Senate Budget and Fiscal Review—Scott Wiener, Chair

SUBCOMMITTEE NO. 3 Agenda

Senator Caroline Menjivar, Chair
Senator Susan Talamantes Eggman, Ph.D.
Senator Shannon Grove
Senator Richard D. Roth

Thursday, April 25, 2024
9:30 am, or upon adjournment of session
1021 O Street – Room 1200

Consultant: Elizabeth Schmitt

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5180 Department of Social Services

Issue 1: Governor's Proposed Cuts to Child Welfare Programs

Panel Discussion. The Subcommittee has invited the following individuals to participate in this discussion:

- Jennifer Troia, Chief Deputy Director, Department of Social Services (CDSS)
- Marlon Davis, Department of Finance (DOF)
- Angela Short, Principal Fiscal & Policy Analyst, Legislative Analyst's Office (LAO)
- Simone Tureck Lee, Director of Housing and Health, John Burton Advocates for Youth (JBAY)
- Wednesday Pope, Folsom Lake Community College Student and JBAY Youth Advocate
- Gabriel Skydancer, FURS Program Supervisor, LA County Department of Children and Family Services
- Craig Vincent-Jones, Deputy Director, Children's Medical Services, LA County Department of Public Health
- Ed Center, Foster-to-Adopt Parent, San Francisco County
- Christopher Hernandez, Statewide Legislative Coordinator, California Youth Connection

Proposed Cuts to Child Welfare Programs – Governor's Budget. The Governor's budget proposes to permanently eliminate ongoing funding for several programs that are currently serving children and youth in foster care, including:

- **Eliminate Family Urgent Response System ($31.2 million).** Family Urgent Response System (FURS) is a free, 24/7, immediate, trauma-informed support for children and youth currently or formerly in foster care and their caregivers. It consists of a statewide hotline and county-based mobile response teams, which provide in-person support, usually within one hour, to help stabilize a placement or de-escalate a situation. The Governor proposes to permanently eliminate all FURS funding of $31.2 million ($30 million General Fund) beginning in 2024-25.

- **Eliminate the SILP Housing Supplement ($25.5 million).** The Supervised Independent Living Placement (SILP) Housing Supplement is designed to support housing stability for youth in foster care ages 18-21 by adding a monthly supplement to cover housing costs. The SILP is scheduled to be fully implemented in 2025-26. The Governor's budget proposes to eliminate the SILP Housing Supplement, generating $25.5 million ($18.8 million General Fund) in savings beginning in 2025-26. However, the Governor's budget also proposes to increase overall SILP rates as part of permanent foster care rate reform, which is covered in Issue 2 of this agenda.

- **Eliminate the LA Public Health Nursing Early Intervention Program ($8.3 million).** The LA Public Health Nursing Early Intervention (PHNEI) Program funds public health nurse interventions for families in Los Angeles experiencing health issues endanger child health, safety, and family stability. The goal of this program is to decrease child entry or re-entry into the child welfare system. The program is in the early stages of implementation. The Governor proposes to permanently eliminate this program beginning in 2024-25, generating $8.3 million in savings.

Eliminate the Housing Navigators Program under Department of Housing and Community Development ($13.7 million). The Housing Navigation and Maintenance Program is administered by the Department of Housing and Community Development (HCD). This program pays for supportive services and access to federal housing vouchers for former foster youth. While this program is not administered by CDSS, the Governor's proposed elimination of this program would primarily affect current and former foster youth. Prior to the creation of the Housing Navigators Program, California was underutilizing available federal housing vouchers available for foster youth. According to JBAY, the number of federal vouchers utilized in California has increased by 54 percent, drawing down $22 million in federal funds, since the enactment of the Housing Navigators program.

Revert funding for LA Child Welfare Stabilization ($100 million). The Governor's budget proposes a reversion of $100 million for the Los Angeles Child Welfare Stabilization Fund in 2023-24. This funding was provided to supplement existing child welfare funding for family reunification, prevention, and other services following the expiration of federal funding for these activities. The Administration has stated that they have already received the invoice from LA County for the full amount of this appropriation, and thus the $100 million in savings will not materialize. The Administration will update the budget accordingly at May Revise.

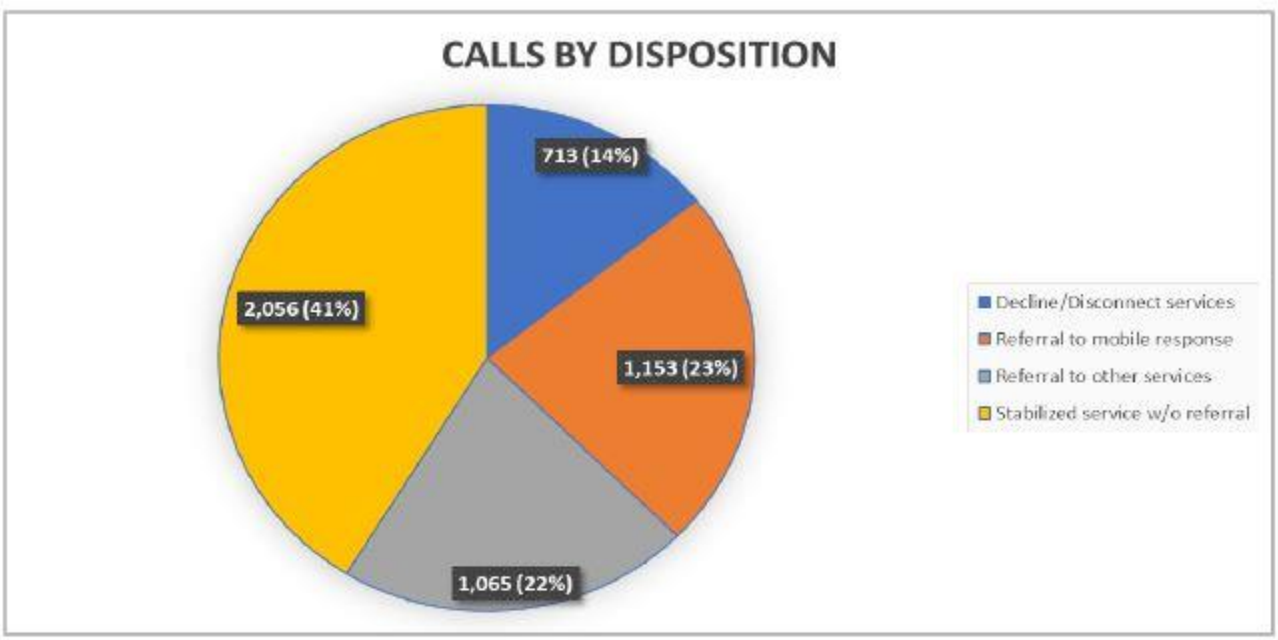
Background on FURS. FURS was established in 2019 and provides immediate support to current and former foster youth and their caregivers who are experiencing emotional interpersonal conflict or other immediate needs that threaten to destabilize the child's placement. Supports include a state-level phone-based response system augmented by a county-level in-home response system to assist during situations of instability in placements. The 24-hour hotline provides a toll-free number that offers immediate phone assistance with operators trained in conflict resolution and de-escalation techniques. The 24-hour county mobile response teams are deployed as needed by the hotline staff. The mobile teams provide an in-person, in-home response, if needed, to help defuse and stabilize a situation, assess the caregiver's and youth's needs, and develop a plan of action to help avoid placement disruptions.

