Date of Hearing: April 26, 2023

ASSEMBLY COMMITTEE ON EDUCATION
Al Muratsuchi, Chair
AB 596 (Reyes) – As Amended April 17, 2023

[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 learning and care: rate reform

SUMMARY: Requires the Department of Social Services (DSS), in collaboration with the California Department of Education (CDE), to develop an alternative methodology for calculating subsidy payment rates for childcare and development services using a cost estimation model; requires the DSS to seek approval from the federal government to implement an alternative methodology; requires that any funding provided in the Budget Act of 2023 to increase reimbursement rates be distributed using an interim transition plan until the alternative methodology is adopted; ensures providers of childcare services are reimbursed based upon enrollment or authorized hours of care, rather than enrollment; and prohibits the collection of family fees until an equitable sliding scale is implemented. Specifically, **this bill**:

1) Expresses the intent of the Legislature that this bill implements the recommendations of the Rate and Quality Workgroup (workgroup), established by the Budget Act of 2021, to create a new subsidy payment rate structure for childcare and development and preschool programs.

2) Requires the DSS, in collaboration with the CDE, to develop an alternative methodology for calculating subsidy payment rates for childcare and development services, including CSPP, and requires the alternative methodology to build on the recommendations of the workgroup and be aligned to the recommendations of the Joint Labor Management Committee (JLMC).

3) Requires the alternative methodology to use a cost estimation model that includes all of the following:

   a) Current statutory and regulatory requirements for each program;

   b) Staff salaries and benefits;

   c) Training and professional development;

   d) Curricula and supplies;

   e) Group size and ratios;

   f) Enrollment levels;

   g) Facilities and other costs; and

   h) Family engagement.

4) Requires DSS to develop an interim transition plan to implement the alternative methodology by increasing the various rates from their current level to the alternative methodology level over time as funds are appropriated for these purposes in the annual Budget Act, and requires the DSS to fully implement the alternative methodology by the 2027-28 fiscal year, and review and update the alternative methodology every three years.

5) Requires that any funding provided in the Budget Act of 2023 to increase reimbursement rates be distributed using the interim transition plan until the alternative methodology is adopted.

6) Requires the DSS to seek approval from the United States Department of Health and Human Services to amend the state's current Child Care and Development Fund (CCDF) State Plan to change its current methodology for determining childcare and development and preschool subsidy payment rates to an alternative methodology.

7) Requires the DSS, in consultation with the CDE, to develop an equitable sliding scale for the payment of family fees, and prohibits the collection of family fees for childcare and development programs, including CSPP, until the new sliding scale is implemented.

8) Requires a contracting agency operating a CSPP to be reimbursed based upon enrollment, rather than attendance, by specifying that reimbursement is to be based upon 100% of the contract's maximum reimbursable amount, or net reimbursable program costs, whichever is less, and requires that family childcare home education networks (FCCHENs) operating CSPPs be reimbursed based upon the maximum certified hours of care for all families certified for a variable schedule, regardless of a child's attendance.

9) Requires that childcare providers operating programs overseen by the DSS, including license-exempt providers, be reimbursed based on a family's certified hours of need, as determined by the maximum certified hours of care, including those on a variable schedule, regardless of a child's attendance.

EXISTING LAW:

1) 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 old and their parents, including a full range of supervision, health, and support services through full- and part-time programs. (Welfare and Institutions Code (WIC) 10207 *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 (R&R) programs, and AP arrangements. (WIC 10213.5)

3) Establishes the Early Education Act to provide an inclusive and cost-effective preschool program that provides high-quality learning experiences, coordinated services, and referrals for families to access health and social-emotional support services through full and part-day programs. (Education Code (EC) 8201)

4) Defines "income eligible" for purposes of establishing initial income eligibility for the CSPP as meaning that a family's adjusted monthly income is at or below 100% of the State Median Income (SMI), adjusted for family size, and for other childcare programs at 85% of the SMI. (EC 8213, WIC 10271.5)

5) Identifies adjustment factors by which reimbursement rates to certain CSPP and childcare providers may be adjusted, as specified. (EC 8244, WIC 10281.5)

