

# Implementation of the Single Rate Structure for Subsidized Child Care and Preschool

## Report to the Legislature

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# 1. Legislative Mandate

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[Welfare and Institutions Code \(WIC\) Section 10227.6\(g\)](#) requires regular reporting by the California Department of Social Services to the Legislature on progress towards implementing new reimbursement rates set under the alternative methodology. This report satisfies reporting requirements in WIC Section 10227.6(g)(1) as well as the January 1, 2025 quarterly reporting requirement in WIC Section 10227.6 (g)(2). The relevant portion of WIC Section 10227.6 reads as follows:

*(g) (1) Within 60 days of federal approval of the single rate structure utilizing the alternative methodology in the state plan, the department, in collaboration with the State Department of Education, shall provide the Assembly Committee on Budget, the Senate Committee on Budget and Fiscal Review, and the Legislative Analyst's Office with a report that outlines the implementation components for the approved single rate structure. For a period of 30 days, the Legislature shall have the opportunity to review and provide feedback regarding draft guidance for implementation of policies. The report shall include all of the following:*

*(A) The department's plan to set new reimbursement rates under the alternative methodology by no later than July 1, 2025.*

*(B) The estimated costs and estimated timelines associated with the implementation components of the approved single rate structure, including, but not limited to, state operations resources, technology and infrastructure changes, and any regulatory or statutory changes necessary to implement the approved single rate structure.*

*(2) The department shall, from October 1, 2024, to January 1, 2026, inclusive, provide the Assembly Committee on Budget, the Senate Committee on Budget and Fiscal Review, and the Legislative Analyst's Office with quarterly updates on the implementation of the new reimbursement rates set under the alternative methodology. The quarterly updates shall include any changes to the information provided in the report described in paragraph (1).*

## 2. Executive Summary

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The California Department of Social Services (CDSS or “the Department”) is the State’s designated Lead Agency for administering federally funded child care and development programs. The purpose of this report is to provide a point-in-time update on the Department’s plans for implementation of the new single rate structure for subsidized child care and development programs. The report was drafted in close collaboration with the California Department of Education (CDE), which is responsible for administering the California State Preschool Program (CSPP), which is supported by State funding and will also utilize the new rate structure. This report is submitted in compliance with [Welfare and Institutions Code 10227.6 as amended by Assembly Bill 176](#), which requires regular reporting by CDSS to the Legislature on progress towards implementing new reimbursement rates based on the alternative methodology.

In August 2023, the federal Administration for Children and Families (ACF) pre-approved California’s proposal to set rates using a cost-based alternative methodology approach, which will allow the State to set rates that are informed by the actual cost to deliver services rather than the price that parents can afford to pay as evidenced by market rates. California’s alternative methodology process is still underway and is now entering its final phase, Rate Setting and Implementation.

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 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.

The Implementation Activities section of this report summarizes the various activities that CDSS and CDE must undertake in order to implement the new single rate structure and summarizes findings of the preliminary data systems readiness assessment conducted to date. Implementation activities include data systems readiness activities, drafting of policies and guidance to the field, updating forms, handbooks and other key documents, and developing and delivering training to State staff and program contractors. Additional related activities that will trail initial implementation efforts include updating the State's Quality Rating and Improvement Matrix, considering adjustments to the single rate structure to incentivize quality and evaluating the outcomes of rate reform.

The Estimated Timeline section of this report offers a high-level timeline for the Rate Setting and Implementation Phase of the alternative methodology process and a discussion of the specific activities to be completed at each step. The implementation timeline is dependent on the degree to which State automation systems and the systems used by State partners, including program contractors and child care and state preschool providers, will require modification. It is difficult to provide a precise timeline for automation changes given that the final design of the single rate structure is yet to be determined by the Administration in partnership with the Legislature through the budget development process and through the collective bargaining process. The report notes that:

- During the remainder of the current fiscal year, rate setting will be determined through the FY 2025-2026 budget development process. In parallel, rate setting for family child care providers will be negotiated in accordance with the collective bargaining process. This report assumes that bargaining will conclude in time for the new successor agreement with Child Care Providers United (CCPU), parity provisions for centers and the new reimbursement rates to be ratified by the Legislature by the federal deadline to set rates informed by the alternative methodology, which is July 1, 2025.
- Many necessary implementation activities cannot begin in earnest until the final single rate structure is known. Assuming that rates are set by the Legislature shortly prior to July 1, 2025, it will not be feasible for the new rates to take effect on that date given the program readiness activities and automation changes that will still need to occur. Therefore, a period of time will be required before the new single rate structure can be implemented.

- Based on what is known about the limitations of existing data systems, negotiated changes that require little to no modification to existing State or State partner data systems may be executed within existing systems automation resources.
- Changes that require more significant modifications to existing State data systems, extensive retooling of State program contractor and county data systems, and/or significant changes to the type of data that must be gathered to calculate reimbursement rates under the single rate structure will require additional time, which is yet to be determined for implementation.

The Estimated Cost Impact section of the report identifies major categories of costs associated with the implementation of the new single rate structure. Given the significant degree of uncertainty about the detailed outcome of the budget development and collective bargaining processes, including the final design of the single rate structure and future payment levels, it is not possible to attach specific dollar estimates to the cost categories at this time.

The CDSS and CDE are fully engaged in planning for implementation of the new single rate structure, a much-anticipated reform that will help drive child care and development system improvements that enhance equity, improve equal access to care and improve outcomes for children, families, and the workforce. The CDSS will provide quarterly written updates to this report throughout the remainder of the fiscal year. All reports will be publicly posted on CDSS' [Rate and Quality Website](#).

# 3. Introduction

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## Purpose

This report is submitted in compliance with Welfare and Institutions (WIC) Code Section 10227.6, which was amended during the FY 2024-2025 State Budget process to require regular reporting by the California Department of Social Services (CDSS) to the Legislature on progress towards implementing new reimbursement rates set based on the alternative methodology process. The relevant portion of [WIC 10227.6 as amended by Assembly Bill \(AB\) 176](#) reads as follows:

*(g) (1) Within 60 days of federal approval of the single rate structure utilizing the alternative methodology in the state plan, the department, in collaboration with the State Department of Education, shall provide the Assembly Committee on Budget, the Senate Committee on Budget and Fiscal Review, and the Legislative Analyst's Office with a report that outlines the implementation components for the approved single rate structure. For a period of 30 days, the Legislature shall have the opportunity to review and provide feedback regarding draft guidance for implementation of policies. The report shall include all of the following:*

*(A) The department's plan to set new reimbursement rates under the alternative methodology by no later than July 1, 2025.*

*(B) The estimated costs and estimated timelines associated with the implementation components of the approved single rate structure, including, but not limited to, state operations resources, technology and infrastructure changes, and any regulatory or statutory changes necessary to implement the approved single rate structure.*

The CDSS is the State's designated Lead Agency for administering federally funded child care and development programs. The purpose of this report is to provide a point-in-time update on the Department's plans for implementation of the new single rate structure for subsidized child care and development programs. The report was drafted in close collaboration with the California Department of Education (CDE), which is responsible for administering the California State Preschool Program (CSPP or state preschool), which is supported by State funding and will also utilize the new rate structure.

## Documentation of Rate Reform Progress to Date

A detailed overview of the State's history of child care rate reform from the early 2000's through Summer 2022 can be found in the [Rate and Quality Workgroup Report](#) published in August 2022.

This report builds on two subsequent reports submitted to the Legislature in FY 2023-2024, which document the alternative methodology process that will inform the new rate



structure. Readers of this report can find additional relevant background in the prior reports, which can be found on the Department's [Rate Reform and Quality web page](#).

## Overview of Alternative Methodology

The primary source of federal funding for child care programs is the Child Care and Development Fund (CCDF), which is authorized by the Child Care and Development Block Grant Act of 2014, and administered as block grants to states and territories by the federal Administration for Children & Families' (ACF) Office of Child Care (OCC).

States that receive CCDF funds must prepare and submit to ACF a triennial plan (the "CCDF State Plan") detailing how the funds will be allocated and expended in alignment with legislative requirements, regulations, and other guidance. Per Title 45, Code of Federal Regulations ([45 CFR section 98.45\(a\)](#)), states are required to demonstrate that children from low-income families receiving a child care subsidy have equal access to programs as compared to children who do not receive a subsidy. States must accomplish this, in part, by demonstrating the adequacy of their child care reimbursement rates, which states are statutorily required to reassess every three years.

In the default, assessment involves conducting a survey of the current market rates for child care. However, federal law also provides the option of conducting an "alternative methodology" developed by the State, which may be a cost estimation model or a cost study. A cost study involves gathering point-in-time data about providers' costs to operate a program. A cost estimation model is a tool that is informed by provider and program data that can run scenarios to estimate how different variables, such as where the program is located or the ages of the children served, impact the cost of care. The alternative methodology approach allows states to set rates that are informed by the actual cost to deliver services rather than the price that parents can afford to pay as evidenced by the market rates.

For its Federal Fiscal Year (FFY) 2025-2027 State Plan, CDSS sought and secured federal pre-approval to update its rate assessment using an alternative methodology that employs a cost study and a cost estimation model to understand the actual costs of delivering child care and early learning programs in California. The CDSS retained Prenatal to Five Fiscal Strategies (P5FS) to conduct the cost survey and develop the cost model.