A total of 4,987 calls were made to the hotline in the period of January 1, 2023, to December 31, 2023. 1,090 of those calls resulted in an in-person mobile response. 2,086 calls were initiated by caregivers and 738 were initiated by current and former foster youth. Of the 2,086 calls made by caregivers, the largest group were foster caregivers (61.4 percent), followed by adoptive parents (8.2 percent). Relative/non-relative extended family members and biological parents each represented just over seven percent of the total calls.

Hotline Caller Type		
Caregiver	2,086	41.8%
Youth in Foster Care	469	9.4%
Former Foster Youth	269	5.4%
Peer	14	0.3%
Sibling	*	*
Other	683	13.7%
Ineligible Caller	627	12.6%
Other Family Member	170	3.4%
CPS Staff	61	1.2%
County MR Provider	287	5.8%
Law Enforcement	98	2%
Legal Counsel	*	*
Other Service Provider	176	3.5%
School Personnel.	26	0.5%
Total	*4,987*	*100%*

** Denotes a masked cell. Values are not visible to protect the confidentiality of the individuals summarized in the data.*

The following chart demonstrates the majority of calls (41.2 percent) were stabilized at the hotline without requiring any additional referrals to other services. Approximately 23.1 percent of all calls are referred to counties for a mobile response and another 21.4 percent of callers are provided referrals to other services, while 14.3 percent of callers either disconnect or decline services.



Source: CDSS

According to data provided by the Los Angeles County Department of Children and Family Services, which receives the most requests for FURS support, 87 percent of FURS in-person mobile responses result in a stabilized placement. According to Children Now, the percentage of youth who have been in foster care and moved three or more times is at an all-time low of 26.7 percent, which represents a 20 percent decrease since the implementation of FURS. Adoptive parents and resource families have testified that the FURS intervention enabled them to work through unstable situations that otherwise could have permanently changed the trajectory of the child and family.

Background on SILP Housing Supplement. The 2023 Budget Act established the SILP Housing Supplement, which supports nonminor dependents (ages 18-21) in foster care by supplementing their SILP rate with a housing supplement. The supplement is calculated as the difference between one-half of the federal fiscal year 2023 fair market rent for a two-bedroom apartment in the county in which the nonminor resides and 30 percent of the basic SILP rate. This increase was approved by the Legislature as part of the 2023 Budget Act as a response to homelessness among current foster youth. According to the CalYouth study, one in five, or approximately 20 percent, of foster youth have experienced homelessness as nonminor dependents (age 18, 19, or 20).[1]

The 2023 Budget Act includes $1 million in 2023-24, $200,000 in 2024-25, and $25.5 million ($18.8 million General Fund) in 2025-26 and ongoing for the SILP Housing Supplement. Trailer bill language establishes the housing supplement and requires CDSS to calculate this housing supplement by November 1 of each year.

Background on the LA Public Health Nursing Early Intervention (PHNEI) Program. This program was authorized in 2019 to support children who are at risk of being placed in the child welfare system in Los Angeles County by providing foster care public health nurses as an early intervention on an ongoing basis. Public health nurses will provide children and their families with preventative services that meet their medical, and behavioral health needs, with the goal of improving outcomes by maximizing access to health care, health education, and connection to safety net services. In the first year of the allocation, statute required that the Public Health Department in Los Angeles work with the Department of Health Care Services (DHCS) to develop a plan for implementation and claiming the federal dollars that were required to be secured through the statute.

Although this program was originally authorized in 2019, the COVID-19 pandemic and other administrative issues caused delays, leading implementation to begin in 2023. LA County reports that they have developed the program and hired nurses to begin working with families. As of March 2024, CDSS has received four invoices for services rendered through December 2023. The fourth invoice was submitted on February 1, 2024.

Stakeholder Concerns with Governor's Proposed Eliminations of Child Welfare Programs. A broad coalition of stakeholders, including former foster youth, child welfare advocates, caregivers, providers, and counties are opposed to the Governor's proposed cuts to child welfare programs, stating that "we must

[1] Feng, H., Harty, J., Okpych, N. J., & Courtney, M. E. (2020). Memo from CalYOUTH: Predictors of homelessness at age 21. Chicago, IL: Chapin Hall at the University of Chicago.

not address this shortfall at the expense of our children and youth in foster care to whom the state has a legal and moral responsibility."

Subcommittee Staff Comment and Recommendation – Hold Open. Subcommittee staff notes that the Governor's proposal to eliminate FURS would take away a vital service that thousands of children and caregivers in the child welfare system currently rely on. FURS is uniquely designed to respond to de-escalate and stabilize children and youth in foster care; there is no equivalent service that can provide the level of support currently provided by FURS.

Questions. The Subcommittee requests CDSS/DOF respond to the following:

1. Please explain the Administration's rationale for the proposal to eliminate the Family Urgent Response System (FURS). Why was this program selected to be eliminated, and why is the Administration proposing to eliminate it on a permanent basis? What does the Administration expect to be the effect of eliminating this service for children in foster care and their caregivers?

2. Please explain the Administration's rationale for the proposal to eliminate the SILP Housing Supplement. How does the new SILP rate under the department's proposed rate reform compare to the SILP Housing Supplement?

3. Please explain the Administration's rationale for the proposal to eliminate the LA Public Health Nursing Program. How much of the 2023-24 allocation has been spent to date? What services have been provided and what are the anticipated outcomes?

