

K-12 EDUCATION

California provides instruction and support services to nearly six million students in grades kindergarten through twelve in more than 10,000 schools throughout the state. A system of 58 county offices of education, approximately 1,000 local school districts, and more than 1,000 charter schools provides instruction in English, mathematics, history, science, and other core competencies to provide students with the skills they will need upon graduation to either enter the workforce or pursue higher education.

INVESTING IN EDUCATION

As a result of both increased General Fund revenues and local property taxes, the Proposition 98 Guarantee for 2018-19 is \$78.3 billion, a new all-time high (Figure K12-01). When combined with more than \$100 million in settle-up payments for prior years, the Budget proposes an increased investment of \$4.6 billion in K-14 education.

Building upon significant funding increases provided over the past five years (see Figure K12-02), the Budget proposes advancing the core priorities of the Administration to fund the Local Control Funding Formula (LCFF), pay down debts owed to schools, and support local educational agencies in their efforts to improve outcomes for low-achieving students.

The Budget proposes a roughly \$3 billion investment to fully implement the LCFF two years earlier than originally projected. It also proposes almost \$1.8 billion in discretionary one-time Proposition 98 funding for school districts, charter schools, and county offices of education, along with more than \$70 million in ongoing Proposition 98 funding to expand the state system of technical support for local educational agencies.

Figure K12-01
Changes to Proposition 98 Guarantee Levels

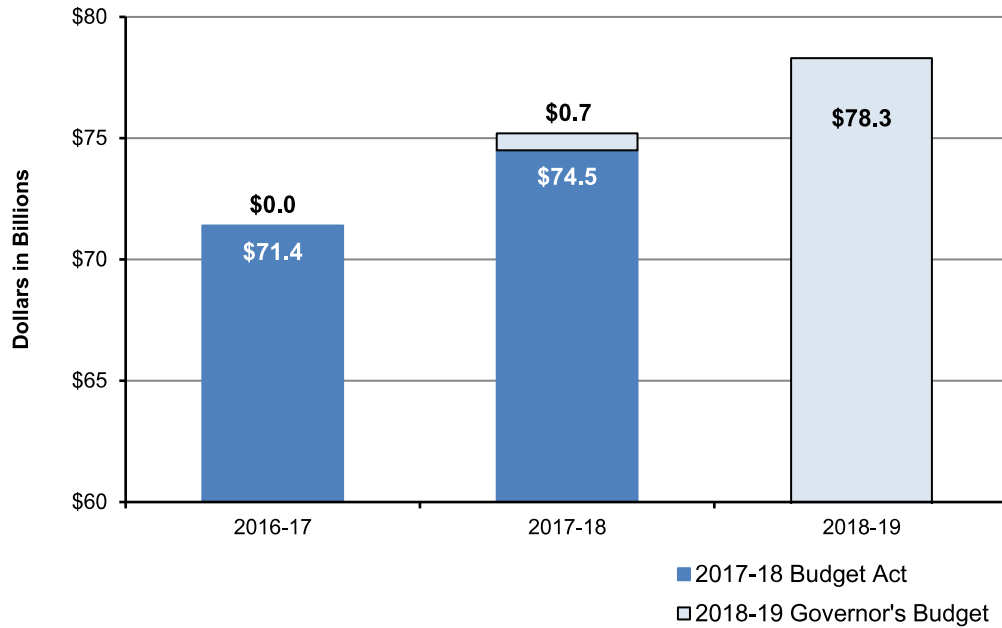
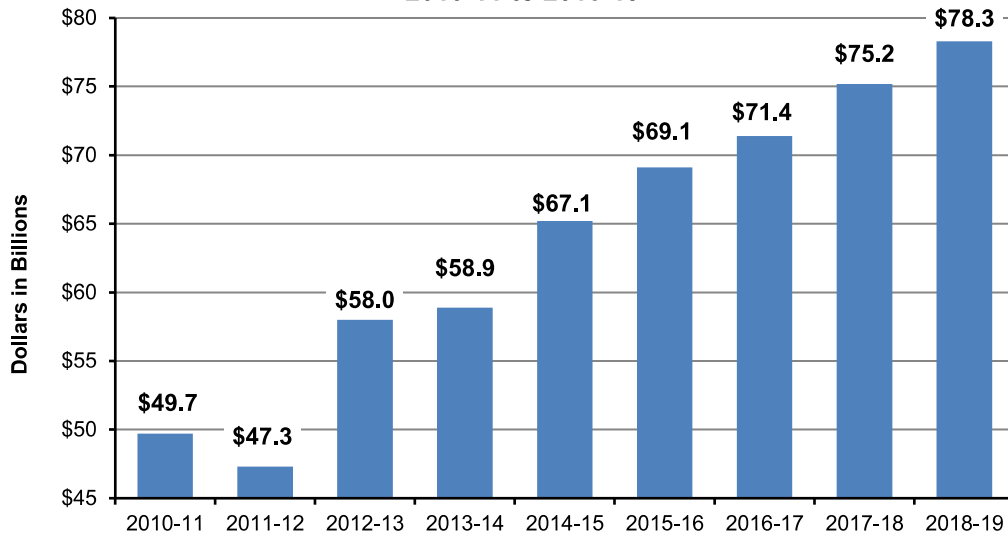


