

California State Assembly



Agenda

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

Assemblymembers Dr. Corey Jackson & David Alvarez, Chairs

Tuesday, March 24, 2026

9:00 A.M. – State Capitol, Rm 447

JOINT HEARING

ITEMS TO BE HEARD		
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6100	California Department of Education	
5180	California Department of Social Services	
Issues	1. Childcare & Preschool Funding Rates & COLA 2. Childcare & Preschool Caseloads & Service Levels 3. Childcare Infrastructure Grant Proposal 4. Childcare & Preschool Trailer Bill Proposals 5. Childcare & Preschool Prospective Pay Oversight 6. Department of Social Services Child Care Budget Change Proposals	2 11 18 20 22 25

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: Childcare & Preschool Funding Rates & Cost of Living Adjustment

This panel will provide an update on the development process for an Alternative Methodology and single rate system for funding all child care and preschool program rates, the Governor's Budget proposal for a cost of living adjustment (COLA), and trailer bill proposals for the Alternative Methodology and COLA.

Panel

- Krishan Malhotra, Department of Finance (DOF)
- Idalys Perez, DOF
- Dylan Hawksworth-Lutzow, Legislative Analyst's Office (LAO)
- Jennifer Troia, Department of Social Services (CDSS)
- Kimberly Rosenberger, California Department of Education (CDE)

Background

Rate Reform

California has three different statutory child care and preschool provider rates: 1) the Regional Market Rate (RMR), 2) the Standard Reimbursement Rate (SRR), and 3) the Cost of Care Plus payment. 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. The Cost of Care Plus rate is a monthly, per-child payment supplement above the RMR or SRR rate, with regional, program, and child age differences.

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 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 consisted primarily of monthly per-child “cost of care plus” rate supplements above the RMR or SRR rate, for all child care and preschool programs.

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.

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.

The 2025-26 budget package extends this requirement through July 2027 and requires the quarterly reports to also include reporting on progress toward prospective pay and enrollment-based funding. The MOU between the state and CCPU also requires the convening of a Joint Labor Management Committee to meet monthly to provide recommendations by November 30, 2025 on the implementation of a single rate structure based on the alternative methodology.

The most recent CDSS Transition Report to the Legislature, for the 4th quarter of 2025, can be found as Attachment A. The next quarterly update will be submitted to the Legislature and posted online in April 2026.

Alternative Methodology Plan Missing

With the submission of the Governor's Budget and the submission of the Administration's Implementation Report on the Single Rate Structure, 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.

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.

New reimbursement rates for child care providers will need to be funded as part of the annual budget process. The P5 cost model suggests 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

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.

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.

The 2025 Budget Act made a one-time appropriation of \$21.8 million in federal Child Care Development Funds to support CDSS automation updates and start-up costs associated with implementing an SRS and rates informed by an alternative methodology. CDSS is in the process of surveying contractors to better understand how local automation systems and processes will be impacted by an SRS based on current information that is available today.

The Governor's 2026-27 Budget

The Governor's budget includes \$7.5 billion for child care programs in 2026-27 - an increase of \$150 million relative to the revised 2025-26 levels.

Cost of Living Adjustment. The Governor's budget proposes suspending the statutory COLA for child care providers and redirecting the savings associated with this suspension (\$87.8 million non-Proposition 98 General Fund) to increase the monthly cost of care plus payments for all child care and State Preschool providers. LAO estimates this increase equates to a nearly 11 percent increase to monthly cost of care plus payments.

COLA TBL. Existing law requires the State Department of Social Services, in collaboration with the State Department of Education, to implement a reimbursement system plan that establishes reasonable standards and assigned reimbursement rates. This bill would require funding from the Budget Act of 2026 be allocated, if that appropriation is made, to the State Department of Social Services to provide once-per-month, per-child-served cost of care plus rate for providers serving children enrolled in specified subsidized childcare programs. The bill would require the Department of Finance to make specified calculations for reimbursement based on data provided by the State Department of Social Services. Existing law requires the department, in collaboration with the State Department of Education, to implement a reimbursement system plan that establishes reasonable standards, specifies the standard reimbursement rate, and requires a cost-of-living adjustment. Existing law suspends the cost-of-living adjustment for the 2023–24, 2024–25, and 2025–26 fiscal years. This bill would also suspend the cost-of-living adjustment for the 2026–27 fiscal year.