6) Establishes the Standard Reimbursement Rate (SRR) beginning July 1, 2021 at $12,888, or $12,968 for full-day CSPP and $5,621 for part-day CSPP, and requires, beginning with the 2022-23 fiscal years, that the SRR be increased by a cost of living adjustment (COLA), as specified. Requires that beginning January 1, 2022, contractors receiving the SRR be reimbursed for the greater of the 75th percentile of the 2018 Regional Market Rate (RMR) survey or the contracted per child reimbursement rate as of December 31, 2021, as increased by the COLA. (EC 8242)

7) Establishes, beginning January 1, 2022, the Regional Market Rate (RMR) ceilings at the greater of the 75th percentile of the 2018 RMR survey for that region or the RMR ceiling that existed in that region on December 31, 2021. (WIC 10374.5)

8) Requires the Governor and the Child Care Providers Union (CCPU), consistent with the agreement dated June 25, 2021, to establish a JLMC to develop recommendations for a single reimbursement rate structure that addresses quality standards for equity and accessibility while supporting positive learning and developmental outcomes for children. Further, requires the JLMC to develop recommendations and present the recommendations to the Department of Finance (DOF) no later than November 15, 2022 in order to inform the Governor's proposed budget for the 2023-24 fiscal year. (WIC 10280.2)

9) Requires the DSS, in consultation with the CDE, to convene a working group separate from the JLMC to assess the methodology for establishing reimbursement rates and the existing quality standards for childcare and development and preschool programs, as specified. Further, requires the workgroup to, no later than August 15, 2022, provide recommendations, including, but not limited to, recommendations on how the DSS should define childcare workforce competencies and how these competencies would align with rate reform, to the JLMC, DOF, and the Joint Legislative Budget Committee. (WIC 10280.2)

FISCAL EFFECT: Unknown

COMMENTS:

Addressing the need to revise the childcare reimbursement system. This bill would build upon the recommendations made by these stakeholder workgroups and would implement an alternative methodology for reimbursing childcare providers. In adopting an alternative methodology, this bill seeks to reimburse childcare providers for the true cost of care while also ensuring families in California have access to quality childcare. Specifically, this bill requires the DSS, in consultation with the CDE, to develop an alternative methodology for calculating subsidy payment rates for childcare and CSPP services. ***The Committee may wish to consider whether*** there is a need to define the role of the Legislature in establishing an alternative methodology, such as requiring approval by the Joint Legislative Budget Committee.

This bill would also require a new, equitable sliding scale for collecting family fees to be developed, and would prohibit family fees from being collected until the sliding scale is implemented in order to prevent families who rely on subsidized childcare from shouldering the costs of care. ***The Committee may wish to consider whether*** there is a need to define “equitable sliding scale” and to place a timeframe on the waiving of family fees.

Need for the bill. According to the author, “AB 596 will help childcare providers and families by transitioning providers to a single reimbursement rate structure for early learning and childcare programs, suspending family fees until an equitable sliding scale for family fees is established, and ensuring providers are paid based on enrollment rather than attendance. California has been subsidizing the true cost of childcare by paying the early learning and childcare workforce low wages and expecting families to pay high family fees for subsidized childcare programs. We need to make child care more affordable to families and ensure that child care providers receive a dignified wage that allows them to keep their doors open. With prices skyrocketing, families cannot afford another bill, and we must suspend family fees until an equitable sliding scale for family fees can be established. AB 596 supports a new way to pay child care providers based on the real cost of care and provides relief to families.”

California has a complex system of early childhood programs. California’s subsidized early care and education (ECE) is made up of a complex array of programs serving children from birth through 13 years, funded through a mix of federal and state dollars, and administered through a mixed delivery system by local educational agencies (LEAs) and community-based providers. The major ECE programs include, but are not limited to, the following:

Program	**Overseen by**	**Ages of children served**	**# of slots in 2022-23**
Full-day state preschool (CSPP)	CDE	3-4 years	69,000
Part-day preschool (CSPP)	CDE	3-4 years	142,000
Transitional kindergarten (TK)	CDE	4-5 years	120,000
Alternative Payment (AP)	DSS	0-13 years	161,300
General Childcare (CCTR)	DSS	0-13 years	78,500
CalWORKs Stages 1-3	DSS	0-13 years	127,800

Source: Legislative Analyst Office (LAO), 2023

According to the LAO, since 2021-22, the state has added 146,600 childcare slots, which has more than doubled the number of slots statewide. California had approximately 560,000 licensed center spaces for all children from birth to 6 years, and 268,000 licensed family childcare home spaces for all children from birth to 12 in 2021. California still lacks the licensed capacity to meet the need for childcare and preschool services.