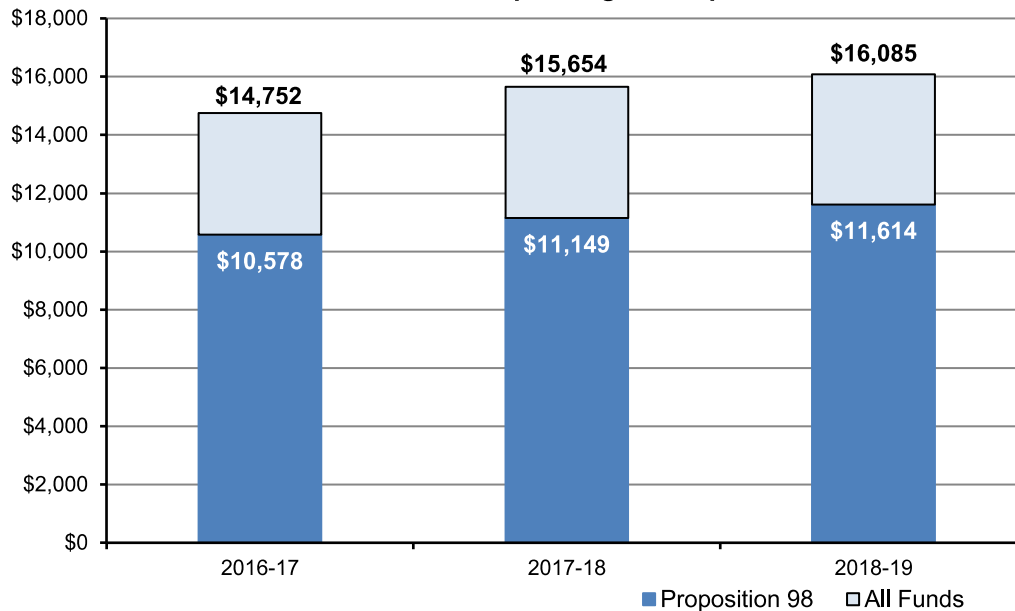
Figure K12-02
Proposition 98 Funding
2010-11 to 2018-19



K-12 PER-PUPIL SPENDING

Reflecting the changes to Proposition 98 funding noted above, total per-pupil expenditures from all sources are projected to be \$15,654 in 2017-18 and \$16,085 in 2018-19, including funds provided for prior year settle-up obligations, as displayed below in Figure K12-03. Ongoing K-12 Proposition 98 per-pupil expenditures are \$11,614 in 2018-19, an increase of \$465 per-pupil over the level provided in 2017-18, and up 66 percent from the \$7,008 per pupil provided in 2011-12.

Figure K12-03
K-12 Education Spending Per Pupil



LOCAL CONTROL FUNDING FORMULA

In 2013 the Administration and Legislature enacted the LCFF to replace the prior revenue limit school finance system, which was inequitable, overly complex and administratively costly. The formula responds to research and practical experience that indicates students from low-income families, English language learners, and foster youth often require supplemental services and support to be successful in school. The enacted school district and charter school formula includes the following major components:

- A base grant for each local educational agency per unit of average daily attendance, including an adjustment of 10.4 percent to the base grant to support lowering class sizes in grades K-3, and an adjustment of 2.6 percent to reflect the cost of operating career technical education programs in high schools.
- A 20-percent supplemental grant for English learners, students from low-income families, and youth in foster care to reflect increased costs associated with educating those students.
- An additional concentration grant of up to 22.5 percent of a local educational agency's base grant, based on the number of English learners, students from low-income families, and youth in foster care served by the local educational agency that comprise more than 55 percent of enrollment.
- The enacted county office of education formula includes: (1) a base grant for each county

office of education per unit of average daily attendance to support instruction of students who attend community schools and juvenile court schools, and (2) unrestricted funding, inclusive of the resources necessary for administrative and technical support of local educational agencies in developing and approving local accountability plans based on the average daily attendance of all students in the county. The county office of education formula was fully implemented in 2014-15.

Since the enactment of the school district and charter school formula, the state has allocated over \$17 billion in additional ongoing resources through this formula. The Budget proposes an additional investment of nearly \$3 billion to fully implement the formula in 2018-19.