The statutory COLA suspension and alternative Cost of Care Plus COLA proposals would apply to all child care and preschool programs.

Alternative Methodology TBL. Existing law requires, if the market rate survey is used to set reimbursement rates for those childcare programs, the department to contract to conduct a regional market rate survey no more frequently than once every 2 years.

The proposed trailer bill would instead require, if the market rate survey is used to set reimbursement rates, the department to contract to conduct a regional market survey every 3 years. The bill would also require, if an alternative methodology is used to inform the setting of reimbursement rates for subsidized childcare, the department to contract to develop and conduct an alternative methodology to set reimbursement rates for subsidized childcare no less than every 3 years and no sooner than 2 years prior to the submission of the Child Care and Development Fund Plan.

LAO Comments

Increases in Lieu of COLA Will Be Higher at May Revision. Based on conversations with DSS, our understanding is that the cost of providing funding in lieu of the COLA will be higher at May Revision. This is because the estimates included in the Governor's budget inadvertently did not account for the costs of providing a COLA to CalWORKs child care and the Emergency Child Care Bridge program. We estimate addressing this issue would increase the costs of the Governor's proposal by about \$45 million.

COLA Approach Would Provide Different Increases to Child Care and State Preschool Providers. Under the administration's proposal to redirect COLA funding to an increase in monthly cost of care plus payments, the state would calculate the increases separately for child care programs administered by DSS, LEA State Preschool providers, and non-LEA State Preschool providers. As Figure 7 shows, this approach would result in different monthly cost of care plus payments for these three groups of providers. These differences are primarily driven by differences in per-child funding rates across programs. This approach runs counter to the state's overall goal of transitioning to a single reimbursement rate structure that provides the same rates based on specific criteria, such as child age groupings and regional costs. It is also counter to the approach taken in 2025-26 to provide a uniform increase to monthly cost of care plus payments for all providers.

Governor's Proposal Creates Disparities in Cost of Care Plus Payments

Rates for Licensed Providers

Provider Type	2025-26 Rates	LAO Estimates of Proposal
Child Care	\$152-\$230	\$177-\$268
State Preschool (LEA)	152-230	181-274
State Preschool (Non-LEA)	152-230	184-278

Notes: Cost of Care Plus rates vary by region.

LEA = local education agency.

Align Child Care and State Preschool Increases. To avoid creating more discrepancies in funding, we recommend that any rate increases for child care and State Preschool be provided consistently for all programs. For example, if the Legislature adopts the Governor's proposal to increase monthly cost of care plus payments, we recommend applying the same increase to all providers. Mirroring the approach taken in previous years, which pooled COLA funding across all programs, would be a cost neutral change.

Staff Comments

The January Budget proposal, to provide a COLA for all child care and preschool programs, is consistent with the final Budget Act for 2025-26 and agreements between the Administration and Legislature. The statutory COLA does not further single rate system goals, as currently designed, and all child care programs require annual baseline adjustments for rising costs.

However, the COLA proposal is another temporary solution, not a long-term policy to build a single-rate system that recognizes the true cost of child care or reflecting the Alternative Methodology. According to the DOF, the proposed COLA would apply an approximate 17% increase to each current Cost of Care Plus rate, whereas LAO estimates closer to 11%.

While the proposed COLA structure has the benefit of being regional, and sensitive to unique program settings—both are aspects to the Alternative Methodology and not the SRR—the Cost of Care Plus payments are not part of agency contracts, and thus have many draw-backs. One, the administrative costs of Alternative Payment and CalWORKs agencies are not addressed in the COLA. Two, the increases are in a gray area for legal authority and oversight: the nature of how CDSS has administered the payments raised questions about how payments are subject to statute, regulations, and audit provisions, if they are outside the scope of contract requirements.

The proposal also does not provide further direction to CDSS and CDE on the next alternative methodology process, or create new standards to reflect state policy priorities that may not have been adequately addressed in the recent methodology. For example, interest holders have expressed concerns about region design, arbitrary ceilings for licensed-exempt providers, and the lack of consideration for State Preschool staff standards. Trailer bill authority for the next Alternative Methodology development must be inclusive of CDE program's unique needs, and state policy priorities.

