Date of Hearing: April 9, 2019

ASSEMBLY COMMITTEE ON HUMAN SERVICES
Eloise Gómez Reyes, Chair
AB 125 (McCarty) – As Amended April 1, 2019

SUBJECT: Early childhood education: reimbursement rates

SUMMARY: Revises the state's system and rates for reimbursing subsidized child care and development programs to create a more uniform reimbursement system reflecting regional costs of care, and establishes the "Quality Counts California Pilot Reimbursement Program" as a pilot program to provide higher reimbursement rates to alternative payment program (APP) providers for meeting certain quality standards. Specifically, **this bill**:

1) Revises and recasts the requirement placed on the Superintendent to implement a plan establishing standards and reimbursement rates for subsidized child care and development programs by, in addition to current-law requirements:

   a) Specifying that the assigned reimbursement rates must vary with the regional reimbursement ceiling, as specified;

   b) Requiring the assigned reimbursement rates to vary with a quality adjustment factor to address the cost of staffing ratios, as specified;

   c) Stating that the assigned reimbursement rates must vary with an additional adjustment factors, as specified; and,

   d) Adding a deadline of November 10 to the requirement in current law that the reimbursement system plan be submitted to the Joint Legislative Budget Committee and requiring the plan to additionally contain methodology, county rate targets as required pursuant to the provisions of this bill, and the total statewide funding amount necessary to reach annual rate targets for all agencies.

2) Requires the California Department of Education (CDE) to, by July 1, 2020, establish a reimbursement rate target for each contracting agency that meets quality standards, as specified, and any related regulations, based on the following elements:

   a) The regional market rate ceilings for the agency's county, as specified, if applicable;

   b) The quality adjustment factor, proposed by provisions of this bill, for the age range of children proposed to be served by the contracting agency, as a multiplier;

   c) The program year and hours of service reimbursement factor, as specified, if applicable; and,

   d) Additional adjustment factors for special circumstances or services, as specified in current law.

3) Prohibits a contracting agency's rate target from being less than that agency's 2017 rate, by age range.

4) Requires CDE, in order to meet the costs of providing quality standards, as specified, and any related regulations beyond those calculated in the regional market rate survey, to establish quality adjustment factors by age range, requiring the adjustment factors to be:

   a) 1.23 for infants who are 0 to 18 months old;

   b) 1.23 for toddlers who are 18 to 36 months old;

   c) 1.23 for preschoolers who are 36 months to 6 years old; and,

   d) 1.03 for schoolage children who are 6 years of age or older.

5) Requires the reimbursement system plan to include a formula for annually adjusting reimbursement rates for each agency, based on the following:

   a) The annual Budget Act funding allocated for standard reimbursement rate (SRR) increases, as specified;

   b) An equitable distribution of SRR increases to agencies, by county, as an equal percentage of the county outstanding rate target, for purposes of meeting the targets identified by provisions of this bill; and,

   c) Funding allocated for cost-of-living adjustments, if applicable.

6) Reduces the reimbursement rate for child care and development providers serving children for less than four hours per day from 55% of the SRR to 50% of the SRR.

7) Deletes language requiring the regional market rate (RMR) to be at least at the 75th percentile of the 2016 regional market rate survey and, instead, requires the RMR to be at least the 85th percentile of the 2018 regional market rate survey.

8) Deletes language prohibiting the reimbursement rate for license-exempt child care providers from exceeding 70% of the family child care home rate and, instead, prohibits the license-exempt provider rate from exceeding 70% of the commensurate rate, such as hourly, daily, weekly, and monthly, for both full-time and part-time care, as specified.

9) Requires CDE to update the RMR survey methodology to include age ranges and hours of service ranges, pursuant to provisions of this bill, and to include direction for the survey to mitigate the impact of contractors located in deep-poverty census tracts on the market profile or county rate.

10) Requires CDE to create a "Quality Counts California Pilot Reimbursement Program", and states Legislative intent that this pilot program allow child care providers subject to RMRs to receive higher reimbursement rates and to meet higher quality standards for child development, as specified.