FISCAL TRANSPARENCY

Since 2013, the state has been implementing a new system of accountability and supports to accompany the new funding system. Concerns have been raised about the linkage between these funds and direct services being provided to the students generating those funds. To improve fiscal transparency and complement the new accountability system, the Budget proposes requiring local educational agencies to show how their budget expenditures align with the strategies detailed in their Local Control and Accountability Plans (LCAPs) for serving students generating supplemental grants. The Budget also proposes calculating and reporting on a single website the total amount of supplemental and concentration funding provided to each local educational agency under the LCFF.

CALIFORNIA'S NEW ACCOUNTABILITY SYSTEM

With the shift to the LCFF, California's education finance system has evolved from state driven and compliance oriented to locally controlled and adaptable to the needs of individual communities. Prior to 2013, K-12 accountability was heavily state and federally controlled, based mostly on standardized test scores, focused on compliance over innovation, and punitive for under performing schools.

In 2013, California adopted a new accountability system, creating a model built upon state, regional, and local partnerships and driven by a more comprehensive set of student performance measures. The foundation for the new system is the LCAP, a multi-year strategic plan created by local educational agencies in collaboration with their communities, to support improved student outcomes. The state began putting in place the new accountability system in the midst of implementing California State Standards for English language arts and mathematics. Adopted in 2010, these more rigorous standards make academic student outcome measures more meaningful, with a focus on developing the critical thinking, problem

solving, and analytical skills students will need for today's entry-level careers or freshman-level college courses.

In September 2016, the State Board of Education adopted new, multi-dimensional student performance measures to replace the Academic Performance Index. The [California School Dashboard](#) brings these measures together in one place—enabling communities to have discussions about targeting services to improve student educational experiences and outcomes, especially for those groups that have inequitable achievement.

Recent data suggest that the move to local control has contributed to improvement in certain student outcomes. For example, the graduation rate in California increased from 74.7 percent in 2010 to 83.8 percent in 2016, with the greatest increases taking place among English learners (11.1 percent), African American students (10.1 percent), and Latino students (9.1 percent). Suspensions declined 36.2 percent between 2011-12 and 2016-17. In addition, approximately 75,000 more California high school graduates were eligible to attend a CSU or UC in 2015 as compared to 2007, even though overall K-12 enrollment decreased during that time.

While these numbers are promising, the data on the California School Dashboard underscore that much work remains to meet the needs of all students—in particular, to address persistent low achievement for students with disabilities, foster and homeless youth, English language learners, and students of color.

To help local educational agencies and communities build capacity to address low achievement, the new accountability system includes a statewide system of support designed to provide progressive tiers of targeted assistance. County offices of education are responsible for facilitating analyses with school districts and connecting school districts with resources and best practices to address underlying causes of poor student performance. School districts may access the system of support voluntarily by requesting assistance from their county office of education or the California Collaborative for Educational Excellence (an agency created to help county offices of education and school districts improve student outcomes), or may be required to collaboratively engage with their county office of education if their district has one or more student groups with low performance across multiple state priorities. These school districts are identified by the state, via the California School Dashboard, as being in need of differentiated assistance. For those school districts that have consistently low performance in many student sub-groups, the State Superintendent of Public Instruction may intervene. School districts may also seek assistance from providers outside their county office of education.

The Budget provides a substantial investment of more than \$70 million in ongoing Proposition 98 General Fund to further implement the state system of support, including:

- \$55.2 million Proposition 98 General Fund to help county offices of education facilitate the improvement of school districts identified as being in need of differentiated assistance. To address the varying capacity of county offices of education to do this work, the Budget allocates \$4 million Proposition 98 General Fund for a competitive grant process to identify eight lead county offices of education, which will provide training, resources, and support for other county offices of education.
- \$11.3 million Proposition 98 General Fund (\$6.5 million is added to \$4.8 million in existing funds for 2018-19) for the California Collaborative for Educational Excellence, to work with county offices of education to provide assistance to school districts, and when necessary, provide direct assistance to school districts in specified extraordinary circumstances.

SPECIAL EDUCATION

Recent reports from the California Statewide Special Education Task Force and the Public Policy Institute of California evaluating special education have called for a more seamless integration of special and general education in California. In the spring of 2017, the Department of Finance held four special education stakeholder discussions. Central themes from these discussions included more local transparency and accountability, additional financial support for special education, shifting away from a compliance driven system toward a system improving outcomes for students with disabilities, and integrating special education and general education into one cohesive system.

Data from the California School Dashboard highlighted that approximately two-thirds of school districts were identified for differentiated assistance based on the performance of students with disabilities. Building upon last year's discussions with stakeholders and in response to these findings, the Budget proposes the following:

- Strengthening the linkage between special education and general education planning by requiring Special Education Local Plan Areas (SELPA) to complete a SELPA local plan template that aligns the services and resources noted in their local plans with the goals identified in their member district's LCAPs.
- Improving special education budgeting transparency and accountability by requiring the SELPA to summarize how a SELPA's planned expenditures and services align with the improved student outcome strategies noted in their SELPA plan.
- Providing \$10 million ongoing Proposition 98 General Fund for SELPAs to work with county offices of education to provide technical assistance to local educational agencies to improve student outcomes as part of the statewide system of support.

