

## [The 2023-24 California Spending Plan](#)

# Child Care and State Preschool

## Overview

**Provides \$8 Billion for Child Care Programs.** Of this amount, \$1.5 billion is for California Work Opportunity and Responsibility to Kids (CalWORKs) child care programs, \$3.9 billion is for non-CalWORKs child care programs, and \$2.6 billion is for support programs. As shown in Figure 1, total child care program costs increased by a total of \$2.4 billion (42 percent) relative to the revised 2022-23 level.

Figure 1

## Child Care Budget

(Dollars in Millions)

	2021-22 Revised <sup>a</sup>	2022-23 Revised <sup>b</sup>	2023-24 Proposed <sup>c</sup>	Change From 2022-23	
				Amount	Percent
<b>Expenditures</b>					
<b>CalWORKs Child Care</b>					
Stage 1	\$381	\$532	\$604	\$71	13%
Stage 2 <sup>d</sup>	402	270	315	44	16
Stage 3	705	550	575	25	5
<b>Subtotals</b>	<b>(\$1,488)</b>	<b>(\$1,353)</b>	<b>(\$1,493)</b>	<b>(\$140)</b>	<b>(10%)</b>
<b>Non-CalWORKs Child Care</b>					
Alternative Payment Program	\$1,252	\$1,834	\$1,948	\$114	6%
General Child Care <sup>e</sup>	750	1,013	1,772	759	75
Bridge program for foster children	54	97	115	18	19
Migrant Child Care	65	69	70	1	1
Care for Children With Severe Disabilities	2	2	2	-1	-22
<b>Subtotals</b>	<b>(\$2,123)</b>	<b>(\$3,015)</b>	<b>(\$3,907)</b>	<b>(\$891)</b>	<b>(30%)</b>

<b>Support Programs</b>	\$1,443	\$1,193 <sup>f</sup>	\$2,574 <sup>e</sup>	\$1,381	116%
<b>Totals</b>	<b>\$5,055</b>	<b>\$5,561</b>	<b>\$7,974</b>	<b>\$2,413</b>	<b>43%</b>

### Funding

Proposition 98 General Fund <sup>b</sup>	\$2	\$2	\$3	\$1	56%
Non-Proposition 98 General Fund	1,786	1,170	4,377	3,207	274
Proposition 64 Special Fund	292	292	246	-46	-16
Federal	2,975	4,096	3,346	-750	-18

<sup>a</sup>Reflects 2022-23 May Revision estimates with LAO adjustments.

<sup>b</sup>Reflects 2023-24 Budget Act estimates as of June 2023.

<sup>c</sup>Reflects 2023-24 Budget Act estimates with LAO adjustments.

<sup>d</sup>Does not include \$11.1 million provided to community colleges for certain child care services.

<sup>e</sup>Includes family child care home education networks.

<sup>f</sup>Includes cost estimates for quality programs; alternative payment program capacity grants; child care infrastructure; Child and Adult Care Food Program; CCPU Health and Retirement Benefit Trust; COVID-19 relief policies; and AB 110, AB 131, AB 185, SB 116 supplemental rates, minus \$1.048 billion of estimated 2022-23 unspent funds that were transferred to 2023-24 to cover MOU-related and parity actions.

<sup>g</sup>Includes cost estimates for quality programs, child care infrastructure, Child and Adult Care Food Program, temporary elimination of family fees, deposits in CCPU Health and Retirement Benefit Trust, plus \$1.416 billion in estimated unspent funds from 2022-23 to 2024-25 that were transferred to 2023-24 to cover MOU-related and parity actions.

<sup>h</sup>Reflects Proposition 98 funds for Child and Adult Care Food Program.

CCPU = Child Care Providers United and MOU = Memorandum of Understanding.

**Provides \$5 Billion for Preschool Programs.** Of this amount, \$2.5 billion is for State Preschool, \$2.3 billion is for transitional kindergarten (TK), and \$204 million is for other support. As shown in Figure 2, the 2023-24 Budget Act increases these programs by a total of \$358 million (7.5 percent) from the revised 2022-23 level. More details on TK augmentations are described in our upcoming post *The 2023-24 California Spending Plan: Proposition 98 and K-12 Education*.