11) Sets for the following requirements regarding the Quality Counts California Pilot Reimbursement Program:

   a) Requires CDE to establish and measure quality standards, as specified, that must be met by child care providers participating in the pilot program;

   b) Requires CDE to select up to five alternative payment program (APP) child care systems, representing the broad geographic diversity of the state and as specified, to participate in the pilot program; and,

   c) Requires each APP child care system selected by CDE to participate in the pilot program to allow licensed child care providers serving at least a majority of children receiving subsidized child care, as specified, to participate.

12) Makes technical and conforming changes.

EXISTING LAW:

1) Establishes the "Child Care and Development Services Act" to provide child care and development services as part of a coordinated, comprehensive, and cost-effective system serving children from birth to 13 years old and their parents including a full range of supervision, health, and support services through full- and part-time programs. (Education Code [EDC] Section 8200 *et seq.*)

2) Defines "child care and development services" to mean services designed to meet a wide variety of children's and families' needs while parents and guardians are working, in training, seeking employment, incapacitated, or in need of respite and states that these services may include direct care supervision, instructional activities, resource and referral programs, and alternative payment arrangements. (EDC 8208 (j))

3) States the intent of the Legislature that all families have access to child care and development services, through resource and referral 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 child care and development programs. (EDC 8202)

4) Requires the Superintendent of Public Instruction to administer general child care and development programs to include, among other things as specified, age- and developmentally-appropriate activities, supervision, parenting education and involvement, and nutrition. Further allows such programs to be designed to meet child-related needs identified by parents or guardians, as specified. (EDC 8240 and 8241)

5) Requires families to meet certain criteria in order to be eligible for federal and state subsidized child development services, including that a family must be either a current aid recipient, income eligible, homeless, or one whose children are recipients of protective services or have been identified as being, or at risk of being, abused, or neglected, as specified. (EDC 8263)

6) Requires the Superintendent of Public Instruction to implement a plan that establishes reasonable standards and assigned reimbursement rates for child care and development services, to vary by length of program year and hours of service, and establishes amounts for, and provides for an annual cost-of-living adjustment to, the SRR for contracted providers, and providers for adjustments to the SRR per specified reimbursement factors. (EDC 8265, 8266.1)

7) Provides for the establishment of RMR ceilings for voucher-based child care and states Legislative intent that child care providers be reimbursed at the 85th percentile of the most recent regional market rate survey. (EDC 8222, 8357, 8447)

FISCAL EFFECT: Unknown

COMMENTS:

Subsidized child care and development: Paying for child care can place significant financial stress on many families, particularly those with lower incomes. The average cost in California of child care in a family child care home for an infant in 2014 was $8,462 ($705 per month). The average annual cost for an infant in child care centers in 2014 was $13,327 ($1,111 per month). The state's subsidized child care system offers services to families with parents or guardians who are working, in training, seeking employment, experiencing homelessness, incapacitated, or in need of respite. Generally, families are eligible for subsidized child care if they meet income-related and other requirements, such as having a need related to work, training, or education, and having children who are under 13 years old (or under 22 years old if they have exceptional needs). Parents are currently income-eligible if they earn incomes less than 70% of the most recent state median income (SMI) when first applying – up to $54,027 per year for a family of 3, and less than 85% of the most recent SMI – up to $65,604 per year for a family of 3 – when renewing eligibility. Beginning on July 1 of this year, as a result of the adoption of AB 2626 (Mullin), Chapter 945, Statutes of 2018, all families – whether applying for or renewing their eligibility for subsidized child care – can have incomes less than 85% of the SMI in order to qualify.

Subsidized child care can be obtained through three main types of providers, depending on which program is being used. These types of providers include licensed child care centers, licensed family child care homes, and license-exempt providers (for example, family members, neighbors, or friends).

The three main subsidized child care programs are:

- <u>California Work Opportunity and Responsibility to Kids (CalWORKs) child care</u>, for parents who receive or have received CalWORKs. CalWORKs child care can be provided in either centers, family child care homes, or license-exempt settings and is paid for using vouchers;

- <u>Alternative Payment Programs (APPs)</u>, which offers families vouchers that allow them to choose their own child care in either centers, family child care homes, or license-exempt settings; and,

- <u>General Child Care</u>, which is provided through contracted centers and family child care home networks that are administered through private or public agencies and offer child care, education, and development services.