- As discussed in the Teacher Workforce section, providing \$100 million to increase and retain special education teachers.
- As discussed in the Child Care and Start Preschool section, providing \$167 million to increase the availability of inclusive early education and care for children aged 0 to 5 years old, especially in low-income areas and in areas with relatively low access to care.

CAREER TECHNICAL EDUCATION AND WORKFORCE DEVELOPMENT

The LCFF was designed to reflect the higher costs of operating career technical education (CTE) programs in high schools. The 2013 and 2014 Budget Acts both provided \$250 million in one-time Proposition 98 funding to support the Career Pathways Trust Program, which provided one-time competitive grants to create innovative programs and partnerships linking rigorous academic standards to career pathways in high-need and high-growth sectors of the economy. This program was followed by the CTE Incentive Grant Program, which provided \$900 million over a three-year period to encourage the creation and expansion of high-quality CTE programs during local educational agencies' implementation of the LCFF. To date, almost 400 local educational agencies have received funding from this program.

The 2016 Budget Act allocated \$200 million Proposition 98 funding annually to create the Strong Workforce Program, which is designed to expand the availability of regionally aligned CTE and workforce development programs/courses. In 2017-18, this amount was increased to \$248 million. The program requires local stakeholders to collaborate and align regional workforce training needs with community college CTE programs to increase the earning potential and employability of students and meet the skills needed by employers.

The Budget proposes building on this proven college program with the inclusion of K-12 students. Specifically, the Budget proposes an ongoing increase of \$200 million Proposition 98 General Fund to establish a K-12 specific component of the Strong Workforce Program to encourage the establishment and support of K-12 CTE programs that are aligned with needed industry skills, and proposes an ongoing increase of \$12 million Proposition 98 General Fund to fund local industry experts who will provide technical support to local educational agencies operating, or proposing to operate, CTE programs. This proposal creates a predictable, targeted, and sustained funding stream to support an industry and student-focused infrastructure for workforce development collaboration at the state, regional and local levels.

TEACHER WORKFORCE

In recognition of the need to recruit and retain qualified individuals into the teaching profession, the Administration and the Legislature have targeted teacher workforce investments. Over the last two years, these targeted investments have included the following:

- Educator Effectiveness Block Grant—\$490 million one-time Proposition 98 General Fund to support educator professional development.
- Classified School Employee Credentialing Grant Program—\$45 million one-time Proposition 98 General Fund to support at least 2,250 classified employees electing to participate in a teacher preparation program and become certificated classroom teachers in California public schools.
- Integrated Teacher Preparation Program—\$10 million one-time non-Proposition 98 General Fund to create pathways that allow university students to graduate with a bachelor’s degree and a preliminary teaching credential within four years.
- California Educator Development Grant Program—\$9 million one-time federal Title II funds for competitive grants that assist local educational agencies in attracting and supporting the preparation and continued learning of teachers, principals, and other school leaders in high-need subjects and schools.
- California Center on Teaching Careers—\$5 million one-time Proposition 98 General Fund to support statewide teacher recruitment and retention efforts.
- Bilingual Educator Professional Development Grant Program—\$5 million one-time Proposition 98 General Fund for competitive grants to support professional development for teachers and paraprofessionals seeking to provide instruction in bilingual and multilingual settings.

Additionally, the California Commission on Teacher Credentialing, as the state’s licensing board for public school teachers, has implemented a variety of initiatives to align educator preparation with new K-12 academic content standards and improve the availability of statewide teacher workforce data. Specific activities include:

- Extending the validity period for teacher licensing exams.
- Updating teacher and administrator standards to reflect adoption of the California State Standards and California’s Next Generation Science Standards.
- Creating an online dashboard on teacher supply and demand and educator preparation.

- Establishing the Teaching Permit for Statutory Leave to authorize long-term substitutes for teachers on extended leave.
- Revising the accreditation system for teacher preparation programs to focus on program outcomes such as program completion factors, teacher placements, and employer satisfaction.

Although many of the recent investments in the teacher workforce have been targeted at STEM, bilingual, and special education fields, there has been for decades a particularly acute shortage in the number of fully credentialed special education teachers. Most concerning, the number of special education teachers providing instruction with a substandard credential continues to rise. In response to this shortage—and because two-thirds of school districts have been identified as having poor special education performance, the Budget proposes an additional \$100 million investment to increase and retain special education teachers:

- Teacher Residency Grant Program—\$50 million one-time Proposition 98 General Fund to support locally sponsored, one-year intensive, mentored, clinical teacher preparation programs aimed at preparing and retaining special education teachers.
- Local Solutions Grant Program—\$50 million one-time Proposition 98 General Fund to provide one-time competitive grants to local educational agencies to develop and implement new, or expand existing, locally identified solutions that address a local need for special education teachers.

