California State Assembly

Agenda

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

Assemblymembers Dr. Corey Jackson & David Alvarez, Chairs

Wednesday, April 23

1:30 P.M. – State Capitol, Rm 444

JOINT INFORMATIONAL HEARING

ITEMS TO BE HEARD

Item	Description	Page
6100 **5180**	**California Department of Education** **California Department of Social Services**	**3** **3**
Issues	1. The State of Preschool 2. Universal Transitional Kindergarten 3. Childcare & Preschool Funding Rates Oversight 4. Childcare & Preschool Quality Improvement & Workforce Support 5. Department of Social Services Child Care Budget Change Proposals 6. Non-Presentation Items	3 12 17 20 25 27

Agenda

Assembly Budget Subcommittee No. 2
on Human Services

Assemblymember Dr. Corey Jackson, Chair

Wednesday, April 23, 2025

Upon Adjournment of Joint Informational Hearing of
Assembly Budget Subcommittee No. 2 and Subcommittee No. 3

State Capitol, Rm 444

ITEMS TO BE HEARD		
Item	**Description**	**Page**
6100 **5180**	**California Department of Education** **California Department of Social Services**	**28** **28**
Issues	7. Child Care Rate Reform Transition Plan	28

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

Items To Be Heard

5180 California Department of Social Services
6100 California Department of Education

Issue 1: The State of Preschool

This panel will provide an update on one key objective of the California Master Plan for Early Learning and Care, in the context of the January Budget: Universal preschool access for all four-year-olds, and access for all three-year-olds experiencing poverty.

Panel

- Lupe Jaime-Mileham, California Department of Social Services (DSS)
- Stephen Propheter, California Department of Education (CDE)
- Sara Bachez, Children Now
- Nina Buthee, Every Child California
- Erik Saucedo, California Budget and Policy Center
- Jennifer Greppi, Parent Voices
- Edgar Cabral, Legislative Analyst's Office (LAO)

Background

The Master Plan

Published in December 2020, the California Master Plan for Early Learning and Care was intended to provide a concrete and prioritized roadmap for state investments through 2030. The Master Plan outlines four key objectives, tied to specific recommendations:

"*To achieve this vision by 2030, the Master Plan focuses on four key objectives:*

- *Improve the life outcomes of infants and toddlers by providing comprehensive early learning and care.*
- *Ensure that all families can easily identify and access a variety of quality early learning and care choices that fit the diverse needs of their children, their financial resources, and workday and nonstandard schedules.*
- ***Promote school readiness through preschool for all three-year-old children experiencing poverty and universally for all four-year-old children.***

- *Advance better outcomes for all children by growing the quality, size, and stability of the early learning and care workforce through improved and accessible career pathways, competency-based professional development supports, and greater funding.*

To achieve these objectives, the Master Plan has identified four policy goals that set high standards, create cohesion, fill gaps, and foster sustainability:

1. Unify programs to improve access and equity. Streamline requirements for birth through age three programs, providing access to care and learning for all three-year-olds experiencing poverty, and ***providing universal preschool access to all four-year-olds.***

2. Support children's learning and development by enhancing educator competencies, incentivizing, and funding career pathways, and implementing supportive program standards. Enhance standards and provide affordable and accessible pathways for the entire workforce to advance in their competency and compensation.

3. Unify funding to advance equity and opportunity. Adopt a new reimbursement and rate model that brings all types of care and learning support into one structure that acknowledges costs associated with quality, including characteristics of children and competencies of the workforce.

4. Streamline early childhood governance and administration to improve equity. Design and implement data systems that support positive impacts on the results and quality of care for children through sharing and integration of data that impact the ways in which families and the workforce experience the system.

Transforming the early childhood system will take time, intentionality through purposeful changes in the system, and significant resources—ranging from an additional $2 billion to $12 billion— supported through public investments, business contributions, philanthropy, and family fees. It will also require leadership and support not only by the present Governor and Legislature, but also by future policymakers who share their vision and commitment to a California For All Kids.[1]"

Preschool Access

California supports multiple "preschool" options: The Department of Social Services (DSS) administers all the CalWORKs Stages child care programs, the California Alternative Payment Program, General Child Care, and Migrant Child Care, which all may serve preschool-age children. CDE administers the State Preschool program. Transitional Kindergarten (TK) is administered directly by local education agencies (LEAs), and Head Start grants are administered by direct federal contracts to local agencies.

[1] California Master Plan for Early Learning and Care, December 2020 [Master Plan for Early Learning and Care: Making California For All Kids]

For purposes of this agenda, “preschool” is defined as the child care setting chosen by families for their 3-year or 4-year old child.

DSS Child Care and Development Programs. California offers subsidized child care for low-income families, including families participating in CalWORKs. For low-income families who do not participate in CalWORKs, the state prioritizes based on income, with lowest income families served first. To qualify for subsidized child care: (1) parents demonstrate need for care (parents working, or participating in an education or training program); (2) family income must be below 85 percent of the most recent state median income (SMI) ($89,659 annual income for a family of three) and (3) children must be under the age of 13.

Figure 1

Overview of Child Care Programs

Program	Description[a]
CalWORKs Child Care	Provides subsidized child care services to current and former CalWORKs families. Slots are available for all eligible families.
California Alternative Payment Program	Provides subsidized child care vouchers to eligible working families. Slots are limited by budget appropriation.
General Child Care and Development	Directly contracts with center-based and licensed family child care providers to serve working families eligible for subsidized care. Slots are limited by budget appropriation.
Family Child Care	Directly contracts with consortia of licensed family child care providers to serve working families eligible for subsidized care. Slots are limited by budget appropriation.
Migrant Child Care	Provides subsidized child care services to migrant families working in agriculturally related industries.[b] Services are provided throughout the Central Valley. Slots are limited by budget appropriation.
Care for Children With Severe Disabilities	Provides additional access to child care services for children under the age of 21 and with exceptional needs.[c] Program is located in the San Francisco Bay Area. Slots are limited by budget appropriation.
Emergency Child Care Bridge	Provides temporary child care services to children in foster care system and under age 13. Child care services are temporary until family finds longer-term child care solution.[d]

[a] Unless otherwise specified, child must be under age 13 and families must earn at or below 85 percent of the state median income to be eligible for subsidized child care programs. For example, a family of three must earn less than $89,659 annually in 2024-25 to be eligible for programs.