## Alternative Methodology Timeline

California's alternative methodology process is still underway and is now entering its final phase, Rate Setting and Implementation. State statute and the [2023-2025 Memorandum of Understanding](#) (MOU) with Child Care Providers United (CCPU), the union representing family child care providers, prescribe the timing and sequence of the remaining steps in the process. On November 8, 2024, CDSS received approval of the State's 2025-2027 CCDF State Plan submission from the ACF, triggering the

requirement that this Implementation Report be submitted to the Legislature and CCPU within 60 days. The remaining steps in the process are as follows:

- **For 30 days following publication of this report:** The Legislature and CCPU will have the opportunity to review the report and provide feedback.
- **Within 90 Days of ACF approval:** The MOU specifies that the State and CCPU will re-open negotiations to restructure the current subsidy reimbursement rates and Cost of Care Plus Rate, and the associated funding, for family child care providers within 90 days of ACF approval (i.e., by early February 2025). The State and CCPU, by mutual agreement, have begun full negotiations of a new MOU. In practice, this bypasses the MOU's re-opener to negotiate only the structure that is contained within current funding levels.
- **Concurrent with rate negotiations:** Rate setting will occur for non-CCPU-represented center-based programs through the State's FY 2025-2026 budget development process, concurrent with and informed by rate negotiations with family child care providers.
- **July 1, 2025:** The date by which the ACF requires rates informed by the alternative methodology to be set.
- **Subsequent to rate setting:** Rates will take effect when any other activities needed to implement have occurred, such as regulatory and policy guidance, training for contractors, updates to contracts and necessary automation system modifications.

## 4. Proposed Changes to Rate Structure

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### Overview

In California's mixed-delivery system, child care and development and state preschool services are provided through various programs and providers in either home-, community-, or school-based settings. The State's current approach to setting reimbursement rates for these services has evolved over many years and reflects the layering of new policies atop old as well as incremental attempts to improve the system over time. The resulting system that exists today is based on market rates (prices charged by providers) that may differ from the cost to provide care and is inequitable in that it calculates rates and administrative costs inconsistently across program types, and not in alignment with program requirements.

In recent years, the vision of moving to a single reimbursement rate structure informed by a cost-based methodology and encompassing the entirety of the mixed-delivery system has been broadly endorsed by the child care and development and early learning field, the State Legislature and multiple advisory and decision-making bodies,

including the Governor’s Master Plan for Early Learning and Care, the Rate and Quality Workgroup (RQWG), and the Rate and Quality Systems Structure Review Joint Labor Management Committee (JLMC), and the Rate and Quality Advisory Panel (RQAP).<sup>1</sup>

The proposed single rate structure will differ from what exists today in these important ways:

- 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 different programs.
- All providers/programs will receive reimbursement for 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 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.<sup>1</sup>

## Current Rate Structure

Historically, California has utilized two methods for setting subsidized child care reimbursement rates, the Regional Market Rate (RMR) and the Standard Reimbursement Rate (SRR). Additionally, [Article 7.2 of the 2023-2025 MOU](#) between the State and CCPU established supplemental payments known as the Cost of Care Plus Rate. Each is described below.

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<sup>1</sup> The RQWG was created through [Assembly Bill \(AB\) 131](#) to assess the methodology for establishing reimbursement rates and the existing quality standards for child care and development and preschool programs and to make related recommendations. AB 131 also established a Rate and Quality Systems Structure Review JLMC with the State and CCPU. The successor agreement continued and added responsibilities for the JLMC, including to engage in good faith negotiations to restructure the current subsidy reimbursement rates to be applied to family child care providers consistent with the ACF-approved Single Rate Structure and implementation thereof. The RQAP was convened in May 2023 by the CDSS to act as a successor to the RQWG and was charged with providing advice from panelists and members of the public on the alternative methodology process and moving to a Single Rate Structure.

## *Regional Market Rate Structure*

In general, providers that care for children in voucher-based programs are reimbursed under the RMR, which is based on a survey of market rates for child care in California. The RMR survey measures prices charged by child care providers and paid by parents within a given child care market region. The State uses the RMR survey to set maximum reimbursement ceilings for each county, by care setting, child age, and time categories. A limited number of adjustment factors for providing extended hours of care and for serving certain children with disabilities can be applied to the RMR on a per child basis. In general, only one adjustment factor per child can be claimed.

Effective January 1, 2022, [AB 131 \(Chapter 116 of Statutes 2021\)](#) increased RMR maximum reimbursement ceiling for Title 22 licensed family child care homes and centers in voucher-based programs to the 75<sup>th</sup> percentile of the 2018 RMR survey or the RMR ceilings as they existed on December 31, 2021, whichever is greater. This impacted the maximum reimbursement rate for license-exempt Family, Friend, and Neighbor (FFN) providers, which reflects 70 percent of the commensurate RMR maximum reimbursement ceiling for licensed family child care homes.

## *Standard Reimbursement Rate Structure*

The SRR is used to reimburse direct-service contracted child care and development programs and the state preschool program. Unlike the RMR, the SRR is structured as a statewide daily rate, does not vary based on regional costs, and is not linked to a market survey or program characteristics. [Assembly Bill \(AB\) 131 \(Chapter 116 of Statutes 2021\)](#) allowed direct-service program contractors to be reimbursed at the SRR as of December 31, 2021, adjusted by statutorily required annual cost-of-living adjustments, or RMR daily equivalent rate, whichever is greater. The RMR daily equivalent rate is calculated by dividing the state preschool monthly RMR at the 75<sup>th</sup> percentile of the 2018 survey by 20 days of operation.

Program contractors can claim adjustment factors that increase the SRR for a specific child based on the child's age and/or other child and program factors, such as number of hours the child is enrolled per day, if the child has a disability, is a dual language learner, or is receiving early childhood mental health consultation. In general, only one adjustment factor can be claimed per child.

## *Cost of Care Plus Rate*

[Article 7.2 of the 2023-2025 MOU](#) between the State and CCPU established a Cost of Care Plus Rate comprised of monthly, per-child rate supplement payments (referred to as "Cost of Care Plus payments") and a one-time, fixed-amount, transitional payment (referred to as "transitional provider subsidy payments") to family child care and state

preschool family child care providers. Both payments vary by provider type.<sup>2</sup> [Senate Bill 140](#) (Statutes of 2023) enacted the Cost of Care Plus Rate to child care and state preschool centers, which are not represented by CCPU. The Cost of Care Plus per-child monthly payments range from ninety-eight dollars (\$98) to two hundred eleven dollars (\$211), depending on the type of care setting and the region in which the provider is located. These payments are intended to bridge the gaps between the costs incurred by providers and the rising cost of delivering child care while the State works to finalize and implement the new rate structure informed by a cost-based alternative methodology. Payments under the Cost of Care Plus Rate for all provider types were statutorily authorized for fiscal years 2023-2024 and 2024-2025.

Under the current MOU, the Cost of Care Plus Rate is slated to sunset on June 30, 2025. Under [WIC 10227.6 as amended by AB 176](#), however, reimbursement rates may not fall below the levels that were in effect on June 30, 2024, inclusive of the monthly Cost of Care Plus payments. This effectively incorporates the value of the monthly Cost of Care Plus payments into the floor for ongoing provider reimbursements.

### *Indirect and Support Services Cost Structure*

State statute governs how child care and development and state preschool programs are reimbursed for indirect and support services costs, as summarized in Table 1. In this context, “support services” include technical and operational assistance provided to family child care providers and state preschool providers, as well as support services that State program contractors provide to children and families. For Family Child Care Home Education Networks (FCCHEN), statute sets forth additional requirements to support education-related program components.

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<sup>2</sup> The one-time Transitional Provider Subsidy Payment amounts were: \$500 for licensed-exempt providers, \$2,500 for small licensed family child care homes and \$3,000 for large licensed family child care homes.

**Table 1. Current Indirect and Support Service Rates**

Programs	Maximum Rate
CalWORKs Stage 2 (C2AP), CalWORKs Stage 3 (C3AP), and California Alternative Payment Programs (CAPP)	17.5 % of the contract amount (up to 15% for indirect and at least 2.5% for support services).  <i>Statute: <a href="#">WIC Section 10229</a> and <a href="#">WIC Section 10302</a></i>
General Child Care and Development (CCTR), California Migrant Child Care and Development Programs (CMIG), Child Care for Children with Severe Disabilities (CHAN) and California State Preschool Program (CSPP)	15% of the contract amount. <sup>3</sup>  <i>Statute: <a href="#">WIC Section 10302</a> or <a href="#">EDC Section 8258</a></i>
Family Child Care Home Education Network- (CFCC) Programs	30% of the contract amount (up to 15% for indirect and at least 15% for support services).  <i>Statute: <a href="#">WIC Section 10302</a> and <a href="#">Fiscal Handbook Cal. Dep't Soc Servs., California Department of Social Services Funding Terms and Conditions (FT&amp;C) at 51 (2022)</a></i>
California Migrant Alternative Payment Program (CMAP)	21% of the contract amount (up to 15% for indirect and at least 6% for support services).  <i>Statute: <a href="#">WIC Section 10229.4</a> and <a href="#">WIC Section 10302</a></i>

Under the CalWORKs Stage Two (C2AP), CalWORKs Stage Three (C3AP), and California Alternative Payment Program (CAPP), indirect and support services costs cannot exceed, in total, 17.5 percent of the contract amount. While C2AP, C3AP, and CAPP contractors do not directly provide child care, the contractors administer voucher payments to child care providers and provide them with other technical assistance and support.<sup>4</sup> Indirect and support services funds are separate from funds used to reimburse providers for child care services. This means providers paid through C2AP, C3AP, and CAPP contractors receive the full value of the RMR reimbursement rate for child care services.