MANDATES

Under the traditional state mandate reimbursement claims process, local educational agencies were reimbursed for the costs incurred to perform specified mandated activities. Local educational agencies were required to follow specific claiming instructions and maintain documentation supporting the amounts claimed. The entire process was labor intensive and burdensome. Moreover, the traditional reimbursement process did not create an incentive for local educational agencies to perform mandated activities in a cost effective or efficient manner given that any administrative compliance costs incurred were reimbursed. Further, local educational agencies determined the cost of performing specified mandated activities, resulting in significant variance in claimed costs among local educational agencies.

To address the issues noted above, the Mandate Block Grant program was created as part of the 2012 Budget Act. In lieu of filing reimbursement claims for specific state-mandated programs, local educational agencies can participate in the K-12 Mandate Block Grant program and receive funding for mandated programs based on specified funding rates per unit of

average daily attendance. The mandate block grant significantly simplifies the mandate reimbursement process by eliminating the burdensome process of submitting reimbursement claims for individual mandated programs and maintaining applicable supporting documentation for many years. Moreover, the block grant allows local educational agencies to plan on a dedicated funding source to support mandated programs, while also allowing the state to more effectively plan and budget for mandated costs. As of 2017-18, nearly 98 percent of local educational agencies have elected to participate in the K-12 Mandate Block Grant program.

While the Mandate Block Grant program addressed the prospective funding of these requirements on schools, unpaid local educational agency reimbursement claims prior to 2012-13 totaled in the billions of dollars. As part of this Administration's emphasis on paying down debt, more than \$5.7 billion in one-time funding has been provided to school districts, charter schools and county offices of education since 2014-15 to use at local discretion, while offsetting outstanding reimbursements claims for these entities. These funds have provided substantial resources to support critical investments in content standards implementation, technology, professional development, induction programs for beginning teachers, deferred maintenance, and employee benefits. The Budget proposes to build on the commitment to retire debt by providing an additional \$1.8 billion for school districts, charter schools and county offices of education to further support local priorities. The proposed funding, coupled with previous discretionary funding, allows the state to retire more than \$5 billion in outstanding K-12 mandate debt and reduce the amount owed to local educational agencies from a recent high of \$6 billion to less than \$1 billion.

Similar to K-12 local education agencies, community college districts received discretionary funding of \$787 million since 2014-15. Districts can use the funding for local needs and priorities such as deferred maintenance, technology infrastructure, professional development, and developing open education resources and zero-textbook-cost degrees. In addition to providing districts with a discretionary resource to address critical local needs, the funding also offset any applicable outstanding mandate reimbursement claims for these entities. As a result, outstanding community college mandate debt has been reduced from nearly \$600 million to approximately \$100 million.

K-12 SCHOOL FACILITIES

Since 1998, voters have approved approximately \$44 billion in statewide general obligation bonds to construct or renovate public school classrooms used by the state's roughly six million K-12 students. Associated General Fund debt services costs are over \$2 billion annually. In addition to general obligation bonds, school districts may use developer fees, local bonds, certificates of participation, and Mello Roos bonds to construct additional classrooms or

renovate existing classrooms.

The recently approved Kindergarten through Community College Public Education Facilities Bond Act of 2016 (Proposition 51) authorizes \$7 billion in state general obligation bonds for K-12 schools to be allocated through the current School Facilities Program in place as of January 1, 2015. To ensure appropriate usage of all School Facilities Program bond funds and effective program accountability and oversight, the Administration worked with the State Allocation Board and the Office of Public School Construction to revise policies and regulations to implement front-end grant agreements that defined basic terms, conditions, and accountability measures for participants that request funding through the School Facilities Program. To complement this front-end accountability, legislation requiring facility bond expenditures to be included in the annual K-12 Audit Guide was approved.

The Budget proposes approximately \$640 million in bond authority for 2018-19 to fund new construction, modernization, career technical education, and charter facility projects based upon the Office of Public School Construction's processing of project applications and the State Allocation Board's approval of these projects.

CHARTER SCHOOL FACILITIES

Because charter schools cannot issue local bonds to fund their school facilities' needs, many charter schools lease facilities for instructional purposes. To assist charter schools in paying for rent and lease expenditures, the Charter School Facility Grant Program provides funding to charter schools either serving or located in attendance areas where a notable percentage of their students qualify for free or reduced-price meals. In recent years the state has made significant adjustments to the program including:

- Lowering the free or reduced-price meal eligibility requirement from 70 percent to 55 percent.
- Providing an additional \$20 million funding to support program expansion.
- Increasing the program's grant amount from \$750 per ADA to \$1,117 per ADA and applying an annual cost of living adjustment to the grant.

The Budget proposes an ongoing increase of approximately \$28.3 million Proposition 98 General Fund to align available funding with estimated programmatic participation.

