California State Assembly

Assembly Budget Agenda

Assembly Budget Subcommittee No. 2 on Human Services
and
Assembly Budget Subcommittee No. 3 on Education Finance

Assemblymembers Dr. Corey Jackson & David Alvarez, Chairs

Wednesday, February 19, 2025

1:30 P.M. – State Capitol, Rm 444

INFORMATIONAL HEARING

ITEMS TO BE HEARD		
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5180 **6100**	**California Department of Social Services** **California Department of Education**	
Issue	Alternative Methodology Development Oversight	2

Public Comment will be taken in person after the completion of all panels and any discussion from the Members of the committees.

Items To Be Heard

5180 California Department of Social Services
6100 California Department of Education

Issue: Child Care Alternative Methodology Development Oversight

This panel will provide an update on the development process for an Alternative Methodology for funding all child care and preschool program rates. The statutory date for shifting to this methodology is July 1, 2025.

Panel One:

- Carmen Figueroa, Child Care Providers United (CCPU)
- Dylan Hawksworth-Lutzow, Legislative Analyst's Office (LAO)
- Heidi Keiser, Child Action
- Jessica Guerra, Child Care Alliance of Los Angeles
- Eric Sonnenfeld, Tulare County Office of Education
- Lisa Wilkin, Child Care Consortium of Los Angeles
- Anita Vicini, CCPU
- Max Arias, CCPU

Panel Two:

- Jen Troia, California Department of Social Services (CDSS)
- Jacqueline Barocio, CDSS
- Tamar Weber, Department of Finance
- Stephen Propheter, California Department of Education (CDE)

Background

California's Child Care Programs

California's diverse subsidized child care system has twin objectives: to support working parents and support healthy child development. Children, from birth to age thirteen, are cared for and instructed in a number of state and federally subsidized child care and school-based support programs, including the CalWORKs Stages child care programs, the California Alternative Payment Program (CAPP), General Child Care (GCC), Migrant Child Care, the Expanded Learning Opportunities Program (ELO-P), the California State Preschool Program (CSPP), Transitional Kindergarten (TK), and the federal Head Start program.

Rate Reform

California has two different statutory child care and preschool provider rates: the Regional Market Rate (RMR) and the Standard Reimbursement Rate (SRR). The RMR varies based on the county in which the child is served and is based on regional market surveys of a sample of non-subsidized, licensed child care providers. The SRR is a flat rate for providers across the state. Prior to the 2021-22 Budget Act, the voucher-based child care programs (i.e. CAPP and Stages childcare) received the RMR while direct contract child care providers (i.e. GCC, Migrant, and CSPP) received the SRR.

The 2021-22 Budget Act increased rates for voucher-based providers to the 75th percentile of the 2018 market survey, beginning in January 2022 (the state was previously using the 75th percentile of the 2016 survey). In addition, the Budget agreement shifted direct contract providers (including state preschool) to the RMR, to the extent the RMR was higher than the SRR – a policy change that aligned all child care and preschool programs to a “single rate system.”

Rate Reform Recommendations. The 2021-22 Budget Act established two workgroups to make recommendations for implementing a single child care reimbursement rate structure. First, DSS, in consultation with the California Department of Education (CDE), is to convene a workgroup to assess the methodology for establishing a new reimbursement rate and quality standards. Second, the state and Child Care Providers United–California shall establish a Joint Labor Management Committee that will make recommendations for a single reimbursement rate structure that addresses quality standards for equity and accessibility while supporting positive learning and developmental outcomes for children.

The Rate and Quality Workgroup identified four core recommendations, which are detailed in the full report:

- Ensure equity is foundational to all change. Work toward equity as an outcome and implement equity as a process.

- Replace the current methodology of using a market price survey to set rates with an “alternative methodology,” which uses cost estimates/models to set base rates to compensate early learning and care programs. The costs of care for meeting current state requirements will become the basis of the reimbursement rate, including wage scales that set a living wage floor.

- Create a single rate structure that specifies base rates and that is designed to address historical inequities. This structure should specify separate base rates for Family, Friend, and Neighbor care and Home-Based and Center-Based early learning and care and should differentiate base rates for meeting different sets of state standards.

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

Additionally, the Workgroup recommended a three-stage implementation process:

- Stage 1. Increase reimbursement rates immediately, even before an alternative methodology can be implemented. Simultaneously, obtain federal approval for an alternative methodology and state change to delink subsidy rates from those charged to private pay families.

- Stage 2. Implement a federally approved alternative methodology to set base rates that are informed by the cost of providing early learning and care services. Do not increase requirements on early learning and care programs and educators until the new base rate using the alternative methodology is fully funded.