[b] Family earned at least 50 percent of their total gross income from employment in fishing, agriculture, or agriculturally related work during the 12 months immediately preceding the date of application for services.

[c] Child must have an individualized education program or an individualized family service plan issued through a special education program.

[d] Child care services provided up to 12 months, but may be extended for a compelling reason.

Source: LAO

The state's subsidized child care programs are primarily funded with state General Fund ($4.6 billion in 2025-26), with a substantial portion of costs also covered by federal Child Care and Development Fund (CCDF) ($2.3 billion in 2025-26). The state uses federal Temporary Assistance for Needy Families (TANF) funds to partially cover CalWORKs child care costs. The state draws down federal Title IV-E funds to partially cover Emergency Child Care Bridge program costs—referred to as the Bridge program, for children in foster care. The state also uses some Proposition 64 funding to cover child care programs.

Slot Expansion Plan. As part of the 2021 Budget Act, the Governor and the Legislature agreed to increase the number of child care slots by 206,500 across the California Alternative Payment Program (CAPP), General Child Care and Development, Migrant Child Care, and Emergency Child Care Bridge. Initially, these new slots were expected to be fully rolled out by 2025-26. The 2023 Budget Act delayed this slot expansion plan by one year, and then the 2024 Budget Act contained an additional partial delay.

The 2024 Budget Act also codified the revised slot expansion plan, adjusting for slots that had planned but unawarded or unfilled in prior years. Trailer bill language establishes the slot expansion plan, with future slot increases subject to appropriation:

Figure 2

State's Multiyear Child Care Expansion Plan

Number of New Child Care Slots by Year

Program	2021-22 Through 2024-25	2025-26	2026-27	2027-28	Totals
General Child Care	33,000	—	12,000	17,000	62,000
Alternative Payment	95,000	—	32,000	16,000	143,000
Migrant Alternative Payment	1,300	—	—	—	1,300
Emergency Child Care Bridge	500	—	—	—	500
Totals	**129,800**	—	**44,000**	**33,000**	**206,800**

Source: LAO

Governor's 2025-26 Budget

The January Budget proposes to maintain all existing investments in child care and preschool slots.

CDSS Child Care. As shown in the LAO Figure 3 below, the Governor's budget includes $7.1 billion for child care programs in 2025-26 - a decrease of $207 million relative to the revised 2024-25 levels. This change includes a $420 million increase in non-Proposition 98 General fund, which is more than offset by a $440 million decrease in Proposition 64 funds and a $186 million decrease in federal funding. The latter reductions are primarily due to the use of one-time carryover funds in 2024-25.

Figure 3

Child Care Budget

(Dollars in Millions)

	2023-24 Revised[a]	2024-25 Revised[b]	2025-26 Proposed[b]	Change From 2024-25	
				Amount	Percent
Expenditures					
CalWORKs Child Care					
Stage 1	$550	$588	$602	$14	2%
Stage 2[c]	420	546	599	53	10
Stage 3	559	541	524	-17	-3
Subtotals	($1,530)	($1,675)	($1,725)	($51)	(3%)
Non-CalWORKs Child Care					
Alternative Payment Program	$2,028	$1,990	$2,052	$61	3%
General Child Care[d]	1,255	1,495	1,594	99	7
Bridge program for foster children	94	107	94	-14	-13
Migrant Child Care	70	79	80	2	2
Care for Children With Severe Disabilities	2	2	2	—	6
Subtotals	($3,449)	($3,673)	($3,822)	($149)	(4%)
Support Programs	$1,578[e]	$1,929[f]	$1,523[g]	-$407	-21%
Totals	**$6,557**	**$7,276**	**$7,070**	**-$207**	**-3%**
Funding					
Proposition 98 General Fund[h]	$3	$2	$1	-$1	-37%
Non-Proposition 98 General Fund	3,173	4189	4,609	420	10
Proposition 64 Special Fund	270	642	202	-440	-69
Federal	3,111	2,443	2,257	-186	-8

[a] Reflects 2024-25 May Revision estimates with LAO adjustments.

[b] Reflects 2025-26 Governor's budget.

[c] Does not include $11.2 million provided to community colleges for certain child care services.

[d] Includes funding for family child care home education networks.

[e] Includes cost estimates for quality programs, child care infrastructure, Child and Adult Care Food Program, Child Care Providers United Retirement Benefit Trust, accounts payable, Whole Child Community Equity, court cases, and costs associated with 2023-24 memorandum of understanding (MOU) and parity agreement.

[f] Includes cost estimates for quality programs, Child and Adult Care Food Program, accounts payable, Whole Child Community Equity, and costs associated with 2023-24 MOU and parity agreement.

[g] Includes cost estimates for quality programs, Child and Adult Care Food Program, accounts payable, and Whole Child Community Equity.

[h] Reflects Proposition 98 funds for Child and Adult Care Food Program.

Source: LAO

The LAO Figure 4 below shows the Governor's proposed changes in child care spending. The largest year-over-year increase in spending is $698 million non-Proposition 98 General Fund that is effectively a placeholder funding amount intended to meet the statutory requirement that 2025-26 rates be no less than the reimbursement rates that were in effect on June 30, 2024. This placeholder amount is equivalent to the value of the monthly cost of care plus payments for child care providers. The specific methodology for allocating these funds would be established as part of the budget process, and would be subject to collective bargaining for family child care homes and license-exempt providers. The largest year-over-year decrease reflects $1 billion of several one-time and carryover funds that are expected to be spent in 2024-25.