MAJOR K-12 BUDGET ADJUSTMENTS

Significant Adjustments:

- School District Local Control Funding Formula—An increase of \$3 billion in Proposition 98 General Fund for full implementation of the LCFF.
- One-Time Discretionary Funding—An increase of \$1.8 billion in one-time Proposition 98 General Fund for school districts, charter schools and county offices of education to use at local discretion. This allocation builds on the more than \$5.7 billion in combined one-time funding provided since 2014-15, to support critical investments such as academic content standards implementation, technology, professional development, induction programs for beginning teachers, deferred maintenance, and employee benefits. All of the funds provided will offset any applicable mandate reimbursement claims for these entities.
- K-12 Component of the Strong Workforce Program—An increase of \$212 million Proposition 98 General Fund for K-12 CTE programs administered through the community college Strong Workforce Program in consultation with the Department of Education.
- Cost-of-Living Adjustments—An increase of \$133.5 million Proposition 98 General Fund to support a 2.51-percent cost-of-living adjustment for categorical programs that remain outside of the Local Control Funding Formula, including Special Education, Child Nutrition, Foster Youth, American Indian Education Centers, and the American Indian Early Childhood Education Program. Cost-of-living adjustments for school districts and charter schools are provided within the increases for school district Local Control Funding Formula implementation noted above.
- Special Education:
 - An increase of \$125 million Proposition 98 General Fund and \$42.2 million federal Temporary Assistance for Needy Families (TANF) funds on a one-time basis for competitive grants to expand inclusive care and education settings for 0-5 year olds and improve school readiness and long-term academic outcomes for low-income children and children with exceptional needs.
 - An increase of \$10 million Proposition 98 General Fund for special education local plan areas to support county offices of education in providing technical assistance to local educational agencies through the state system of support.
 - A decrease of \$10.2 million Proposition 98 General Fund to reflect a projected decrease in special education average daily attendance.
- State System of Support—An increase of \$59.2 million Proposition 98 General Fund for county offices of education and lead county offices of education to provide technical assistance to local educational agencies and improve student outcomes.
- California School Dashboard—An increase of \$300,000 Proposition 98 General Fund to

improve the user interface of the California School Dashboard. The State Board of Education will facilitate a series of stakeholder meetings to solicit public feedback on the California School Dashboard.

- California Collaborative for Educational Excellence—An increase of \$6.5 million Proposition 98 General Fund for the California Collaborative for Educational Excellence to help build capacity within county offices of education to provide technical assistance and improve student outcomes.
- County Offices of Education—An increase of \$6.2 million Proposition 98 General Fund for county offices of education to reflect a 2.51-percent cost-of-living adjustment and average daily attendance changes applicable to the LCFF.
- Instructional Quality Commission—An increase of \$938,000 General Fund on a one-time basis for the Instructional Quality Commission to continue its work on the development of state content standards and frameworks, as well as model curriculum.
- Local Property Tax Adjustments— A decrease of \$514 million Proposition 98 General Fund for school districts and county offices of education in 2017-18 as a result of higher offsetting property tax revenues, and a decrease of \$1.1 billion Proposition 98 General Fund for school districts and county offices of education in 2018-19 as a result of increased offsetting property taxes.
- School District Average Daily Attendance—A decrease of \$183.1 million in 2017-18 for school districts as a result of a decrease in projected average daily attendance from the 2017 Budget Act, and a decrease of \$135.5 million in 2018-19 for school districts as a result of further projected decline in average daily attendance for 2018-19.

K-12 SCHOOL SPENDING AND ATTENDANCE

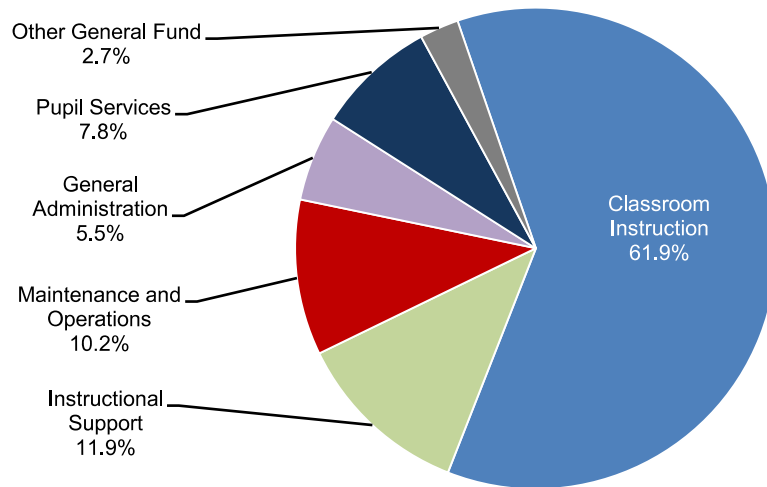
HOW SCHOOL DISTRICTS SPEND THEIR MONEY

Figure K12-04 displays 2015-16 expenditures reported by school districts from their general funds, the various categories of expenditure and the share of total funding for each category. Figure K12-05 displays the revenue sources for school districts.