Issue 2: Foster Care Rate Reform

Panel Discussion. The Subcommittee has invited the following individuals to participate in this discussion:

- Kim Johnson, Director, and Angie Schwartz, Assistant Deputy Director, CDSS
- Marlon Davis, Department of Finance
- Angela Short, Principal Fiscal & Policy Analyst, Legislative Analyst's Office
- Kristina Tanner, Statewide Policy Coordinator, California Youth Connection
- Eileen Cubanski, Interim Executive Director, County Welfare Director's Association
- Chris Stoner-Mertz, CEO, California Alliance of Child & Family Services
- Jennifer Rexroad, Executive Director, California Alliance of Caregivers
- Jennifer Rodriguez, Executive Director, Youth Law Center

Trailer Bill Language – Governor's Budget. The Governor's budget proposes trailer bill language establishing a new permanent foster care rate structure pursuant to California's Continuum of Care Reform (CCR). CDSS is proposing a rate structure that has three tiers to address the needs of children as identified by the Child and Adolescent Needs and Strengths (CANS) assessment, regardless of their placement setting. There are three components of the Tiered Rate Structure: Care and Supervision Rate, Strengths Building Allocation, and Immediate Needs Allocation.

Governor's Budget Includes $12 million in 2024-25 for Automation costs. The Governor's proposed budget includes $12 million General Fund for automation costs to implement the new rate structure into the California Statewide Automated Welfare System (CalSAWS) and Child Welfare Services – California Automated Response and Engagement System (CWS-CARES).

Existing Law Requires New, Permanent Foster Care Rate Structure. Since 2017, CDSS has been operating under an interim foster care rate structure. Existing law specifies legislative intent to establish a permanent rates structure by January 1, 2025. The 2022 Budget Act extended the original timeline for the development of this rate structure from 2022.

Background on Current Interim Foster Care Rates. The current interim rate structure became effective January 1, 2017, and consists of the following:

- **Home-Based Family Care Rate.** The interim home-based family care rate structure is based on the child's Level of Care (LOC), which is a tool used by local child welfare staff to assess the care and supervision needs of foster children, and match those needs to a board and care rate. There are four levels of care and corresponding rates for foster youth placed with resource families: the basic rate (LOC 1,), LOC 2, LOC 3, and LOC 4. If youth are assessed as having certain care needs requiring higher levels of support, they may be eligible to receive a higher rate for specialized models of care.[2] The interim home-based family care rates apply to the following placement types:
    - **Resource family homes**. Resource family homes, formerly known as county-operated foster homes, receive a home-based family care rate based on the child's LOC. Resource

[2] LAO, "The 2024-25 Budget: Child Welfare," February 26, 2024.

family homes receive an annual increase to the home-based family care rate based on the California Necessities Index pursuant to Welfare and Institutions Code (WIC) 11461(g)(4)). The basic rate for a home-based caregiver is $1206 per month.

- **Foster Family Agencies (FFAs).** FFAs are private non-profit agencies that oversee resource family homes and provide enhanced case management for children or youth typically because they have heightened needs, are sibling groups, or have other needs. FFAs receive a rate that is composed of two types of costs: appropriate Level of Care home-based family care rate based on the child's LOC, and an additional amount to provide for the administration/supports and services/case management provided pursuant to WIC 11463. The care and supervision portion of the rate is adjusted annually with the home-based family care rate. The administration portion that corresponds to the services/supports are not adjusted annually.

- **Intensive Services Foster Care.** Intensive Services Foster Care placements receive a rate that is composed to two types of costs: a Level of Care home-based family care rate based on the child's LOC, and an additional amount depending on how the home was certified. Resource parents must undergo additional training to receive the higher Intensive Services Foster Care rate. Determination of eligibility for Intensive Services Foster Care is done using the LOC. When the placement is into a certified FFA home, the FFA also receives a higher administrative rate to serve the Intensive Services Foster Care home.

- **Short Term Residential Therapeutic Program Rate**. Short Term Residential Therapeutic Programs (STRTPs) receive a flat rate to provide care and supervision and core services for children and youth with significant behavioral needs pursuant to WIC 11462. Residential settings such as STRTPs and Community Treatment Facilities have their own rates structure and do not receive a home-based family care rate when a child or youth is placed there.

Proposal Bases Rates on Child's Assessed Level of Needs and Strengths. The Level of Care Rate Determination Protocol was developed as an interim solution when the interim rates structure was implemented. The state's intention was to move towards a validated tool to determine the strengths and needs of the individual child when implementing a permanent rates structure.

The Child and Adolescent Needs and Strengths Tool (CANS) is a validated functional assessment tool which assesses well-being, identifies a range of social and behavioral healthcare needs, supports care coordination and collaborative decision-making, and monitors outcomes of individuals, providers, and systems. The CANS is well established and has been implemented statewide since 2018.

The data from the CANS can be aggregated and analyzed through an approach known as a Latent Class Analysis (LCA). LCA is a measurement model in which individuals can be classified into mutually exclusive and exhaustive classes based on their pattern of answers on a set of variables. According to CDSS, many other jurisdictions use the CANS to support decisions around rates, placements, and service array. The CANS data provides concrete information about children's current strengths that need to be maintained, as well as those strengths in need of additional development. The proposed permanent rate structure utilizes the CANS to establish tiers that determine the rate available to support each child. The rate is not tied to the placement type.

The CANS must be completed within 60 days of a child entering care and every six months during the time the child is in foster care.

Proposal Includes Tiered Rate Structure that follows the Child, not the Placement. Under the proposed rate structure, a child would fall under a certain "tier" or category, based on their CANS assessment. Under the rate structure (below), a child's tier would be either Tier 1, Tier 2, Tier 3, or Tier 3+, based on the child's CANS assessment and their age.

Rates Include Three Key Components. Under the department's proposal, rates would be comprised of three components:

- **Care and Supervision**. This component is intended to fund the basic care and supervision of the child and would be paid directly to the caregiver.

- **Strengths Building and Maintenance**. This component of the rate is intended to fund activities that build strengths and positive childhood experiences, such as extracurricular activities, sports, and other activities of the child's choosing. This funding is rooted in evidence that participation in enrichment activities can help young people heal, promote supportive social connections, and provide opportunities to develop valuable skills. The Strengths Building funds would be provided by an independent spending plan manager working with the child and family to pay directly for the child's chosen activities. According to CDSS, focusing on strengths building activities will help prevent youth from developing more complex needs and stabilize children in the families where they are placed.

