



March 21, 2025

Joint Legislative Budget Committee  
1020 N Street, Suite 553  
Sacramento, CA 95814

SENT VIA EMAIL

SUBJECT: REPORT ON THE IMPLEMENTATION OF THE SINGLE RATE  
STRUCTURE FOR SUBSIDIZED CHILD CARE AND PRESCHOOL

Dear Joint Legislative Budget Committee:

Section 10227.6(g) of the Welfare and Institutions Code (WIC) requires the California Department of Social Services (CDSS), in collaboration with the California Department of Education (CDE), to provide the Assembly Committee on Budget, the Senate Committee on Budget and Fiscal Review, and the Legislative Analyst's Office with a report that outlines the implementation components for the approved single rate structure. The report is required to include the plan to set new reimbursement rates under the alternative methodology by no later than July 1, 2025, and the estimated costs and estimated timelines associated with the implementation components of the approved single rate structure. The CDSS provided the Legislature with the report on January 7, 2025. The January 2025 report provided a point-in-time update on key implementation components, timeline, and cost implications. The CDSS is also required to provide quarterly updates on the implementation of the new reimbursement rates set under the alternative methodology. The next quarterly update is due in April.

Per WIC 10227.6(g), the Legislature has the opportunity to review and provide feedback to CDSS regarding the January 2025 implementation report. We received the Joint Legislative Budget Committee (JLBC) letter on February 6, 2025, which expresses the JLBC's concern about the clarity of the path before the Legislature to shift the entire child care funding system to a cost-based alternative methodology. Additionally, the JLBC letter requests the Administration provide responses to the concerns and questions below no later than March 21, 2025.

We remain steadfast in our shared intent to adopt the alternative methodology, which will be used to inform a new single reimbursement rate structure for subsidized child care and state preschool programs. The alternative methodology will give the State a better understanding of costs associated with providing high quality early learning and care. This approach can then advance equitable access to high quality early learning and care. This work builds upon historic investments in child care and development programs in recent years to help children and families thrive. Specifically, in the last five years the State has nearly doubled the total funding for subsidized child care and development programs – from \$3.3 billion total funds in 2019-20 to \$6.4 billion total funds in 2024-25. The State also increased the maximum number of children who can be served annually, from approximately 294,000 in 2019-20 to more than 378,000 in 2024-25, while simultaneously increasing rates and making significant investments in child care facilities.

We intend to meet the July 1, 2025 deadline for setting rates based on the alternative methodology and are committed to continuing progress towards full implementation and automation of the single rate structure as soon as possible. We will continue to keep the Legislature and our partners informed through regular communication, including quarterly updates and public input sessions.

#### **Responses to the JLBC's Comments - Report on the Implementation of the Single Rate Structure for Subsidized Child Care and Preschool**

- **Please provide a range of estimated costs associated with each element of the single rate structure.**

The ability to provide a range of cost estimates ultimately depends on base and enhanced rate definitions, selection point values, the final single rate structure, and the rate setting process. Rate setting will occur through the budget development process and, for family child care providers, through collective bargaining process, subject to legislative approval. Not all of these components have been finalized or completed yet.

- **Please provide the exact time range (6, 12, 18 months) or dates for each step contained on Chart 1 of the report to accurately estimate the implementation period, including a date for (1) codifying of an Alternative Methodology (2) establishing rates for all care settings based on this new methodology (3) funding all child care providers based on the new alternative methodology rates.**

We have made a great deal of progress in developing an alternative methodology, which includes reaching consensus to switch to the alternative methodology, receiving federal approval to use an alternative methodology, defining the base and enhanced rate elements, and developing a cost estimation tool under the new methodology. The remaining key milestones include finalizing the alternative methodology, establishing the single rate structure, setting rates based on the single rate structure and alternative methodology, and implementing new reimbursement rates informed by the alternative methodology.

Current statute already captures the Legislature's intent to use an alternative methodology to inform the setting of reimbursement rates for subsidized child care. Current statute also directs CDSS, in collaboration with CDE, to develop and conduct an alternative methodology. Additional legislation may be needed based in the outcome of the budget process and, for family child care providers, collective bargaining process.