Figure 4

Changes in Child Care Spending

(In Millions)

	General Fund				
	Prop. 98	Non-Prop. 98	Prop. 64	Federal	Total
Monthly cost of care plus payments	—	$698	—	—	$698
Annualization of General Child Care slot increases	—	76	—	—	76
COLA for child care programs	—	59	—	—	59
CalWORKs caseload and cost of care	—	108	—	-$57	51
Child and Adult Care Food Program caseload and COLA	-$0.7	0.2	—	16	16
COLA (2.43 percent) for Resource and Referral and LPCs	—	1	—	—	1
Technical adjustments	—	48	-$32	-109	-86
One-time adjustments[a]	—	-572	-409	-35	-1,016
Totals	**-$0.7**	**$420**	**-$440**	**-$186**	**-$207**

[a] Includes prior-year, one-time costs associated with quality carryover, SB 140 carryover, child care infrastructure program, court cases, temporary family fee waiver, and initial CCPU retirement fund deposit.

COLA = cost-of-living adjustment; LPCs = Local Planning Councils; and CCPU = Child Care Providers United.

Source: LAO

The January Budget also maintains all recent expansions in the California State Preschool Program (CSPP), and provides $2.9 Billion in total funds. Of this amount, $1.9 billion is Proposition 98 General Fund for programs offered by LEAs and $1 billion is for programs offered by non-LEAs. Overall, as the LAO Figure 5 shows, the Governor's budget increases State Preschool funding by $684 million compared to 2024-25. The largest year-over-year change comes from restoring a $673 million reduction made in 2024-25 to reflect the amount of funds that would otherwise have gone unused. The budget also includes $29 million to provide a 2.43 percent COLA to certain providers (those funded on the SRR). These increases are partially offset by an $18 million decrease related to one-time spending provided 2024-25.

Figure 5

2025-26 Changes in State Preschool Funding

(In Millions)

	General Fund		
Change	Prop. 98	Non-Prop. 98	Total
Restoration of one-time reduction	$519	$153	$673
Cost-of-living adjustment (2.43 percent)	19	10	29
Removal of one-time 2024-25 spending	—	-18	-18
Totals	**$539**	**$145**	**$684**

Source: LAO

The Governor's Budget proposes augmentations to the Universal Transitional Kindergarten program, which will be discussed in the next panel.

Staff Comments

The State Master Plan's goals, to support all four year old children, and all low-income three-year old children in a "preschool" setting are ambitious, and the state is continuing to make progress.

With approximately 150,000 income-eligible three-year olds, a key question continues to be: what new capacity is necessary to achieve the Master Plan's goal?

In the final year of UTK expansion, the role of preschool options for four-year olds continues to evolve:

Number of Four-Year-Old Children Enrolled in Child Care and Preschool Programs in 2023

Program	Number of Children
Child Care and Development	
Alternative Payment	14,883
CalWORKs Stage One	6,207
CalWORKs Stage Two	3,647
CalWORKs Stage Three	3,542
General Child Care	1,125
Family Child Care Home Network	372
Migrant Child Care	302
Migrant Alternative	294
CalWORKs Stage Two (California Community Colleges)	133
Total	**30,505**
Preschool	
Transitional Kindergarten	151,336
Part-Day State Preschool	42,427
Full-Day State Preschool	22,056
Head Start	21,396
Total	**237,215**
Total (All Programs)	**267,720**

Note: Enrollment numbers may include duplicates for children in multiple programs. Excludes children in the Handicapped Child Care Program. California Community College CalWORKs Stage Two reflects an estimate for the fall 2023 school term. Preschool enrollment data follow CSPP statutory age definitions. Head Start enrollment reflects cumulative counts of all four-year-old children served during the program year.

Source: California Department of Social Services, California Department of Education, California Community Colleges Chancellor's Office, Office of Head Start

California Budget & Policy Center

Suggested Questions:

1. What are the Administration's priority areas for the Master Plan, not yet achieved, in regards to child care for children ages zero to five?

2. What is the access landscape for preschool for 3 year olds? What percentage of low-income 3 year olds now have access, per the Master Plan goals?

3. What more do preschool providers need, to open appropriate spaces for 3 year olds (and 2 year olds) in the context of UTK?

4. What is needed to support access to high quality preschool opportunities that meet both child development and parent employment needs?

5. How are preschool deserts being identified and addressed?

6. How is the expansion of eligibility for CSPP to 2 year olds impacting the system? Access for families?

7. Why does the state charge licensing and local fees for opening or expanding child care in care deserts? Would waiving these fees provide incentive?

Staff Recommendation: Information only.

Issue 2: Universal Transitional Kindergarten

This panel will hear the Governor's January Budget proposals to fully implement Universal Transitional Kindergarten.

Panel

- Hanna Melnick, Learning Policy Institute
- George Harris, DOF
- Edgar Cabral, LAO
- Stephen Propheter, CDE

Background

Transition Kindergarten began in the 2012-13 school year, as part of an overhaul to kindergarten age eligibility, defined as the "first year of a two-year kindergarten program." The original TK eligibility was limited to children who would have otherwise been age-eligible for kindergarten under prior law (born between September 2 and December 2).

The Governor's Master Plan on Early Learning and Care, as published in December of 2020, called for universal preschool access for all four-year olds in the year prior to kindergarten enrollment. As one key step toward this Master Plan goal, the 2021-22 Budget Act authorized Universal Transitional Kindergarten – eligibility for all children to enroll in TK the year prior to kindergarten eligibility, regardless of income.

Statute gradually expands TK eligibility from 2022-23 through 2025-26. The LAO table below shows the expansion schedule. At full implementation in 2025-26, a child who has their fourth birthday by September 1 will be eligible for TK, making the grade available to all four-year olds and young five year olds in the year prior to kindergarten enrollment.

Transitional Kindergarten Expansion Schedule

Year	Eligibility
2021-22	Must have fifth birthday between September 2 and December 2.
2022-23	Must have fifth birthday between September 2 and February 2.
2023-24	Must have fifth birthday between September 2 and April 2.
2024-25	Must have fifth birthday between September 2 and June 2.
2025-26	Must have fourth birthday by September 1.