- **Immediate Needs.** The Immediate Needs funding would fund an array of integrated services and supports for children with higher levels of needs, such as behavioral health treatment. These services would be provided via an array of providers and community-based organizations as part of a network developed by the county. According to CDSS, by basing the rate on the child's immediate needs and strengths, rather than tying the rates to the child's placement type, this helps to make sure even those children with the highest level of need can be supported in a family home and, ideally, the home of a relative or extended family member. STRTPs and other community organizations can also receive the funding associated with providing services and supports to address those immediate needs without requiring that the child be physically placed in a facility, or the funds can support a child's placement in an STRTP, if warranted.

For children placed in a FFA home or STRTP, there is an additional administrative rate to cover recruitment, retention, approval, training, and other administrative costs.

According to CDSS, the additional Strengths Building and Immediate Needs components of the rate are designed to promote positive experiences for all young people in foster care and to increase the number of children continuously living with their siblings and in stable family homes with relatives or extended family members. Data and research highlight the benefits to children and youth of living with their relatives and kin. For example, California's outcomes indicate that when placed in a non-relative setting, only 24 percent of children remain in their first placement at 12 months in care. By comparison, when placed in a relative setting, 71 percent of children remain in their first placement at 12 months in care. California's placement data also indicates that 53 percent of children in a non-relative placement are placed with all of their siblings, whereas 73 percent of children in a relative placement are placed with all of their siblings.

The rates structure is provided below:

Proposed Permanent Foster Care Rates Structure Framework

Tier 1 (74% of children and youth) (Latent Classes 1 and 2 for the 0-5-year-olds and Latent Classes 1, 2, and 3 for the 6+ year olds)	
Care and Supervision Paid to the caregiver	$1,788
Strength Building and Maintenance Child and Family work with a Financial Management Coordinator	$500
Immediate Needs	NA
FFA Admin (for youth placed in an FFA) *Recruitment, retention, approval, training, etc.*	$1,610

Tier 2 (19% of children and youth) (Latent Class 3 for the 0 – 5-year-olds and Latent Classes 4 and 5 for the 6+ year olds)	
Care and Supervision Paid to the caregiver	$3,490
Strength Building and Maintenance Child and Family work with a Financial Management Coordinator	$700
Immediate Needs County or contracted provider coordinate services	$1,000
FFA Admin (for youth placed in an FFA) *Recruitment, retention, approval, training, etc.*	$2,634

Tier 3 (ages 0-5) (4.5% of children and youth) (Latent Class 4 for 0 – 5-year-olds)	
Care and Supervision Paid to the caregiver	$6,296
Strength Building and Maintenance Child and Family work with a Financial Management Coordinator	$900
Immediate Needs County or contracted provider coordinate services	$1,500
FFA Admin (for youth placed in an FFA) *Recruitment, retention, approval, training, etc.*	$2,634

Tier 3+ (ages 6+) (2.5% of children and youth) (Latent Class 6 and 6a for 6+ year olds)	
Care and Supervision Paid to the caregiver	$6,296
Strength Building and Maintenance Child and Family work with a Financial Management Coordinator	$900
Immediate Needs County or contracted provider coordinate services	$4,100
FFA/STRTP Admin (for youth placed in an FFA or an STRTP) *Recruitment, retention, approval, training, etc.*	$7,213

Multi-year Funding. After the $12 million in automation costs included in the 2024-25 budget, the funding to implement the new permanent rate structure would begin in 2026-27. At full implementation, the cost is approximately $1 billion.

	Proposed Expenditures (Dollars in Millions)						
	2023-24	2024-25*	2025-26*	2026-27*	2027-28*	2028-29*	2029-30*
General Fund	-	$12	-	$425	$647	$873	$896
Federal Fund	-	-	-	$77	$125	$175	$193
County Fund	-	-	-	$4	$7	$9	$10
Total	-	$12	-	$506	$779	$1,057	$1,099

*Estimate; Excludes state operations costs.
**Proposal is the estimated incremental increase in cost over the Interim Rates Structure.

Trailer Bill Language Summary. The trailer bill language is extensive and can be found in full on the Department of Finance's website. A summary of the trailer bill language is below:

- Establishes the Tiered Rate Structure, beginning July 1, 2026, or the date that CDSS notifies the Legislature that the CalSAWS system can perform the necessary automation to implement the rate structure.

- Provides CDSS with the authority to implement the Tiered Rate Structure via written guidance until the adoption of regulations, no later than January 1, 2035.

- Requires CDSS to issue guidance to county placing agencies and Title IV-E Tribes to implement the Tiered Rate Structure, including standards for CANS assessment fidelity, when the CANS assessments should be completed or updated, and guidance regarding how to implement tier transitions for a child based on subsequent CANS assessments.

- Requires annual adjustments to the Care and Supervision rate component based on the California Necessities Index.

- Requires CDSS to determine a schedule for transitioning children in current foster care placements on July 1, 2026, no later than January 1, 2028.

- Clarifies that specified components of the Tiered Rate Structure will not apply to:

  - Transitional housing (care and supervision rate will not apply and the rate for care and supervision is set forth in WIC 11403.3, however the child/youth would still be eligible for Strength Building and Immediate Needs Program funds based on their assessed tier).

  - SILPs (care and supervision will be equivalent to Tier 1 of the new rate and NMDs in SILPs will be eligible for Strength Building based on Tier 1 but will not be eligible for Immediate Needs funding).

  - Vendorized home of a regional center (care and supervision rate the child is eligible for is set by Department of Developmental Services and the child would still be eligible for Strength Building and Immediate Needs Program funds based on their assessed tier).

  - Temporary shelter care facility or transitional shelter care facility (care and supervision component of the rate is not available, however the child would still be eligible for Strength Building and Immediate Needs funds based on their assessed tier).

  - Nonrelated Legal Guardianships ordered through probate court (tiered rate structure does not apply).

- Establishes relevant definitions for the Tiered Rate Structure.

- Provides CDSS with the authority to implement specified oversight and audit provisions regarding foster care providers via written guidance, until the adoption of regulations, no later than January 1, 2035.

- Requires each child’s case plan to include the child’s most recent CANS assessment and respective tier, the child’s specific Immediate Needs Allocation Plan, and the Strengths Building Spending Plan and Spending Plan Report.

- Requires all placing agencies, defined to mean a county child welfare agency, a county probation department, or an Indian tribe that entered into an agreement pursuant to Section 10553.1, to conduct CANS assessments for every child in foster care under their care, custody, and control. Requires the placing agency to:

- Complete the initial CANS assessment within 60 days of the child's entry into foster care.
- Complete new CANS assessments, at a minimum, every six months after the initial assessment, and more frequently if needed, as described.
- Provides that the CANS assessment shall identify the child's tier for purposes of the Tiered Rate Structure.