For eligible three-and four-year-olds, the state also offers California state preschool programs (CSPPs), which provide services that include developmentally appropriate curriculum, parent education, meals and snacks, and referral to social and health services for families. CSPP operates on either a part-day or full-day basis and can be offered in a number of different settings, including child care centers, family child care network homes, school districts, or county offices of education. Teachers in CSPPs must have a Child Development Teacher Permit, including 24 units in early childhood education and/or child development and 16 general education units.

In Fiscal Year 2018-19, there are approximately 210,000 subsidized child care slots offered across the various programs (including 137,000 CalWORKs, 45,000 Alternative Payment, and 28,000 General Child Care slots) as well as over 170,000 CSPP (103,000 part-day and 67,000 full-day) and 90,000 Transitional Kindergarten slots. The state's current capacity to provide adequate affordable child care services is far below what is required to meet families' needs across California. A January 2019 analysis by the California Budget and Policy Center stated that, "In 2017, just 1 in 9 children eligible for subsidized child care and development programs in California were enrolled in a program that could accommodate families for more than a couple hours per day and throughout the entire year."

Reimbursement rates: Two different sets of rate schedules apply to providers of subsidized child care. For programs utilizing vouchers, which allow families to access child care through their choice of a licensed day care center, a licensed family child care home, or license-exempt child care (typically, care provided by a family, friend, or neighbor who has passed a background check), providers are reimbursed using a "regional market rate" (RMR). This rate is based on a biannual regional market rate (RMR) survey of the cost of child care in various geographical regions across the state. RMR rate ceilings are currently established at the 75th percentile of the 2016 RMR survey for a county (unless that ceiling is lower than the ceiling existing on December 31, 2017). RMR ceilings for license-exempt providers are set at the 70th percentile of a county's established RMR ceiling for family child care homes. For example, the current maximum reimbursement in San Bernardino County for a child 0 to 24 months old in a child care center setting is $77 per day. The maximum reimbursement for the same age range in a family child care home in San Bernardino County is $48 per day, and for license-exempt providers, it is $33 per day.

Providers of contracted care – child care and development programs and CSPPs that contract directly with CDE, as opposed to voucher-based care – are reimbursed according to a uniform statewide rate system based on the standard reimbursement rate (SRR). The fiscal year (FY) 2018-19 SRR for General Child Care is $47.98 per child per day of enrollment or $11,995 per year based on 250 days of operation. However, acknowledging the higher costs associated with providing care to certain populations, state law (Education Code Section 8265.5) provides for "adjustment factors" to be multiplied by child days of enrollment to arrive at an adjusted SRR. For example, the adjustment factor for infants (0 to 18 months) is currently 2.07, meaning that the per-child-per-day SRR is $47.98 times 2.07 – or, $99.32. (Note that this adjustment factor is prorated per recent changes adopted in the AB 1808 [Committee on Budget], Chapter 32, Statutes of 2018; the adjustment factor will be 2.44 for the 2019-20 fiscal year.)

Assembly Blue Ribbon Commission on Early Childhood Education: The Assembly Blue Ribbon Commission on Early Childhood Education (BRC) was established with the intent to "plan an early learning system that works for/meets the needs of children, families, and providers." The BRC, consisting of members appointed from the Assembly and the community, began its work in early 2017, holding quarterly hearings and establishing subcommittees. Quarterly hearings and subcommittee meetings continued during 2018, and work was done to develop BRC recommendations. On March 11, 2019, draft recommendations were released. One set of recommendations was related to reimbursement rates, with the report stating that, "The BRC concurs with the multi-step Recommendations of the Reimbursement Rates Working Group convened by First 5 to establish a framework in which all subsidized programs shall be reimbursed on the same regionalized pay scale which tiers up for quality. Recommendations include implementation of comprehensive rate reform through a multistep process: 1) First, bridge the standard reimbursement rate (SRR) and the regional market rate (RMR) together. Then reform the RMR survey methodology to create a tiered reimbursement system that can incentivize and reimburse for quality and quality improvement efforts across different program types and incentivize full day programs. Throughout this multistep process, all programs should be held harmless; 2) Address equity issues by refining the RMR survey and future rate-setting methodologies. The use of socio-demographic characteristics to set rates through market profiles exacerbates inequality and institutionalizes low reimbursement rates for providers that serve children and families in low-income counties; and, 3) Move towards a heavier emphasis on the true cost of providing quality child care, preschool, and early learning experiences."