- Stage 3. Continuously evaluate the new alternative methodology and base rate and make appropriate changes and broader system investments. In addition, the Rate and Quality Workgroup delivered a study recommending a cost estimation model to calculate the cost of child care in California, which could form the foundation of the alternative methodology. The cost estimation model included a series of default scenarios based on variables and cost drivers aligned with the Workgroup's recommendations, for each provider type: child care center, small family child care home, large family child care home, and family, friend, and neighbor care.

In November 2022, the Joint Labor Management Committee (JLMC) presented their recommendations for a single rate reimbursement structure to the Administration. The JLMC recommends moving away from the current structure that relies on the RMR and towards a single rate structure that reflects the actual cost of care. This single rate will be based on (1) an alternative methodology that considers a cost estimation model; (2) base rates; (3) incentives/enhancement rate-setting metrics; and (4) evaluation of the rate structure. The alternative methodology will include a base rate that providers receive for meeting current statutory and regulatory program standards, depending on program type.

The 2022-23 budget package also increased rates for certain groups of children in direct contract child care programs. These increased rates are provided through adjustment factors applied to the SRR rate the provider would typically receive. For example, an adjustment factor of 1.8 for three-year old children reimburses providers at 1.8 times the SRR rate for four-year olds.

The 2023-24 Budget Act included over $2 billion to implement a two-year, collectively bargained early education and parity agreement between the state and CCPU. This package consists primarily of monthly per-child "cost of care plus" rate supplements above the RMR or SRR rate, and also includes funding for one-time transitional payments, CCPU health, retirement, and training programs, reimbursement based on certified need, and a change in the part-time definition. The package includes parity for center-based child care providers who are not represented by CCPU (CCPU represents voucher and direct contract providers that are family child care homes or license-exempt home providers.)

The 2024-25 Budget Act continued oversight of the rate reform process, with reporting, a statutory target date for implementation of July 1, 2025, and a “hold harmless” provision, to ensure any new reimbursement rates under the alternative methodology are at least equal to the existing reimbursement rates under the RMR/SRR-based single rate system, inclusive of the “cost of care plus” add-ons.

Alternative Rate Methodology

The collectively bargained agreement with CCPU, which was codified in budget trailer bill language through SB 140 (Committee on Budget), Chapter 193, Statutes of 2023, requires DSS, in collaboration with CDE, to develop and conduct an alternative methodology for a single rate structure.

The alternative methodology is based on a new cost study and cost estimation model, rather than using the Regional Market Rate (RMR), which determines state subsidy rates based on a percentile of regional child care in the private market. This alternative methodology cost study and other tools are intended to measure the actual cost to child care providers, for the provision of care. This cost-based approach differs from the market-based approach which measures what child care providers are able to charge in the private market.

SB 140 includes a series of milestones for CDSS to track progress towards developing a new single rate structure, based on the alternative methodology, and receiving federal approval.

SB 140 requires the following timelines for the new methodology:

- July 1, 2023: DSS, in consultation with CDE, shall begin the process of data collection and analysis to develop an alternative methodology, which shall build on the recommendations of the Rate and Quality Workgroup and the recommendations of the JLMC.

- February 15, 2024: DSS, in collaboration with CDE and the JLMC, shall use information from the cost estimation model to define elements of the base rate and any enhanced rates to inform the state’s proposed single rate structure. DSS is required to report to the Legislature on progress made to conduct and alternative methodology and cost estimation model.

- July 1, 2024: DSS shall submit the necessary information to support use of a single rate structure utilizing the alternative methodology to the federal Administration for Children and Families (ACF) as part of the Child Care and Development Fund State Plan. SB 140 requires this information to be shared with the Legislature by July 10, 2024.

- Within 60 days of ACF Approval: CDSS shall provide the Legislature with an outline of the implementation components of the approved single rate structure, with 30 days for legislative review.

Under the 2024-2025 Budget Act, the Administration and the Legislature codified shared intent and a statutory commitment to shift the state's entire child care funding system to an Alternative Methodology, no later than July 1, 2025. Welfare and Institutions (WIC) Code 10227.6 contains this clear commitment to shift the entire child care funding system to a cost-based methodology, to establish a "hold harmless" floor for a new alternative reimbursement rate system, and, a detailed engagement and reporting timeline in anticipation of this statutory deadline. Specifically:

> *(h) The Governor and the Legislature shall, by no later than July 1, 2025, establish reimbursement rates based on the alternative methodology. Provider reimbursement rates shall not be reduced from the reimbursement rates that were in effect on June 30, 2024, pursuant to Sections 10280 and 10374.5 of this code and Section 8242 of the Education Code, inclusive of the cost of care plus rates established pursuant to subdivision (b) of Section 10277.1 and subdivision (b) of Section 10277.2*[1].