ATTENDANCE

Public school attendance declined in 2014-15, 2015-16, and 2016-17. Attendance is projected to grow slightly in 2017-18 but decline again in 2018-19. For 2016-17, average daily attendance is reported to be 5,960,037, a decrease of 11,753 from 2015-16. K-12 average daily attendance in 2017-18 is estimated to be 5,961,253, an increase of 1,216 from 2016-17. For 2018-19, the

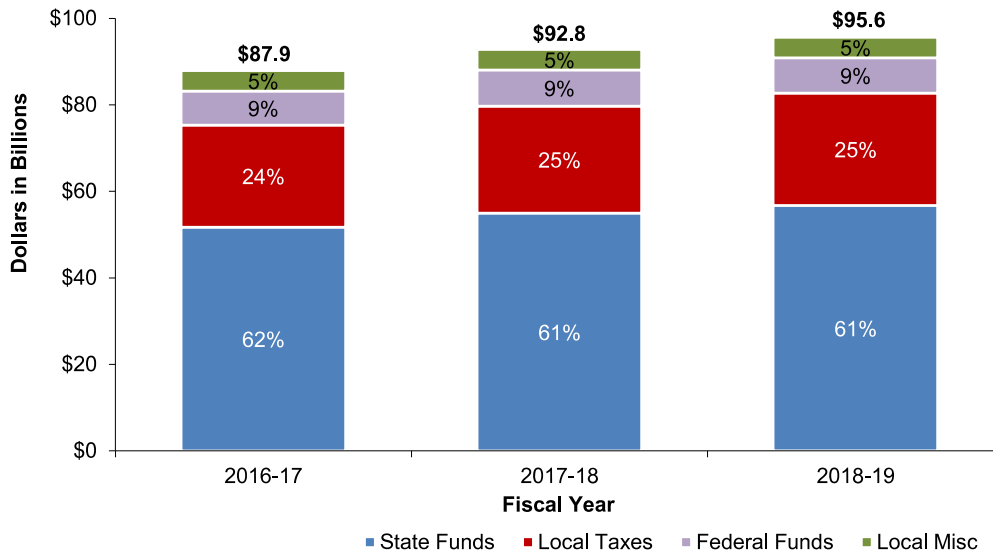
Figure K12-04
Where School Districts Spend Their Money^{1/}



Classroom Instruction includes general education, special education, teacher compensation, and special projects. General Administration includes superintendent and board, district and other administration and centralized electronic data processing. Instructional Support includes research, curriculum development and staff development that benefits and supports student instruction. Maintenance and Operations includes utilities, janitorial and groundskeeping staff, and routine repair and maintenance. Pupil Services includes counselors, school psychologists, nurses, child welfare, and attendance staff. Other General Fund includes spending for ancillary services, contracts with other agencies, and transfers to and from other district funds.

^{1/} Based on 2015-16 expenditure data reported by school districts for their general purpose funding. This and other school expenditure information may be found at www.ed-data.org.

Figure K12-05
Sources of Revenue for California's K-12 Schools
 (As a Percent of Total)



Budget estimates that K-12 average daily attendance will drop by 17,163 from the 2017-18 level, to 5,944,090.

PROPOSITION 98 GUARANTEE

Proposition 98 guarantees minimum funding levels for K-12 schools and community colleges. The guarantee, which went into effect in the 1988-89 fiscal year, determines funding levels according to multiple factors including the level of funding in 1986-87, General Fund revenues, per capita personal income, and school attendance growth or decline.

Proposition 98 originally mandated funding at the greater of two calculation levels, or tests (Test 1 or Test 2). In 1990, Proposition 111 (SCA 1) was adopted to allow for a third funding test (Test 3) in low revenue years. The test that is used depends on how the economy and General Fund revenues grow from year to year.

Test 3 is projected to be operative for fiscal years 2016-17 and 2018-19, and Test 2 is projected to be operative for fiscal year 2017-18.

CHILD CARE AND STATE PRESCHOOL

The state funds nine child care and early education programs as well as dozens of other programs that support child care quality and access, including family resource and referral agencies and local child care planning councils. These programs are administered by the Department of Education and the Department of Social Services. Families can access child care and early education subsidies through providers that contract directly with the Department of Education, local educational agencies, or through vouchers from county welfare departments or alternative payment program agencies.