Figure 2

## Preschool Budget

(Dollars in Millions)

	2021-22 Revised	2022-23 Revised	2023-24 Enacted	Change From 2022-23	
				Amount	Percent
<b>Expenditures</b>					

### Preschool Programs

State Preschool <sup>a</sup>	\$1,720	\$2,579	\$2,548	-\$32	-1.2%
Transitional Kindergarten <sup>b</sup>	824	1,430	2,309	879	61.4
Preschool QRIS Grant	50	50	50	—	—
<b>Subtotals</b>	<b>(\$2,594)</b>	<b>(\$4,059)</b>	<b>(\$4,906)</b>	<b>(\$847)</b>	<b>(20.9%)</b>
Other Support	\$1,040	\$694	\$204	-\$489	-70.5%
<b>Totals</b>	<b>\$3,634</b>	<b>\$4,753</b>	<b>\$5,111</b>	<b>\$358</b>	<b>7.5%</b>

#### Funding

Proposition 98 General Fund	\$2,406	\$3,698	\$4,141	\$443	12.0%
Non-Proposition 98 General Fund	988	844	916	72	8.5
Federal One-time COVID-19 Relief	240	210	54	-157	-74.5

<sup>a</sup>Includes \$1.2 million each year used for a family literacy program offered at certain State Preschool sites.

<sup>b</sup>Reflects LAO estimates. The 2023-24 estimate includes Department of Finance's estimates for add-on and expansion policies.

QRIS = Quality Rating and Improvement System.

**Child Care and Preschool Cost Drivers.** The net cost increase in child care programs is primarily due to costs associated with a new collectively bargained agreement between the state and Child Care Providers United (CCPU) for represented child care and State Preschool providers and a parity agreement for non-represented, center-based providers. The net increase in total child care program costs is partially offset by the one-year pause of the slot expansion plan, expiration of temporary COVID-19 federal relief funds, and lower Proposition 64 (2016) fund levels in 2023-24. In preschool, increases are primarily from expansion of TK, offset by the expiration of one-time funds.

## Child Care and State Preschool Actions

In 2019-20, the state authorized licensed family home and license-exempt providers participating in subsidized child care and preschool programs to form and join a statewide provider union and collectively bargain on matters, including, but not limited to, reimbursement rates, benefits, and training. Currently, it is estimated that 66 percent of total children enrolled in subsidized child care and less than 1 percent of total children enrolled in State Preschool are served by providers represented by the CCPU. The first collectively bargained agreement was reached in July 2021. The state generally extended the collectively bargained program changes to non-represented, center-based child care and State Preschool providers to ensure parity in compensation and program operations. The first collectively bargained early education and parity agreement expired June 30, 2023.

**Adopts New Two-Year, Collectively Bargained Early Education and Parity Agreement.** The spending plan adopts a new two-year, collectively bargained early education and parity agreement. In Figure 3, we summarize key provisions of the

agreement, including the monthly per-child cost of care plus supplemental rate payments beginning January 1, 2024, one-time transitional payment, and temporary extension of reimbursement flexibilities for both voucher-based and direct contract providers. Similar to the first agreement, the state extended the collectively bargained provisions to non-represented, center-based child care and State Preschool providers to ensure parity across all providers (with the exception of the health, retirement, and training funds, which is limited to CCPU-represented providers). The collectively bargained and parity agreement provisions generally would expire on June 30, 2025. In total, the agreement is estimated to cost up to \$2 billion across 2023-24 and 2024-25.

**Figure 3**

## Summary of Collectively Bargained Early Education and Parity Agreement

*Across 2023-24 and 2024-25 (In Millions)*

	<b>Total Costs</b>
Monthly per-child cost of care plus rate supplement <sup>a</sup>	\$915
Administrative funds <sup>b</sup>	250
One-time transitional payment	229
CCPU Health Benefit Trust <sup>c</sup>	200
CCPU Retirement Benefit Trust <sup>d</sup>	160
Reimbursement based on certified need extension	155
Change of part-time definition	104
CCPU Training Fund <sup>e</sup>	15
<b>Total</b>	<b>\$2,028</b>

<sup>a</sup>Monthly payments issued from January 1, 2024 through June 30, 2025.

<sup>b</sup>Includes administrative funds associated with monthly per-child cost of care rate supplement payments, one-time transitional payments, and other MOU-related activities. Administrative funds are allocated to counties, Alternative Payment agencies, direct contract providers, and a third-party contractor.

<sup>c</sup>Reflects maximum amount of potential annual deposits beginning April 1, 2024.

<sup>d</sup>Reflects initial \$80 million deposit and maximum amount of potential annual deposit beginning July 1, 2024.

