

Date of Hearing: June 18, 2019

ASSEMBLY COMMITTEE ON HUMAN SERVICES
Eloise Gómez Reyes, Chair
SB 174 (Leyva) – As Amended June 13, 2019

SENATE VOTE: 38-0

SUBJECT: Early childhood education: reimbursement rates

SUMMARY: Updates, contingent upon appropriation, calculations of the regional market rate (RMR) for providers of subsidized child care, establishes the “Quality Counts California Pilot Reimbursement Program,” contingent upon an appropriation, to provide higher reimbursement rates to alternative payment program (APP) providers for meeting certain quality standards, and subjects the provisions of this bill to the contingent enactment of Assembly Bill 125 of the 2019-20 Regular Session. Specifically, **this bill:**

- 1) Makes the following changes, provided an annual appropriation, as specified, is made for these purposes:
 - a) Deletes language requiring the regional market rate (RMR) to be at least at the 75th percentile of the 2016 RMR survey and, instead, requires the RMR to be at least the 75th percentile of the 2018 RMR survey until January 1, 2021; and,
 - b) Requires, as of January 1, 2021, the RMR to be at least the 85th percentile of the 2018 RMR survey, as specified.
- 2) Changes from March 1 of each year to December 1 of each year the following:
 - a) The date by which the Department of Finance is required to provide the California Department of Education (CDE) with the state median income (SMI) amount for a four-person household in California using specified methodology; and,
 - b) The goal completion date of the RMR survey for which CDE contracts to have conducted and completed.
- 3) Requires CDE to update the RMR survey methodology to include age ranges and hours of service ranges, as specified, 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.
- 4) Requires CDE to create a “Quality Counts California Pilot Reimbursement Program,” upon an appropriation in the annual Budget Act, intended to allow child care providers subject to RMRs to receive higher reimbursement rates and to meet higher quality standards for child development, as specified.
- 5) Sets forth 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 APP child care systems, as specified, representing the broad geographic diversity of the state, 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.
- 6) Stipulates that the provisions of this bill shall become operative only if Assembly Bill 125 of the 2019-20 Regular Session is enacted and becomes effective on or before January 1, 2020.
- 7) 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:

- California Work Opportunity and Responsibility to Kids (CalWORKs) child care, 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;
- Alternative Payment Programs (APPs), 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,
- General Child Care, 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 the RMR. This rate is based on a biannual 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 FY.)

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: Voucher-based subsidized child care (CalWORKs and APP) is reimbursed using the RMR, which, while regionally responsive, is currently based on outdated regional market rate survey data. This bill seeks to calculate the RMR based on more current data and to create a pilot project that invests in providers of voucher-based care, and in the achievement of quality standards in that care, across the state.

According to the author, “Currently, two separate unaligned systems for reimbursing child care providers limit access, fail to maximize program quality and force many child care providers out of business. While some providers receive a rate based on factors such as geographical location and regional cost of child care, other providers that meet higher standards receive a flat rate regardless of location and cost of doing business. To address the problems created by the current rate system, resource expenditures should be streamlined and spent in a way that: Compensates teachers and programs for the cost of providing care, are responsive to the economic diversity of California, recognize the costs of meeting varying quality standards and incentivize high standards and participation in research-based quality improvement efforts. By equalizing the rates, California can achieve a more equitable system to support children and families, while at the same time keeping more provider doors open and improving access to child care.”

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

RELATED AND PRIOR LEGISLATION:

AB 125 (McCarty) of 2019 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,” contingent upon an appropriation, to provide higher reimbursement rates to APP providers for meeting certain quality standards. AB 125 is currently awaiting hearing in the Senate Education Committee.

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

Child Care Resource Center (Sponsor)
First 5 California (Sponsor)
UDW/AFSCME Local 3930 (Sponsor)
6 Private Citizens
California Alternative Payment Program Association
California Child Care Coordinators Association
California Coalition for Early Learning
California Federation of Teachers
City and County of San Francisco
EveryChild California
First 5 LA
Fraser Communications
Los Angeles County Office of Education
San Francisco Human Services Agency
Valley Industry and Commerce Association

Opposition

None on file

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