Reimbursement for childcare is complex. Subsidized childcare providers in California are reimbursed based upon either the Regional Market Rate (RMR) or the Standard Reimbursement Rate (SRR):

1) ***RMR.*** Voucher-based programs, including CalWORKs and the APP, are required to follow Title 22 health and safety regulations and are reimbursed based upon the RMR. In California the RMR survey collects data about the prices that early learning and care programs charge for nonsubsidized care, in addition to other information. This information is then used by the Legislature to determine the reimbursement ceilings for each county, determine ceilings across different early learning and care settings (e.g., centers, family child care homes), and used to determine ceilings based on other characteristics of the services provided (e.g., part-day, full-day, age group). Federal regulations require the use of the most recent survey in determining reimbursement ceilings, but states have flexibility in how they use the survey results. Specifically, states can set reimbursement ceilings at a certain percentile of the survey. As of June 2022, the reimbursement ceilings in California were based on the 2018 RMR survey, inclusive of a hold harmless provision.

2) ***SRR.*** Until January 1, 2022, California used the SRR for most direct contract programs that follow Title 5 education quality standards in addition to Title 22. These include the CSPP and CCTR. The SRR is specified in the annual Budget Act. The SRR was structured as a base rate with adjustment factors for length of service (hours enrolled per day) and specific populations (e.g., infants, children with severe disabilities, limited and non-English speaking). These adjustment factors were applied to the SRR on a per child basis. The SSR is a single statewide rate with no regional variation (e.g., $51.87 per day for CSPP just prior to the January 1, 2022, changes). The SRR was lower for some programs than the rate they would have received through the RMR, even though the SRR-reimbursed programs were required to meet additional educational program quality requirements in addition to licensing standards.

   In 2021-22, the state shifted direct contract providers to the RMR to the extent the relevant RMR was higher than the SRR. The current weighted statewide average is $62.03 per child per day for full-day CSPP and $38.84 for part-day CSPP.

Childcare reimbursements failing to support quality childcare. The U.S. Department of the Treasury (DOT) notes that the following factors contribute to the market failure of early learning and care:

- Quality early learning and care services benefit society by supporting overall positive child development outcomes and supporting families' abilities to work;

- Most families are unable to pay for the cost of quality early learning and care for their children;

- Early learning and care programs do not receive sufficient revenue, either by private fees collected from families or by the public subsidy system, to meet the true cost of providing quality care, having the impact of limiting the extent to which families can access care and learning opportunities for their children; and

- Early learning and care educators are underpaid. In part, this is because early learning and care educators are disproportionately women of color who are undervalued and underpaid in the labor market broadly.

The DOT goes on to describe how the federal and state governments contribute to the market failure in the reimbursement rate system:

- The current institutionalized structure for rate setting, using a RMR survey, sets rates based on prices charged to families, which programs often deflate based on families' abilities to pay. This regionalized rate-setting structure institutionalizes low rates in low-income areas;
- Government subsidies and current levels of public investment fail to provide sufficient funding to cover the cost of providing quality early learning and care;
- Government has not invested sufficient funds to ensure families can afford child care;
- Early learning and care programs make ends meet by limiting the compensation and benefits provided to their staff or themselves;
- There is a shortage of licensed child care programs and early learning and care opportunities for the children and families that need them; and
- The impacts of these failures are disproportionately felt by low-income women of color, from the family fees they pay to utilize early learning and care services for their children to the low wages they receive when providing these services themselves.

Impacts of inadequate reimbursement rates on childcare workers. According to estimates by the Center for the Study of Childcare Employment at the University of California, Berkeley, there are approximately 116,800 members of the early learning and care workforce in California. The members of this workforce experience considerable inequities when examined by race, setting type, and job position.

Early educators must meet different requirements depending on the type of program/setting they work in. Research suggests that fewer women of color and fewer women who immigrated to the United States have access to higher education opportunities that lead to the educational qualifications required for higher paying roles. (Park, 2015) Barriers include cost, time and location of coursework, low rates of admission to public universities, and cultural and linguistic barriers.

