

# **SUBCOMMITTEE NO. 3**

# **Agenda**

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**Senator Caroline Menjivar, Chair**  
**Senator Shannon Grove**  
**Senator Dr. Akilah Weber Pierson**



**Thursday, May 21, 2026**  
**9:30 am**  
**1021 O Street – Room 1200**

Consultant: Elizabeth Freeman

## **PART A**

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## **PUBLIC COMMENT**

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**5175 DEPARTMENT OF CHILD SUPPORT SERVICES****Issue 1: Department of Child Support Services May Revision Budget**

**Department of Child Support Services (DCSS) - Governor's May Revision.** The May Revision includes the following adjustments to the DCSS budget:

1. **May Revision Local Assistance Estimate.** The May Revision includes a decrease of \$935,000 federal funds ongoing to reflect a decrease of \$1.35 million based on updated child support collections data and an increase of \$410,000 in federal performance basic incentives funding. Correspondingly, the May Revision includes an increase of \$1.34 million (Child Support Collections Recovery Fund) ongoing to reflect an estimated increase in collections received for the federal government's share of child support recoupment based on updated child support collections information.

**Subcommittee Staff Comment and Recommendation – Hold Open.**

**Questions.** The Subcommittee requests the Administration respond to the following:

1. Please provide an overview of the adjustments to the DCSS budget included in the May Revision.

**5180 DEPARTMENT OF SOCIAL SERVICES****Issue 2: CDSS Child Care May Revision Budget**

**Governor’s May Revision – CDSS Child Care and Development.** This issue covers changes to CDSS Child Care and Development programs proposed in the Governor’s May Revision and corresponding trailer bill language.

**2025-2026 Child Care Overview.** The May Revision includes \$6.8 billion (\$5.1 billion General Fund) in 2025-26, which reflects an increase of \$209.7 million (\$181.2 million General Fund) from the Governor’s Budget. The increase reflects the inclusion of 2026-27 first quarter cost of Care Plus payments and administrative support to ensure timely payment, a higher than previously projected caseload and cost per case in CalWORKs Stage One Child Care, and higher cost per case in CalWORKs Stage Two Child Care. These increases are partially offset by removal of funds to support administrative changes needed to pay providers prospectively, a lower cost per case in CalWORKs Stage Three Child Care, and lower than previously projected caseload in CalWORKs Stage Two and CalWORKs Stage Three Child Care.

**2026-27 Child Care Overview.** The May Revision proposes \$6.8 billion (\$5.0 billion General Fund) in 2026-27, which reflects a net increase of \$15.5 million (\$46.7 million General Fund decrease) from the Governor’s Budget. The increase reflects the awarded American Relief Act supplemental disaster relief funds, and higher than previously projected caseloads and cost per case in CalWORKs Stage One Child Care. These increases are partially offset by a 30 percent reduction to the updated COLA for child care and development programs, removal of funds to pay providers prospectively in alignment with recently published updates from ACF, and lower than previously projected caseloads in CalWORKs Stage Two and Stage Three Child Care.

**May Revision Child Care Budget Proposals:**

1. **Reduction of approximately 6,800 child care spaces.** The Governor’s January budget proposal included the reduction of 4,200 General Child Care (CCTR) spaces, as a result of a combined decline in the federal Child Care and Development Fund block grant and a decline in Proposition 64 funds supporting the child care program.

The May Revision revises this proposal by shifting the majority of reductions in child care spaces from General Child Care to the voucher-based California Alternative Payment Program (CAPP) spaces. Because voucher spaces are generally less expensive per child than General Child Care spaces, this shift results in more child care spaces (approximately 6,800) being reduced in the May Revision relative to the Governor’s January budget (approximately 4,200).

Due to increased Proposition 64 revenue projections, the total funding adjustment for child care spaces in the May Revision is \$4.6 million less than in the Governor’s Budget. The total Proposition 64-related reduction is lowered from \$22.7 million at Governor’s Budget to \$18 million at May Revision. The federal CCDF reduction remains \$75.29 million. The chart on the following page details the adjustments to funded spaces at the May Revision compared to the Governor’s Budget.