The total indirect and support services costs for direct service programs (i.e., General Child Care and Development [CCTR], California Migrant Child Care and Development Programs [CMIG], Child Care for Children with Severe Disabilities [CHAN] and CSPP) generally cannot exceed 15 percent of the total contract amount. The other 85 percent

<sup>3</sup> There is no statutorily prescribed indirect rate for Family Child Care Home Education Networks contracted under the CCTR, CMIG, or state preschool program.

<sup>4</sup> CFCC Family Child Care Home Education Networks (FCCHENs) are considered an alternative payment program for these purposes.

of the funds must be used to provide direct child care and/or preschool services. Under these programs, contractors receive payment associated with providing child care and/or preschool services based on the reimbursement rate, regardless of whether the program contractor delivered the child care service themselves or subcontracted with a network of family child care and/or preschool providers to provide child care services instead. The amount of funding passed through to the child care and/or preschool providers varies and depends on how much the program contractor deducts for indirect and support services costs. As a result, providers reimbursed under direct service programs may be paid less than providers paid through alternative payment programs.

Indirect and support services costs for FCCHENs are dependent on whether they are part of the Family Child Care Home Education Network (CFCC) program, which uses the RMR reimbursement rate, or the CCTR, CMIG, or CSPP programs, which generally use the SRR reimbursement rate. In the CFCC program, contractors must use 70 percent of the total contract amount for direct provider reimbursements and up to 30 percent for indirect and support services costs. Family child care home providers who participate in a CFCC-FCCHEN receive the full value of the RMR reimbursement rate for child care services. However, family child care home providers who participate in a FCCHEN under the CCTR, CMIG or state preschool program are reimbursed using the SRR, from which allowable administrative indirect expenses may be deducted by the contracting agency. The amount of funding that the family child care providers receive varies and depends on what proportion of the allowable 15 percent the program contractor deducts for administration and support service costs. There is no statutorily prescribed reimbursement rate for family child care providers participating in a network through the CCTR, CMIG, and CSPP program. This means that unlike family child care home providers in the CFCC program, most providers in a CCTR, CMIG, or CSPP FCCHEN do not receive the full value of the reimbursement rate, despite the fact that all FCCHEN providers are subject to the same requirements.

Similar to CAPP, contractors under the California Migrant Alternative Payment Program (CMAP) receive funding for direct child care services plus indirect and support services costs. Of the total contract amount, up to 15 percent is for indirect costs and at least 6 percent for support costs, for a total of 21 percent for indirect and support services. Providers paid through CMAP contractors receive the full value of the RMR reimbursement rate for child care services.

As discussed in the next section, the State intends to address differences and inequities in the current indirect and support services reimbursement structure through rate reform.

### **Proposed Single Rate Structure**

Table 2 summarizes aspects of the single rate structure that have been recommended by the JLMC and additional aspects that are still pending a recommendation. These aspects include the rate elements that inform costs captured under the new single rate structure; selection points or values for each rate element; how rates under the new single rate structure will be designed and vary by factors like geography and a child's



age; and indirect and supportive service costs. Ultimately, the final single rate structure and reimbursement rates themselves will be determined in partnership with the Legislature through the budget development process and through the collective bargaining process. A more detailed explanation of the proposed single rate structure is provided following Table 2. Other decisions yet to be made concern the payment processes that govern documentation and data reporting required of program contractors for reimbursement, and the eligibility criteria for enhanced rates. Certain decision points, such as documentation and data reporting, are within the State’s purview to decide, informed by interest holder input and subject to impact bargaining if applicable.

**Table 2. Proposed Single Rate Structure Decision Point Summary**

	Decision Points To-Date	Remaining Decision Points
Base and Enhanced Rate Elements	Rate elements identified and defined for all provider/program types.	
Cost Model Selection Points	No recommendation made to date	To be set through the bargaining process for family child care providers.  To be set for centers by the Administration in partnership with the Legislature
Design Features of the Single Rate Structure	Informed by costs associated with health and safety standards and other program requirements.  Base and enhanced rates will be calculated on a per-child basis.  Enhanced rates reimburse services not funded through the base rate, contingent upon eligibility.  Rates will vary by geography.  Rates will vary by type of care setting.  Rates will vary by regulatory requirements.  Rates will vary based on time categories.  Rates will vary by child age.	Geographical variation categories.  Specific time categories.  Child age groupings.  To be set for centers by the Administration in partnership with the Legislature.



	Decision Points To-Date	Remaining Decision Points
Indirect and Support Services Cost Structure for Contractors	No recommendation made to date	To be established by the Administration in partnership with the Legislature, separate from direct services rate and not subject to the bargaining process.

**Base and Enhanced Rate Elements**

Pursuant to [Article 7.3 of the current labor agreement between the State and CCPU](#), in March 2024, the Rate and Quality System Structure Review JLMC recommended the various elements of the base and enhanced rates that will serve to inform the state’s proposed single rate structure:

**Base Rate Elements:**

1. *Administration/Office*: Covers costs such as advertising, insurance, legal and professional fees, office supplies, repairs, maintenance, and janitorial.
2. *Child Health*: Covers activities related to supporting child health, including costs associated with meeting licensing requirements, such as collecting and keeping records of child immunizations.
3. *Child Education and Development*: Covers additional costs above and beyond the basic Education Program costs, including educational materials and curriculum, developmental screening and assessment tools, development specialists and special activities for children associated with meeting requirements.
4. *Discretionary Benefit - Health, Employer Share*: Funds that can be flexibly deployed to cover the employer share of benefit costs such as health insurance expenses, retirement contributions, and other discretionary benefits.
5. *Discretionary Benefit - Paid Time Off*: Including sick leave and vacation benefits
6. *Dual Language Learner Supports*: Covers costs associated with serving dual language learners and their families effectively, such as linguistically and culturally appropriate educational materials, translation, lesson plan resources, and books/materials in multiple languages.
7. *Education Program*: Covers basic program supplies such as diapering supplies, regular updating of emergency supplies/kits, fire extinguishers and food.
8. *Family Engagement*: Supports required and expected family engagement activities, including but not limited to family conferences or conference equivalents in license- exempt settings.

9. *Inclusion*: Covers expenses within the base rate related to serving a specific share of children with developmental delays, disabilities and other special needs.
10. *Mandatory Expenses Related to Staffing*: Covers non-discretionary employer taxes including FICA payroll tax, Social Security, Medicare, unemployment insurance, and worker's compensation.
11. *Occupancy*: Covers facility-related costs such as rent/lease or mortgage, real estate taxes, maintenance, janitorial and repairs.
12. *Operating Reserve*: Covers contributions to an annual operating reserve fund.
13. *Planning Time*: Covers planning and release time for teachers, assistant teachers, child care providers and owners.
14. *Ratios and Group Size*: maximum number of children for whom care may be provided at any one time
15. *Salary/Wage/Income*: adequate and appropriate compensation (including wage scales that set a living-wage floor that account for job roles, experience and education levels)
16. *Staffing Pattern*: Covers the cost to maintain a setting-specific standard staffing pattern.
17. *Training*: Covers the cost of hiring a substitute to cover for staff while they attend professional trainings.

Enhanced Rate Elements:

1. *Inclusion*: Covers expenses related to serving children with developmental delays, disabilities and other special needs, when the share of children served exceeds the share covered through the Base Inclusion rate.
2. *Extended Evenings/Weekends*: Covers additional costs associated with providing care during non-traditional hours.
3. *Child Transportation*: Covers the cost of year-round transportation services between schools and activities, children's homes and providers' facilities/homes when necessary to support families.

More detailed documents reflecting the JLMC definitions for family child care providers and CDSS-proposed definitions for unrepresented center-based programs are posted on CDSS' [Rate Reform and Quality website](#).

## *Cost Model Selection Points*

A selection point is the particular value that has to be decided for each base and enhanced rate element. Selection points drive the total cost of care estimated by the cost model. For example, the inclusion of a Training rate element means that the new single rate structure will include costs associated with paid provider training hours. The actual number of paid training hours that would be captured in the cost model is the selection point.

Input from child care and development and state preschool programs, the RQAP and the public regarding selection points for each base and enhanced rate element was gathered most recently between April and September 2024, and during the cost study, between July and November 2023. Selection points for represented providers ultimately will be negotiated through the collective bargaining process concurrent with rate setting. Selection points for non-represented center programs will be decided by the Administration in partnership with the Legislature, which will occur concurrently with and be informed by the bargaining process and interest holder input.

## *Design Features of the New Single Rate Structure*

Based on current JLMC recommended rate element definitions and program policies and procedures, the new single rate structure will need to reflect the key design features listed below. **These design features are subject to change based on the outcomes of the 2025-2026 budget development process and the collective bargaining process.**

1. **Rate levels will be informed by the costs associated with meeting health and safety standards and other program requirements.** Through the pursuit of a cost-based alternative methodology to inform rate setting, the State has committed to a transparent accounting of the true cost of care and signaled its intent to move towards a fuller reimbursement of that cost. The rate elements within the new single rate structure will be consistent within all program types, but the definition and values will vary based on specific program requirements.
2. **Base rates will be administered as a per-child amount, and programs/providers will potentially be able to claim reimbursement for all enhanced services they are delivering.** Similar to current rate models, the single rate structure will consist of a per-child base rate. A higher rate can be claimed depending on whether the child served is eligible for specified enhanced rates. Enhanced rates recommended by the JLMC include inclusion of children with disabilities (above what is covered in the base rate), extended evening/weekend care, and child transportation.
3. **Rates will vary based on geography to capture differences in the cost of living.** Federal law at [45 CFR § 98.45\(d\)](#) explicitly requires that states analyze child care costs by region, and the current RMR reflects regional variation. The [2022 Rate and Quality Workgroup Report](#), the [California Master Plan for Early](#)

[Learning and Care](#) and the JLMC all recommend regional variation in recognition of the fact that the cost of living varies widely across the State. How the geographical variation is implemented (i.e. county-level variation or regional groupings of counties) will be determined in partnership with the Legislature through the budget development process, and negotiated in accordance with the collective bargaining process for family child care providers.

