

# Joint Legislative Budget Committee

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February 6, 2025

Ms. Jennifer Troia, Director  
California Department of Social Services  
744 P Street  
Sacramento, CA 95814

The Honorable Tony Thurmond  
State Superintendent of Public Instruction  
1430 N Street, Suite 5602  
Sacramento, CA 95814-5901

Mr. Joe Stephenshaw, Director  
Department of Finance  
1021 O Street, Suite 3110  
Sacramento, California 95814

Dear Director Troia, Superintendent Thurmond and Director Stephenshaw:

Under the *2024 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. This commitment to adopting an Alternative Methodology for child care reimbursement rates recognizes the value in measuring the true costs to provide child care in California's diverse and high quality early childhood education system, for purposes of setting child care reimbursement rates.

This letter expresses the Joint Legislative Budget Committee's concern that the current process for developing an Alternative Methodology, and shifting child care reimbursement rates to this Alternative Methodology, are not meeting statutory requirements.

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<sup>1</sup>.*

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, we are concerned there is not a clear plan before the Legislature to achieve this shared intent.

We ask that the Administration provide responses to the concerns and questions below no later than March 21, 2025, in advance of scheduled Senate and Assembly Budget hearings.

**Response to "Implementation of the Single Rate Structure for Subsidized Child Care and Preschool"**

WIC 10227.6 (g) requires the Department of Social Services (CDSS), in collaboration with the Department of Education (CDE) to provide a report outlining the implementation components for the approved single rate structure for setting child care rates. WIC 10227.6 (g) also requires that this report contain specified information, including: (1) the department's plan to set new reimbursement rates under the alternative methodology by no later than July 1, 2025; and (2) the estimated costs and estimated timelines associated with the implementation components of the approved single rate structure, as specified.

The Legislature is in receipt of the report entitled "Implementation of the Single Rate Structure for Subsidized Child Care and Preschool" (Implementation Report) issued on January 7, 2025. While this report contains some information about the state's progress in designing new child care reimbursement rates pursuant to an alternative methodology, it does not include the information required by WIC 10227.6(g), specifically, the estimated costs and estimated timelines associated with implementation of the single rate structure.

Our preliminary feedback is below:

1. **Missing estimated costs and timelines for rate reform implementation.** WIC 10227.6(g) requires the Administration provide estimated costs and timelines associated with implementation

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<sup>1</sup> California Welfare and Institutions Code 10227.6 (h)

of the single rate structure. The Implementation Report does not contain any estimated costs associated with the base rate, possible selection points, design features, and enhanced rate elements. Please provide a range of estimated costs associated with each element of the single rate structure.

Regarding estimated timelines, the Implementation Report states that “a period of time” will be required before implementation. Please provide exact time ranges (i.e. 6, 12, 18 months) or dates for each step contained in Chart 1 of the report, to accurately estimate the implementation period, including a date for 1) codification of an Alternative Methodology, 2) establishing rates for all care settings based on this new methodology, and 3) funding all child care providers based on the new Alternative Methodology rates.

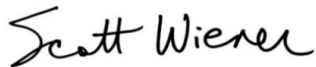
2. **Unclear data and systems requirements.** The Implementation Report states that the implementation timeline is dependent on the systems changes and data collection required by the single rate structure. The Implementation Report also characterizes these systems changes and data collection requirements as unknown factors that could significantly impact the implementation timeline. Given that the elements of the base rate and enhanced rates have been defined, agreed upon by the Joint Labor Management Committee (JLMC), and listed in this report, the Administration has had time to develop an estimated range of costs associated with new data and systems requirements. In addition, many data points, such as child age, are captured in current systems utilized by the departments. Please describe what new data collection or other functionality would be needed for each of the 17 “base rate elements” and the three “enhanced rate elements” listed on pages 16-17 of the report. Please describe the specific elements for which the state would need to make significant modifications to data collection systems.
3. **Lack of plan for developing the center-based rate in partnership with the Legislature.** The Implementation Report repeatedly states that rate-setting for center-based providers will occur “in partnership with the Legislature” concurrent with collective bargaining to determine family home-based rates. However, neither the Implementation Report nor the January Budget includes a proposal for center-based rates, a timeline for a proposal, or a clear process for partnership in this policy development. Please describe how the Administration intends to partner with the Legislature to determine and implement center-based rates for the 2025-26 fiscal year, including a timeline. Additionally, please provide an explanation for how the proposal addresses parity for the unique features of each care setting, and a list of “remaining decision points” as described in the Implementation Report.
4. **Missing a plan to set new reimbursement rates under the alternative methodology.** As the Implementation Report recognizes, the shift to an Alternative Methodology requires a plan to set actual funding rates. In addition to the rates elements and estimated costs, please share the plan for how actual funding rates will be set by the new methodology, and a timeline for achieving this plan.

5. **Need for a transition plan.** WIC 10227.6 states that if the new rates do not take effect on July 1, 2025, CDSS must provide the Legislature with a timeline for transitioning from current rates to the rates set using the single rate structure. Please confirm whether it is the intent of the Administration that the single rate structure will not take effect by July 1, 2025, as indicated in the Implementation Report. Second, please provide the Legislature with a transition plan by the Governor's 2025 May Revision.

While the Committee is responding to this report within the 30 day statutory provision, the Legislature will require additional time to review feedback on the Administration's comprehensive plan to set reimbursement rates by July 1, 2025, once this plan is provided with the level of detail outlined in statute. We look forward to receiving your responses by March 21, and further discussion in upcoming Assembly and Senate budget hearings, beginning with the Assembly Budget Subcommittee #2 informational hearing on February 19, 2025.

We look forward to completing this work together and addressing the growing costs of child care in every California community.

Sincerely,



Scott Wiener  
Chair

cc: Members of the Joint Legislative Budget Committee