Suggested Questions:

1. What does DOF estimate is the total annual cost of the COLA proposal?
2. Does statute or the CCPU agreement require the Cost of Care Plus payments to be outside of contracts? If not, what is the process for CDSS and CDE to fold payments into regular contracts?
3. Will the hold harmless for rates be adjusted for the new COLA?
4. What is the timeline and process for publicly vetting the next Alternative Methodology cost study?

5. Does CDSS have an updated time estimate for readiness to set rates per the Alternative Methodology?
6. The Administration has reported a multi-year deficit based on the requirements of current law. Does the Administration's fiscal assumptions include funding, over the multi-year, for the increased costs of child care reimbursement rates aligned to an alternative methodology? For the new COLA?

Staff Recommendation: Hold Open. 1) Request LAO to work with CDSS and CDE on a process to provide Cost of Care payments and COLA increases as a part of agency contracts. 2) Request LAO provide recommendations to the subcommittees for an alternative COLA proposal that creates a new, single-rate system, aligned to the Alternative Methodology, based on existing rates and hold harmless, compatible with existing data systems.

Issue 2: Childcare & Preschool Caseloads & Service Levels

This panel will hear the Governor's Budget caseloads projections and proposed funding allocations for all child care and preschool programs, including reductions to child care slots in CDSS programs.

Panel

- Krishan Malhotra, DOF
- Idalys Perez, DOF
- Dylan Hawksworth-Lutzow, LAO
- Lupe Jaime-Mileham, CDSS
- Kimberly Rosenberger, CDE

Background

State Subsidizes Child Care, Primarily for Low-Income Families. As shown in the LAO figure below, the state administers various child care and development programs. Most of the state's subsidized child care is administered by the Department of Social Services (DSS) through three programs: (1) California Work Opportunity and Responsibility to Kids (CalWORKs) child care, (2) the California Alternative Payment Program (CAPP), and (3) the General Child Care program. CalWORKs child care programs focus on families enrolled in or transitioning out of CalWORKs welfare-to-work activities. The remaining programs are primarily designed for low-income, working families that have not participated in CalWORKs. Families are generally eligible for subsidized child care if they have a family income of less than 85 percent of the state median income (\$89,659 annual income for a family of three).

Overview of Child Care Programs

Program	Description ^a	Funded Slots
CalWORKs Child Care	Provides subsidized child care services to current and former CalWORKs families. Slots are available for all eligible children.	160,414
California Alternative Payment Program	Provides subsidized child care vouchers to eligible working families. Slots are limited to budget appropriation.	170,495
General Child Care	Directly contracts with center-based and licensed family child care providers to serve working families eligible for subsidized care. Slots are limited to budget appropriation.	61,048
Family Child Care	Directly contracts with consortia of licensed family child care providers to serve working families eligible for subsidized care. Slots are limited to budget appropriation.	3,400
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 to budget appropriation.	5,054
Care for Children With Severe Disabilities	Provides additional access to child care services for children under the age of 21 years and with exceptional needs. ^c Program is located in the San Francisco Bay Area. Slots are limited to budget appropriation.	80
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	3,245

^aUnless 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 \$93,418 annually in 2025-26 to be eligible for programs.

^bFamily 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.

^cChild must have an individualized education program or an individualized family service plan issued through a special education program.

^dChild care services provided up to 12 months, but may be extended for a compelling reason.

Source: LAO

2021-22 Budget Agreement Included Multiyear Child Care Slot Expansion Plan. The 2021-22 budget agreement, which authorized Universal Transitional Kindergarten for all four year olds, also included intent to add 206,800 child care slots over a multiyear period. This expansion built upon the approximately 100,000 non-CalWORKs slots the state already funded. The bulk of the expansion was planned through two programs—CAPP (143,000 slots) and General Child Care (62,000 slots). A smaller portion of the expansion was set aside for Migrant Alternative Payment (1,300 slots) and Emergency Child Care Bridge (500 slots). The 2023-24 and 2024-25 budgets subsequently made various changes to delay implementation of the of the slot expansion. The LAO figure below shows the current multiyear expansion plan, as revised and codified in the 2024-25 budget agreement.

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

California State Preschool Program. State Preschool is a child care program administered by the California Department of Education (CDE) and provided by a variety of local agencies and community-based organizations. Three- and four-year old children are generally eligible for State Preschool if their family earns at or below the state median income (\$105,482 for a family of three). State law includes various enrollment flexibilities that allow providers to serve families with higher incomes, and some providers may choose to serve eligible two-year olds. Based on preliminary numbers from October 2024, the state serves 101,000 children in State Preschool.