4. **Rates will vary by type of care setting.** There are three types of child care settings: license-exempt Family, Friend, and Neighbor care, licensed family child care homes, and centers. Federal law at [45 CFR § 98.45\(d\)](#) explicitly requires that states analyze child care costs by category of provider. Additionally, the JLMC recommended definition of rate elements under the new single rate structure differentiates license-exempt from licensed family child care providers. There is also an acknowledged need to differentiate rates for center-based programs.
5. **Rates will vary by the regulatory requirements applicable to each type of care setting.** California proposed, and the ACF approved, an alternative methodology approach that uses a cost estimation model to inform rate setting which accounts for variation in costs related to differing levels of regulatory requirements. Some family child care homes and centers follow Child Care Licensing requirements (Title 22), while homes and centers that directly contract with the State are subject to additional child development or state preschool requirements (Title 5, Chapters 19 and 19.5 for DSS programs and 18.5 for CDE programs)). License-exempt family, friend, and neighbor care settings are subject to neither Title 22 nor Title 5 requirements. The JLMC recommended definition of rate elements under the new single rate structure also differentiates family providers based on the requirements they must meet.
6. **Rates will vary based on time categories.** Under current program procedures, families are certified for the maximum hours of care a child needs and that providers will be reimbursed for at a part-time, full-time, or (for direct service programs) a full-time plus rate. For example, a child would be deemed as needing part-time care if their certified care need is fewer than 25 hours per week. For voucher-based programs, a child's certified care need can be defined as either hourly, daily, weekly, or monthly child care services. Absent any changes to maximum certified hours of care procedures, rates under the new single rate structure will vary by time categories. The specific time categories that will apply to each program are subject to the budget development process and collective bargaining process.
7. **Rates will vary by child age.** Federal regulations at 45 CFR 98.45(d) require that "alternative methodology reflects variations by [...] age of child." The cost of care depends partially upon the age of the children being served, so rates will vary along this dimension as well. The specific age groups would be set by the Administration, in partnership with the Legislature, and negotiated in accordance with the collective bargaining process for family child care providers.

## *Indirect and Support Services Cost Structure*

A part of rate reform includes revising the method by which the State calculates and reimburses its program contractors, child care providers, and state preschool programs to cover costs associated with administering various program functions and related provider and family support services functions. The objectives are four-fold: (1) to clearly distinguish indirect and support services costs and have the cost structure be informed by the actual cost of the work contractors do to help administer the subsidized child care and state preschool system, (2) to pursue continuity and standardization across programs, where appropriate, (3) to separate indirect costs from direct service base rates so that the full direct service reimbursement rate is passed through to child care and state preschool providers/programs to cover the direct costs of providing care, and (4) to have families supported and connected with resources consistent with Whole Family Whole Child approach, or person-centered approaches.

As previously discussed, currently there are different methods for covering the indirect and support services costs of State program contractors, resulting in different rates across contract types. Additional contract management and administrative functions are currently being temporarily reimbursed through a payment is paid outside of program contracts. In its [August 2022 report](#), the Rate and Quality Workgroup recommended that these issues be addressed through the single rate structure, calling on the State to “ensure that contract management costs for operation of all programs, including...FCCHEN, are recognized and funded above and beyond the base rate for providers.”

Establishing indirect and support services payment levels that are separate from direct service rates is not subject to the collective bargaining process. The Department has plans to solicit program contractor feedback on this topic and a more detailed description of the proposal to reform how indirect and support services cost are reimbursed will be shared at a later date.

## **Summary Comparison of Current and Proposed Rate Structures**

Table 3 summarizes additional differences between the current dual rate structure, which is comprised of the RMR and the SRR, and the proposed single rate structure informed by the alternative methodology.

**Table 3. Comparison of Current and Proposed Rate Structures**

Rate Structure	Current		Proposed <i>(Subject to the budget development and bargaining process and Legislative approval)</i>
	RMR	SRR	Single Rate Structure
Base rate calculated consistently across all programs/providers	No	No	Yes
Rates informed by market cost of care	Yes	No <sup>5</sup>	No
Rates informed by actual cost of care	No	No	Yes
Rates vary by geographic region	Yes	No	Yes
Rates vary by care setting	Yes	No	Yes
Applies to license-exempt settings	No <sup>6</sup>	No	Yes
Rates vary by regulatory requirements	No	No	Yes
Rates vary by child age	Yes	Yes	Yes
Rates vary by time categories	Yes	Yes	Yes
Reimbursement for enhanced services not covered by the base rate <sup>7</sup>	Yes	Yes	Yes

<sup>5</sup> While the SRR is not informed by the market rate survey, currently contractors historically reimbursed under the SRR are reimbursed at the greater of the 75th percentile of the 2018 regional market rate survey or the contract per-child SRR amount as of December 31, 2021. (WIC 10280(c)(1).)

<sup>6</sup> License-exempt Friend, Family and Neighbor (FFN) rates are not directly based on the RMR. Rather, FFN rates reflect 70 percent of the licensed family child care home rates, which are themselves directly based on the RMR survey.

<sup>7</sup> In the current structure, multipliers are applied to the base rate to reimburse certain types of care at a higher level. In the new structure, enhanced rates will be used to reimburse enhanced services that are not covered through the base rate.

# 5. Implementation Activities

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This section of the report summarizes the various activities CDSS and CDE must undertake to implement the new rate structure and summarizes findings of the preliminary data systems readiness assessment conducted to date.

## Data Systems Readiness

Many of CDSS and CDE’s processes to collect necessary information, calculate reimbursement based on the current rate structure, and issue payment to State program contractors are automated by administrative data systems. Furthermore, the State program contractors, agencies contracted by counties, counties that directly administer CalWORKs child care programs and Local Education Agencies (LEAs) that are responsible for calculating reimbursements and issuing payments to child care and preschool providers also rely on their own automated data systems to do so. Therefore, the time and resources needed to reprogram automation across multiple impacted data systems at the State, county, and local levels is the primary driver of the timeline on which the new single rate structure can be implemented.

### *Assessment of Impact to Existing Systems*

Table 4 summarizes the many existing data systems that perform a function related to the administration of reimbursement rates for State-subsidized child care and development programs and/or state preschool. These are the systems that will require modifications and/or updates to automate the calculation and payment of rates under the new single rate structure. A more detailed description of each system and its limitations follows the table.

**Table 4. Current Data Systems Impacted by Rate Reform**

Data and Reporting Systems <sup>1</sup>	System Administrator	System Purpose
CalWORKs/AP Portal	CDSS	The CDSS’ enrollment and fiscal reporting page for voucher-based programs.
CAPSDAC	CDE	Used to collect monthly CSPP class, staff, and child enrollment data, including most CDMIS child enrollment data fields and most PLIS language fields. As of July 2024, data is being collected for school districts, county offices of education, and charter schools through this system.

Data and Reporting Systems <sup>1</sup>	System Administrator	System Purpose
CDE-CDMIS	CDE	Used to collect CSPP contractor site information such as address, license number, program directors, and contact information as well as monthly enrollment and attendance data. Data is currently being collected for private agencies, other public utilities or businesses, and community college districts. Also collects monthly Subsidized Provider Report data on FCC home providers.
CDSS-CDMIS	CDSS	Used to collect child care contractor site information such as address, license number, program directors, and contact information as well as monthly enrollment and attendance data. Also used by agencies under contract with CDSS to submit monthly data reports and by agencies partnering with FCC homes to upload their Subsidized Provider Report.
CDPR	CDSS	The CDSS' enrollment and fiscal reporting page for direct-service and support contracts. Used to submit Enrollment, Attendance, and Fiscal Reports.
CDE-PARIS	CDE	Legacy desktop application currently used by CDE only to process contracts and contract amendments.
CDSS-PARIS	CDSS	A copy of CDE's PARIS application that was migrated to CDSS. Data from the CalWORKs/AP Portal and CDPR is entered into PARIS to calculate payments. PARIS also holds contract information and amendment details for child care contracts that are managed by CDSS.
CPARIS	CDE	Web-based application that automates CDE processes in projecting CSPP contractors' contract earnings and generating monthly payment files. CSPP contractors use the system to submit enrollment and fiscal data, view payment information, and view correspondence from CDE regarding their contract earnings and payment withholds.
PLIS	CDE	Used to identify and collect quarterly data on dual language learners, including data on multilingual learners, language characteristics



Data and Reporting Systems <sup>1</sup>	System Administrator	System Purpose
		of program programs, and language composition of program staff. Data is currently being collected for private agencies, other public utilities or businesses, and community college districts.
CalSAWS	CalSAWS Consortium (58 counties)	Used to manage public assistance programs across the 58 counties. Used by most counties to directly administer the CalWORKs Stage One child care program, while a smaller number also use it to directly administer CalWORKs State Two and Stage Three child care programs.
Other systems	Multiple State partners	Multiple other system platforms are utilized by State partners, including program contractors and child care and preschool providers, to administer their programs and to process reimbursements according to the current rate structure.