- Establishes requirements for CDSS to implement the Immediate Needs Program, including the development of standards of care, including:
  - A methodology for determining the allocation for each placing agency.
  - The establishment of statewide minimum standards for the Immediate Needs Program, in consultation with specified stakeholders.
  - Model contracts for placing agencies to use with providers that align with the established standards of care framework.
  - Processes for certifying Immediate Needs Providers, whether a placing agency or contracted provider, to provide services consistent with the standards of care, including requirements specific to Immediate Needs Providers for Indian children.
  - Guidelines for ensuring each eligible child is provided services and supports consistent with the standards of care framework.
  - Workforce development, training, and curriculum.
  - Development of policies and procedures for statewide collection of data and outcome measures.

- Establishes requirements for placing agencies administering the Immediate Needs Program, including:
  - Submit to CDSS for approval a Placing Agency Allocation Plan that, among other things, outlines how the placing agency will ensure the allocation is used to meet the immediate needs of children and ensure an adequate array of certified immediate needs providers, including providers with specialized knowledge, experience, or training with tribes and ICWA for Indian children in the Immediate Needs Program.
  - Adhere to the Immediate Needs provider certification process, whether doing the provider work directly or through contracts consistent with CDSS models, to provide services consistent with the standards of care, including requirements specific to Immediate Needs Providers for Indian children.
  - Develop a child-specific Immediate Needs Plans for each child, demonstrating how the funding will meet the child's immediate needs and include those plans in the child's case plan.
  - Submit data and outcome measures as requested by CDSS.

- Establishes that Federal Financial Participation (FFP), under the Medi-Cal program, shall only be available for the Immediate Needs Program if medical assistance FFP is available and not otherwise jeopardized. Also authorizes DHCS to issue written guidance regarding the availability of FFP for purposes of this program and other necessary programmatic instructions without taking further regulatory action.

- Authorizes CDSS to implement the Immediate Needs Program via written instructions until the adoption of regulations, no later than January 1, 2035.

- Provides CDSS the authority to receive future payments of the placing agency's allocation and use the allocation to award contracts for the purpose of implementing and maintaining the Immediate Needs Program if a placing agency chooses to enter into an agreement with CDSS to administer the Program, or if a placing agency has failed to adequately administer the program or meet the immediate needs of children, as specified.

- Exempts CDSS contracts awarded for the purpose of this section from specified contracting requirements and review and approval of the Department of General Services or the Department of Technology.

- Establishes the Strengths Building Child and Family Determination Program component of the Tiered Rate Structure, including:

    - Relevant findings and declarations that explain the necessity for, and intent of, the program.

    - Relevant definitions for purposes of the Strengths Building Program.

    - Establishes that the child and family, with support from the Child and Family Team (CFT), shall (1) Develop a Strengths Building Spending Plan and (2) choose goods, services, activities, and supports consistent with program standards and guidelines developed by CDSS.

    - Establishes that each child shall have a Spending Plan Manager, who shall contract with CDSS to pay for goods, services, activities, and supports and provide the child, caregiver/family and placing agency with an itemized monthly contract. The Spending Plan Manager would also ensure any provider has completed a criminal background check if required by state and federal law.

- Requires CDSS to provide oversight of contracts with Spending Plan Managers and to develop a standard of care framework that promotes increased child and family determination.

- Requires CDSS to consult with specified stakeholders in the development of Strengths Building Program standards.

- Requires placing agencies to:

    - Include the Strengths Building Spending Plan and Spending Manager Report in the child's case plan and provide a copy to the CFT and Indian child's tribe, if applicable.

  - Facilitate the CFT meeting in providing support to the child and family in developing the child's spending plan and in selecting goods, services, activities and supports.

  - Provide information and supports to the child and family, upon request, regarding available goods, services, and supports in the community and support the child and family in accessing them.

- Clarifies that the Strengths Building funds must be expended within the fiscal year and before the child exits foster care.

- Authorizes CDSS to award contracts for the Strengths Building program.

- Sunsets ISFC when the Tiered Rate Structure takes effect.

- Makes various technical and conforming amendments.

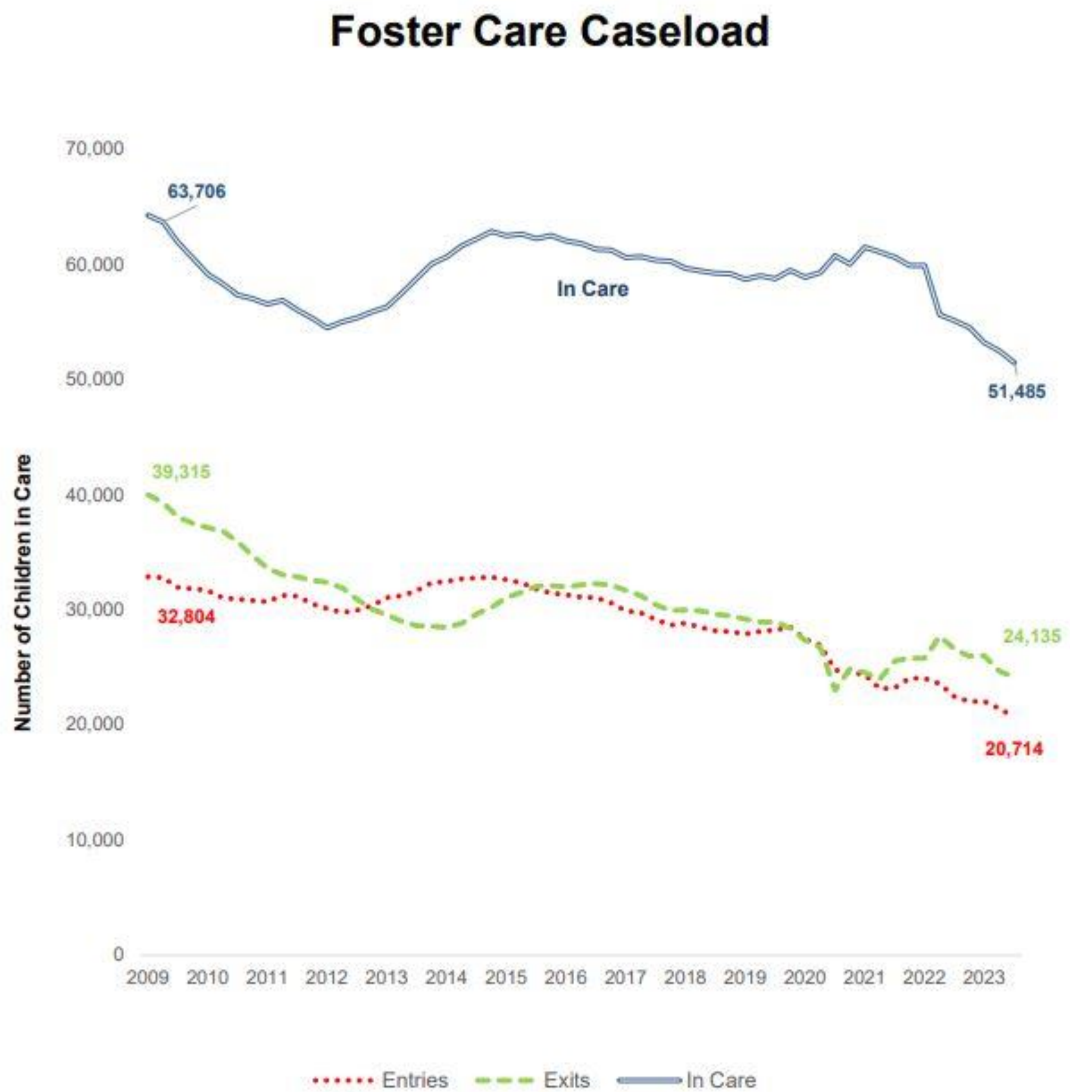
Stakeholder Consultation. CDSS began a workgroup process in the fall of 2022 as part of the development of this proposal. Four rates subgroups met five times each from August - November of 2022. There was broad consensus that current rates are inadequate across all placement settings. Since the release of the trailer bill language, CDSS has continued to meet with stakeholders between February and April 2024 to collect feedback on the proposal and the various implementation components.

