Date of Hearing: July 10, 2019

ASSEMBLY COMMITTEE ON EDUCATION
Patrick O'Donnell, Chair
SB 174 (Leyva) – As Amended June 13, 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.]

SENATE VOTE: 38-0

SUBJECT: Early childhood education: reimbursement rates

SUMMARY: Requires, subject to an appropriation, that specified providers of subsidized childcare be reimbursed based upon an updated regional market rate (RMR) as of January 1, 2021; establishes the "Quality Counts California Pilot Reimbursement Program," to provide higher reimbursement rates to alternative payment program (APP) providers for meeting certain quality standards; and makes the enactment of this bill contingent upon the enactment of AB 125 of this Session. Specifically, **this bill**:

1) Makes the following changes, provided an annual appropriation is made for these purposes:

   a) Deletes language requiring the 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.

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 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 once every two years.

3) Requires the CDE to update the RMR survey methodology to include age ranges and hours of service ranges, as specified.

4) Requires the CDE to create a "Quality Counts California Pilot Reimbursement Program," upon an appropriation in the annual Budget Act, and expresses the intent of the Legislature to allow childcare 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 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 APP childcare systems, as specified, representing the broad geographic diversity of the state, to participate in the pilot program; and,

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

6) Stipulates that the provisions of this bill shall become operative only if Assembly Bill 125 of this 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 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. (Education Code (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) Requires the Superintendent of Public Instruction (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)

4) 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)

5) 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 Standard Reimbursement Rate (SRR) for contracted providers, and provides for adjustments to the SRR based upon specified reimbursement factors. (EC 8265 and 8266.1)

6) Establishes 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, 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, recognizes the costs of meeting varying quality standards, and incentivizes high standards and participation in research-based quality improvement efforts. SB 174 and AB 125 will equalize the rates so that 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."

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

1) 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.

2) Alternative Payment Programs (APP) provide voucher-based childcare subsidies to low-income parents to access childcare 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.

3) California State Preschool Program (CSPP) provides center-based preschool for three- and four-year-old children from income eligible families, or who are otherwise eligible.

4) 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, childcare, 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 the 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.

Lower reimbursements for higher quality. Voucher programs funded under the RMR, including the Alternative Payment Program providers, are required to meet Title 22 standards, while direct contracted programs, including general childcare centers, 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.

The BRC issued a final report in April 2019. The report notes that the BRC concurs with the recommendations of the Reimbursement Rates Working Group convened by First 5 California, "to implement comprehensive rate reform through a multi-step process. The 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." The BRC final report included the following recommendations:

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

2) In the near term, the reimbursement rates for Family, Friend, and Neighbor (FFN), or license-exempt care, should meet or exceed the state minimum wage.

3) Prioritize analysis of the costs, and as necessary, provide additional incentives to increase access for targeted children and families, including children with disabilities, infants and toddlers, children in childcare deserts including rural areas, those requiring care during nontraditional hours and children entering care through the crisis fund.

Arguments in support. First 5 LA states, "Currently, California has a complex, bifurcated reimbursement system that inadequately compensates early learning providers for the true cost of care. Moreover, some programs that are required to meet higher quality standards are reimbursed at lower rates than programs held to less stringent requirements. This has led to a system in which quality improvement efforts are dis-incentivized and providers are not compensated in a manner that reflects the true cost of care—both of which negatively impact program quality for children. SB 174 would incentivize quality improvement efforts by providing early learning programs with financial incentivizes to engage in activities such as continuing education, professional development, and implementing higher quality standards as a means of improving child outcomes. We believe that SB 174 will help to ensure that the state's early learning workforce is properly compensated and supported for the invaluable role it plays in the growth and development of our youngest Californians."

Related legislation. AB 125 (McCarty) of this Session revises 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 is contingent upon the enactment of SB 174 (Leyva) of this Session.

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

Alameda County Board of Supervisors
Alameda; County of
California Alternative Payment Program Association
California Association For The Education of Young Children
California Child Care Coordinators Association
California Children and Families Commission
California Coalition For Early Learning
California Family Resource Association
California Federation of Teachers
California State Council of Service Employees
California State PTA
Child Care Alliance of Los Angeles
Child Care Resource Center

Child360
Children and Families Commission of Los Angeles County
City And County of San Francisco
Common Sense Kids Action
Community Child Care Council of Sonoma County
Early Edge California
Everychild California
Fight Crime: Invest In Kids
First 5 Association of California
First 5 California
First 5 Del Norte
First 5 Kern
First 5 La
First 5 Lake County
First 5 Monterey County
First 5 Sacramento
First 5 San Benito
First 5 San Bernardino
First 5 Santa Clara County
First 5 Solano Children and Families Commission
Fraser Communications
Los Angeles County Office of Education
Los Angeles Unified School District
Mission: Readiness
Oakland Unified School District
Readynation
Riverside County Public K-12 School District Superintendents
Riverside County Superintendent Of Schools
San Bernardino County District Advocates For Better Schools (Sandabs)
San Francisco Child Care Planning And Advisory Council
San Francisco Human Services Agency
Santa Clara County Office Of Education
United Domestic Workers Of America-AFSCME Local 3930/AFL-CIO
Valley Industry and Commerce Association
Numerous individuals

Opposition

None on file

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