The most recent CDSS Transition Report to the Legislature, for the 4th quarter of 2024, contained the following timeline update:

Recent and Upcoming Steps in the Alternative Methodology Process

- ***November 8, 2024:*** *The ACF approved the State's CCDF State Plan, which triggered a 60-day clock for CDSS to submit an outline of implementation components for the approved Single Rate Structure to CCPU, and a report with the outline as well as estimated costs and estimated timelines associated with the implementation components, to the Legislature. Submission of the report began a period of 30 days for the State Legislature to review and provide feedback regarding draft guidance for implementation of policies, and for CCPU to do the same within the scope of representation.*

- ***December 8, 2024:*** *The State and CCPU began re-negotiation of the current Agreement between the parties that is in effect from September 13, 2023, to July 1, 2025, which includes a provision for good faith negotiations to restructure the current subsidy reimbursement rates,*

[1] California Welfare and Institutions Code 10227.6 (h)

and the associated funding, to be applied to family child care providers consistent with the ACF-approved Single Rate Structure for family child care providers.

- ***January 2025:*** *This marks the end of the 30-day comment period that State statute and the Agreement allow for the Legislature and CCPU to comment on the Implementation Report.*

- ***Concurrent rate setting for non-CCPU-represented center-based programs:*** *Rate setting will occur for non-CCPU-represented center-based programs through the State's fiscal year 2025-2026 budget development process, concurrent with and informed by rate negotiations with family child care providers.*

- ***July 1, 2025:*** *This is the date by which ACF requires rates informed by the alternative methodology to be set. If the new reimbursement rates informed by the cost of care based on the alternative methodology do not take effect on July 1, 2025, CDSS is required to provide the Legislature with a timeline for transitioning from current rates to the new single rate structure. Additionally, during this transition period, state law specifies that rates cannot fall below rates that were in effect on June 30, 2024, inclusive of the monthly Cost of Care Plus rates.*[2]

SB 140 required CDSS to provide the Legislature with an outline of the implementation components of the ACF-approved single rate structure. The following is from this report, received January 7, 2025:

The Proposed Changes to Rate Structure section of this report outlines key differences between the proposed single rate structure and the current rate structure. These differences include, but are not limited to:

The entire child care and development and state preschool workforce, whether participating in a voucher-based or direct contract program, will be reimbursed under a unified structure that takes into account a common set of rate elements. This does not mean that the entire workforce will receive the same reimbursement rate. Rather, it means that the State will now have a consistent method of calculating rates for all programs, as opposed to different ways of calculating rates for various programs.

All providers/programs will be reimbursed for costs included in the base rate and will potentially be able to receive reimbursement for all enhanced rates for which they demonstrate eligibility. Enhanced rates are informed by the cost of providing the enhanced level of service. This will

[2] CDSS Child Care and Development Transition Report: https://www.cdss.ca.gov/inforesources/child-care-and-development/child-care-and-development-transition

replace the current system of "adjustment factors," which apply a multiplier to reimbursement rates upon demonstration of eligibility and are generally limited to one per child.

Base rates and enhanced rates will be informed by the actual cost of providing care rather than a market survey. The cost of providing care for these purposes means the cost estimated using the cost estimation model that CDSS has developed in collaboration with CDE pursuant to the alternative methodology.

Additional aspects of the single rate structure's final design will be determined through the FY 2025-2026 budget development process, and those that are applicable to family child care providers will be negotiated in accordance with the collective bargaining process. Rate setting informed by the alternative methodology will also be determined through these upcoming processes.

There is no proposal in the Governor's January Budget for either an alternative methodology-based reimbursement rate system, or a transition plan until an alternative methodology-based rate system is available. The January Budget does include a cost of living adjustment proposal, based on current statutory requirements, for the SRR-based programs, and the Alternative Payment Program. These COLA proposals will be heard at the April 23rd hearing.

The hold-harmless provision in the 2024-25 Budget Act, for all child care reimbursement rates, is in effect in the January Budget, despite a lack of methodology shift proposal.

At this hearing, CDSS, CCPU, and child care interest holders will provide an update on the process, desired outcomes, and possible updated timelines toward an alternative methodology proposal.

The January 2025 CDSS report on all public details for *Implementation of the Single Rate Structure for Subsidized Child Care and Preschool* is attachment A, for this agenda.

Staff Comments

Alternative Methodology Plan Missing

With the submission of the Governor's 2025-26 Budget to the Legislature on January 10, 2025, and the submission of the Administration's Implementation Report on the Single Rate Structure, staff are concerned there is not a clear plan, or any proposal, before the Legislature to shift to an alternative methodology-based reimbursement rate system for all child care programs.

CCPU negotiators are currently bargaining with the State on how to propose an alternative methodology-based reimbursement rate system for family home-based child care providers. As outlined in all CDSS reports, the state's intent is to maintain a single-rate system, which will include center-based child care programs; the development and negotiation of center-based reimbursement rates is supposed to be in partnership with the Legislature and public, as part of the 2025-26 Budget Act process.