Background on Foster Care in California. When children experience abuse or neglect, the state provides a variety of services to protect children and strengthen families. The state provides prevention services—such as substance use disorder treatment and in-home parenting support—to families at risk of child removal to help families remain together, if possible. When children cannot remain safely in their homes, the state provides temporary out-of-home placements through the foster care system, often while providing services to parents with the aim of safely reunifying children with their families. If children are unable to return to their parents, the state provides assistance to establish a permanent placement for children, for example, through adoption or guardianship. California's counties carry out child welfare activities for the state, with funding from the federal and state governments, along with local funds.[3]

According to the LAO, youth in foster care are disproportionately low-income, Black, and Native American. The proportion of Black and Native American youth in foster care is around four times larger than their proportion of the population in California overall.[4]

As of the Governor's budget, there are approximately 51,485 children and youth in foster care in California. Overall foster care caseload has been decreasing, as shown in the chart below.

[3] Legislative Analyst's Office (LAO), The 2023-24 Budget: Analysis of Child Welfare Proposals and Implementation Updates, February 22, 2023.
[4] LAO.



Source: CDSS

Background on Continuum of Care Reform. Significant research documents the poor outcomes of children and youth in congregate care, such as higher re-entry rates into foster care, low high school graduation rates, and increased risk of arrest. The placement of children in group care settings has been increasingly viewed as a temporary solution in instances where emergency or crisis treatment is warranted. To address this, the Legislature passed a series of legislation enacting the "Continuum of Care Reform" (CCR) framework for state and local governments, beginning in 2012. CCR implemented child-and-family centered reforms and developed a continuum of integrated child welfare and behavioral health supports designed to meet the needs of children and families in the child welfare system. Within the past five years, the number of youth placements in congregate care facilities has decreased by 66 percent, in alignment with the goals of CCR, and a higher proportion of children are being cared for in home-based settings.[5] Federally, the Families First Prevention Services Act (FFPSA) is intended to achieve similar

[5] CDSS, Continuum of Care Reform Oversight Report, March 2023.

goals by enhancing support services for families to help children remain at home and reducing the use of unnecessary congregate care placements.

2023 Budget Act Included Temporary Bridge Funding for FFAs. The 2023 Budget Act included $10.1 million ($8 million General Fund) to provide a one-time increase to the current rates paid to FFAs. This funding was intended to assist with social worker retention and act as a bridge between the current FFA rates and the permanent rate structure. Because the proposed permanent rate structure will not implement until 2026-27, FFAs will experience a decrease to the rates in 2024-25, which could negatively impact FFAs.

Subcommittee Staff Comment and Recommendation – Hold Open. Subcommittee staff notes that the permanent foster care rates proposal represents a major shift in the way the state funds foster care. By designing the rate to follow the child, and not the placement, this proposal aligns with the state's goals of investing in family-based placements to keep children and youth who must enter foster care connected to their relatives and communities of origin. This has the potential to enable children with higher levels of needs to receive services in the home of a relative or other caregiver instead of a facility, strengthening the state's kin-first approach and reducing the traumatic effects of congregate care. Furthermore, current and former foster youth in California have long advocated for the right to extracurricular activities. By creating a separate rate component for strengths building that is directed by the child, this creates an accountable framework for children in foster care to participate in positive childhood experiences that can help them heal.

This is an extensive proposal that will require significant changes not only at the state level, but among placing agencies, counties, tribes, providers, and caregivers, among others. Counties and tribes will need to develop networks of providers for Immediate Needs, and CDSS will need to develop a host of standards and guidance to implement the new rate structure, including setting up the Strengths Building Program. The Legislature may consider how to monitor the various implementation milestones CDSS must meet between approval of the trailer bill language and July 1, 2026, when the new rate structure would take effect. This could include reporting requirements to track progress and ongoing consultation with stakeholders on outstanding questions related to implementation, including if modifications are necessary along the way.

Questions. The Subcommittee requests CDSS respond to the following:

1. Please provide an overview of the department's trailer bill language proposal to implement new permanent foster care rates. How does this proposal address the goals of the federal Families First Prevention and Services Act and the state's Continuum of Care Reform?

2. How does this proposal compare to current foster care rates? How will this proposal address existing barriers to providing care to children and youth with complex behavioral health needs?

3. Please explain the main components of the tiered rate structure, including care and supervision, strength building and maintenance, immediate needs, and administration components. How will this structure account for the individual needs of each child in care?

4. Please describe the Administration's timeline to implement the permanent foster care rate structure. What are the key implementation milestones? How will the Administration work with stakeholders and the Legislature as the policy guidance and standards are developed?

5. How will the department ensure that children in care receive timely and high-quality CANS assessments, regardless of the agency that administers the CANS?

6. How does the department envision the delivery of the strengths building and maintenance funding through an independent spending plan manager? How will the department ensure this funding is directed by the young person and easily accessible?