<sup>1</sup> Acronyms contained in Table 4 are spelled out in sections below.

### *Assessment of Existing State Systems Limitations*

#### CalWORKs/AP Portal (CDSS)

The CalWORKs/AP Portal is CDSS' enrollment and fiscal reporting page for voucher-based child care programs, including CAPP, CalWORKs Stages 2 and 3, CFCC, and CMAP contracts. The Portal is accessed by both external contractors that operate in scope contracts and internal CDSS users who perform fiscal and auditing functions. External contractors currently only report direct aggregate payment amounts to child care providers and are not collecting individual child enrollment data. If child level data is required to implement rate reform, system modifications would be required.

#### CAPSDAC (CDE)

The California Preschool Data Collection System (CAPSDAC) is a new data collection system for housing CSPP data collected for county offices of education, school districts, and charter schools. CAPSDAC was developed in response to legislative requirements through AB 22 (Chapter 901, Statutes of 2022), and began collecting data in July 2024. Ongoing development of the CAPSDAC is continuing based on further requirements of legislation as well as feedback from users, and an updated product is planned for roll out in January 2026.

The current data collected through CAPSDAC relies on the CDMIS for program contractors to submit and update site information. Also, current legislative requirements only include school districts, county offices of education, and charter schools to participate in CAPSDAC.

As CAPSDAC development continues, additional fields related to attendance, discipline, and program may be added. These additions will be made to implement legislation further, to closely mirror the California Longitudinal Pupil Achievement Data System (CALPADS) and create a longitudinal system from pre-kindergarten through twelfth grade. If further development outside of AB 22 legislation requirements is needed to meet the changes of rate reform, the timeframe to make these changes to CAPSDAC could range from 6 months to 2 years. This would depend on the type of change required. If changes are mainly to data fields, this may take less time, but if system ability changes are needed, this could take more time. In addition, all data fields outside of elements collected in CALPADS would need statutory and legislative changes before the internal development team could work through the additions; any additions are examined thoroughly and are supported by viable justifications.

Currently, Cost of Care Plus Rate Advances for CAPSDAC users are based off of CAPSDAC enrollment data, as well as CDMIS users.

#### CDMIS (Both CDSS and CDE)

The Child Development Management Information System (CDMIS) is a web-based system developed by CDE. The CDSS fully migrated a copy of CDE-CDMIS application for separate use in Quarter 4 of 2024.

For both Departments, provider data is collected for FCC home providers through the Subsidized Provider Report (SPR) in CDMIS, which is sent to CCPU on a monthly basis. However, this data is only collected for FCC home providers and is not inclusive of center-based provider information. The system also facilitates the maintenance of agency information for all participating entities.

Child care programs administered by CDSS also utilize the system to submit the CDD-801A and CDD-801B reports. Specifically, internal users within CDSS access the system to report subsidized child care and development program data to the ACF in order to receive federal matching grant funds, and to comply with state and federally mandated reporting requirements. The CDD-801A Monthly Child Care Population Report and CDD-801B Monthly Sample Report meet these obligations.

The following contract types are reported in CDSS' version of CDMIS:

- CalWORKS Stage 2 (C2AP)
- CalWORKS Stage 3 (C3AP)
- California Alternative Payment Program (CAPP)

- California Migrant Alternative Payment Program (CMAP)
- Child Care for Children with Severe Disabilities (CHAN)
- California Migrant Child Care and Development Program (CMIG)
- Family Child Care Education Home Networks (CFCC)
- General Child Care and Development (CCTR)

As of FY 2024-2025, CDE requires only community-based organizations (CBOs) and community college districts to submit the monthly report that collects family and child information for children in CSPP. If any agency fails to submit this monthly, this results in withholding of non-complying contractors' CSPP apportionments. Currently, Cost of Care Plus Rate Advances are based on CDMIS enrollment data, as well as the tracking of children with disabilities set-aside compliance.

CDMIS is a custom web application and database whose architecture only allows for limited updates to business or rule changes made within specific, narrow parameters. Therefore, the system may be unable to support all rate reform requirements, depending on the final approved rate structure. For example, the system does collect some child-and provider-level data, but it does not collect many of the fields that will likely be necessary to gather information needed to implement the new proposed rate structure, such as site-level, classroom-level, and teacher-level data.

The development time to build new fields within the *existing* CDMIS architecture, conduct testing, and finalize for deployment will likely take one year, depending on specifications. Any changes that require the architecture of CDMIS to change would take significantly more time.

### CDPR (CDSS)

The Child Development Program Reporting (CDPR) is CDSS' enrollment and fiscal reporting page for direct service and support contracts. This site is used by direct service program contractors to submit enrollment, attendance, and fiscal reports for CCTR, CHAN, and CMIG

along with fiscal reports for CRRP, CMSS, CCIP, CHST, and CLPC. The CDSS staff uses CDPR to support fiscal functions such as contract payments, auditing, fiscal forecasting and fiscal analysis.

Data is captured in CDPR via Nitro Forms, a Microsoft Office 365 product, and then imported into custom Microsoft Excel spreadsheets and used to perform payment calculations. There are known limitations related to the Nitro Forms interface with Excel to calculate cumulative information that may limit what changes can be made in response to rate reform.

## PARIS (Both CDSS and CDE)

The Provider Accounting and Reporting Information System (PARIS) is a legacy desktop application that originated at CDE. When child care and early development programs were transitioned to CDSS, a copy of CDE's PARIS application was migrated to CDSS in Quarter 2 of 2023. Since that time, each department has maintained its own version of the application, and the two versions have diverged over time.

At CDE, PARIS is used only by authorized CDE employees. PARIS' original purpose was to calculate contract earnings, authorize payments, and create and process contracts and contract amendments. Since 2017, CDE has made efforts to phase out its version of PARIS and as of FY 2024-2025, its only function is to process contracts and contract amendments. As such, CDE uses PARIS as the primary database that stores contract terms for all CSPP contractors (i.e. contract numbers, period of performance, contract maximum reimbursable amounts, minimum days of operation, etc.).

At CDSS, data from the CalWORKs/AP Portal and CDPH is entered into PARIS to calculate program contractor payments. PARIS also holds contract information and amendment details for childcare contracts that are managed by CDSS. Only internal CDSS fiscal analysts and contracts staff utilize PARIS (auditing staff also have read only access).

PARIS is an antiquated data system that does not allow for many system changes. The system operates on FoxPro, an obsolete database system that Microsoft no longer supports. Additionally, both Departments have limited to no expertise on FoxPro. Given these factors, the feasibility of updating PARIS to support rate reform is limited and unadvised. The major limitation of PARIS is that the system was designed to hold one value for every field. For example, PARIS can only store one contract reimbursement rate per contract.

At CDE, since PARIS is only used for CSPP contracts and contract amendments, CDE anticipates that minimal to no changes to PARIS would be necessary for CDE to implement a new reimbursement rate structure, as contract language can be modified as necessary. For example, when [AB 131 \(Chapter 116, Statutes of 2021\)](#) amended [Education Code Section 8242](#) establishing county-specific reimbursement rates, CDE was able to implement this change by removing the reference to the SRR on the contract and providing a link to the county-specific rates instead.

At CDSS, however, which uses PARIS to support administration of multiple different contract types, the current assumption is that PARIS cannot support the functionality needed to fully implement the new rate structure. Therefore, the other CDSS legacy applications would have to be updated to work with a minimally updated PARIS application in order to support rate reform. However, these PARIS workarounds may present significant program drawbacks that would need to be considered relative to the option of awaiting the implementation of California Supporting Providers and Reaching Kids (CalSPARK) to fully automate the new single rate structure.

## CPARIS (CDE)

The California Preschool Accounting Reporting Information System (CPARIS) is a web-based system developed by CDE and is used by authorized CDE employees and CSPP contractors. The CDE designed CPARIS with the intent of replacing PARIS for the department's use and has been continuously under development since 2017. Progress has been slow as there have been limited funds allocated to specifically update this system. CPARIS automates CDE processes in projecting CSPP contractor's contract earnings and generating monthly payment files. CSPP contractors use CPARIS to submit enrollment and fiscal data to CDE electronically, view payment information, and view correspondence from CDE regarding their contract earnings and payment withholds. CPARIS collects aggregate days of enrollment from program contractors at the contract and county level while expense and revenue data are collected at the contract level. This data is submitted monthly or quarterly and is used to determine contract earnings and payment advances. Enrollment and fiscal report data and earning calculations are all stored within the CPARIS database, allowing CDE to respond to various data requests.

The costs and timeframe for implementing the new single rate structure within CPARIS will vary based on the complexity of the rate changes. The CDE collects enrollment and fiscal data in CPARIS through a complex data collection system that has thousands of data dependencies (i.e. enrollment and fiscal data elements link to contract earnings calculation data elements used to determine payment). These enrollment and fiscal data collection fields are used to determine contract reimbursement and any change to the data collection fields may have a huge workload impact by requiring CDE to revise both the data collection fields and the associated contract earnings calculations.

Modifying or designing a new data collection would require a significant amount of time. The process includes operational procedures, data collection design, documentation of data collection requirements, defining data elements, defining business rules, and documentation of calculations, testing, and deployment.

