroup to submit recommendations to the Legislature no later than August 15, 2022. The workgroup met over a dozen times between January and August 2022 and included the perspectives of early learning and care providers, APPs, childcare experts, families, and representatives of CDSS and CDE.

In a summary of its findings, the report states:

> *Despite the strengths and quality currently present in California's early learning and care programs, and the critical and nurturing role that the predominately women of color workforce plays in educating and caring for California's young ones, the current reimbursement rate-setting methodology establishes rates that are not sufficient to cover the true cost of providing early learning and care services in accordance with current state licensing and program quality requirements. The historic [SRR] approach failed to account for or differentiate for the cost of meeting the various program quality standards required of different early learning and care programs. The current approach of using a [RMR] survey of prices that programs are charging families institutionalizes race- and income-based inequities by establishing low rates in low-income areas where programs are offsetting their prices so that families can afford to pay. In addition, a history of opaque policy choices and changes have resulted in an exceptionally complex and unaligned set of base rates and adjustment factors that are virtually unnavigable by programs, educators, and families. The result is inequitable access to early learning and care opportunities that meet child and family needs, and exceptionally low compensation for program owners and educators.*

As a result of its work, the RQWG identified four core recommendations:

1) Ensure equity is foundational to all change – work toward equity as an outcome and implement equity as a process;

2) Replace the current methodology of using a market price survey to set rates with an alternative methodology, which uses cost estimates/models to set base rates to compensate early learning and care programs. The cost of care for meeting current state requirements will become the basis of the reimbursement rate, including wage scales that set a living wage floor;

3) Create a single rate structure that specifies base rates and that is designed to address historical inequities. This structure should specify separate base rates for family, friend, and neighbor-care and home-based and center-based early learning and care and should differentiate base rates for meeting different sets of state standards; and,

4) Continuously evaluate the rate-setting methodology to address equity and adjust for changing conditions and rising costs.

The RQWG made rate reform recommendations similar to those made by previous reports, including:

- *The Master Plan on Early Learning and Care* which was developed by the California Health and Human Services Agency, in consultation with stakeholders, and recommended in its December 2020 report that, among other things, California adopt a tiered reimbursement rate with appropriate adjustments in order to support equity, simplicity, and quality. The Master Plan also recommended designing a sliding scale for family contributions, which could increase equity in both access and outcomes for families.

- *Assembly Blue Ribbon Commission on Early Childhood Education* was initiated by California Assembly Speaker Anthony Rendon in consultation with stakeholders, and recommended in its April 2019 report that California implement comprehensive rate reform through a multi-step process, and, in the long-term, that reimbursement rates for Title 5 and Title 22 programs include competitive compensation that increases with quality improvement, among other recommendations.

- *First 5 California Reimbursement Rate Workgroup* released its report in November 2018 and recommended that California implement comprehensive rate reform by, among other things, incentivizing quality, using the RMR to reimburse all counties at a rate that considers regional economic costs, and conduct ongoing reviews of rate changes to understand their impacts on the childcare system and make adjustments as needed.

In its conclusion, the RQWG writes, "A funding structure that supports programs and educators' abilities to provide the quality early learning and care they are working to provide now (without adequate resources) is integral to realizing the positive impacts of early learning and care for children, families, and the broader California economy and society. The time has come for California to create the systems and policies that allow these positive impacts to finally be realized in more equitable ways."

This bill seeks to eliminate the attendance factor, making the level of enrollment the sole consideration for reimbursement. By doing so, CSPP providers would be brought in line with Head Start and the private pay market, aiding in covering their fixed costs. This bill does not include other childcare options and does not address the overall need for rate reform within the childcare sector.

Author's Statement: According to the Author, "Access to early learning opportunities is a key determinant to the future success of a child. Research shows that children from disadvantaged communities gain more substantial benefits than their affluent peers from attending free, high-quality preschool. This is why we created the California State Preschool Program (CSPP) in 2008 to provide a core class curriculum that is developmentally, culturally, and linguistically appropriate for the children served. Unfortunately, we saw a significant enrollment decline in 2020 due to the COVID-19 pandemic. Although enrollment has risen since 2020, it is still well below pre-pandemic levels. AB 2831 will strengthen the early learning and care system by allowing CSPPs to be funded based on enrollment, aligning them with Head Start and the private pay market, and helping to stabilize programs as they recover from the pandemic. This will ensure that CSPPs are able to cover their fixed costs, allowing them to focus more on the sustainability and quality of their programs, giving California children the early learning opportunities that they deserve."

Equity Implications: Adjustment to reimbursement rates based on enrollment will likely provide relief to CSPP providers and help keep businesses afloat. This bill does not factor in other childcare models and rate reform necessary for those providers to also stay afloat. As recommended by the RQWG, this bill does not create a single rate structure that specifies base rates and that is designed to address historical inequities. However, this is a positive step towards a rate that could benefit providers.

RELATED AND PRIOR LEGISLATION:

AB 51 (Bonta) of the current legislative session, makes numerous changes to support a mixed delivery pre-kindergarten system, including amending the income eligibility threshold; requires CDE to reserve a portion of CSPP contracts for providers negatively impacted by the implementation of transitional kindergarten (TK); requires the development of regulations on comingling of children with and without subsidies in CSPP classrooms; requires Expanded Learning Opportunities Programs serving TK pupils to be developmentally appropriate for students in TK; expands the roles and responsibilities of R&R agencies; and, requires the development of a new reimbursement rate schedule for CSPP. *AB 51 is currently on the inactive file in the Senate.*

AB 555 (Juan Carrillo) of 2023, included language similar to this bill that proposed to increase the priority for eligible 3-year old children in CSPP, and to amend adjustment factors for CSPP rates. *AB 555 was held on the Senate Appropriations Committee suspense file.*

AB 596 (Reyes) of 2023, see comments above. *AB 596 was held on the Senate Appropriations Committee suspense file.*

AB 1352 (Bonta) of 2023, would have created a statewide childcare pilot subcommittee of the Universal Pre-Kindergarten Mixed Delivery Quality and Access Workgroup to propose, evaluate, and collect evidence to support the creation of statewide pilot policies for childcare programs, permitted a local planning council to apply to CDE and CDSS to adopt an approved statewide pilot policy, and delayed the expiration of existing pilot projects from July 1, 2023, until July 1, 2025. *AB 1352 was substantially amended on May 18, 2023, such that it is now relative to governing boards of schoold districts.*

REGISTERED SUPPORT / OPPOSITION:

Support

California Alternative Payment Program Association
Early Care and Education Consortium
Santa Clara County Office of Education
State Superintendent of Public Instruction Tony Thurmond

Opposition

None on file.

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