In 2019, the median hourly wage in California was $13.41 for childcare workers and $16.83 per hour for preschool teachers, compared to $41.86 per hour for kindergarten teachers. Black and Latina early educators are more likely to earn lower wages than their White colleagues, and in California, 39% of White center-based staff earned less than $15 an hour, compared to 57% of African American staff and 59% of Latina staff. (McLean, 2021) Many segments of the early learning and care workforce in California do not receive health and retirement benefits, payment for personal or sick leave, or paid time off for planning, or professional development. The poverty rate for childcare workers in California is 17%, compared to 8.7% for California workers in general, and 2.5% for K-8 teachers. (Gould, 2020)

Actual costs of care. 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 childcare centers for preschool-aged 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.

Family fees and mixed income programs. The Childcare Development Fund (CCDF) – a federal funding stream that helps states cover the cost of certain childcare programs – requires states to establish a sliding fee scale for families that receive childcare services supported by federal funds. As such, some parents pay a fee to help cover the costs of needed care. These family fees are assessed based on income and family size, but cannot be based on the cost of care or the amount of subsidy payment that a family receives. Current law permits, at the state's discretion, family fees to be waived for families who meet certain criteria, including families that have an income at or below the federal poverty level (FPL); the 2023 FPL for a family of three is $24,860. Beginning in April 2020, family fees have been waived in California for all families receiving subsidized childcare through the following actions:

1) On April 4, 2020, Governor Newsom signed Executive Order N-45-20, which suspended family fees for a period of 60 days.

2) SB 820 (Committee on Budget and Fiscal Review), Chapter 110, Statutes of 2020, later waived family fees for all subsidized children in July and August 2020, and included a waiver of family fees beginning September 1, 2020, through June 30, 2021.

3) AB 131 (Committee on Budget), Chapter 116, Statutes of 2021, waived family fees for the 2021-22 Budget Year.

4) AB 210 (Committee on Budget), Chapter 62, Statutes of 2022, extended the pause on collection of family fees for the 2022-23 fiscal year.

According to the DSS, approximately $88 million in family fees will be waived in the 2022-23 fiscal year. Currently, family fees are scheduled to resume on July 1, 2023; however, the provisions of this bill would prohibit the collection of family fees until the new, equitable sliding scale, as established by the provisions of this bill, is created and implemented. This bill does not define "equitable sliding scale." ***The Committee may wish to consider*** whether there is a need to clarify this provision. For example, is the intent to extend the provision of family fees to those families not qualifying for subsidized childcare to allow for mixed income classrooms?

Mixed income programs benefit all children. Research suggests that all children can benefit from universal or mixed income programs, but they tend to benefit children from lower-income households the most. Some of the key research findings include the following:

- A study with 3,396 4-year-old children in 486 primarily publicly-funded preschool classrooms found that concentrated poverty in preschool classrooms was associated with lower language and reading skills in kindergarten in part through children's exposure to less cognitively-skilled peers. (Coley, 2019)

- In a study that compared test scores of thousands of 4-year-olds in more than 30 states, children from low-income families in states where preschool programs also welcomed children from other economic backgrounds showed far better reading test score gains when they enrolled in public preschool than children in states with programs targeted only to disadvantaged children. (Cascio, 2021)

- In a sample of over 700 PreK classrooms, researchers found that increasing aggregate classroom income between $22,500 and $62,500 was related to improvements in children's math scores. Results suggest that economically integrated pre-K programs may be more beneficial to preschoolers from low-income households' achievement than classrooms targeting economically disadvantaged children. (Miller, 2017)

- In a study conducted in the Boston Public Schools prekindergarten programs, there was a positive effect of mixed income classrooms-- where lower-income kids had greater gains in vocabulary and executive function skills when they had a higher percentage of peers with higher incomes in their classroom. (Weiland, 2014)

- In a study with 3,000 children in public preschool programs across 11 states researchers found small associations between mean classroom socioeconomic status and children's gains in math and language skills during the preschool year. Authors concluded that concentrated poverty in preschools may inhibit children's skill development. (Reid, 2013)

Improving California's subsidized childcare system. In recent years, a number of working groups have examined subsidized childcare in California and made recommendations to reform and improve the system as it relates to equity, eligibility, and provider reimbursement rates.

First 5 California Reimbursement Rate Workgroup. This group, which released its report in November 2018, 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.