## PLIS (CDE)

The Preschool Language Information System (PLIS) is a web-based system that was developed to meet the AB 1363 (Chapter 498, Statutes of 2021) legislative requirements for collecting data on dual language learners. At the time of implementation, those fields were not able to be added directly to the CDMIS. As of FY 2024-2025, only CBOs and community college districts are required to submit the quarterly PLIS report data, as similar data for other types of program contractors is collected in CAPSDAC.

The PLIS only collects classroom, teacher, child, and family level data related to language and is not suitable to develop further to collect information that is not related to language in the CSPP setting. The PLIS continues to be dependent on the CDMIS for access, as all CDMIS user credentials are carried over for use in the PLIS.

## *Assessment of Existing State Partner Data Systems*

### County CalSAWS System

The California Statewide Automated Welfare System (CalSAWS) is a comprehensive system designed to manage public assistance programs across all 58 counties in California. The CalSAWS is administered by Accenture at the direction of a governing board of directors comprised of County Welfare Directors selected from the CalSAWS Consortium Regions. The CalSAWS is utilized by most counties to directly administer the CalWORKs Stage One child care program. A smaller number of counties directly administer the CalWORKs State Two and Stage Three child care programs, while most contract out administration of those programs. Counties use CalSAWS to document child eligibility and certified need, compute the appropriate reimbursement rate, calculate and issue provider payments, and manage caseload information.

The costs for implementing the new single rate structure within CalSAWS will vary based on the complexity of the rate changes. For example, CalSAWS automation costs associated with minor and routine policy changes (such as a cost of living adjustment to rate levels) typically can be absorbed within the Consortium's maintenance and operations budget. However, more complex and significant policy changes (such as adding or removing a rate category) may require a one-time funding augmentation to cover the associated CalSAWS automation costs. In terms of the time required to implement changes, the Consortium prioritizes any new CalSAWS automation changes relative to other change requests already in queue. Factors that affect the prioritization and timeline of CalSAWS automation changes include, but are not limited to, having clear and complete final policy guidance, state and federal deadlines, and complexity. For example, after CDSS has finalized policy guidance, minor policy changes can take 6 to 12 months to automate in CalSAWS while larger policy changes may take 18 to 24 months.

### Multiple State and County Partner Data Systems

Both the State and counties contract with contractors that operate child care and development and state preschool programs, as well as contractors that do not deliver direct services themselves but do administer payments and provide support services to a network of child care and state preschool providers. These State and county contractors utilize various software systems to conduct activities associated with the contracts they hold. Their software applications support program operation functions such as maintaining a waitlist for child care and preschool, certifying/recertifying families, documenting monthly attendance enrollment and attendance reporting, fiscal accounting, CDMIS, CAPSDAC, PLIS, CalWORKs Portal, CDPR, and CPARIS monthly or quarterly reporting, and provider payments. State and county contractors' software systems are administered by companies that provide professional information technology services.<sup>1</sup> The vendors who develop and support the software applications utilize Funding Terms and Conditions (FT&Cs), program requirements, CDSS' Child Care Bulletins (CCBs), CDE's Management Bulletins, and other guidance issued by CDSS and CDE to update the software programs so that program contractors can meet

the Department's implementation guidance. Additionally, State-subsidized child care and preschool providers not directly contracted by the State or counties also may maintain their own data systems.

The rate reform implementation timeline must account for the time State and county program contractors and providers will need to update and implement software changes to their systems, which depends on their vendors, the complexity of the updates and on whether State and county contracts require amendments. Considering the substantial changes that may need to occur to update current systems to meet the rate reform criteria, it is reasonable to assume that vendors may need at least six months and quite possibly longer to program, test, and implement the changes. The CDSS and CDE will work with their child development and preschool contractors, counties and vendors to provide direction on and train on the changes that need to be made to the system.

### *CDSS To-Be Data System Planning*

The CalSPARK will support CDSS' child care program administration, oversight and reporting capabilities presently delivered through three legacy applications including the CDMIS, the CDPR and the PARIS. CalSPARK will be one user-friendly, accessible, adaptable, holistic technology system that streamlines program and fiscal administration and reporting. The CDSS is currently completing the California Department of Technology (CDT) Project Approval Lifecycle (PAL) process for CalSPARK. Through the PAL process, the Department will document the business and technical requirements needed to administer a single rate structure for child care providers. These requirements will help support the procurement process documentation to ensure the vendor selected to build CalSPARK has the capabilities to design and implement a comprehensive system that meets current and anticipated needs of CDSS child care program. Ultimately, CalSPARK will play a pivotal role in modernizing California's child care program infrastructure, enabling CDSS to provide more effective oversight and service delivery for child care providers and the families they serve.

### *CDE To-Be Data System Planning*

The CDE is currently in the scoping phase of an enterprise-level data system that would replace two systems described earlier, the CDMIS and PLIS, and would integrate the longitudinal early education data system required by EC 60910 (CAPSDAC). In addition to integrating functions of legacy systems, the California Preschool Achievement System (CPAS), would streamline program and administration functions and ease and enhance the CDE's administration of programs by modernizing how CDE oversees the provision of high quality CSPP services as part of California's Universal PreKindergarten implementation.

### *Summary of Data System Readiness Assessment*

Rate reform is likely to require changes to State automation systems and the data systems used by State partners. Based on the two departments' assessment of existing

data system limitations and a preliminary understanding of the requirements to implement rate reform, the key takeaways are as follows:

- Changes in total reimbursement amounts that are implemented *outside of contracts* and/or that require little to no modification to data systems can be implemented more quickly and easily. More complex modifications that significantly change data collection and payment calculation requirements necessitate a longer timeline for making automation changes.
- In-contract changes are best made at the start of a new fiscal year because mid-year changes can be disruptive to program contractors' ability to project enrollment and earnings.
- It is difficult to provide a precise timeline for automation changes given that the final design and details of the single rate structure are yet to be determined by the Administration, in partnership with the Legislature, through the budget development process and through the collective bargaining process for family child care providers.

### **Development of Guidance, Policy, and Regulations**

Changes resulting from adoption of the new rate structure will generally be implemented in three steps: any necessary statutory changes, followed by issuance of guidance to the field, followed by adoption of regulations.

Upon reaching a new successor agreement with CCPU and upon the Administration and Legislature reaching a budget agreement, statutory changes will be necessary to codify the new rates, the successor agreement and parity provisions for center programs. Numerous sections of the WIC and Education Code will likely need to be added, repealed, or amended to reflect policy changes arising out of rate reform.

Once codified, the Departments will be able to draft implementation guidance in the form of Child Care Bulletins (CCBs) for CDSS and Management Bulletins (MBs) for CDE to be in effect until formal regulations are adopted. The Departments will need a few months to a year issue initial guidance related to rate reform changes. Interim guidance (e.g., via email) may precede publication of CCBs and MBs.

Examples of topics to be addressed through guidance include the following:

- Details regarding the negotiated rate structure.
- Timeline for implementation of new rates and guidance for any period of time until new rates take effect.
- Applicable directives for implementing policy changes resulting from rate reform.
- Information on data reporting.



- Other applicable information to ensure transparency about rate reform such as changes to statute or newly negotiated agreements affecting family child care providers.

Concurrent with or shortly following the issuance of guidance, the Departments may also develop related materials such as Frequently Asked Questions (FAQs) or webinars and post them online for easy access by the field.

The final step is to promulgate regulations, a complex process that takes approximately two years, one year to develop and one year to adopt once the regulation package is initiated. However, this process can trail implementation of the new rate structure.

### **Updates to Forms, Documents and Handbooks**

Both Departments maintain a number of handbooks, forms, and other documents that will need to be updated in light of rate reform.

#### *California Department of Social Services*

The CDSS Funding Terms and Conditions (FT&C) document will need to be revised to reflect any updates to contractual requirements for Child Care and Development Programs. The FT&Cs are updated on an annual basis during the Fall months, then undergo a review and approval process before being issued in time to take effect on the first day of the new fiscal year. Along with the updated FT&Cs, a summary of key changes is published. Any rate reform policy changes that take effect in the middle of a fiscal year can be implemented through the CCB guidance process.

The Program Integrity and Improvement Review Guide is a comprehensive tool created to increase awareness and transparency for Error Rate Reviews. Program contractors use this guide as a means to perform self-evaluations in the areas of Need, Eligibility, Provider Payments, and Family Fees. Department staff also utilize this guide to conduct Error Rate Reviews. Every fiscal year, the guide is updated to include any CCBs, new legislation, updated regulation, or to provide clarifying language. Once rate reform is finalized, the guide will need to be updated to inform program contractors of how Error Rate Reviews will be impacted.

The Enrollment, Attendance, and Fiscal Reporting and Reimbursement Procedures for Child Care and Development Contractors (also known as the Child Care Fiscal Handbook) is intended to aid CDSS contractors in their enrollment, attendance, and fiscal reporting, and to explain reimbursement procedures. Rate reform-related updates will include changes for specified criteria defined in the Enrollment, Attendance, and Fiscal Report forms based on the categories appropriate for each program. The Child Care Fiscal Handbook is updated on an annual basis along with a summary of important changes in the introduction section. In between each annual update, the Department issues interim guidance through CCBs.

## *California Department of Education*

The CDE would be required to update the annual Contract Terms and Conditions, the annual Enrollment, Attendance, and Fiscal Reporting, and Reimbursement Procedures for Early Education Contracts (also known as the Fiscal Handbook), the CPARIS User Manual, and various tools and resources developed by CDE used to provide technical assistance to CSPP contractors on earning the CSPP contract.