Child Care and State Preschool Programs Supported With Multiple Funding Sources. The 2025-26 budget package provided a total of \$10.3 billion for subsidized child care and State Preschool (\$7.8 billion from the General Fund). Of the total, the state provided \$7.5 billion in funding for child care programs. The majority of child care funding (\$4.9 billion) was from non-Proposition 98 General Fund. The state also used roughly \$2.3 billion in federal funding to partially cover program costs. In addition, the state partially covered program costs with \$195 million from the Proposition 64 Youth Account, which is funded by the cannabis retail excise tax established in 2016. State Preschool programs are funded entirely with \$2.9 billion in General Fund (including \$1.9 billion in Proposition 98 General Fund). State Preschool programs offered by LEAs—school districts, county offices of education, community college districts, and certain charter schools—are funded with Proposition 98 General Fund. Those programs offered by non-LEA providers (community-based organizations, county welfare departments, and cities) are funded with non-Proposition 98 General Fund.

Changes to Services/Slots in 2025-26 Budget Act

Reduced Emergency Child Care Bridge Program Funding. The budget reduced funding for the Emergency Child Care Bridge program by \$30 million non-Proposition 98 General Fund on an ongoing basis. This reduction was based on the administration's projections of the amount of funding necessary to meet demand for the program and is not intended to reduce access to

services. A total of \$63.6 million ongoing funding (\$53.4 million non-Proposition 98 General Fund, \$3.8 million Proposition 64, and \$6.5 million federal funds) remains available for the program.

Set Aside State Preschool Funding for Three-Year Olds. The budget made available \$63 million Proposition 98 and \$35 million non-Proposition 98 General Fund on an ongoing basis to increase contracts for anticipated growth of the number of three-year old children served in State Preschool. (The per-child rate for three-year olds is 80 percent higher than the rate for four-year olds.) The costs associated with these increases are covered with unallocated State Preschool funds.

The Governor's 2026-27 Budget

The Governor's Budget proposes to reduce ongoing funding for General Child Care by 4,167 slots. These slot reductions are to accommodate a \$75.3 million federal funding decrease, and an estimated \$22.7 million Proposition 64 funding decrease.

Child Care Budget

(Dollars in Millions)

	2024-25 Revised ^a	2025-26 Revised ^b	2026-27 Proposed ^c	Change From 2025-26	
				Amount	Percent
Expenditures					
CalWORKs Child Care					
Stage 1	\$614	\$615	\$630	\$15	2%
Stage 2 ^d	549	598	620	22	4
Stage 3	537	581	609	27	5
Subtotals	(\$1,700)	(\$1,794)	(\$1,859)	(\$65)	(4%)
Non-CalWORKs Child Care					
Alternative Payment Program	\$1,990	\$2,058	\$2,058	—	—
General Child Care ^e	1,495	1,510	1,487	-\$23	-2%
Bridge program for foster children	107	62	62	—	—
Migrant Child Care	79	79	79	—	—
Care for Children With Severe Disabilities	2	2	2	—	—
Subtotals	(\$3,672)	(\$3,711)	(\$3,688)	(\$23)	(-1%)
Support Programs	\$2,161 ^f	\$1,825 ^g	\$1,934 ^h	\$109	6%
Totals	\$7,533	\$7,330	\$7,481	\$150	2%
Funding					
Proposition 98 General Fund ⁱ	\$2	\$1	\$1	\$0.04	4%
Non-Proposition 98 General Fund	4,450	4901	5,075.50	175	4
Proposition 64 Special Fund	639	\$199	184	-14	-7
Federal	2,442	2,230	2,220	-10	—
^a Reflects 2025-26 May Revision estimates with LAO adjustments.					
^b Reflects 2026-27 Governor's Budget estimates with LAO adjustments.					
^c Reflects 2026-27 Governor's Budget with LAO adjustments.					
^d Does not include \$4.4 million provided to community colleges for certain child care services.					
^e Includes funding for family child care home education networks.					
^f Includes cost estimates for quality programs, child care infrastructure, Child and Adult Care Food Program, CCPU Training Fund, CCPU Retirement Benefit Trust, CCPU Health Benefit Fund, accounts payable, whole child community equity, court cases and costs associated with 2023-24 MOU and parity agreement.					
^g Includes cost estimates for quality programs, child care infrastructure, Child and Adult Care Food Program, accounts payable, prospective pay, reimbursement based on certified need, rate reform support, administrative support, and whole child community equity. The budget authorizes the Department of Finance to increase spending by up to \$195 million on CCPU funds for retirement, health, and training.					
^h Includes cost estimates for quality programs, child care infrastructure, Child and Adult Care Food Program, accounts payable, prospective pay, reimbursement based on certified need, administrative support, low income investment fund, whole child community equity, and the child care COLA. The budget authorizes the Department of Finance to increase spending by up to \$195 million on CCPU funds for retirement, health, and training.					
ⁱ Reflects Proposition 98 funds for Child and Adult Care Food Program.					
CCPU = Child Care Providers United; MOU = memorandum of understanding; and COLA = cost-of-living adjustment.					