The establishment, funding, and implementation of rate levels informed by the single rate structure are dependent on the budget process and, for family child care providers, the collective bargaining process, which are both currently underway.

However, by July 1, 2025, we intend to finalize the values associated with selection points for centers and family child care providers, in addition to setting rates informed by the alternative methodology. This includes providing the percentage of the cost of care covered by the established payment rate. By law, "any temporary reimbursement rates established as part of the transition timeline shall be, at minimum, equivalent to the reimbursement rates established pursuant to current law, inclusive of the monthly Cost of Care Plus rates." The Administration will continue to assess potential technology solutions that can be used to implement single rate structure as soon as possible. These automation changes to support implementation of the new single rate structure may take more than one year to complete.

- **Please describe what new data collection or other functionalities would be needed for each of the 17 base elements and the three enhancement rates 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 the data collections systems.**

There are ten different data systems that perform functions related to the administration of State-subsidized child care and development programs and/or state preschool. These multiple systems handle a variety of different functions that include:

- Data collection from State contractors, e.g., data on child enrollment, child characteristics, program data, and fiscal data.
- Calculating subsidized child care and state preschool reimbursement rates.
- Processing subsidized child care and state preschool reimbursement rates.
- Contract management, including projecting contract earnings and reconciling contract expenditures and reimbursements.
- Fiscal reporting for State and federal monitoring purposes.

The CDSS is conducting a more detailed assessment of State-level child care and development automation and program modifications. To determine the exact scope and magnitude of automation changes, like what new data needs to be collected or how reimbursement rate calculations will need to change, the single rate structure needs to be finalized. As described in the January 2025 implementation report there are a few automation changes that would likely need to occur. This includes, but is not limited to:

- Under a new single rate structure, programs that reimburse child care and state preschool services for eligible families under the Standard Reimbursement Rate today will need to collect and report information differently and State systems will need to calculate their reimbursements differently. This is because reimbursement rates will no longer be based on a standard statewide rate. Rather, the State will need to calculate reimbursement rates along a number of dimensions, such as region, program setting, and age of child.
- It is likely that some new data collection will be required for enhanced rates that are different from current adjustment factors once these changes take effect, such as number of children that would be eligible for the child transportation enhanced rate element.
- The method of calculating reimbursement rates may have to change to accommodate a number of other features of the single rate structure. For example, current adjustment factors are generally applied as a multiplier to base rates. To the extent that the new enhanced rates are operationalized as a flat dollar amount, then current automation systems will need to be modified to move away from the multiplier approach.

The January 2025 implementation report also acknowledges that multiple additional automation systems used by contractors and counties may require modifications. Ultimately, the scope and period of time needed to make system changes will not be known until the single rate structure is finalized.

- **Please describe how the Administration intends to partner with the Legislature to determine and implement center-based rates for 2025-2026 fiscal year, including a timeline.**

Current statute directs CDSS, in collaboration with CDE, to develop and conduct a survey to support the alternative methodology. Key components of the alternative methodology include defining rate elements and determining the selection point values for each rate element. Rate elements for family child care providers were defined in March 2023 by the Rate and Quality Systems Structure Review Joint Labor Management Committee. The rate elements for centers were defined by CDSS, in collaboration with CDE, and presented in the May 2024 and December 2024 Rate and Quality Advisory Panel (RQAP) meetings. The proposed selection point values for centers will be shared publicly with the RQAP, and we will ensure that the Legislature also receives this information as soon as it becomes available.

In addition to the finalization of the selection point values, the State will establish the new single rate structure. The single rate structure will provide the structural parameters for rate setting. The Administration will work in partnership with the Legislature to establish rate levels informed by the established single rate structure. This process is similar to the historical regional market rate (RMR) process where the Lead Agency over the Child Care and Development Fund (now CDSS) developed and executed the RMR survey, which established the structural parameters for rate setting. The Administration would then partner with the Legislature to establish rate levels informed by the RMR structure through the budget process. Similarly, the Administration will engage the Legislature through the budget development process to determine and implement rates for centers.