Issue 3: Proposed Delay of Bringing Families Home Funding

Budget Solution – Governor's Budget. The Governor's budget proposes to delay $80 million in Bringing Families Home funding to 2025-26.

Background on Bringing Families Home (BFH) Program. The BFH Program was established by AB 1603 (Committee on Budget), Chapter 25, Statutes of 2016 to assist individuals and families involved with the county or tribal child welfare systems who are experiencing or at risk of homelessness by providing housing assistance and supportive services. The program follows the Housing First model and incorporates evidence-based housing interventions, including Rapid Rehousing and Permanent Supportive Housing to reduce the number of families in the child welfare system experiencing, or at risk of, homelessness, increase the number of families reunifying, and prevent foster care placement. The BFH program offers financial assistance and housing-related wraparound supportive services including but not limited to, rental assistance, housing navigation, case management, security deposits, utility payments, moving costs, hotel and motel vouchers, legal services, and credit repair.

BFH is an optional, non-entitlement state-funded program that is locally administered by participating counties and eligible tribal entities. BFH has greatly expanded since its inception in 2016, when only 12 counties operated the program. In 2021-22, there was a significant increase in participating counties from 22 counties the prior year to 51 counties due to the one-time investments in the 2021 and 2022 Budget Acts. As of 2022-23, 53 counties and one tribal entity administered BFH, additionally, twenty-four additional tribal entities requested and accepted funding to establish a new BFH program.

BFH Funding. The 2021 Budget Act appropriated $92.5 million for BFH over multiple years. Similarly, the Budget Act of 2022 appropriated an additional $92.5 million for BFH over multiple years. While initial program funding allocated in 2016-17 and 2019-20 required that counties provide a dollar-for-dollar matching funds, the one-time funding in 2021-22 and 2022-23 waived local matching requirements.

Table 3. BFH Program Appropriations and Expenditures, Fiscal Year 2016-17 through 2022-23

FY	Appropriation Type[14]	Appropriation Amount[15]	Amount Newly Allocated[16]	Actual Amount Expended (not FY Specific)[17]	Amount Remaining as of June 30, 2023[18]	Expenditure Deadline
22-23	One-Time Available for Three Years	$92,500,000	$82,875,000	$23,904,076	$141,845,924[19]	June 30, 2025
21-22	One-Time *Available for Two Years*	$92,500,000	$82,875,000			June 30, 2024
19-20	One-Time Match-Required *Available for Three Years*	$25,000,000	$24,384,559	$23,599,187	$785,372	June 30, 2022
16-17	One-Time Match-Required *Available for Six Years*	$10,000,000	$9,693,460	$9,693,460	$0	June 30, 2022

In 2022-23, 1,996 families were approved to participate in BFH. Since program launch and over time, the majority of families exited from BFH into permanent housing, followed by unknown and/or homeless, temporary housing and other exit destination. The chart below shows housing outcomes at program exit by region for 2022-23.

Figure 10. Percentage of Housing Outcomes at Program Exit for BFH by Region, Fiscal Year 2022-23

According to CDSS, a recent study published by Chapin Hall at the University of Chicago examined the outcomes of families served by the BFH program in San Francisco County, from 2017 to 2023. The BFH families in this study were predominantly single parent households experiencing homelessness, with a majority of the households including young children (age five or under). Most caregivers identified as Black or Latino. Most of these families found stable housing, usually within four months of enrolling in the program. Family and caregiver wellbeing improved while families were engaged in the program, especially in the domains of residential stability, family functioning, and substance use problems that require treatment. The San Francisco BFH evaluation further found that the large majority of participants that exited the program within the study's observation period (163 out of 170) were able to obtain housing;

and 81 percent of those participants who obtained housing were stably housed 6 months after program exit.[6]

In addition, the Children's Data Network at USC and California Policy Lab at UC Berkeley conducted a statewide evaluation of the BFH program assessing the inaugural two years of BFH from 2017- June 2019, in which 12 counties piloted BFH. The evaluation examined the housing and homelessness outcomes of BFH program participants, and the child welfare outcomes of BFH program participants as compared to non-BFH child welfare recipients with similar demographic characteristics. Some key findings of this report, which is currently being finalized, include:

- Enrollment in BFH reduced the use of emergency shelter and transitional housing by 50 percent and doubled the use of rapid re-housing services in the six months following program entry.

- BFH families with a child in foster care and receiving family reunification services were 68 percent more likely to have a family reunification at the 180-day mark than non-BFH families.

- Most BFH families (52 percent) that exited the program by the end of the program's second year left to permanent housing and only three percent reported exiting to homelessness.

Purpose of the $80 Million Delay. According to CDSS, this proposal is based on point-in-time information, and is intended to smooth out funding into 2025-26 based on how expenditures have been trending and provide grantees an additional year for expenditure. CDSS is still gathering updated expenditure information and based on this information, if there are any erosions, will make updates in the May Revision.

The latest spending data on BFH available shows that about $11.2 million of the 2021 Budget Act funding was spent and $22.4 million of the 2022 Budget Act funding was spent. However, this is data from June 30, 2023, and it is likely that significant expenditures have occurred since this data was reported.

Subcommittee Staff Comment and Recommendation – Hold Open. While the Administration insists that the purpose of this proposed delay is to right-size funding across the expenditure period and allow grantees more time to continue operating programs, the programmatic impacts of delaying the funding is unclear.

Questions. The Subcommittee requests CDSS/DOF respond to the following:

1. Please describe the one-time investments in Bringing Families Home in the 2021 and 2022 Budget Acts. How has this funding supported children and families who are involved in the child welfare system and experiencing housing instability?

2. Please explain the Administration's proposal to delay $80 million in Bringing Families Home funding to 2026. What is the carry-over from prior years that will be available for counties and grantees?

[6] Rhodes, E., Dworsky, A., & Brooks, L. (2024). Bringing Families Home San Francisco evaluation report. Chapin Hall at the University of Chicago.

3. What is the department's goal in terms of the programmatic impact of this delay? How would it be implemented, and how would the delay affect participants in counties who are spending this funding more quickly?

Issue 4: Child Welfare Services – California Automated Response and Engagement System

Budget Change Proposal – Governor's Budget. The Office of Technology and Solutions Integration (OTSI) requests $173.4 million ($88.1 million General Fund, $84.3 million federal funds, and $988,000 reimbursements) for 2024-25, along with five new, permanent OTSI positions. Additionally, OTSI requests provisional language to increase project expenditure authority up to an additional $52 million ($26 million General Fund). The requested funding and positions provide the resources to continue the design, development, and implementation activities for the Child Welfare Services – California Automated Response and Engagement System (CWS-CARES) and CARES-Live. This funding is consistent with project costs that were approved in the 2023 Budget Act in accordance with Special Project Report (SPR) 6.