All other non-CalWORKS child care and preschool programs are held flat in the January proposals, and CalWORKS programs are adjusted for projected caseload demand.

LAO Comments

No New Child Care Slots for Implementation of Multiyear Expansion Plan. The Governor's budget does not include additional child care slots to continue the multiyear slot expansion plan. Under the statutory intent language, the state would be required to add 12,000 General Child Care slots and 32,000 CAPP slots in 2026-27. Not adding these slots saves approximately \$336 million non-Proposition 98 General Fund in 2026-27.

New General Child Care Slots Still in Process of Being Filled. Compared with voucher-based slots, General Child Care slots take time to award, contract, and fill. The state typically takes several months to develop a request for applications, review applications, and award funding. In addition, it typically takes DSS several months to finalize and execute a contract once new General Child Care expansion funds are awarded to providers. The length of time to execute a contract can be delayed for several reasons, including delays at DSS and challenges providers have in completing the requirements to be fully licensed to serve children. As a result of these delays, the state has had unspent General Child Care funding in recent years. In 2024-25, \$446 million in General Child Care funding went unspent. Although total unspent funding for 2025-26 is not yet available, as of January 2026, approximately \$170 million in funding from the most recent slot expansion has not yet been contracted. Some of these slots will likely be contracted by July, but the state is likely to have additional unspent funds for 2025-26.

Reasonable Not to Add Slots or Backfill General Child Care Given State Budget Condition. The Governor's budget would reduce the amount of funding available for General Child Care slots to align with lower Proposition 64 revenues and CCDF. This approach differs from recent years, when the state has used General Fund to backfill for lower Proposition 64 revenues. Given the budget challenges facing the state, we think the Governor's proposal is reasonable. As we discuss in [The 2026-27 Budget: Overview of the Governor's Budget](#), both our office and the administration project multiyear budget shortfalls beginning in 2027-28, which will require the Legislature to make difficult spending decisions next year. Making ongoing reductions to General Child Care funding would help reduce the structural deficit moving forward. In the coming months the state will have additional information regarding the amount of funding that has not yet been contracted to providers. This will help the Legislature determine whether the proposed reduction could be implemented now without directly affecting families. Additionally, we think it is reasonable for the state to pause the slot expansion plan specified in the statutory intent language. Adding these slots would cost the state \$336 million non-Proposition 98 General Fund in 2026-27 and add to the state's projected structural deficit in future years.

Proposition 64 Revenue Likely Higher Than Governor Projects. In our recent post, [Cannabis Tax Revenue Update \(2025 Q4\)](#), we project Proposition 64 revenues for 2025-26 will be 5.9 percent higher than estimates included in the Governor's budget. These higher revenue estimates would result in an additional \$17 million that would be available for child care. The administration will update its Proposition 64 revenue estimates at May Revision.

Staff Comments

The Administration asserts that the \$75.3 million CCDF and \$22.7 million Prop 64 reductions to CCTR are not slot cuts because children are not yet being served. However, awarded slots are already in process, at the local level, in hiring staff, building out space, and purchasing curricular materials and supplies, including costly furniture and toileting.

Suggested Questions:

1. How many of the 4,167 slots have been awarded to contractors? What are the estimated dates when these services were set to come online?
2. How many families have been notified of new service availability?
3. What are the immediate costs to child care contractors, for preparations to begin services?
4. What are the long term impacts of rescinding awards after contractors have assumed the preparation work, to hire and build new classrooms?
5. Should the Budget expand funds for more three-year olds to be served in State Preschool?