- **Additionally, please provide an explanation on how the proposal addresses parity for the unique features of each setting and a list of “remaining decision points” as described in the implementation report.**

The State's federally approved alternative methodology requires the State to create a cost estimation model that accounts for the cost impact of different variables, such as program type, regulatory requirements, ages and needs of children served, non-traditional service hours, regional cost variations, and program quality elements. This cost estimation model approach ensures that the unique features of each setting are considered in determining cost of care. Additionally, under the intended single rate structure, reimbursement rates will be based on a *unified structure* that takes into account a common set of rate elements. This does not mean that the State will reimburse care in all settings at the same reimbursement rate. Rather, it means that the State will now have a consistent method of calculating rates for all programs, as opposed to different ways of calculating rates for different programs.

The remaining key decision points that have yet to be finalized include decisions needed to:

- Finalize the alternative methodology.
- Establish the single rate structure.
- Establish rate levels informed by the alternative methodology.
- Implement and automate the determined single rate structure and rates informed by the single rate structure.

Similar to historical practices with respect to use of a RMR survey, elements of the alternative methodology process, such as finalizing the alternative methodology cost model and the single rate structure, will be established by CDSS, in collaboration with CDE, while setting rates will be subject to the budget process and, for family child care providers, the collective bargaining process.

- **In addition to the rate 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.**

Similar to past practices, the plan for funding rates is that they will be set by the budget development process and, for family child care providers, through the collective bargaining process and ratified by the Legislature. The 2025-26 Governor's Budget meets the requirements of current law by including current rates, inclusive of monthly cost of care plus rate payments and a cost of living adjustment. Throughout the budget process, the Administration will work with the Legislature to adopt a final budget package. In general, the budget agreement will be informed by the overall fiscal condition and General Fund capacity. We look forward to continuing to work with the Legislature to consider the many important priorities within the 2025-26 budget.

- **Please confirm if it is the intent of the Administration that the single rate structure will not take place on July 1, 2025, as indicated in the Transition Report.**

Current law requires the Governor and the Legislature to establish rates based on the alternative methodology no later than July 1, 2025. If reimbursement rates based on the alternative methodology do not take effect on July 1, 2025, CDSS shall provide the Legislature with a timeline for transition from the rates that are in effect on July 1, 2025 to the new rates based on the alternative methodology. Additionally, any temporary reimbursement rates established as a part of the transition timeline shall be, at a minimum, equivalent to current reimbursement rates and inclusive of monthly cost of care plus rate payments.

The Administration intends to abide by this State law. This includes pursuing the conclusion of the federally approved alternative methodology, which involves finalizing selection point values in a cost estimation model to assess the cost of providing care. In addition to the finalization of the alternative methodology cost model with selection point values, the State will establish the single rate structure. The single rate structure will ultimately inform the process for setting rates. Setting rates consists of determining what percent of cost of care rates are paid based on the single rate structure.

Our intent is to implement and automate the new single rate structure as soon as feasible. In general, rate structure changes that require more significant modifications to existing State data systems, extensive retooling of State program contractor and county data systems, and/or significant changes to the type of data that must be gathered to calculate reimbursement rates will require a period of time to complete. The exact timing of when the new single rate structure can be fully integrated into State automation systems is unknown, as it is dependent on the completion of the alternative methodology process the single rate structure, both of which have yet to be finalized.

While a period of time will be needed before the new single rate structure can be fully administered *through automation systems*, short-term payments informed by the alternative methodology which require *little to no modification to automation systems*, payment calculation processes, or data collection and reporting can be implemented sometime between six to twelve months. Ultimately, the exact timing of when rate levels informed by the alternative methodology will be implemented and automated is dependent on the outcomes of budget negotiations and, for family child care providers, the collective bargaining process, which are both still underway.

- **Second, please provide the Legislature with a Transition Plan by the Governor's May Revision.**

In addition to the statutorily required quarterly implementation report updates in April 2025 and July 2025, we will provide any available updates regarding the implementation of rates informed by the alternative methodology at the Governor's May Revision.

Thank you for your letter and your commitment to our shared intent to shift the child care and state preschool funding system to be informed by an alternative methodology. We look forward to continuing to work together to achieve this critical reform.

Sincerely,



JENNIFER TROIA  
Director  
Department of Social Services



*for* JOE STEPHENSHAW  
Director  
Department of Finance