

Date of Hearing: April 24, 2019

ASSEMBLY COMMITTEE ON EDUCATION
Patrick O'Donnell, Chair
AB 125 (McCarty) – As Amended April 1, 2019

[Note: This bill was double referred to the Assembly Human Services Committee and was heard by that Committee as it relates to issues under its jurisdiction.]

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 providers (APP) for meeting certain quality standards. Specifically, **this bill:**

- 1) Revises and recasts the requirement placed on the Superintendent of Public Instruction (SPI) to implement a reimbursement system 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.
- 2) Requires the reimbursement system plan, including the methodology, standards, county rate targets established by the SPI, and the total statewide funding amount necessary to reach annual rate targets for all agencies, to be submitted to the Joint Legislative Budget Committee by November 10 of each year.
- 3) 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 (RMR) 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.

- d) Additional adjustment factors for special circumstances or services, as specified in current law.
- 4) Prohibits a contracting agency's rate target from being less than that agency's 2017 rate, by age range.
- 5) 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 zero 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.
 - d) 1.03 for schoolage children who are 6 years of age or older.
- 6) 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.
 - 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.
 - c) Funding allocated for cost-of-living adjustments, if applicable.
- 7) 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.
- 8) Requires the Regional Market Rate (RMR) to be at least the 85th percentile of the 2018 regional market rate survey for that region.
- 9) 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.
- 10) Requires CDE to contract to conduct a RMR survey once every two years with a goal of completion by March 1st. Also requires the 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.
- 11) Requires the CDE to create a "Quality Counts California Pilot Reimbursement Program," and states Legislative intent that this pilot program allow childcare providers subject to

RMRs to receive higher reimbursement rates and to meet higher quality standards for child development, as specified.

- 12) Sets for the following requirements regarding the Quality Counts California Pilot Reimbursement Program:
 - a) Requires the CDE to establish and measure quality standards, as specified, that must be met by childcare providers participating in the pilot program.
 - b) Requires the CDE to select up to five alternative payment program (APP) childcare systems, representing the broad geographic diversity of the state and to participate in the pilot program.
 - c) Requires each APP child care system selected by the 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.
- 13) Makes technical and conforming changes.

EXISTING LAW:

- 1) Establishes the “Child Care and Development Services Act” to provide childcare 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. (EC 8200 *et seq.*)
- 2) Defines “childcare 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. (EC 8208)
- 3) States the intent of the Legislature that all families have access to childcare 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 childcare and development programs. (EC 8202)
- 4) Requires the SPI to administer general childcare 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. (EC 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. (EC 8263)

- 6) Requires the SPI to implement a plan that establishes reasonable standards and assigned reimbursement rates for childcare 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 provides for adjustments to the SRR based upon specified reimbursement factors. (EC 8265 and 8266.1)
- 7) Provides for the establishment of Regional Market Rate (RMR) ceilings for voucher-based childcare, and states Legislative intent that childcare providers be reimbursed at the 85th percentile of the most recent RMR survey. (EC 8222, 8357, 8447)

FISCAL EFFECT: Unknown

COMMENTS: *Need for the bill.* According to the author, “Currently, the state has two different reimbursement rate systems for early education providers, the SRR and the RMR. These rate systems are not aligned and have resulted in inequities in funding across the state. This 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, General Child Care, and Alternative Payment Program. In order to make these slots viable, the state has to pay providers and teachers better. Childcare providers and early learning teachers are consistently and woefully underpaid. AB 125 will establish a single regionalized reimbursement rate system for subsidized childcare and preschool, which will ensure teachers and providers are paid better for the services provided.”

Background. The main state and/or federally funded early care and education programs serving children and families in California include, but are not limited to, the following:

- General Child Care and Development Programs include center-based or family childcare home care, provide part or full-time care for children from 0-5 years and out-of-school care for school age children up to age 13 from income eligible families who have a need for care.
- Alternative Payment Programs (APP) provide voucher-based child care subsidies to low-income parents to access child care through a wide range of providers. Includes vouchers offered through California’s state welfare program, California Work Opportunity and Responsibility to Kids (CalWORKs), those for working families, as well as programs specifically for migrant children.
- California State Preschool Program (CSPP) provides center-based preschool for three and four year old children from income eligible families.
- Head Start and Early Head Start are federally-funded preschool and child development programs serving children from families with incomes below the federal poverty level, and offer education, child care, extensive family engagement, and wraparound services.

In the 2018-19 fiscal year, there are 182,347 subsidized childcare slots offered across the various programs, and 168,478 preschool slots through the CSPP.

Reimbursement rates: Two different sets of rate schedules apply to providers of subsidized childcare. 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 childcare 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. These rates vary significantly from one county to another, reflecting differences in the cost of care. This table illustrates differences in the full-time daily rate for children from birth to 24 months:

Childcare Setting	Fresno County	Los Angeles County	Alameda County
Childcare center	\$72.73	\$96.53	\$114.06
Family childcare home	\$45.53	\$54.40	\$72.20
License-exempt care	\$31.87	\$39.48	\$50.54

Providers of contracted care – childcare 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 SRR. The fiscal year 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 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 (birth to 18 months) is currently 2.07, meaning that the per-child-per-day SRR is \$47.98 times 2.07 – or, \$99.32. The adjustment factor will be 2.44 for the 2019-20 fiscal year.

Differing standards. Voucher programs funded under the RMR are required to meet Title 22 standards, while direct contracted programs must meet both Title 22 as well as Title 5 requirements. The additional requirements under Title 5 include lower adult-to-child ratios, increased staff education and training, and child assessments, all of which contribute to higher costs. The current reimbursement system funds these programs with higher standards at a lower rate with no consideration for regional cost differences. The per child SRR rate, regardless of county or provider costs, is still about two dollars less than the lowest county RMR in the state.

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 stakeholders, 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, concluding 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 SRR and the 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.
- 3) Move towards a heavier emphasis on the true cost of providing quality child care, preschool, and early learning experiences.

Arguments in support. First 5 California states that “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 RMR that accounts for geographic economic cost factors, while directly state-contracted early learning centers that meet Title 5 standards, in addition to Title 22 standards, are reimbursed at a flat SRR. This unaligned, two-system approach limits access, fails to maximize program quality, and is forcing 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.

AB 125 would establish a single regionalized state reimbursement rate system for child care, preschool, and early learning services that would achieve these four goals. Through these reforms, California can achieve a more equitable system to support children and families and maximize public benefit.”

Prior and related legislation. SB 174 (Leyva) of 2019 is currently identical to this bill. SB 174 is pending in the Senate Education Committee.

AB 2125 (Ridley-Thomas) of the 2013-14 Session would have required the SPI 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 in the Senate Appropriations Committee.

REGISTERED SUPPORT / OPPOSITION:

Support

California Alternative Payment Program Association
California Children And Families Commission
California Coalition For Early Learning
California Family Resource Association
California Federation of Teachers
Cambridge Community Center
Child Care Alliance of Los Angeles
Child Care Resource Center
Child360
Children And Families Commission of Los Angeles County
Children Now
Community Child Care Council of Sonoma County
Early Edge California
EveryChild California
First 5 California
First 5 Lake County
First 5 Sacramento
First 5 San Benito
First 5 San Bernardino
First 5 Santa Clara County
Fraser Communications
League of Women Voters Of California
Los Angeles County Office of Education
Oakland Unified School District
Office of The Riverside County Superintendent Of Schools
Riverside County Public K-12 School District Superintendents
United Domestic Workers Of America-AFSCME Local 3930/AFL-CIO

Opposition

None on file

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