Note: Some school districts may allow younger students who do not meet the criteria above to enroll in transitional kindergarten. These students do not generate state funding until their fifth birthday and must turn five before the end of the school year.

Source: LAO

This plan is anticipated to cost approximately $2.7 billion at full implementation in 2025-26 (compared to the cost of TK in 2020-21), though costs will be driven by actual TK student enrollment in the 2025-26 Budget Year. The Legislature and the Governor have reached an agreement to cover these costs by “rebenching” (adjusting) the Proposition 98 formulas through 2025-26 to increase the share of General Fund revenue allocated to schools, to accommodate the enrollment growth in UTK.

The 2023-34 Budget Act expanded existing early TK (ETK) policy, to allow children born between June 3th and September 1st to be enrolled in UTK the year prior to kindergarten eligibility, under specific policy conditions.

Statute specifies that eligibility for TK does not affect a family’s eligibility for other subsidized preschool or child care programs. For example, if a child is eligible for TK and State Preschool, the family could choose to enroll the child in either of the programs.

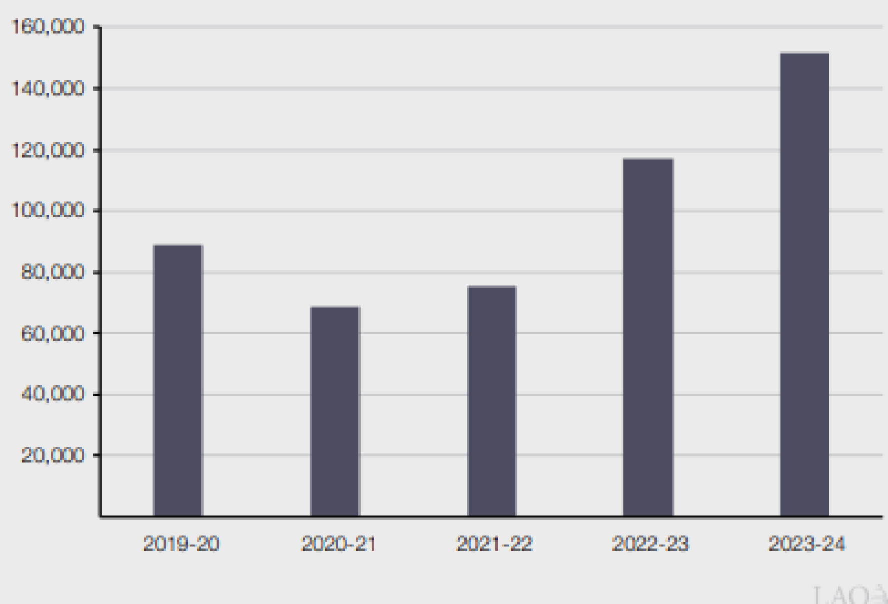
TK Expansion & Funding

In 2023-24, 151,500 students across the state were enrolled in TK. This reflects an increase of 62,600 students (70 percent) from 2019-20, the year prior to the pandemic:

Figure 2

Transitional Kindergarten Enrollment

Census Day Enrollment



Similar to all other K-12 students, eligible TK students generate attendance-based funding through the Local Control Funding Formula (LCFF). The LCFF includes a per-student base grant that varies by grade level. In 2024-25, the base grant for students in TK through third grade is $10,025 per average daily attendance (ADA). The LCFF also includes a grade span adjustment for students in TK through third grade that is equal to 10.4 percent of the base grant ($1,043 per ADA in 2024-25). To receive this adjustment, districts must maintain average TK through third grade class sizes of 24 students or fewer for each of their school sites—unless the district has a collective bargaining agreement for a larger class size.

Beginning in 2021-22, districts can no longer collectively bargain larger class sizes for TK and must maintain average TK class sizes of 24 or less. In 2024-25, TK students generate a total of $11,068 per ADA from the base grant and grade span adjustment. Districts also receive LCFF supplemental and concentration grant funding for eligible TK students who are an English learner, foster youth, or from a low-income family. We estimate the state will provide $2.3 billion Proposition 98 General Fund for TK through LCFF base (including base grant adjustment), supplemental, and concentration grant funding in 2024-25.

TK Adult-to-Student Ratio Requirements. In addition to setting a maximum TK class size of 24, the 2021-22 budget agreement set minimum requirements for the number of adults required in a TK classroom. These requirements bring the adult-to-student ratio closer to the ratios in State Preschool and other programs that serve four-year olds (typically one adult for every eight students). Beginning in 2022-23, districts must maintain, on average, 1 adult for every 12 TK students at each school site. In 2024-25, districts will receive $3,077 per TK ADA as an add-on to the LCFF base grant to cover the associated costs of this requirement. We estimate the state will provide about $500 million Proposition 98 General Fund for this add-on in 2024-25. Due to the class size and staffing ratio requirement, TK classrooms typically have 24 students or fewer, with one credentialed teacher and one instructional aide. Starting in 2025-26, state law requires the adult-to-student ratio be reduced to, on average, one adult for every ten students. State law also specifies it is the Legislature's intent to provide additional funding for districts to meet this reduced staffing ratio requirement. Districts incur penalties if they do not comply with TK class size and the staffing ratio requirement. In the nearby box, we describe the TK penalties in more detail.

Additional Requirements for TK Teachers Scheduled to Take Effect Next Year. Starting August 2025, state law requires TK teachers to have either 24 units in early childhood education and/or child development, a child development permit, an early childhood education specialist credential, or comparable experience in a classroom setting with preschool-aged children. (These requirements are in addition to the credential required for elementary school teachers.) Districts will incur penalties if they do not comply with these requirements. These additional requirements were initially set to start August 2020, but have been delayed several times.

State Has Supported TK Expansion Through Several Initiatives. In 2021-22 and 2022-23, the state provided a total of $1.2 billion in one-time funding to support TK expansion. These augmentations include:

Facility Support ($590 Million). In 2021-22, the state provided $490 million one-time non-Proposition 98 General Fund to construct or retrofit early education facilities. Projects could be used to support full-day kindergarten, TK, or district-operated State Preschool facilities. In 2022-23, an additional $100 million was provided.