<sup>e</sup>Reflects maximum amount of potential annual deposit beginning July 1, 2024.

CCPU = Child Care Provider Union and MOU = Memorandum of Understanding.

**Sets Aside \$2.7 Billion to Support Two-Year, Collectively Bargained Early Education and Parity Agreement.** The budget package includes \$2.7 billion in one-time funds from various state and federal fund sources to support the previously mentioned collectively bargained early education and parity agreement. The set aside funds reflect dollars that likely would have gone unspent in 2022-23 and 2023-24 due to

slower slot take up and delayed allocation of contract payments. (We provide more detail on slower slot take up and delayed allocation of contract payments in [The 2023-24 Budget: Child Care Proposals](#) report.) In State Preschool, the set aside funds came from excess funds from prior reimbursement changes and delaying program changes intended to go into effect in 2023-24 and 2024-25. The set aside funds are intended to cover costs associated with the collectively bargained early education and parity agreement, with the exception of CCPU health, retirement, and training fund deposits (up to \$375 million). As shown in Figure 4, we estimate that \$1 billion of the total set aside funds (\$281.4 million non-Proposition 98 General Fund and \$734.9 million Proposition 98 funds) remain unobligated.

**Figure 4**

## Total Set Aside Funds Exceed Costs of Collectively Bargained Early Education and Parity Agreement

Across 2023-24 and 2024-25 (In Millions)

	Non-Proposition 98 <sup>a</sup>	Proposition 98	Total
Total Set Aside Funds	\$1,674	\$995	\$2,669
Minus Collectively Bargained and Parity Agreement Costs <sup>b</sup>	-1,392	-261	-1,653
<b>Unobligated Set Aside Funds</b>	<b>\$281</b>	<b>\$735</b>	<b>\$1,016</b>

<sup>a</sup>Includes General Fund, federal funds, and Proposition 64.

<sup>b</sup> Does not include CCPU Health Benefit Trust, Retirement Benefit Trust, and Training Fund deposits, which are not intended to be paid with set aside funds.

CCPU = Child Care Providers Union.

**Forgoes Statutorily Required Cost-of-Living Adjustment (COLA) in 2023-24 and 2024-25.** Under current law, the state provides a statutorily required annual COLA—the same rate provided to K-12 education programs—to the Standard Reimbursement Rate, which is one of the two reimbursement rates used to fund State Preschool and direct contract child care providers. Historically, the state also applies the same annual COLA to total funding levels in Alternative Payment child care programs. The spending plan forgoes the COLAs in 2023-24 (8.22 percent) and 2024-25 in both child care and State Preschool programs. Instead, the funds that would have been used to implement the 2023-24 COLA over the next two years (\$551 million total funds) are included in the previously mentioned \$2.7 billion set aside. (The funds that would have been used to implement the 2024-25 COLA were not redirected to the \$2.7 billion set aside.)

**Expiration of One-Time Federal COVID-19 Relief Activities and Funding.** As shown in Figure 5, the federal government provided the state with over \$5 billion in temporary COVID-19 relief funds for child care and preschool programs. Of these funds, about \$4 billion expired at the end of September 2023. The spending plan includes about \$280 million in General Fund to fully backfill federal relief funds used to cover ongoing slot and rate increases. Additionally, the spending plan provides \$10 million ongoing

General Fund to backfill most of the federal relief funds used to increase funding for the resource and referral program. The spending plan does not backfill the loss in federal relief funds for remaining temporary COVID-19 relief activities, including, but not limited to, one-time stipends and supplemental rates, infrastructure grants, paid non-operational days, and licensing incentives.

Figure 5

## Federal COVID-19 Relief Funds for Child Care and Preschool Programs

Fund Source	Use of Funds	Total Amount (In Millions)	Expiration Date
American Rescue Plan Act (ARPA) Stabilization	Reimbursement based on maximum certified need, paid non-operational days, stipends, supplemental rates, ongoing slot increase, ongoing rate increase, capacity grants, infrastructure grants, resource and referral, quality support activities, training fund, and licensing incentive.	\$2,313 <sup>a</sup>	September 30, 2023
ARPA Child Care and Development Block Grant Discretionary	Reimbursement based on maximum certified need, ongoing slots, infrastructure grants, after school programs, and data system.	1,443	September 30, 2024
Coronavirus Response and Relief Supplemental Appropriations Act	Emergency child care slots, paid non-operational days, stipends, family fee waiver, and ongoing slot increase.	964	September 30, 2023
Coronavirus Aid, Relief, and Economic Security Act	Emergency child care slots, reimbursement based on maximum certified need, paid non-operational days, stipends, and family fee waiver.	442	September 30, 2023
	<b>Total</b>	<b>\$5,163</b>	

<sup>a</sup>Includes \$504 million for State Preschool.