Staff Recommendation: Hold Open. Request LAO to work with CDSS to identify a solution to achieve federal fund reductions without permanent slot reductions, including but not limited to carryover funds from child care programs.

Issue 3: Childcare Infrastructure Grant Proposal

This panel will hear the Governor's Budget proposal for addressing child care infrastructure losses in the 2025 Los Angeles County wildfires.

Panel

- Brandon Castaneda, DOF
- Dylan Hawksworth-Lutzow, LAO
- Lupe Jaime-Mileham, CDSS

Background

As part of the 2021-22 Budget Act, trailer bill legislation enacted the Child Care and Development Infrastructure Grant Program, detailed in [Welfare and Institutions Code section 10310](#), a \$350.5 million investment in the child care infrastructure across the State of California administered in the form of grants by the California Department of Social Services (CDSS). \$200.5 million was earmarked for grants for minor construction, renovations, and repairs to address health and safety concerns. \$150 million was earmarked for grants for major construction of shovel-ready child care facilities.

Minor Renovation and Repairs Grant - \$200.5 million appropriated in grants for minor renovations repairs, modernization, or retrofitting of existing child care facilities to increase or recover capacity due to a declared disaster, mitigate future disasters, address needs related to health and safety, licensing, or the COVID-19 pandemic, and for other existing facilities for use as child care facilities. Funds shall be used to preserve, enhance, or expand existing child care spaces.

According to CDSS, both funds are now fully awarded.

The Governor's 2026-27 Budget

The budget includes \$11.5 million from one-time Proposition 64 funds to provide child care infrastructure grants that would target current licensed centers and family child care homes that reported operational impacts associated with recent wildfires.

There is no associated trailer bill on this proposal, at this time.

LAO Comments

Few Details on Child Care Infrastructure Grant Proposal. The administration has indicated the infrastructure grant proposal is intended to support current licensed centers and family child care homes that reported operational impacts associated with recent fires. However, the administration has yet to provide other key details, such as grant amounts, the allowable uses of funding, and time lines for when funding would be awarded. This lack of detail makes it difficult for the Legislature to evaluate the merits of the proposal.

Request More Information on Child Care Infrastructure Funding. We recommend the Legislature request additional information from the administration regarding key elements of the infrastructure grant proposal, such as the process for receiving funding, award amounts, and allowable uses. This information would allow the Legislature to determine whether the proposal is addressing key challenges with child care access in regions affected by wildfires.

Staff Comments**Suggested Questions:**

1. How will the CDSS recommend amending this program, to focus on wildfire recovery needs?
2. Will these funds be specific to LA County victims or statewide?

Staff Recommendation: Hold Open. Direct staff to work with LAO on trailer bill language to best target funds to the proposed purpose.

Issue 4: Childcare & Preschool Trailer Bill Proposals

This panel will hear the Governor's Budget Trailer Bill proposals for CDSS child care regarding family fees collection, abandonment of care, and substitute in-home care providers.

Panel

- Krishan Malhotra, DOF
- Idalys Perez, DOF
- Dylan Hawksworth-Lutzow, LAO
- Lupe Jaime-Mileham, CDSS
- Kimberly Rosenberger, CDE

Background**The Governor's 2026-27 Budget**

Family Fees Collection. Existing law requires the department, in consultation with the State Department of Education, to establish a fee schedule for families using preschool and child care and development services, and requires families who utilize those services to be assessed a single flat monthly fee that is based on income, certified family need for full-time or part-time care services, and enrollment. Existing law requires family fees to be assessed at initial enrollment and reassessed at update of certification or recertification.

The January Budget trailer bill would require, beginning July 1, 2026, contractors to reimburse subsidized childcare providers without deducting family fees and to collect family fees.

Abandonment of Care. Existing law requires childcare providers to submit monthly attendance records for each child under specified circumstances. Existing law defines various terms for these purposes including "attendance" to mean, for purposes of reimbursement, absences that are excused.

The January Budget trailer bill would define a new term "excessive unexplained absences" to mean absences that are not considered excused, as defined, and that exceed 30 days within a 12-month interval during the period of time between a determination and a redetermination. The bill would authorize the department to implement and administer that provision by all-county letters, bulletins, or similar written instructions until regulations are adopted and would require the department to adopt regulations no later than July 1, 2030.