2026-27 May Revision	CCTR	CAPP	
Annual Cost-per-case	\$23,731	\$12,009	<b>Total Adjustment</b>
Federal fund reduction	-\$5,659,000	-\$69,629,000	-\$75,288,000
Proposition 64 Net Revenue Adjustment	-\$18,067,000	\$-	-\$18,067,000
Total Funding Adjustment	-\$23,726,000	-\$69,629,000	-\$93,355,000
MR Slot Adjustment	-1,000	-5,798	-6,798

2026-27 Governor's Budget	CCTR	CAPP	
Annual Cost-per-case	\$23,465	\$12,072	<b>Total Adjustment</b>
Federal fund reduction	-\$75,288,000	\$-	-\$75,288,000
Proposition 64 Revenue Adjustment	-\$22,696,000	\$-	-\$22,696,000
Total Funding Adjustment	-\$97,984,000	\$-	-\$97,984,000
GB Slot Adjustment	-4,176	0	-4,176

**LAO Comment on Shifting Reductions from General Child Care to Vouchers.** The LAO notes there are tradeoffs in shifting most of the federal fund/Prop 64 fund reduction from General Child Care to vouchers, noting this proposal could be less appealing for the following reasons:

- Because the average cost per slot in CAPP is lower than in General Child Care, a reduction to CAPP would result in a larger reduction in funded child care slots. (Based on the administration’s estimates, the May Revision reduces about 6,800 funded slots, compared with about 4,200 in January.)
  - Slots funded through CAPP typically reach families more quickly. This is because no request for applications is required, allowing funds to get into contracts relatively quickly, and families who receive vouchers through CAPP can choose from a variety of providers and settings.
  - In recent years, the state has had a significant amount of unspent funding in General Child Care, suggesting that a reduction to that program might have less of an impact on families.
2. **Revise Child Care Cost-of-Living Adjustment and Reduce by 30 percent (includes corresponding trailer bill).** The Governor’s January Budget proposed a total of \$89.1 million General Fund for a 2.41 percent cost-of-living adjustment (COLA) for all subsidized child care providers, administered as an increase to the monthly per-child rate supplements known as “cost of care plus.” The May Revision proposes \$112 million for a reduced COLA of 2.01 percent. This represents a 30 percent reduction to the proposed COLA. (The total cost of the COLA is higher than the Governor’s January budget only because some child care programs were inadvertently left out of the original calculation).

The child care COLA has been suspended and the funds repurposed in various ways in recent budget acts. However, the child care COLA has historically and statutorily been tied to the COLA

provided to TK-12 categorical programs. This proposal to reduce the child care COLA by 30 percent effectively detaches the child care COLA from the TK-12 COLA, which is proposed at 2.87 percent. The Education budget also includes a “Super COLA” for the Local Control Funding Formula in the TK-12 budget of 4.31 percent.

The May Revision applies the lower 2.01 percent COLA to both CDSS child care programs and the California State Preschool Program (CSPP) operated by the California Department of Education (CDE). However, the LAO notes that the way the COLA is calculated is still different across CDSS child care, CSPP programs operated by Local Educational Agencies (LEAs), and CSPP programs operated by community-based organizations.

- 3. Federal Funds to support child care facilities impacted by disasters (includes corresponding trailer bill).** CDSS applied for Federal American Relief Act 2025 funding on September 11, 2025, and received a \$28 million award on February 10, 2026, to support child care facilities impacted by disasters in 2023 and 2024. CDSS states that this funding will help restore child care services, maintain continuity for families, and stabilize child care availability in affected communities.

This federal grant is in addition to the \$11.5 million Proposition 64 funds proposed in the Governor’s January budget to support child care facilities impacted by the 2025 wildfires. That amount is revised slightly upward to \$11.8 million at the May Revision.

This proposal includes corresponding trailer bill language that (1) outlines the types of child care facilities eligible for grants; (2) allows CDSS to award grants on either a competitive or non-competitive basis; and (3) outlines the types of infrastructure eligible for grant funds (generally renovation or repair of existing facilities and equipment affected by disasters). According to the Administration, the trailer bill language would apply to both the federally funded and Proposition 64-funded appropriations for eligible disasters in 2023, 2024, and 2025.

- 4. Child Care Administrative Support Cost Structure (includes corresponding trailer bill).** The 2023 Budget Act and subsequent budget acts thereafter have provided \$70 million General Fund to Alternative Payment Program (APPs, child care contractors who administer the voucher-based program), to cover administrative and support costs associated with implementation of the Memorandum of Understanding (MOU) between the state and Child Care Providers United (CCPU), such as dues collection. For the last three years, the \$70 million annual General Fund appropriation has been administered to APP agencies outside of those agencies’ contracts with CDSS (the voucher program funding structure provides an administrative and support amount for APP agencies of 17.5 percent of the total child care contract).

This May Revision budget and trailer bill language proposal would take the \$70 million General Fund that is currently paid to APP agencies outside of contracts and replace it with a 1.5 percentage increase to APP contracts (\$65 million in 2026-27). This means the amount of funding provided to APPs to complete various activities related to CCPU MOUs would shift from a fixed dollar amount to a percentage of the overall APP contract. Corresponding trailer bill language adjusts the APP administrative and support services contract from 17.5 percent to 19 percent of the total contract amount.