**Requires Development of Alternative Methodology for Single Child Care and Preschool Rate Structure.** Trailer legislation requires the Department of Social Services (DSS), in collaboration with the California Department of Education (CDE), to develop and conduct an alternative methodology for a single rate structure. The alternative methodology would be based on a new cost study and cost estimation model. We understand that the cost study and model would consider costs to comply with program requirements (such as health and safety standards, staffing requirements, and licensing requirements), provide high-quality care, and provide higher compensation to staff relative to current levels. Trailer legislation also requires DSS to submit the necessary information to support the use of a single rate structure based on the alternative methodology to the federal government no later than July 1, 2024. Within 60 days of receiving federal approval, DSS is required to provide the Legislature and CCPU an outline of the implementation components of the approved single rate structure. Additionally, within 90 days of federal approval, DSS and CCPU can reopen bargaining negotiations to restructure the current subsidy rate reimbursement and associated funding.

**Requires Reporting on Estimated Unspent Funds and Expenditures in Child Care and State Preschool.** The budget package includes supplemental reporting language for DSS to provide, on or before March 1, 2024, an estimate of child care program funds that may go unspent by the end of 2023-24 and what amount of unspent funds cannot be reappropriated and would revert back to the state or federal government. Additionally, DSS and CDE are required to provide point-in-time allocations and projected expenditure levels associated with the collectively bargained early education and parity agreement. (Refer to the [Supplemental Report of the 2023-24 Budget Act](#) for more detail.)

## Other Child Care Actions

**Pauses Child Care Slot Expansion by One Year.** The 2021-22 budget agreement included a plan to add 200,000 child care slots by 2025-26. Since 2021-22, the state has added about 146,000 new slots, which more than doubled the number of subsidized child care slots in the state. As of April 2023, about 30 percent of the recently added slots have been filled. The spending plan delays the planned child care slot increases by one year, resulting in \$134 million General Fund savings in 2023-24. The administration intends to resume adding new slots in 2024-25, reaching the overall 200,000 new slots goal by 2026-27.

**Reduces Proposition 64 Funding Levels.** In November 2016, California voters approved [Proposition 64](#), which legalized the nonmedical use of cannabis. Proposition 64 revenues are allocated based on specific formulas. A portion of Proposition 64 revenues are used to fund Alternative Payment and General Child Care (GCC) slots. As a result of recent declines in Proposition 64 revenue levels, the spending plan reduces Proposition 64 funding levels for the GCC program by \$46 million in 2023-24. We understand that the administration intends to backfill the \$46 million GCC reduction in 2023-24 with Proposition 64 carryover funds from prior years.

**Increases in CalWORKs Caseload and Cost Per Case.** The spending plan provides an additional \$140 million total funds for expected net cost increases in CalWORKs child care programs. The net cost increase is due to increases in caseload and cost per case.

## Other State Preschool Actions

**Delays Requirement to Serve Additional Students With Disabilities.** The 2022-23 budget package required at least 5 percent of children enrolled in State Preschool programs be children with disabilities in 2022-23. This requirement was set to increase to 7.5 percent in 2023-24 and 10 percent in 2024-25 and future years. Trailer legislation delays the requirement by two years, as shown in Figure 6. The \$340 million in savings associated with this delay is used for the \$2.7 billion set aside.

Figure 6

## Share of Children With Disabilities State Preschool Providers Must Serve by Year

Year	Plan as of June 2022	Plan as of June 2023
2022-23	5.0%	5.0%
2023-24	7.5	5.0
2024-25	10.0	5.0
2025-26	10.0	7.5
2026-27	10.0	10.0

**Funds Training for State Preschool.** The budget includes \$764,000 Proposition 98 and \$312,000 non-Proposition 98 General Fund to train and certify State Preschool providers in the Classroom Assessment Scoring System (CLASS). CLASS is a tool intended to strengthen teacher-child interactions and support quality improvement.

**Changes State Preschool Enrollment Prioritization.** Trailer legislation changes statute to require that prioritization for enrollment is based on family income. Generally, children from families with lower incomes must receive enrollment priority over children from families with higher income. Previously, income-eligible four-year olds were given priority over income-eligible three-year olds.