Need for this bill: The state's subsidized child care and development system provides a range of programs to meet the needs of various families. This is a strength of the system, offering parents choice among care options in order to best meet their particular needs. However, providers across this range of programs are paid according to two different methodologies, which results in disparate rates being paid to them. All child care programs must meet licensing requirements established in Title 22 of the California Code of Regulations and overseen by CDSS, while subsidized child care centers must also meet requirements established in Title 5 of the California Code of Regulations and overseen by CDE. These contracted centers are paid according to the statewide SRR, while voucher-based care (CalWORKs and APP) is reimbursed using the more regionally-responsive RMR. This bill seeks to create a more equitable reimbursement structure across child care and development programs that is responsive to regional costs of care and reflective of other factors, such as varying staff ratios by age group of children being cared for.

The Child Care Resource Center, a sponsor of this bill, states that "California currently has a mixed delivery system that provides child care, preschool and early learning services for the state's youngest learners. California is strengthened by its ability to provide parents with a choice when it comes to selecting the early learning experiences that are most appropriate for their children and family's unique needs. However, California has two different and unaligned systems for funding the state's early learning services: child care providers meeting Title 22 standards are reimbursed using a Regional Market Rate (RMR) that accounts for geographic economic cost factors, while directly state-contracted early learning centers that meet both Title 5 and Title 22 standards are reimbursed at a flat Standard Reimbursement Rate (SRR). This unaligned, two-system approach limits access, fails to maximize program quality and forces many child care providers out of business in California.

To address the problems of a bifurcated rate system, resource expenditure should be streamlined and expended in a way that: 1) compensates teachers and programs for the cost of providing care, 2) is responsive to the economic diversity of California, 3) recognizes the costs of meeting varying quality standards, regulations and contracting burdens, and, 4) incentivizes quality and participation in research-based quality improvement efforts as a means to improve child outcomes. [This bill] would establish a single regionalized state reimbursement rate system for the state's mixed delivery system that achieves these four goals. Through these reforms, California can achieve a more equitable system to support children and families and maximize public benefit."

According to the author, "Currently, the state has two different reimbursement rate systems for early education providers, the Standard Reimbursement Rate (SRR) and the Regional Market Rate (RMR). These rate systems are not aligned and have resulted in inequities in funding across the state. The proposal would create one reimbursement rate system based on the cost of providing care in different settings, recognizing regional cost differences and providing incentives for increased quality. The estimated cost of this proposal is between $550 million to $750 million and would be funded over eight years.

"In the last four budget years, the state has increased slots for California State Preschool Program (CSPP), General Child Care, and Alternative Payment Program. In order to make these slots viable, the state has to pay providers and teachers better. Child care providers and early learning teachers are consistently and woefully underpaid. [This bill] will establish a single regionalized reimbursement rate system for subsidized child care and preschool, which will ensure teachers and providers are paid better for the services provided."

Double referral: This bill will be referred to the Assembly Education Committee should it pass out of this committee.

RELATED AND PRIOR LEGISLATION:

SB 174 (Leyva) of 2019 is currently identical to this bill. SB 174 is set to be heard in the Senate Education Committee on April 24, 2019.

AB 2125 (Ridley-Thomas) of 2014 would have required the Superintendent of Public Instruction to review the plan that establishes standards and assigns reimbursement rates for child care and development programs, and to submit recommendations for a single reimbursement system that reflects the actual current cost of child care based on the most recent regional market rate survey. AB 2125 was held on the Senate Appropriations Committee's suspense file.

REGISTERED SUPPORT / OPPOSITION:

Support

First 5 California (Sponsor)
California Federation of Teachers (Sponsor)
Child Care Resource Center (Sponsor)
California Alternative Payment Program Association
California Coalition for Early Learning
California Family Resource Association
Child Care Alliance of Los Angeles
Children Now
Community Child Care Council of Sonoma County

EveryChild California
First 5 LA
First 5 Lake County
First 5 Sacramento
First 5 San Benito
First 5 San Bernardino
First 5 Santa Clara County
Fraser Communications
UDW/AFSCME Local 3930
United Domestic Workers Of America-AFSCME Local 3930/AFL-CIO

Opposition

None on file

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