The LAO recommends rejecting this proposal, noting that this creates General Fund cost pressures in the long-term: “Although the proposal provides \$5 million in net savings in 2026-27, this change likely would create General Fund cost pressures in future years. By providing funding as a percentage of contracts, funding for administrative costs would increase any time child care slots or provider rates are increased, regardless of whether administrative workload increases. We recommend rejecting this proposal. The Legislature could increase this amount in future years based on changes in administrative workload and costs.”

5. **Abandon prospective pay policy.** The 2025 Budget Act included approximately \$30.1 million General Fund in 2025-26 and \$43.8 million General Fund in 2026-27, for child care contactors to implement a new federal requirement to pay child care providers prospectively (at the beginning of the month, similar to private pay families). Additionally, the 2025 Budget Act included \$582,000 and six positions in 2025-26 and \$1.1 and six positions in 2026-27 and ongoing for state operations to support local implementation of prospective pay. (In order to fully implement the prospective pay policy, additional one-time funding in the range of \$1-2 billion would have been needed to issue the first upfront payment, beyond the start-up resources provided in the 2025 Budget Act).

In May, the federal Office of Child Care issued a final rule rescinding the requirement that states pay providers prospectively. As a result, the May Revision reverts all of the resources (including the CDSS positions) previously provided in the 2025 Budget Act for implementation of this policy. This creates General Fund savings of \$30.1 million in 2026-26 and \$43.8 million in 2026-27.

6. **\$217 million to allocate cost of care plus payments before the fiscal year begins.** On May 5<sup>th</sup>, the administration notified the Joint Legislative Budget Committee of its intent to increase 2025-26 child care spending by \$217 million. The additional funding is to provide contractors with the first quarter of 2026-27 cost of care plus payments at the end of 2025-26. The administration indicates that providing this funding is necessary to ensure cost of care plus payments for the first quarter of fiscal year 2026-27 are made in a timely manner. The May Revision includes funding for this shift in 2025-26 and also maintains a full year of funding for cost of care plus payments in 2026-27. The administration has indicated they intend to continue with the same approach on an ongoing basis, with funding from one fiscal year being used to cover the first quarter of the following year.

The LAO notes that this shift across fiscal years results in one-time General Fund costs of \$217 million and that returning to the previous schedule for these payments would achieve General Fund savings.

7. **Close-out of remaining activities for prior infrastructure grant program.** The May Revision proposes reappropriating \$1.5 million in New Construction and Major Renovation funds from 2025-26 to 2027-28 to support close-out activities for remaining projects administered through CDSS’s contract with Low-Income Investment Fund for the Child Care Infrastructure Grant Program. This reappropriation will allow the agreement with Low-Income Investment Fund to be extended to provide continued technical assistance and oversight required beyond the current June 30, 2026, funding deadline.

**Senate Budget Plan.** The Senate Budget Plan<sup>1</sup> funds the next step to meet the existing commitment of reaching a total of 206,800 additional slots above 2020 levels with 44,000 slots added in 2026-27. Costs of approximately \$336 million in 2026-27 and \$636 million ongoing for the slot expansion will be significantly absorbed by updated preschool costs to match current actual costs.

**Subcommittee Staff Comment and Recommendation – Hold Open.**

**Questions.** The Subcommittee requests the Administration respond to the following:

1. Please present the child care proposals in the Governor’s May Revision included in this issue, including a description of trailer bill that corresponds to each budget proposal where applicable.
2. Please describe the Administration’s rationale for eliminating approximately 6,800 funded child care slots, and for shifting the majority of this proposed reduction from the General Child Care program to the CAPP (voucher) program.
  - a. What has changed from the Governor’s January Budget to the May Revision that led the Administration to assume that a reduction to vouchers would be less disruptive to families than a reduction to General Child Care?
  - b. Please describe why some APP agencies have voluntarily relinquished significant numbers of child care voucher spaces. What is driving this and what agencies, in what areas of the state, are relinquishing voucher spaces? If these relinquishments do not represent a lack of need for child care among eligible families in certain areas, what other issues do they reflect?
  - c. How are voucher-based child care spaces allocated across the state’s network of APP contractors, and do these relinquishments point to the need to reevaluate that allocation?
  - d. What administrative or statutory changes would improve the timely uptake of both CAPP and General Child Care spaces, to avoid these types of relinquishments and associated reductions to overall statewide capacity?
3. The decline in federal CCDF funds Proposition 64 funds is being used to justify corresponding declines in funded child care spaces in the Governor’s May Revision. However, the May Revision also includes significant reversions of \$30 million General Fund in 2025-26 and \$43.8 million General Fund in 2026-27 related to the rescission of the federal prospective pay policy. Why aren’t these reverted General Fund dollars being used to partially backfill the loss of federal and Prop 64 funds to prevent reductions to the number of funded slots?
4. The Subcommittee #3 hearing on April 23 included a discussion of a significant amount of General Child Care funding from prior expansions that have not been entered into contract due to various infrastructure-related delays. What amount of 2025-26 General Child Care (or other child care program) funds could possibly revert to the General Fund?