Substitute Care Providers. Existing regulations generally require a family daycare home licensee to be present in the home and prohibits a required temporary absence of the licensee from exceeding 20% of the hours that the facility is providing care per day. Existing regulations require, if the licensee is required to be temporarily absent from the home, the licensee to arrange for a substitute adult to care for and supervise the children during the absence.

The January Budget trailer bill would grant new authority to the CDSS to waive rules or regulations if the waiver is reasonable and necessary to carry out the act and is not detrimental to the health and safety of any child in care. The bill would authorize the department to implement and administer this provision by means of letters or similar written instructions until regulations are adopted. This bill would prohibit temporary absences that exceed 20% of the hours that the home is providing care per month, subject to waiver by the department. The bill would require a licensee, prior to a substitute adult's initial presence in the home, to ensure the substitute adult has obtained a criminal record clearance or exemption, completed specified health and safety training, is immunized against certain illnesses, and meets any other requirements imposed by the department. The bill would require a licensee to provide prior written notice of a temporary absence to the parent or legal guardian of each child in care, except in emergency circumstances, in which case written notice is required to be provided by the next business day. The bill would also require the licensee to submit a written report with certain information for each temporary absence to the department by the next business day.

Staff Comments

Suggested Questions:

1. Has CDSS estimated possible state cost savings to having clear abandonment of care guidance?

Staff Recommendation: Hold Open. Request CDSS to further clarify Excessive Absence TBL to remove the new term "unexplained."

Issue 5: Childcare & Preschool Prospective Pay Implementation Oversight

This panel will provide an overview of existing state investments and policy to shift all child care and preschool programs to a prospective pay model, and oversight for implementation of these policies.

Panel

- Dylan Hawksworth-Lutzow, LAO
- Claire Ramsey, CDSS
- Kimberly Rosenberger, CDE
- Krishan Malhotra, DOF
- Idalys Perez, DOF

Background

The 2025-26 Budget Act provided \$30 million one-time non-Proposition 98 General Fund to transition state and local systems to begin paying providers prospectively. This shift was proposed by the Administration, following a change in federal regulations requiring states to pay providers in advance of providing services, rather than the past requirement to pay providers within 21 days of submitting attendance records. The MOU between the state and CCPU extends the practice of paying providers within 21 days of submitting attendance records through June 30, 2028, subject to renegotiation if the Legislature increases subsidized child care rates.

In 2024, a new Federal Rule published by the Department of Health & Human Services (HHS) made regulatory changes (45 CFR Part 98) to CCDF including imposition of a requirement that states and territories pay CCDF providers in advance of or at the beginning of the delivery of 6 child care services (referred to as prospective pay), in alignment with generally-accepted payment practices. California secured a waiver that allows the State until August 2026 to implement prospective pay. On August 4, 2025, the Administration of Children and Families (ACF) wrote to CCDF State and Territory Administrators that in response to feedback from states and territories on the difficulty in implementing the requirements of the 2024 Final Rule (which included the requirement on prospective pay as well as other changes), the ACF intends to issue proposed CCDF rules for public comment this year, aiming to return flexibility back to states. On September 9, 2025, the ACF issued a Notice of Proposed Rulemaking (NPRM). It asserts: "This NPRM proposes to modify [CCDF] regulations to increase parental choice and reduce burden in administering the CCDF program." The September 2025 NPRM did not contain any content about the nature of compliance flexibilities nor about if or how prospective pay may be implemented.

According to the latest CDSS report to the Legislature, “automation updates related to Prospective Pay are currently on hold as the State awaits additional federal guidance expected in February 2026.” CDSS also reports withholding appropriated funds, for this purpose, at this time.

The Governor’s 2026-27 Budget

There is no January Budget proposal to further Prospective Pay.

LAO Comments

Federal Government May Modify Prospective Pay Requirements. The federal government is currently considering a proposed rule change that would remove the requirement to pay child care providers prospectively. Under the proposed rule change, states would be allowed, but not required, to pay providers prospectively. If the federal government approved the rule change and the state chose to maintain its existing practices and no longer shift to prospective pay, it could save \$43.8 million in ongoing non-Proposition 98 General Fund (the amount currently budgeted to increase staffing to make payments prospectively and “true-up” payments after receiving actual enrollment data).