If there are any required changes to CAPSDAC, CDMIS, or PLIS, CDE will additionally need to make updates to associated User Manuals, file templates, data submission schedules, guidance, and answers to frequently asked questions about submitting information into those data systems.

Depending on the changes, CDE may also need to update the monitoring instrument used for CSPP programs, as well as the Continued Funding Applications and the Program Self-Evaluation.

Dependent on what is changed via rate reform, additional forms and/or templates may need to be created and current forms reviewed to see if changes are needed. For example, if changes resulting from rate reform will require additional information to be collected from families, CDE will need a mechanism for this information to be collected.

### **Training Development and Delivery**

Once the new rate structure and reimbursement rates are finalized and guidance has been drafted, both Departments will need to develop and deliver extensive training to State staff, counties and program contractors prior to the implementation of the single rate structure.

Depending on the number of topics to be covered, training development can take a few months. Following development, CDE and CDSS program and fiscal staff will need to be properly trained first so that they can effectively provide technical assistance and training to State program contractors and counties. These training sessions would be conducted by CDE and CDSS management and subject matter experts. Ongoing technical assistance and support will be provided by the assigned fiscal analysts and program consultants.

Once State department staff at CDSS and CDE are trained, they will deliver training to counties and program contractors on topics such as: policy and programmatic changes enacted through rate reform, changes related to projecting enrollment and calculating contract earnings and how to claim fiscal reimbursement under the new rate structure. To the extent that data systems change significantly, State and County staff will also provide training on those data system changes. Counties may in turn need to train their own contractors and County staff who support child care program administration. Both Departments anticipate that rate reform-related trainings will initially be produced and trained in an online format, followed by delivery of in-person small group trainings around the State, budget permitting. Because the program enrollment process begins in

the Spring prior to the start of the fiscal year, counties and program contractors would need to be properly trained in advance of enrollment season.

## **Rate Reform Quality Improvements**

In August 2024, CDSS convened an Equity-Centered Quality Rating and Improvement System (EC-QRIS) Advisory Panel. The Advisory Panel members are diverse, including parents, family childcare providers, center providers, researchers, advocates, higher education faculty, coaches/trainers, resource and referral administrators, and QRIS administrators. The Advisory Panel will make recommendations to CDSS on how to modify the current CCDF funded QRIS administered by CDSS. The Advisory Panel will continue to meet through Summer of 2025 and will provide a report of Recommendations to CDSS in Summer of 2025. CDSS is actively engaging with State partners, including CDE, as it engages with the EC-QRIS Advisory Panel.

In FY 2025-2026, following the delivery of panel recommendations, the CDSS will develop and begin to implement a plan to update the CCDF-funded QRIS operated by the CDSS, informed by the EC-QRIS Advisory Panel recommendations, and consider corresponding updates to the new single rate structure to incentivize quality.

Additionally, the CDE convened the UPK Mixed Delivery Quality and Access workgroup in 2023 and over the course of 2024, the CDE has convened ten CSPP QRIS Block Grant interest holder engagement sessions, inclusive of grantees, educators, providers, coaches, and families. Based on this public input, the CDE is in the process of reviewing potential changes to the CSPP QRIS block grant, as informed by the UPK Mixed Delivery Quality and Access workgroup and interest holders. The CDE has shared information gathered with State partners including the CDSS throughout the process.

Any changes to enhanced rates based on QRIS reforms would be determined by the Administration in partnership with the Legislature through the budget development process, and negotiated through the collective bargaining process for family child care providers.

## **Evaluation of the Single Rate Structure**

The Rate and Quality Workgroup highlighted the importance of continuously evaluating the alternative methodology and base rate, making adjustments, and identifying broader system investments based on evaluation findings. Additionally, the State's alternative methodology proposal to the ACF included a commitment to systematically evaluate the rate structure's effectiveness. The CDSS plans for its evaluation of rate reform to utilize an equity perspective by assessing how the reforms impact existing disparities experienced by families and providers based on factors beyond their control, such as race, language, ability, or location. The Department contracted with national research firm Child Trends to design an evaluation framework that assesses the impact of the alternative methodology on child care and state preschool agencies, programs, and families participating in subsidy programs. By the end of 2024, the evaluation framework

will be complete. The Department has yet to determine whether the evaluation will be conducted in-house or by a contracted evaluation firm. If the latter, the procurement will take place in FY 2025-2026. The evaluation will likely begin in FY 2026-2027.

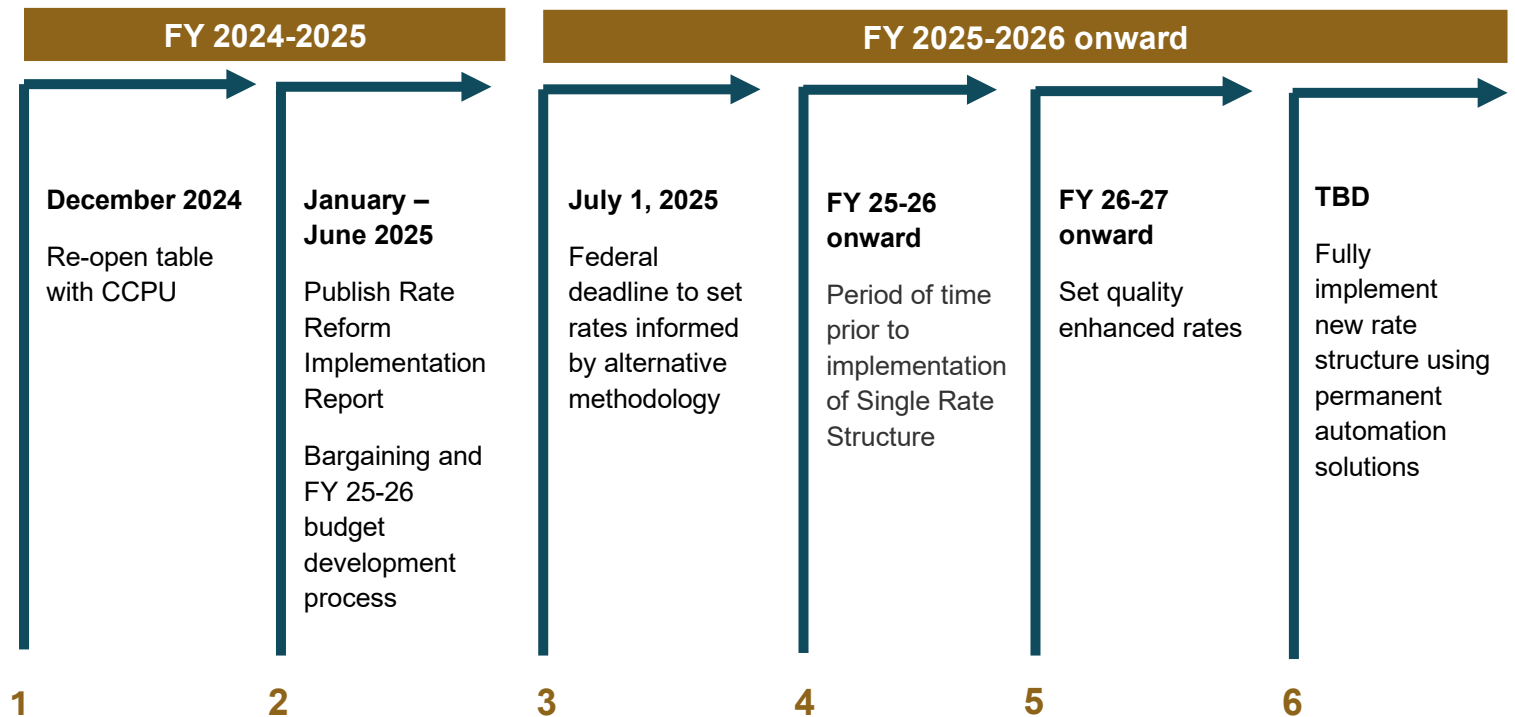
## 6. Estimated Timeline for Implementation

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As detailed in the Introduction section of this report, the alternative methodology process is still underway; the federal deadline for setting rates informed by the alternative methodology is July 1, 2025; and when the new rates take effect is dependent upon the bargaining process and the budget development process and upon the time required to complete the implementation activities described above.

Chart 1 provides a high-level timeline for the Rate Setting and Implementation Phase of the alternative methodology process. A narrative discussion of the specific activities to be completed at each step follows. Given that the final rate structure and reimbursement rates have yet to be negotiated with CCPU and approved by the Legislature for both represented providers and unrepresented centers, these timelines are subject to change.

**Chart 1: Rate Setting and Implementation Timeline**



**FY 2024-2025**

*1) Publication of Implementation Report*

Under the provisions of State statute ([WIC 10227.6](#)) and the 2023-2025 between the State and CCPU, ACF approval of California’s 2025-2027 CCDF State Plan on November 8, 2024, triggered a 90-day clock. Publication of this report occurred as mandated within 60 days of ACF approval. For a period of 30 days following publication, the Legislature and CCPU have the opportunity to review the report and provide feedback.

The Departments will issue updates to this report on a quarterly basis in FY 2024-2025. The next update is due April 1, 2025.