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<sup>1</sup> <https://sbud.senate.ca.gov/system/files/2026-04/foundation-for-the-future-budget-plan-final-2026.pdf>

**Issue 3: Other Child Care May Revision Trailer Bills**

**Governor’s May Revision – Child Care Trailer Bills.** This issue includes additional child care trailer bill proposals that are not covered in Issue #2.

1. **Child Care Single Rate Structure Age Groupings and Inclusion Framework.** This proposal would establish legislative intent regarding some elements of a policy framework for the future child care Single Rate Structure. These policies reflect recommendations from the Joint Labor Management Committee (JLMC) between the state and CCPU submitted in December 2025.

*Age Groupings.* The trailer bill proposes to specify legislative intent for age groupings under the single rate structure as follows:

- Children under 2 years: infant rate
- Age 2: toddler rate
- Ages 3-6 (not enrolled in first grade): preschool rate
- Ages 5 and older (enrolled in first grade): school-age rate

*Inclusion Rate.* The trailer bill establishes legislative intent that an enhanced rate for inclusion of children with special needs shall be administered as a per-child amount, with programs able to claim reimbursement for enhanced services that they deliver. The trailer bill establishes documentation (such as an individual program plan or similar plans) needed to receive an enhanced inclusion rate for a child.

CDSS states that these changes will support the establishment of a policy framework which is needed to better assess impacts on state and contractor automation systems and begin any automation preparatory activities.

2. **Site Safety and Emergency Procedures.** This proposal will align state child care licensing requirements with the federal requirements of the Child Care and Development Block Grant for inspection, monitoring, training, health and safety, and licensing standards. Final findings as a result of 2024 federal monitoring identified several areas of noncompliance; the state is at risk of being fined four percent of its Child Care and Development Fund (CCDF) allocation if amendments are not made to bring licensing into compliance with CCDF requirements. These requirements relate to the following: the administration of medication; anaphylactic policy relating to allergic reaction emergencies; pediatric and CPR training; child abuse and neglect reporting; and disaster response planning.
3. **CalWORKs Child Care.** This proposal will codify the expanded CalWORKs Welfare-to-Work (WTW) activities as an eligible need category for families receiving CalWORKs Stage Two and Stage Three child care. The CalWORKs Child Care system was originally designed as a three-stage model to support families on their path to self-sufficiency. Stage One provides immediate and continuous child care for families receiving cash aid, while Stages Two and Three require documentation of “need” based on work or training hours.

CDSS states that currently, for a family to receive Stage Two or Three CalWORKs child care, they must have a specific documented “need,” but the specific allowable “need” options for Stages Two and Three do not align with CalWORKs program activities. As a result, families who are participating in CalWORKs program activities are unable to re-enroll in Stages Two or Three and must be referred back to Stage One, which can be disruptive to their child care arrangement and adds unnecessary administrative burdens on families, child care providers, and contractors.

This proposal would include participation in CalWORKs program activities as an eligible need category for CalWORKs child care. CDSS states that expanding this definition will improve alignment across the CalWORKs child care stages and support the program changes under SB 119 (Senate on Budget and Fiscal Review), Chapter 79, Statutes of 2025.

4. **Child Care Oversight.** This proposal updates provisions related to fraud and overpayment prevention in child care and development programs to reflect the transition of these programs from the California Department of Education (CDE) to CDSS and to build upon the existing statutory structure. Current law governing fraud and overpayment prevention in child care programs has not been updated since the transition of these programs from CDE to CDSS. WIC section 10388 still identifies CDE as the lead agency for oversight and error rate studies, even though WIC Section 10205 shifted responsibility for the Child Care and Development Fund (CCDF) to CDSS. This proposal updates statutory language to reflect CDSS’s current role, clarifying authority to continue implementation of program integrity policies, and allowing CDSS to support contractors and cross-program investigations through collaboration with counties.

**Subcommittee Staff Comment and Recommendation – Hold Open.**

**Questions.** The Subcommittee requests CDSS respond to the following:

1. Please provide an overview of the trailer bill proposals included in this issue.