Planning Support ($500 Million). In 2021-22, the state provided $200 million Proposition 98 General Fund to all local education agencies (LEAs)—districts, charter schools, and county offices of education—that operate kindergarten programs. Funds could be used for a variety of purposes such as recruitment, training, and materials. In 2022-23, an additional $300 million was provided for these purposes.

Teacher Support ($100 Million). In 2021-22, the state provided $100 million Proposition 98 General Fund for a competitive grant that LEAs could use to increase the number of highly qualified State Preschool and TK teachers.

The Governor's 2025-26 Budget

Increases Funding by $1.1 Billion for TK Expansion. For 2025-26, the Governor's Budget provides $1.1 billion to fund the additional students anticipated in the final year of TK expansion. The budget assumes that the statewide attendance for TK students will be 229,200 in 2025-26, an increase of 60,000 (37 percent) compared with attendance in 2024-25. This $1.1 billion increase consists of two parts: (1) $860 million to support the LCFF funding generated by additional TK students and (2) $206 million for the add-on associated with maintaining a 1-to-12 adult-to-student ratio. The budget assumes this add-on is $3,152 for each student.

Increases Funding by $746 Million to Meet 10:1 Staffing Ratios in TK Classrooms. In addition to covering the cost of additional students, the Governor proposes to increase funding for the requirement in 2025-26 that districts implement a ratio of at least one adult for every ten students in TK classrooms. The budget proposes to increase the add-on amount to $6,404 per student, an additional $3,252 above current law. This would increase total funding for the TK add-on by $746 million, for a total add-on cost of $1.5 billion (this includes $206 million described above and $500 million included in the 2024-25 budget).

LAO Comments

Recommend Providing a Lower Amount of Funding for Add-On Costs. The Governor's proposed add-on funding to meet the one-to-ten staffing ratio is likely higher than the costs of the requirement. We developed two estimates of staffing costs aligned with the two main ways districts are likely to adapt to the new requirement. One estimate assumes that districts keep TK class sizes at 24 and add a third adult in the classroom, which would effectively result in a staffing ratio of one adult for every eight students. We estimate this approach would cost $196 million less than the administration's proposed funding. A second estimate assumes districts reduce TK class sizes to 20 and keep two adults in each classroom. We estimate this would cost $410 million less than the administration proposes (though districts may have some associated one-time costs to increase the number of classrooms). We recommend the Legislature adopt one of these two alternatives, which would free up Proposition 98 funding the Legislature could use for other school priorities.

Staff Comments

Access to UTK. Do parents know their children are eligible for free PreK? Take-up rates remain low in many LEAs across California which calls into question whether parents know their children are eligible, and are LEAs building attractive TK options for four-year old children. Is there a necessary role for the state, in promoting this new universal grade?

Suggested Questions:

1. What is the current "uptake" rate amongst each eligible student age cohort, for UTK? What are the enrollment trends?
2. What does the Administration estimate to be the 2025-26 "uptake" rate for UTK?
3. Are LEAs struggling with hiring and placing qualified TK teachers?
4. Is there anything that the state can do to further support LEAs as you implement the expansion of high quality transitional kindergarten?
5. Is there anything additional needed to support preschool systems adapt and adjust to UTK implementation and Expanded Learning options?
6. Is there a need to better promote UTK/UPK options to parents? How?
7. What are CDE's future UTK implementation survey plans?

Staff Recommendation: Hold Open.

Issue 3: Childcare & Preschool Funding Rates Oversight

This panel will provide an update on the development process for an Alternative Methodology for funding all child care and preschool program rates, and the Governor's Budget proposal for a cost of living adjustment.

Panel

- Krishan Malhotra, DOF
- George Harris, DOF
- Dylan Hawksworth-Lutzow, LAO
- Jackie Barocio, DSS
- Stephen Propheter, CDE

Background

Rate Reform

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

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

The Governor's 2025-26 Budget

As discussed at the February hearing, there is no proposal in the Governor's January Budget for either an alternative methodology-based reimbursement rate system, or a transition plan until an alternative methodology-based rate system is available. The hold-harmless provision in the 2024-25 Budget Act, for all child care reimbursement rates, is in effect in the January Budget, despite a lack of methodology shift proposal.

The January Budget does include a cost of living adjustment proposal, based on current statutory requirements, for the SRR-based programs, and the Alternative Payment Programs:

The Governor's Budget includes $37.9 Million for a 2.43 Percent COLA to SRR. Of this amount, $19.3 million is Proposition 98 General Fund and $18.6 million is non-Proposition 98 General Fund. After applying the COLA, the administration projects that providers in three additional counties would be funded based on the SRR, resulting in a total of 45 counties funded based on the SRR.

The Governor's Budget also provides $49.6 Million for an Alternative Payment Programs COLA, to fund a 2.43 percent statutory COLA. Of this amount, $48.7 million is for CAPP and $904,000 is for CMAP.

LAO Comments

Standard Reimbursement Rate:

COLA Policy Effectively Prioritizes Rate Increases for Lower-Cost Counties. Prior to 2021-22, when the SRR was the only reimbursement structure for direct contract providers, providing a COLA was a reasonable way to adjust rates to ensure the state was adequately covering provider costs. However, under the state's current approach—where direct contractors get the higher of SRR or RMR rates—the only providers that receive an annual COLA are those with rates that are higher than the 75th percentile of what private child care providers in their county charge based on the 2018 market survey. For example, in 30 of the 42 counties where direct contractors are currently funded on the SRR and receive an annual COLA, the SRR is higher than the 90th percentile of the regional market rate for four-year olds in full-time care.