Staff Comments

The lack of funding or implementation trailer bill for the state’s new Prospective Pay policy in the January Budget suggests that the Administration has a silent proposal to halt Prospective Pay.

While the federal government creates chaos and confusion across all public sectors, is it reasonable for California to pause progress on prospective pay? Current federal law was CDSS’s reason for requesting the policy shift, and the Legislature and the field embraced the policy for California budget values. A reversion to payment after services is not required by federal law.

However, in light of January Budget reductions to child care programs, this pause is an opportunity to revisit investments in prospective pay and other administrative costs, and consider whether these investments are better spent in prevention of slot reductions.

Suggested Questions:

1. Is it true that the CDSS has halted Budget Act payments to agencies, for Prospective Pay preparations? With what authority?
2. In light of current federal policy, is the state at risk of not meeting the current legal deadline? What could be the consequences?
3. Does the Administration support a shift to prospective pay, if NOT required by federal law?
4. For the LAO: what are the estimated one-time costs, for shifting all child care program funding to the prospective model?
5. Has CDSS also halted hiring the five authorized positions for implementing prospective pay?

Staff Recommendation: Hold Open. Request LAO cost estimates on prospective pay, by program.

Issue 6: 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
- Brandon Castaneda, DOF
- Dylan Hawksworth-Lutzow, LAO
- Lupe Jaime-Mileham, CDSS

Background

2025-26 Budget Act increased CDSS child care capacity. The budget included a total of \$9.8 million in funding and authority for 41 new child care related positions at the Department of Social Services (DSS). Of the total, \$6.4 million in federal funding and 29 positions are provided to support a variety of activities, including maintaining compliance with federal rules and administrative functions of the Child Care and Development Division. The remaining \$3.3 million is funded with ongoing non-Proposition 98 General Fund and includes five positions to implement prospective pay, four positions to implement enrollment-based funding, and three positions to support direct deposit for child care providers.

The Governor's 2026-27 Budget

The Governor's proposed budget contains the following budget change proposals (BCPs) for child care and development under CDSS:

1. The California Department of Social Services requests \$2,295,000 Federal Fund in 2026-27 and \$2,242,000 in 2027-28 and ongoing to support 3.0 authorized positions and the equivalent of 8.0 positions for divisions supporting and within the Child Care and Development Division to meet the needs of the children and families served.
2. The California Department of Social Services (CDSS) requests \$750,000 General Fund in fiscal year 2026-27 and \$733,000 in 2027-28 for the equivalent of 4.0 positions for two years, to process initial applications of centers and relocating centers to co-located multifamily unit housing and handle the increase in complaints and calls due to the implementation of Assembly Bill (AB) 752 (Chapter 164, Statutes of 2025).

3. The California Department of Social Services requests \$185,000 General Fund in 2026-27 (\$181,000 in 2027-28 and ongoing) for the equivalent of 1.0 position for the additional responsibilities of the Early Childhood Policy Council pursuant to Chapter 268, Statutes of 2025 (Assembly Bill 563).
4. The California Department of Social Services (CDSS) requests \$939,000 General Fund in 2026-27 and \$919,000 General Fund in 2027-28 for the equivalent of five positions, and \$195,000 General Fund in 2028-29 and ongoing to support the equivalent of one position to address the impact of Senate Bill (SB) 582 (Chapter 546, Statutes of 2025).

The BCPs are available as Attachment A to this agenda.

Staff Comments

The state has dramatically increased staff support for Child Care services at CDSS since the transfer of programs from the CDE to CDSS. These staffing increases have been emblematic of the under-funding CDE has historically received, compared to departments under the Governor's direct control. The staffing increases for the workload at CDSS has also symbolized the shared commitment of the Administration and the Legislature to adequately support the state's vision for Universal Preschool, and the bureaucratic infrastructure necessary to support the child care system.

However, in light of scarce General Fund and declining federal fund availability, and multiple years of proposed funding reductions to child care, from the Administration's Budget proposals, it is difficult to justify increased administrative costs at the state department. Staff recommends a pause on increasing state department staff, until such a time when child care services are able to increase.

Staff Recommendation: Hold Open for May Revision.

This agenda and other publications are available on the Assembly Budget Committee's website at: [Sub 3 Hearing Agendas | California State Assembly](#). You may contact the Committee at (916) 319-2099. This agenda was prepared by Erin Gabel.