*2) Bargaining Process and Budget Development Process*

According to [Article 7.3 of the current agreement between the State and CCPU](#), “Within ninety (90) days subsequent to ACF approval [...] the parties agree to re-open Article 7.1 (Rates) and 7.2 (Cost of Care Plus Rate) of this Agreement for good faith negotiations to restructure the current subsidy reimbursement rates, and the associated funding, to be applied to family child care providers consistent with the ACF-approved Single Rate Structure, and the implementation thereof.” ACF approval was granted on November 8, 2024. The State and CCPU, by mutual agreement, have opened full negotiations of an

entirely new MOU, which in practice bypasses the reopener in the MOU to negotiate only the structure that is contained within current funding levels.

The bargaining process will take place concurrent with the FY 2025-2026 budget development process. Rate setting will occur for non-represented center-based programs through the budget development process, concurrent with and informed by rate negotiations for family child care providers as well as interest holder input. As in years past, the Administration will negotiate parity provisions for centers with the Legislature, and those provisions will be reflected in State statute.

This timeline in Chart 1 assumes that bargaining concludes in time for the new successor agreement, parity provisions for centers, and the new reimbursement rates to be ratified by the Legislature by July 1, 2025. To the extent that timing is not met, all subsequent dates in the timeline will shift out.

### **FY 2025-2026 Onward**

#### *3) Rate Setting*

Federal guidance provided in the [OCC Flexibilities Letter](#) requires that California set payment rates based on the pre-approved alternative methodology no later than July 1, 2025, and that by that date the Department submit specified information to the ACF, including a detailed cost estimation report and a timeline that reflects “a plan for full implementation of the increased rates.”

#### *4) Period of Time Prior to Implementation of Single Rate Structure*

According to the current agreement, “Rates shall take effect when any other activities reasonably necessary to implementation have occurred such as regulatory and policy guidance, training for program contractors, and updates to contracts and necessary data systems.”

Many necessary implementation activities cannot begin in earnest until the final rate structure is known. Assuming that rates are set by the Legislature shortly prior to July 1, 2025, which is the federal deadline, it will not be feasible for the new rates to take effect on that date given the program activities and automation changes that will still need to occur. Therefore, a period of time will be required before the new single rate structure can be implemented.

Given these timing considerations, successor agreement negotiations with CCPU and negotiations with the Legislature during the 2025-2026 budget development process will need to contemplate payment levels leading up to the full implementation of the new single rate structure.

WIC Section 10227.6(i) [as amended by AB 176](#) provided that if the new reimbursement rates informed by alternative methodology do not take effect on July 1, 2025, CDSS must provide the Legislature with a timeline for transitioning from current rates to the new single rate structure, and further stipulates that “rates established as part of the

transition timeline . . . shall be, at minimum, equivalent to the reimbursement rates established pursuant to” current law, inclusive of the monthly Cost of Care Plus rates.

The actual payment levels during this period will be determined by the Administration in partnership with the Legislature through the budget process and through the collective bargaining process for family child care providers, within parameters established in statute.

In the past, RMR increases have often been implemented in January of the fiscal year in which the budget implementing the new rates took effect, while SRR changes have often been effective at the beginning of the fiscal year in which the budget implementing the new rates took effect, or July 1. An increase to current rates, however, is easier to effectuate than a reworking of the entire rate structure, which is likely to necessitate additional data collection and reporting, as well as changes in the way reimbursements are calculated. As detailed in the Implementation Activities section of this report, there are limitations to the changes that can be made to existing CDE and CDSS data systems, and the timeline to modify existing systems or build new ones is dependent on the scope of changes required, which has yet to be fully defined.

Based on what is known about the limitations of existing data systems, a phased implementation initially involving payments which require little to no modification to State or State partner system programming or data collection and reporting (such as out-of-contract payments) could be implemented sometime between January and July 2026. Payment levels during this period will be subject to negotiations and/or ratification by the Legislature. In order to comply with federal guidance, the payments on top of existing base rates will need to be informed by the actual cost of care, as estimated using the alternative methodology process.

Changes that require more significant modifications to existing State data systems, extensive retooling of State program contractor and county data systems, and/or significant changes to the type of data that must be gathered to calculate reimbursement rates under the single rate structure will require additional time, which is yet to be determined, for implementation. Future updates to this report will provide more details on what implementation of new rates during the transition phase will entail as they are known.

##### *5) Implementation Using Permanent Automation Solutions*

As discussed in the Implementation Activities section of this report, CDSS is currently planning for the design and build of CalSPARK, a new data system that will ultimately incorporate the full functionality required to implement the single rate structure.

CalSPARK planning is in progress and the key dates for vendor procurement and system build-out will be determined once CDSS receives approval of the Stage 2 PAL from the CDT, which is expected in January 2025. While there is no standard timeline for State IT projects, based on past CDSS PAL projects that are similar to CalSPARK, Stage 3 and 4 of PAL and vendor solicitation and procurement can take about 24 months to complete. Once a vendor has been selected, the initial build and release

cycle period may last up to 36 months. However, the specific project timeline will ultimately depend on the complexity and characteristics of CalSPARK. The CalSPARK timeline will be refined once Stage 2 PAL is approved.

The CDE anticipates that the new rate structure will significantly change what data is collected to pay program contractors on a monthly basis. While more information is needed to determine the most appropriate data system for where this data should be collected, CDE expects that at minimum changes to CPARIS will be necessary to implement the permanent solution for state preschool. Additionally, because many data elements potentially relevant to reimbursement are currently collected in CAPSDAC and CDMIS and scoped for the CPAS, those existing systems as well as the development of CPAS may be impacted.

Future quarterly rate reform reports will include updates to this timeline as they are known.

## 7. Estimated Cost Impact

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This section of the report identifies major categories of costs associated with the implementation components of the new single rate structure. Given the significant degree of uncertainty about the detailed outcome of negotiations with CCPU and the State Legislature, including the final design of the single rate structure and future payment levels, it is not possible to attach specific dollar estimates to the cost categories at this time. As more information becomes available, the Department will provide the Legislature with more precise cost estimates.

### **State Program Contractor Indirect and Support Service Costs**

All State program contractors receive annual reimbursement of their indirect costs, and contractors that administer a network of child care providers on behalf of the State are also reimbursed for support service costs. Examples of reimbursable activities include determining eligibility for child care and state preschool, collecting child care and state preschool attendance records, calculating and processing monthly payments to providers, hearing parent appeals and managing facilities. To the extent that the Departments adopt changes to current indirect and support service rates, this may impact contractor indirect and support services costs. More complex modifications that significantly change the indirect and support reimbursement structure would require automation changes to State data systems and therefore would not be implemented until after FY 2025-2026.

To the extent that State program contractors are required to modify their data systems to implement the new single rate reform, there will be indirect costs associated with this. The CDSS is intends to survey its program contractors to collect data regarding their current systems and provider payment practices. This data will inform pending policy changes and help the Department to refine the estimated cost to program contractors.



## **Systems Automation Costs**

Negotiated changes that require little to no modification to existing State or State partner data systems may be executed within existing systems automation resources.

Negotiated changes that require more significant modifications to existing State data systems, extensive retooling of State program contractor and county data systems, and/or significant changes to the type of data that must be gathered to calculate reimbursement rates under the single rate structure would require additional allocation of State personnel and budgetary resources. At this time, those costs cannot be estimated given the number of unknowns related to the final single rate structure and the associated scope of automation changes that may be required.

Costs associated with the development of CalSPARK are not specific to rate reform and will not be counted as rate reform costs, as the development of the system is a necessary long-term infrastructure investment that is needed regardless of rate reform.

In addition to State and State program contractor automation changes, should rate reform ultimately require modifications to the county-administered CalSAWS system, additional consideration would need to be given to magnitude of these changes and any associated cost impacts.

## **Personnel Costs**

The CDSS and CDE anticipate an increase in workload for State staff to support implementation of the new rate structure through activities such as potential significant data system modifications, delivering training and technical assistance to State program contractors, rewriting business processes, amending contracts and evaluating the impacts of rate reform. Therefore, it can be expected that a time-limited increase in staffing resources will be needed to support the transition to the new rate structure. The level of investment in staffing resources is dependent upon how significant the negotiated changes are, and the time period over which changes will be implemented.

It is anticipated that time-limited program staffing demand will be highest in the months preceding and immediately following the roll-out of automation changes needed to fully

implement the new rate structure. It is also possible that additional information technology staff may need to be added to either or both Departments to support ongoing system maintenance and technical support.

State partners at the county and local level will also be impacted by the implementation of rate reform, and depending on the scope of changes required, may seek compensation for additional staff workload.

## Evaluation Costs

A framework for evaluating rate reform will be completed by the end of this year, after which CDSS will determine whether to conduct the evaluation in-house or hire an external evaluator. That decision will affect the projected cost of the evaluation, which will be shared in a future update to this report.

# 8. Conclusion

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California is now at the final phase of the alternative methodology process that was pre-approved in August 2023. The CDSS and CDE are fully engaged in planning for implementation of the new single rate structure, a much-anticipated reform that will help drive system improvements that enhance equity, improve equal access to care and improve outcomes for children, families and the workforce.

[WIC 10227.6 as amended by AB 176](#) requires that CDSS provide quarterly updates to the Legislature on the implementation of new reimbursement rates set under the alternative methodology, including any changes to the information provided in this report, beginning on October 1, 2024. This report addresses both the requirement of CDSS providing the Legislature with an implementation report within 60 days of ACF approval for the 2025-2027 CCDF State Plan and the required January 1, 2025 quarterly update. All reports will be publicly posted on CDSS' [Rate and Quality Website](#).