Recommend Repealing COLA. In our view, there is no compelling policy reason for prioritizing funding for providers that already receive rates that are relatively high compared to the private market in their county. As a result, we recommend the Legislature repeal the required COLA for the SRR. This would free up $37.9 million ($19.3 million Proposition 98 General Fund and $18.6 million non-Proposition 98 General Fund) in 2025-26 that could be directed to other legislative priorities. Moving forward, the rates for these providers would be set at the discretion of the Legislature, similar to all other direct contract providers.

California Alternative Payment Program:

COLA Approach for Voucher-Based Programs Not Well-Targeted to Program Cost Pressures. In our view, providing a statutory COLA to AP agencies' operational costs is reasonable, as these agencies face inflationary cost pressures in administering voucher-based child care programs. However, there is no clear rationale for applying a COLA to the portion of funding that covers child care provider payments as these payment amounts are typically adjusted through other mechanisms in the state budget. For example, rates are set in statute and, when the Legislature has increased rates in the past, it has provided associated increases in funding to address the higher costs. Also, payments are adjusted when the state provides additional funding for new child care slots as part of the annual budget. As a result, under the current COLA structure—where it is applied to the entire AP agency allocation, rather than only the portion related to operational costs—the amount of COLA funding likely exceeds the amount that is needed to cover inflationary cost increases.

Consider Modifying COLA. Given the COLA is not targeted to AP agency operational costs (the component of these programs that faces inflationary costs), the Legislature may want to consider modifying the statutory COLA to better align funding with costs. The Legislature could choose to continue providing an annual COLA only for AP agency operational costs, in recognition of some of the inflationary cost pressures that these agencies likely face. More broadly, the Legislature might also want to consider changes to how AP agencies are funded. In a previous analysis of AP agency funding, we make several recommendations that would better align funding for AP agencies with the costs to administer voucher-based programs

Staff Comments

Suggested Questions:

1. What is the timeline for publicly vetting the Alternative Methodology?

2. Will the Administration submit a May Revision proposal for key parts of Alternative Methodology, and a plan to shift child care rates to this Alternative Methodology?

3. The Administration has reported a multi-year deficit based on the requirements of current law. Does the Administration's fiscal assumptions include funding aside, over the multi-year, for the increased costs of child care reimbursement rates aligned to an alternative methodology?

4. Does providing a COLA for only SRR programs make sense in a rate reform context?

5. Can the statutory COLA for CAPP transfer to annual rate increases?

Staff Recommendation: Hold Open.

Issue 4: Childcare & Preschool Quality Improvement & Workforce Support

This panel will provide an overview of existing state investments and policy in ECE educator support, and program quality improvement systems.

Panel

- Lupe Jaime-Mileham, DSS
- Stephen Propheter, CDE
- George Harris, DOF
- Krishan Malhotra, DOF
- Dylan Hawksworth-Lutzow, LAO

Background

Goal #2 in the Master Plan states: Support children's learning and development by enhancing educator competencies, incentivizing, and funding career pathways, and implementing supportive program standards. Enhance standards and provide affordable and accessible pathways for the entire workforce to advance in their competency and compensation.

CCDF Rules Require States Spend a Certain Amount of Funding on Quality Improvement Activities. As a condition of receiving CCDF dollars, the federal government requires states use at least 9 percent of total CCDF dollars on general quality improvement activities and at least 3 percent of total CCDF dollars on quality improvement activities specific to infant and toddler child care services. Allowable quality improvement activities include training and professional development opportunities for child care providers; developing and implementing a quality rating system; and supporting child care providers to develop and adopt high-quality program standards related to health, mental health, cognitive development, and physical activity.

The administration is still in the process of finalizing the list of quality improvement activities that would be supported by CCDF quality funds in 2025-26. In the past, CCDF quality plans were generally finalized after the Legislature approved the associated funding through the annual budget process. Pursuant to a change in the 2024-25 Budget Act, CDSS will provide an updated spending plan at May Revision.

Here are the most recent postings on the CDSS website, and staff will provide an update at this hearing:

Child Care Quality Support

REASON FOR YEAR-TO-YEAR CHANGE:

The increase in Quality Improvement is due to an alignment with the CCDF minimum spending plan requirement. The increase in the CRRP and CLPC programs is due to the application of the 1.07 percent COLA. The increase in the Quality Carryover reflects the anticipated amount of unspent Federal Quality Funds. There are no changes for the CHST or CCIP programs.

EXPENDITURES:

(in 000s)

FY 2023-24

Item 101 – Child Care and Development	Total	Federal	State	County	Reimb.
Quality Improvement	$74,420	$72,927	$1,493	$0	$0
Resource and Referral	38,624	3,402	35,222	0	0
Child Health and Safety Training	1,478	1,478	0	0	0
Local Planning Councils	7,575	7,073	502	0	0
California Child Care Initiative	4,221	4,026	195	0	0
Quality Carryover	250	250	0	0	0
Item 101 Total	$126,568	$89,156	$37,412	$0	$0

FY 2024-25

Item 101 – Child Care and Development	Total	Federal	State	County	Reimb.
Quality Improvement	$75,586	$73,732	$1,854	$0	$0
Resource and Referral	39,001	3,402	35,599	0	0
Child Health and Safety Training	1,478	1,478	0	0	0
Local Planning Councils	7,581	7,073	508	0	0
California Child Care Initiative	4,221	4,026	195	0	0
Quality Carryover	30,359	30,359	0	0	0
Item 101 Total	$158,226	$120,070	$38,156	$0	$0