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. The final report, issued on April 1, 2019 included recommendations related to reimbursement rates and family fees:

- The BRC concurs with the multi-step recommendations of the Rates Working Group, convened by First 5 California, to implement comprehensive rate reform through a multi-step process. Their recommendations are moving towards a heavier emphasis on the true cost of providing quality childcare, preschool and early learning experiences and address equity issues by refining the RMR survey and future rate-setting methodologies.

- In the long-term, the reimbursement rates for Title 5 and 22 programs should include competitive compensation that increases with quality improvement.

- In the near term, the reimbursement rates for Family, Friend and Neighbor (FFN) should make the compensation floor the state minimum wage.

- Family payments for families at the lowest income level should be reduced to zero, and if a family contribution is required for a program, it should progressively rise as a share of family income.

Master Plan for Early Learning and Care (Master Plan). The Budget Act of 2020 appropriated $5 million for a long-term strategic plan to provide a roadmap to comprehensive, quality, and affordable childcare and preschool for children from birth through age twelve, including a fiscal framework that provides for ongoing funding to significantly expand early learning and care in the state, including options to generate needed revenues and examine alternative funding streams. The final report was released in December 2020, and recommends the adoption of a tiered reimbursement rate with appropriate adjustments:

> Adopting a new reimbursement rate structure provides an anchor to transform the early learning and care system around the key values of equity and quality. The current structure has multiple independent rates. It lacks cohesion. Moving to a tiered reimbursement rate would facilitate connections that are currently lacking and help clarify and encourage workforce development, a key factor in improving quality. California's subsidy reimbursement structure shares some features in common with other states but differs most notably on reimbursing for higher quality.

The Master Plan goes on to say that adopting a rate structure that includes all state-subsidized programs and funding would support:

- Equity: A unified approach would allow for a similar reimbursement given the program and child contexts—and the associated cost differential—regardless of the funding stream;

- Simplicity: A unified reimbursement structure would be less costly for the state to administer and for providers to manage; and

- Quality: Reimbursement rates would vary with key quality cost drivers such as the staff-child ratio and teacher qualifications, and would incentivize providers to adopt and maintain higher quality.

UPK Mixed Delivery Quality and Access Workgroup. In September 2022, AB 185 (Committee on Budget), Chapter 571, Statutes of 2022, established the Universal Pre-K Mixed Delivery Quality and Access Workgroup in order to provide recommendations on best practices for increasing access to high-quality universal preschool programs for three- and four-year old children offered through a mixed-delivery model. The legislation required the workgroup to include key stakeholders, including: representatives from COEs; community-based organizations; TK programs; R&Rs; APPs; CCTR programs serving preschool-age children; and, private, center-based preschool providers, among others, as specified in current law.

The provisions of AB 185 required the workgroup to be established no later than December 1, 2022, and required the SPI, in consultation with the Director of the DSS, to provide a report to the Legislature and DOF no later than January 15, 2023. The Governor's Budget of 2023 proposes to extend the deadline for the delivery of the workgroup's report.

CCPU's JLMC reimbursement rate system recommendations. AB 131, Chapter 116, Statutes of 2021, required that California establish a JLMC comprising representatives of the State and of the Child Care Providers United Union (CCPU) to develop recommendations for a single reimbursement rate structure that addresses quality standards for equity and accessibility while supporting positive learning and developmental outcomes for children.

Rate and Quality Workgroup (RQWG). Similarly, the RQWG, established by AB 131, Chapter 116, Statutes of 2021, and administered by CDSS, was formed. Members of the RQWG include representatives from CCPU, state-funded center-based contractors, childcare and development experts, family representatives, Head Start programs, Alternative Payment Programs (APP), and the administration. The RQWG was tasked with making recommendations to:

- Work toward equity as an outcome and implement equity as a process;

- Replace the current methodology for setting rates with an alternative methodology that would, among other things, set a living wage floor;

- Create a single rate structure to address historical inequities; and,

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

Among the final recommendations of the RQWG are the following:

- Use an alternative methodology instead of the current market rate survey to set base rates to compensate early learning and care providers for the cost of meeting current state requirements. The price of early learning and care in a broken market should no longer be the basis for setting reimbursement rates;

- Create a single rate structure that specifies base rates and is designed to address historical inequities; and

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

What is an alternative methodology? The 2014 reauthorization of the Child Care and Development Block Grant (CCDBG) Act redefined federal requirements, and now states have two options for how they set rates:

- A statistically valid and reliable survey of the market rates for childcare services in the state that reflects variations in the cost by geographic area, type of provider, and age of child; or

- An alternative methodology, such as a cost estimation model.