During the Great Recession, state child care and early education programs experienced significant cuts, with reductions of almost \$1 billion in funding. However, since 2013, the state has increased funding by \$600.8 million non-Proposition 98 General Fund and \$600 million Proposition 98 General Fund. These investments have improved services by:

- **Increasing Provider Reimbursement Rates**—The state updated child care provider reimbursement rates to ensure that child care providers that accept vouchers receive rates that reflect the current cost of care. Prior to these rate increases (which began in 2014), providers received reimbursement rates that were based on the cost of care in 2005. The state also increased the rates of providers that contract directly with the Department of Education by more than 22 percent.
- **Expanding Access for Families**—From 2013 to 2017, the state added more than 41,000 subsidized child care and early education slots. The state also increased income eligibility ceilings for families receiving child care subsidies, both for initial and continuing eligibility

determinations. For families with inconsistent incomes or work schedules, the state reduced the frequency of eligibility redeterminations from several times a year to annually. Finally, the state increased State Preschool income eligibility ceilings for children with disabilities to improve inclusivity in that program.

- **Reducing Costs for Families**—In 2014, the state eliminated fees for families participating in part-day State Preschool. In addition, by increasing income eligibility ceilings for families (described above), the state also increased the number of families exempt from paying fees in all state child care programs.
- **Improving the Quality of Care**—To increase the quality of subsidized child care, the state provided: (1) \$50 million ongoing Proposition 98 General Fund for local block grants for State Preschool quality improvement; (2) \$24.2 million one-time non-Proposition 98 General Fund for local block grants for quality improvement in infant and toddler care; (3) \$10 million one-time Proposition 98 General Fund to provide loans for State Preschool facility expansion; and (4) \$25 million one-time Proposition 98 General Fund for State Preschool and transitional kindergarten teacher training. The state also invested \$75 million one-time federal Race to the Top – Early Learning Challenge funds into the creation of a state/local quality rating and improvement system for child care providers. Finally, to verify that transitional kindergarten teachers are appropriately trained to provide instruction for four-year-olds, the state increased the educational requirements for transitional kindergarten teachers to include 24 units of early childhood education.
- **Streamlining Program Requirements**—To improve the experience of participating providers and families, the state: (1) authorized the use of electronic applications for child care subsidies, making it less burdensome for eligible families to access care and more efficient for providers to process applications; (2) eliminated duplicative licensing requirements for State Preschool providers utilizing facilities that meet transitional kindergarten facility standards; and (3) simplified eligibility determinations for providers accepting both state and federal subsidies and serving homeless children by aligning the eligibility requirements for these subsidies.

The Budget builds upon these investments by increasing provider reimbursement rates and expanding access for families. Specifically, the Budget increases the reimbursement rate for providers that contract directly with the Department of Education by approximately 2.8 percent, and makes permanent a temporary hold harmless to the 2016 Regional Market Reimbursement Rate Survey for providers accepting vouchers. These rate increases are the final year in a multi-year funding agreement adopted as part of the 2016 Budget Act. The Budget also provides the final of three scheduled 2,959 full-day slot increases to the State Preschool program, totaling 8,877 slots over three years. Finally, the Budget creates the Inclusive Early

Education Expansion Program, providing \$125 million one-time Proposition 98 General Fund and \$42.2 million one-time federal TANF through a competitive grant program to increase the availability of inclusive early education and care for children aged 0 to 5 years old, especially in low-income areas and in areas with relatively low access to care. Grant recipients will commit that all children benefiting from grant funds, especially those with disabilities, have access to appropriate settings that support their educational and developmental growth.

The state has approved pilot programs for 13 counties that allow providers in these counties flexibility in child care programmatic requirements to allow them to earn more of their contract funding. The Administration supports providing counties with flexibility to serve more families in subsidized child care programs and has begun working with stakeholders to streamline and alleviate burdensome requirements in the pilot counties.

Significant Adjustments:

- **Provider Reimbursement Rate Increases**—Increases of \$31.6 million Proposition 98 General Fund and \$16.1 million non-Proposition 98 General Fund to increase the Standard Reimbursement Rate by approximately 2.8 percent. In addition, the Budget reflects an ongoing increase of \$34.2 million beginning in 2019-20 to make permanent the existing limited-term Regional Market Reimbursement Rate hold harmless provision.
- **Full Year Implementation of 2017 Budget Act Investments**—Increases of \$32.3 million non-Proposition 98 General Fund and \$28.4 million Proposition 98 General Fund to reflect full-year costs of new policies implemented part-way through the 2017-18 fiscal year. These costs are associated with an update of the Regional Market Reimbursement Rate to the 75th percentile of the 2016 regional market rate survey (beginning January 1, 2018), and an increase of 2,959 slots for full-day State Preschool (beginning April 1, 2018).
- **CalWORKs Stage 2 and Stage 3 Child Care**—A net increase of \$5.2 million non-Proposition 98 General Fund in 2018-19 to reflect slight increases in the number of CalWORKs child care cases and slight decreases in the estimated cost of care. Total cost for Stages 2 and 3 are \$517.6 and \$335.4 million, respectively.
- **Federal Child Care and Development and TANF Funds**—A decrease of federal TANF from \$120.1 million in 2017-18 to \$70.6 million in 2018-19. Total TANF and federal Child Care and Development Fund is \$707 million.

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