Has Source: CDSS Website

Child Care Development Fund Quality Plan

CCDF QUALITY PLAN	FY 2024-25
Quality Plan: INFRASTRUCTURE	***FY 2024-25***
License Enforcement for Child Care Programs (Department of Social Services)	$ 34,400,000.00
Consumer Education (Resource & Referral Network)	$ 39,001,512.00
Local Child Care Planning Councils (LPCs)	$ 7,570,512.00
Child Care Initiative Project (Support Contract to R&R's)	$ 4,220,601.00
Child Care Initiative Project (Network Administration)	$896,843
Product Development *	$ 7,328,645.00
Subsidized TrustLine Applicant Reimbursement	$ 335,689.00
Trustline DOJ	$ 506,816.00
800-KIDS-793 Phone Line for Parents & Consumer Ed Database (2 Contracts - Non IT & IT)	$100,000
MyChildCarePlan.org (MCCP)	$2,000,000
Childcare Connect	$ 240,000.00
Infrastructure: Low Income Investment Fund	$5,045,892
First 5 CA - Grant Data Portal	$42,400
Systems and Administration - Early Learning Needs Assessment Tool (ELNAT)	$ 150,323.00
Quality Plan: PROFESSIONAL DEVELOPMENT WORKFORCE	***FY 2024-25***
Quality Counts California Quality Improvement Grant (Workforce Pathways Grant) *	$ 23,382,498.00
Child Development Training Consortium (CDTC)	$ 3,187,969.00
California Early Childhood Mentor Program (CECMP)	$ 3,909,622.00
Coaching Companion	$ 454,521.00
CA Preschool Instructional Network (CPIN)	$ 3,235,951.00
Family Child Care At Its Best Project	$ 981,702.00
Dual Language Learners	$ 827,521.00
Infant and Early Childhood Mental Health Consultation (IECMHC)	$ 5,241,809.00
Program for Infant Toddler Care (PITC)	$ 6,176,428.00
Supporting Inclusive Early Learning Inclusion (SEIL) *	$ 3,113,000.00
Desired Results Developmental Profile (DRDP)	$ 4,761,858.00
California Early Education Training and Technical Assistance (CEETTA)	$3,757,536
Berkeley Workforce Contract	$ 305,166.00
Quality Plan: QUALITY RATING AND IMPROVEMENT SYSTEM	***FY 2024-25***
Quality Counts California Quality Improvement Grant (Block Grant) *	$ 27,450,000.00
Preventative Health & Safety Regional Training Network (UCSF)	$ 243,875.00
Preventative Health & Safety Regional Training Network (CHST)	$ 1,477,961.00

Provider Health & Safety Grants (R&Rs)-(CPHSP)	$ 1,529,275.00
Research and Data Development (RADD)	$ 900,000.00
Early Childhood Integrated Data System (ECIDS)	$ 0.00
Total Quality Amount:	$ 192,775,925.00
Allocations are still being discussed for this plan	
All contracts with an asterisk * have a portion of FY2022-23 Quality Carryover added, to total $25,000,000 additional funds to be spent in FY2024-25	

Source: CDSS Website, April 2025 update

Staff Comments

The State needs to strengthen workforce capacity to engage in quality interactions with children across the private and public sectors, and all provider types. Implement an inclusive, competency-based system of education and training that ensures that all providers of publicly funded care receive support and incentives to develop key competencies and skills to engage effectively with infants, toddlers, and other young children.

In light of Master Plan recommendations, and long-standing advocacy in the child care field, the State should consider a more systemic approach to professional supports, including professional development paid time and infrastructure, leveraging regional community college and Local Planning Council capacity, and leveraging Quality Improvement Systems and CCDF funding for a more holistic approach for all providers.

Suggested Questions:

1. How should the state better imbed professional development and support into all child care programs?
2. How can the state prioritize areas for professional support, including but not limited to Dual Language Learner supports and inclusive classroom approaches?
3. Is the state's quality plan a systemic approach?
4. Does rating programs still serve a purpose in the CA QRIS system?
5. What will happen without the state Workforce Registry, in light of expiring funding?
6. How can the state strengthen the workforce pipeline into licensed care?
7. Are there program improvements to CCIP needed for effectiveness at scale?
8. How have recent funding CCDBG increases for Local Planning Councils and Resource & Referral agencies impacted family services? In the online era, should the state revisit

minimum Resource & Referral standards, for parent information access and online accessibility?

9. Are Local Planning Councils providing all the necessary data to address child care deserts during recent slot expansions?

10. Are there Master Plan recommendations relevant to these Quality Plan investments?

11. How are Quality Plan investments interacting with the CSPP QRIS Block Grant?

Staff Recommendation: Information Only.

Issue 5: Department of Social Services Budget Change Proposals, Child Care

This panel will discuss Budget Change Proposals for the Department of Social Services' child care programs.

Panel

- Krishan Malhotra, DOF
- Dylan Hawksworth-Lutzow, LAO
- Lupe Jaime-Mileham, DSS

Background

The Governor's 2025-26 Budget

The Governor's proposed 2025-26 budget contains the following two budget change proposals for child care and development under CDSS:

1. Child Care Development Fund Authority. CDSS requests a technical change to increase ongoing federal fund authority by $34.4 million to support the Child Care Development Block Grant (CCDBG) program. CDSS currently receives this funding through a budget transfer with CDE.

2. Child Care Policy, Program, Administrative, and Support Staffing Needs. CDSS requests 33 federally funded permanent positions and an increase in federal expenditure authority of $6.4 million in 2025-26 and $6.2 million ongoing to provide policy, program, and administrative support to child care and development programs.

Both proposals are summarized in the attached BCPs.

Table A: Child Care Policy, Program, Administrative, and Support Staffing Needs

Position Description	Personnel Years
Total Positions Requested	**33.0 PY**
Office Technician – Data, Research, and Planning Office	1.0 PY
Research and Data Analyst II – Data, Research, and Planning Office	1.0 PY
Office Technician – Policy Office	1.0 PY
Child Development Consultant – Policy Office	1.0 PY
Office Technician – Central Operations Branch	1.0 PY
Associate Governmental Program Analyst – Grants Unit	1.0 PY
Staff Services Manager I – Grants Unit	1.0 PY
Staff Services Manager I (Specialist) – Child Care Administration Bureau (Audits & Strategic Gov.)	1.0 PY
Staff Services Manager I (Specialist) – Equity/Tribal	1.0 PY
Staff Services Manager I (Specialist) – Provider Unit	2.0 PY
Education Administrator I – Program Quality Improvement	1.0 PY
Child Development Consultant – Program Quality Improvement	3.0 PY
Staff Services Manager I (3 Specialists, 1 Supervisor) – Program Quality Improvement	4.0 PY
Associate Governmental Program Analyst – Program Integrity and Improvement	2.0 PY
Office Technician – Child Development Fiscal Services	1.0 PY
Staff Services Manager I – Child Development Fiscal Services	1.0 PY
Staff Services Manager I (Specialist) – Child Development Fiscal Services	1.0 PY
Associate Governmental Program Analyst – Child Development Fiscal Services	3.0 PY
Staff Services Manager II – Child Development Fiscal Services	1.0 PY
Staff Services Manager III – Child Development Fiscal Services	1.0 PY
Staff Services Manager I – Human Resources Support	1.0 PY
Associate Governmental Program Analyst – Human Resources Support	1.0 PY
Associate Governmental Program Analyst – Direct Service Contracts	1.0 PY
Staff Services Manager I (Specialist) – Community Care Licensing	1.0 PY