An alternative methodology for rate setting may be a cost study or a cost estimation model. A cost study involves collecting data from providers about their current costs of operating a program that meets licensing standards as well as other quality standards, reflecting point-in-time data about provider costs.

A cost estimation model involves building a tool that is informed by provider data and that can run multiple scenarios to estimate the impact of several variables on cost, such as program characteristics (e.g., size and ages of children served), child populations served, program quality, and location in the state.

Any alternative methodology used in lieu of a market rate survey must be approved in advance by the federal Administration for Children and Families as part of the State's Childcare Development Fund (CCDF) plan. Since, CCDF plans are submitted for approval every three years, the process of establishing rates using an alternative methodology can take multiple years. In California, the DSS now has overall responsibility for the CCDF.

Urgent need for reimbursement rate increases. The RQWG, recognizing the urgency of the crisis in California's childcare system, further recommends that the state not wait for an alternative methodology approval from the federal government before raising current reimbursement rates. They recommend that the state invest more funding for reimbursement rates immediately as providers are struggling to maintain programs with current funding based upon 2018 market rates.

Recommended Committee Amendments. Staff recommend that the bill be amended as follows:

1) Require that the DSS collaborate with the CDE in all aspects of developing, reviewing, and updating the alternative methodology and interim plan for childcare reimbursement rates.

2) Require the DSS, in collaboration with the CDE, to submit recommendations on the alternative methodology, for approval by the Joint Legislative Budget Committee, prior to seeking federal approval, and prior to implementing the alternative methodology.

3) Clarify that General Child Care Program providers are included in the requirement to be reimbursed at 100% of the contract maximum reimbursable amount or net reimbursable program costs, whichever is less.

Arguments in support. EveryChild California, a co-sponsor of the bill, writes "California needs a rate system that covers the full cost of care. The new rate system must include the full cost of care, eliminating the need to charge families fees for those making below 75% of the State Median Income. Today, there are childcare, preschool, and Head Start centers with empty classrooms, not for the lack of families in need of care, but rather the centers cannot find staff willing to work for the low wages offered because of the current low reimbursement rate. In certain regions of California, providers are so short staffed, they must close for a day when a teacher calls in sick, leaving families scrambling to find care and/or forcing parents to stay home from work.

Providers cannot wait another year to receive a rate increase without harming California's ECE system, children, and families across the state. Children who were born during the pandemic are going to need additional support for their social and emotional development. A well-funded mixed-delivery system, which includes both community-based providers and LEAs is essential.

The ECE system has a unique place in our economy because it is necessary for all parents/guardians to work. Regardless of your tax bracket, parents and guardians need someone to care for and educate their children to work. Continuing to underfund the reimbursement rates means more providers will permanently close their doors, leaving families scrambling to find care and education programs for their children and limiting parents' and guardians' participation in the labor market."

Related legislation. SB 380 (Limon) of the 2023-24 Session is substantially similar to this bill.

AB 210 (Committee on Budget), Chapter 62, Statutes of 2022, extended provisions of the 2021 Budget Act enacted during the COVID-19 pandemic to waive family fees for childcare and create hold harmless policies for the 2022-23 fiscal year, including CSPP.

AB 92 (Reyes) of the 2021-22 Session would have made changes to the amount of family fees collected for preschool and childcare and development services and would have prohibited providers from absorbing any reduction in pay due to waivers in family fees. AB 92 was vetoed by Governor Newsom with the following message:

> The author's advocacy for California's working families is commendable. Like the author, expanding access to high quality early learning and care programs for babies and toddlers is a priority of my Administration. That's why the 2022 Budget Act included significant investments in preschool and childcare including family fee waivers for the 2022-23 fiscal year, an income threshold increase for the State preschool program from 85% to 100% of state median income, and funding to allow providers to stay open even if enrollment is down due to COVID-19.
>
> While the intent of this bill is consistent with our previous budget actions, it creates costs in the tens of millions of dollars not currently accounted for in the state's fiscal plan. With our state facing lower-than-expected revenues over the first few months of this fiscal year, it is important to remain disciplined when it comes to spending, particularly spending that is ongoing. We must prioritize existing obligations and priorities, including education, health care, public safety and safety-net programs.