As of publication of this agenda, CDSS and the Administration has not been able to confirm a projected timeline for a public proposal for the alternative methodology, rates based on this new methodology, or a plan for when and how to fund child care programs based on these new rates.

The state received federal approval for our California's Child Care and Development Fund State Plan (Plan), with only a placeholder for the actual alternative methodology proposal. According to CDSS, the alternative methodology's Plan amendment is scheduled to be submitted to ACF with 60 days of agreement with the Legislature, which is still intended for July 1, 2025. This process order differs from the committee's understand last year, which assumed ACF would receive a final public proposal for subsequent Legislative consideration, before January 2025.

New reimbursement rates for child care providers will need to be funded as part of the annual budget process. The P5 cost model suggestions a wide range of potential costs to this new Alternative Methodology, between $2 billion and $12 billion annually, compared to RMR-based rates at the time.

The child care reimbursement rate system is the backbone of access, affordability, and quality standards for all child care and preschool programs. A shift from the current single rate system to an alternative methodology-based one will require deep policy and fiscal analysis and Legislative review, informed by public review and input.

Transition Plan Missing

Staff is also concerned about a lack of "transition plan" for child care reimbursement rates in the January Budget. If an Alternative Methodology-based rates implementation plan is not ready for Legislative debate and codification, for the setting of rates on July 1, 2025, statute calls for a transition plan. This transition plan, like all reimbursement rate proposals, requires time for Legislative consideration and public feedback.

Rate increases as implemented January 1, 2022, provide uneven support across different regions of the state, across various age-groups, and across provider types and may result in unintended consequences without further action to move towards a more consistent and comprehensive child care rate system. The current structure the state uses to determine care rates is the 2018 Regional Market Rate (RMR) Survey, and the state reimburses child care providers at the 75th percent of this rate. The current two-year "cost of care plus" collectively bargained one-time rates supplement is on top of this 2017 market-based rate, and expires June 30, 2025.

Current statute states legislative intent to fund the child care system at the 85th percentile of the latest RMR survey. It is unclear the last time California met the statutory intent to fully fund the existing methodology. The 2023 Cost Study was conducted in lieu of a new Regional Market Rate survey, which was last completed in 2021.

The market survey's design, which is currently driving the single rate system, continues to hold various provisions that the child care field has identified as particularly punitive to impoverished communities and people of color. One key example is a cap on state reimbursement rates, based on what a local private market might bear. A transition plan could address major inequities in the current rate system, until a full transition to an Alternative Methodology is possible.

The Legislature should articulate key priorities and values for a transition plan, to fund child care rates, in case an Alternative Methodology continues to be delayed.

Rates & Child Care Funding Held Flat

The hold-harmless provision in the 2024-25 Budget Act, for shifting to the Alternative Methodology is in the January Budget. However, it was not the intent of the Legislature to hold child care funding rates flat until an Alternative Methodology could be adopted. While a small percentage of programs, in lower-cost regions could receive a statutory COLA, the super-majority of programs and providers are held flat at rates from January 2022, with no recognition of inflationary pressures.

Questions:

Alternative Methodology Policy

- Why doesn't the 2025-26 January Budget include a proposal to shift to the Alternative Methodology?
- What improvements to the child care funding rate system does the Alternative Methodology seek to address?
- What is the timeline for publicly vetting the center-based components of the Alternative Methodology?
- What is the timeline for publicly releasing components of the Alternative Methodology established at the bargaining table with CCPU?
- How will the proposal achieve the Rate Work Group's core recommendation to: "Continuously evaluate the rate-setting methodology to address equity and adjust for changing conditions and rising costs"?
- Will the Administration submit a May Revision proposal for key parts of Alternative Methodology, and a plan to shift child care rates to this Alternative Methodology?

Budget Year Implications

- How will the proposal achieve the Rate Work Group's core recommendation to: "Increase reimbursement rates immediately, even before an alternative methodology can be implemented" in the Budget Year?
- Is the Administration committed to progress toward increased funding beyond the "hold harmless," by provider, as part of the new methodology adoption?
- Will the Administration commit to a "transition plan" for all child care rates, as part of the May Revision, if the May Revision does not contain a complete and publicly available proposal, to shift to all child care rates under the Alternative Methodology?
- Are changes to the RMR or SRR necessary, as part of a "transition plan," to address systemic racism, and inequities?
- Why isn't a COLA proposed for all child care and preschool programs?
- The Administration has reported a multi-year deficit based on the requirements of current law. Does the Administration's fiscal assumptions include funding aside, over the multi-year, for the increased costs of child care reimbursement rates aligned to an alternative methodology?

Staff Recommendation: Information only.