

FEBRUARY 19, 2025

Child Care Funding Rates and Transition to an Alternative Methodology

PRESENTED TO:

Assembly Budget Subcommittee No. 2
On Human Services
Hon. Corey Jackson, Chair

Assembly Budget Subcommittee No. 3
On Education Finance
Hon. David Alvarez, Chair



LEGISLATIVE ANALYST'S OFFICE

State's Existing Child Care Rates

State Has Historically Used Two Different Provider Rates

- **Standard Reimbursement Rate (SRR).** A fixed statewide rate (currently \$54.93 per day for child care programs and \$55.27 for State Preschool) that is annually adjusted based on a statutory cost-of-living adjustment. Historically, the SRR has been used to set rates for licensed child care providers that directly contract with the state. These providers must comply with Title 5 regulations that require stricter staffing ratios and staff qualifications.
- **Regional Market Rate (RMR).** A rate that varies by the county in which the child is served and is based on regional market surveys of a sample of licensed centers and family child care homes. The current rates are based on the 75th percentile of the 2018 market survey. RMR levels typically only increase when the state takes action to use a higher percentile of the survey or most recent survey.

State Shifted Most Providers to the RMR in 2021-22

- The state increased rates for providers funded based on the RMR by shifting from the 75th percentile of the 2016 survey to the 75th percentile of the 2018 survey.
- The state also shifted direct contract providers to the RMR to the extent the RMR was higher than the SRR.



State's Existing Child Care Rates

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2023-24 Budget Included Temporary Cost of Care Plus Payments

- Chapter 193 of 2023 (SB 140, Committee on Budget and Fiscal Review) codified the collectively bargained agreement between the state and Child Care Providers United (CCPU). To ensure parity across all child care and State Preschool providers, Chapter 193 also extended the collectively bargained provisions to non-represented, center-based child care and State Preschool providers. These provisions generally will expire on June 30, 2025.
- The agreement included monthly per-child payments that range from \$140 to \$211, depending on provider region. These payments are to be made monthly from January 1, 2024 through June 30, 2025 and are in addition to the current provider rates.



Alternative Methodology

State Began Development of an Alternative Reimbursement Rate Structure in 2021

- Chapter 116 of 2021 (AB 131, Committee on Budget) established two working groups to make recommendations for implementing a single child care reimbursement rate structure.
- The Department of Social Services (DSS), in consultation with the California Department of Education (CDE), convened a workgroup to assess the methodology for establishing a new reimbursement rate and quality standards. The workgroup was to include a range of child care stakeholders and was required to provide recommendations by August 15, 2022.
- The state and CCPU established a Joint Labor Management Committee (JLMC) to 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 JLMC was required to provide its recommendations to the Department of Finance by November 15, 2022.

Alternative Reimbursement Rate Structure to Consider Provider Costs, Not Market Rates

- Intended to include a base rate that incorporates various cost elements, such as mandatory staffing ratios and group sizes, employee salaries, administration, training, and support for dual language learners.
- Also to include an enhanced rate that incorporates the costs of extended evenings and weekends, child transportation, and additional support for children with disabilities.



Alternative Methodology

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Changes to Reimbursement Rate Structure Require Federal Approval

- The state receives about \$1 billion annually through the federal Child Care and Development Fund (CCDF). As a condition of receiving this funding, states are typically required to set rates based on regional market rates.
- In recent years, the federal government has provided waivers to states that were interested in alternative reimbursement rates based on provider costs.



Federal Time Lines for New Rate Structure

Federal Government Set Time Line for States Implementing Alternative Reimbursement Rates

- **December 31, 2023.** Lead state agencies must submit alternative methodology proposals for pre-approval to federal Office of Child Care (OCC).
- **March 1, 2024.** OCC approves alternative methodology proposals submitted by December 31, 2023.
- **July 1, 2024.** Lead state agencies must submit their CCDF Plan, including planned data collection and time lines for establishing rates.
- **July 1, 2025.** Data collection, analyses and reports must be complete. Payment rates based on pre-approved alternative methodology must be determined and submitted to OCC, including a time line for implementation.



Time Lines for New Rate Structure in State Law

Specific Milestones for Alternative Reimbursement Rate Structure

- **July 1, 2023.** DSS must begin the process of data collection and analysis for the alternative methodology, consulting with CDE and aligned with the recommendations of the JLMC.
- **February 15, 2024.** DSS, in collaboration with CDE and the JLMC, shall define the elements of the base rate and any enhanced rates. These elements shall be subject to public engagement state plan process and legislative review.
- **July 1, 2024.** DSS shall submit support for the alternative methodology to the federal government in the state's CCDF state plan. The department shall provide a copy of this plan to the Legislature by July 10, 2024.
- **July 1, 2025.** The state must set new reimbursement rates under the alternative methodology. If rates are not ready to implement, DSS must submit a transition plan to the Legislature. The new reimbursement rates shall not be reduced from the rates previously in effect, including the one-time cost of care plus rates that were part of the most recent collectively bargained and parity agreement.

State Law Sets Specific Reporting Requirements for DSS

- From October 1, 2024 through January 1, 2026, DSS must provide quarterly updates to the Legislature on the implementation of the new reimbursement rates.
- Within 60 days of federal approval of the single rate structure using the alternative methodology in the state plan, DSS, in collaboration with CDE, must provide the Legislature with a report that outlines the implementation components for the approved single rate structure. The state received federal approval on November 8, 2024. The department issued its report on January 7, 2025.