AB 131 (Committee on Budget), Chapter 116, Statutes of 2021, among other things, established a Rate Reform workgroup to be convened by the DSS for recommendations on rate methodology and existing program standards, including licensing standards, quality and environmental standards, and workforce competencies. Further, required the workgroup to submit recommendations to the Legislature no later than August 15, 2022 in order to inform the Joint Labor Management Committee recommendations on a single reimbursement rate system.

SB 246 (Leyva) of the 2021-22 Session would have required the DSS to establish a single reimbursement rate for early learning and care programs, including variation for regional costs and quality adjustment factors. This bill was held in the Assembly Education Committee.

SB 174 (Leyva) of the 2019-20 Session would have required that specified providers of subsidized childcare be reimbursed based upon an updated RMR as of January 1, 2021; would have established the "Quality Counts California Pilot Reimbursement Program," to provide higher reimbursement rates to APP providers for meeting certain quality standards. This bill was held in the Assembly Appropriations Committee.

AB 125 (McCarty) of the 2019-20 Session would have revised the state's system and rates for reimbursing subsidized childcare and development programs to create a more uniform reimbursement system reflecting regional costs of care, and would have established the "Quality County California Pilot Reimbursement Program" as a pilot program to provide higher reimbursement rates to APPs for meeting certain quality standards. This bill was held in the Senate Appropriations Committee.

SB 820 (Committee on Budget and Fiscal Review), Chapter 110, Statutes of 2020, among other things, waived, from September 1, 2020, to June 30, 2021, family fees for specified subsidized early learning and care programs for families who are not receiving in-person services or who are sheltering-in-place due to COVID-19.

AB 86 (Committee on Budget and Fiscal Review), Chapter 48, Statutes of 2019, among other things, simplified family fees for families receiving state-subsidized child care by creating a process for the CDE to adopt a new fee schedule that will provide more predictable fees through a cost-neutral change to the current fee structure and required CDE to report family fees collects for preschool programs to the DOF.

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. This bill was held in the Senate Appropriations Committee.

REGISTERED SUPPORT / OPPOSITION:

Support

American Federation of State, County and Municipal Employees
Buena Park School District
California African American Chamber of Commerce
California Alternative Payment Program Association
California Association for The Education of Young Children
California Catholic Conference
California Child Care Resource and Referral Network

California Children's Academy
California Family Child Care Network
California Family Resource Association
California Legislative Women's Caucus
California Work and Family Coalition
Cambridge Community Center
Caring Across Generations
Catalyst California
Catalyst Family
Child Abuse Prevention Center
Child Care Alliance of Los Angeles
Child Care Law Center
Child Care Providers United
Child Care Resource Center
Children Now
Children's Council of San Francisco
Children's Paradise
City of Colton
Community Child Care Council of Sonoma County
Connections for Children
Courage California
Drew Child Development Corporation
Early Care and Education Consortium
Early Edge California
Educational Enrichment Systems
Edvoice
Equal Rights Advocates
Everychild California
Everychild Foundation
First 5 Riverside County
Friends Committee on Legislation of California
Grace Institute - End Child Poverty in Ca
Head Start California
Healthy Solutions Rising STAR Preschool
Indivisible CA Statestrong
Isla Vista Youth Projects
John Burton Advocates for Youth
Kai Ming Head Start
Kidango
Kindercare Learning Companies
Long Beach Day Nursery
Los Angeles County Office of Education
Low Income Investment Fund
Marin Child Care Council
Mount Saint Mary's University
National Council of Jewish Women-California
New Life Discovery Schools
Options for Learning
Para Los Ninos

Parent Voices California
Pathways LA
Peninsula Family Service
S & B Inc., Dba Happy Kids Preschool and Child Care Centers
San Bernardino County District Advocates for Better Schools
San Mateo County Family Child Care Organization
Silicon Valley Community Foundation
Small Business Majority
Tehama County Department of Education
The Children's Collective
The Education Trust - West
YMCA of San Diego County, Childcare Resource Service
YMCA of The East Bay
Numerous individuals

Opposition

None on file

Analysis Prepared by: Debbie Look / ED. / (916) 319-2087