Issue 6: Non-Presentation Items

The Department of Finance will not be formally presenting the following items but is available to answer any questions from the Subcommittee related to these budget proposals.

1. **Education Trailer Bill Proposal: Inclusive Early Education Expansion Program**. The Governor's Budget proposes to update statutory language for state-level systems funding available under the program to $10 million one-time, based on total funding available from prior budgets.

2. **Human Services Trailer Bill Proposal**: The Governor's Budget proposes to update statutory language to extend a family's period of eligibility for subsidized child care when a family adds an additional child to the family, ensuring all children receive a minimum of 12 months of eligibility.

3. **Human Services Trailer Bill Proposal**: The Governor's Budget proposes to update statutory language to delete a requirement for a CDSS to report on the number children receiving part-day preschool and wraparound childcare services.

4. **Human Services Trailer Bill Proposal**: The Governor's Budget proposes to update statutory language to reduce the documented need for reimbursements to child care providers based on a daily rate from six hours to five or more, as specified.

5180 California Department of Social Services
6100 California Department of Education

Issue 1: Assembly Rate Reform Transition Plan

This panel will provide an overview of the Assembly's proposed transition plan, to fund child care reimbursement rates until an Alternative Methodology can be authorized and funded, and prepare state and local systems to implement the pending Alternative Methodology rates.

Panel

- Dylan Hawksworth-Lutzow, LAO
- Jackie Barocio, DSS
- Stephen Propheter, CDE

Background

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Alternative Rate Methodology

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

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

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

SB 140 requires the following timelines for the new methodology:

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

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

Legislature on progress made to conduct and alternative methodology and cost estimation model.

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

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

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

> *(h) The Governor and the Legislature shall, by no later than July 1, 2025, establish reimbursement rates based on the alternative methodology. Provider reimbursement rates shall not be reduced from the reimbursement rates that were in effect on June 30, 2024, pursuant to Sections 10280 and 10374.5 of this code and Section 8242 of the Education Code, inclusive of the cost of care plus rates established pursuant to subdivision (b) of Section 10277.1 and subdivision (b) of Section 10277.2*[2]*.*

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

Recent and Upcoming Steps in the Alternative Methodology Process

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

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

• ***December 8, 2024:*** *The State and CCPU began re-negotiation of the current Agreement between the parties that is in effect from September 13, 2023, to July 1, 2025, which includes a provision for good faith negotiations to restructure the current subsidy reimbursement rates, and the associated funding, to be applied to family child care providers consistent with the ACF-approved Single Rate Structure for family child care providers.*

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

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

• ***July 1, 2025:*** *This is the date by which ACF requires rates informed by the alternative methodology to be set. If the new reimbursement rates informed by the cost of care based on the alternative methodology do not take effect on July 1, 2025, CDSS is required to provide the Legislature with a timeline for transitioning from current rates to the new single rate structure. Additionally, during this transition period, state law specifies that rates cannot fall below rates that were in effect on June 30, 2024, inclusive of the monthly Cost of Care Plus rates.*[3]

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

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

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

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

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.

Alternative Methodology Plan Missing

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

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

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

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

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

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

Transition Plan Missing

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

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

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

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

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

Rates & Child Care Funding Held Flat

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

Assembly Budget Committee Rate Reform Transition Plan Proposal

It is the intent of the Assembly Budget Subcommittee on Human Services to adopt a transition plan for funding child care program rate increases, consistent with the existing single rate system, until such a time when new rates can be funded under an Alternative Methodology, and recognize the true cost of high quality child care.

This Rate Reform Transition Plan (Transition Plan) allows for A) interim funding rate increases for all child care programs on the single rate system, until rates can be established pursuant to an Alternative Methodology, and B) provides CDSS and CDE one-time transition support for the pending Alternative Methodology in the Budget Year.

The Transition Plan would codify a fiscal policy for establishing annual interim rate increases until an Alternative Methodology-based rate system is codified and ready for funding:

1) Provide an interim rate reform adjustment to the existing RMR rates table, as a percentage increase to each rate, beginning January 1 of the Budget Year.
2) Provide an interim rate reform adjustment to SRR programs, beginning January 1 of the Budget Year.
3) Maintain current law, that the single rate is SRR or RMR, whatever is higher.
4) Maintain current law, “cost of care” rate supplements, annualized.
5) Update the statutory “hold harmless” to include any interim funding rate increases, to establish the floor for new rates established pursuant to the Alternative Methodology.
6) Eliminate the private market cap for state reimbursement rates in RMR statute.

The Transition Plan would also provide one-time support in the Budget Year for state and local systems to begin Alternative Methodology transition, once codified:

7) With JLBC approval, authorize one-time funding for CDSS and CDE systems transition funding, for data system changes, pay and contract systems changes, and 2026 cost study contract authority.
8) Require CDSS & CDE to collect data on parent co-pays, by county, program type, and rate type, and report annually to Legislature, beginning January 1, 2026.

Staff Recommendation: Request CDSS, CDE, and LAO to provide the Subcommittee with cost estimates for #7 on or before May 15, 2025, to prepare state and local systems.