Background on CWS-CARES. CWS-CARES is a statewide case management and data solution for child welfare services to replace the state's current system, known as CWS/CMS. The replacement of the current CWS/CMS system is needed to meet federal requirements. According to OTSI, CWS-CARES will:

- Allow key members of the Child and Family Team (CFT) to have direct access to enter information or access shared information to support case plan and service delivery.
- Allow children and their families to be at the center of decision making by providing families with direct access to help them have access to key information and communicate with their worker.
- Provide timelier service delivery and enable social workers to spend less time doing data entry and more time working directly with families.
- Increase process and system efficiency, resiliency, quality, and maintainability across the state.
- Track cost at the individual level (a step towards tracking dollars to outcomes by person and by program).
- Support achievement of the Comprehensive Child Welfare Information System (CCWIS) certification requirements to maintain federal financial participation (FFP) funding and avoid large state repayments and federal non-compliance penalties.

According to OTSI, funding to continue the CWS-CARES project is necessary to improve the quality and overall effectiveness of statewide child welfare delivery while also meeting the CCWIS regulations that secure retention of federal funding. The existing CWS/CMS system was initially implemented in 1997 and is not compliant with the CCWIS federal and state laws, regulations, or policies, which has resulted in the following:

- The state is unable to collect 54 of the 205 total Adoption and Foster Care Analysis and Reporting System (AFCARS) fields, resulting in federal penalties assessed quarterly. In addition, CDSS committed to collection of an additional 85 data elements related to the Indian Child Welfare Act (ICWA) that are not able to be collected in CWS/CMS.

- Counties have had to invest resources and local funding into systems and workarounds to track data to help them in managing their programs rather than into staffing or direct services. Often data in these systems are not accessible for state and federal reporting, resulting in a lack of complete and accurate data statewide.

- Counties and tribes are unable to quickly implement new changes to the system. Implementation of prevention services under the federal Family First Prevention Services Act (FFPSA) are dependent on having a consistent statewide data collection system to allow for state and federal reporting required to draw down FFP.

- End-users have adopted time-intensive manual processes and created external systems to bridge gaps in the CWS/CMS functionality, impacting the ability to efficiently provide consistently high-quality services across the state.

This project will deliver the core CWS-CARES solution through two versions: CWS-CARES Version 1 (V1) and CWS-CARES Version 2 (V2). The CWS-CARES V2 extends the functionality of the CWS-CARES V1 with data-intensive features supporting CCWIS compliance and continuation of interfaces, external systems, and Child Welfare Contributing Agencies, thus making it a more efficient and effective system for users.

In 2019, CDSS and OTSI delivered several feature sets using the custom development approach, including the Child Welfare History Snapshot, Facility Search, and Child and Adolescence Needs and Strengths Assessment (CANS). These three feature sets in production today are referred to as maintenance and operations "CARES-Live."

On May 27, 2021, the project selected Resource Family Approval (RFA) Application Submission, Review, and Approval process as the greenfield demonstration module for the CWS-CARES. The development and functional testing of planned feature sets was completed on December 31, 2021, and the RFA Application process went live on January 31, 2022, with Fresno County being the first of five counties to receive the RFA rollout. The remaining counties went live on February 22, 2022.

The project submitted SPR 6, which was approved in May 2023. SPR 6 describes the CWS-CARES project status and updated plan for the CWS-CARES Design, Development & Implementation (DD&I) activities. Since then, the project has completed two additional product milestones with functionality related to Investigations Engagement and Determination. Additionally, several new milestones have started including Prevention Services, Case Closures, Warrants, Court Hearing Framework, Other Hearings, and Eligibility Programs.

Resource and Staffing Request. This request is for funding for state, county, and vendor resources; hardware/software; and core constituent participation to continue the DD&I of the CWS-CARES project to replace the existing legacy system. This request for continued funding is consistent with SPR 6 and the work to be completed in 2024-25. The chart below summarizes total project funding for 2024-25. Note that this includes General Fund and federal funds, as well as provisional authority included in the 2024-25 budget request. The $225.4 million total includes the requested $52 million in provisional authority. Of the total requested funding including provisional authority, $114.1 million is General Fund.

Attachment 2 – Project Budget Detail

2024-25 Budget Change Proposal - CWS-CARES
Project Budget Detail

Budget Category	2024-25 Proposed CWS-CARES Costs	2024-25 Proposed CARES-Live Costs	2024-25 Total Proposed Costs
CWS-CARES Project			
OTSI Personal Services	**14,332,163**	**2,778,782**	**17,110,945**
Hardware/Software	**14,510,388**	**889,301**	**15,399,689**
Contract Services	**133,673,178**	**3,766,645**	**137,439,824**
CARES Development Services	120,045,707	0	120,045,707
CARES-Live Services	0	3,226,203	3,226,203
Project Management Services	4,741,511	91,283	4,832,794
County Consultant Services	8,885,960	449,159	9,335,119
OE&E	**14,179,759**	**7,141,365**	**21,321,124**
OSI Other OE&E (Gen Exp., Travel, and Facilities)	2,882,355	514,070	3,396,425
DGS Fees	1,830,798	376,607	2,207,405
Enterprise Services	6,117,578	1,258,426	7,376,004
Data Center Services	3,349,028	4,992,262	8,341,290
Total OTSI Spending Authority	**176,695,488**	**14,576,093**	**191,271,582**
CWS-CARES Project			
CDSS Personal Services	1,520,000	0	1,520,000
CDSS Other OE&E (Gen Exp., Travel, and Facilities)	462,000	0	462,000
Core Constituent Participation	30,822,770	0	30,822,770
IPOC Contract Services	800,000	0	800,000
County Regional Training Academy	306,251	0	306,251
Tribal Consultant	181,000	0	181,000
**Tribal Participation (Non-Add Line)*	*100,000*	0	100,000
Total CDSS Local Assistance	**34,092,021**	**0**	**34,092,021**
Total Project Budget	***210,787,509***	***14,576,093***	***225,363,603***

* Tribal Participation Costs to be submitted as a separate Premise item and are only reflected in this view for display purposes.

** Of the amounts reflected in the table above, $52,070,000 ($26,035,000 General Fund) is held provisionally.

The five requested positions included in this proposal would add to the 81 existing positions currently at OTSI to support the project. A summary of the requested positions is below:

OTSI Requested Positions Summary

Proposed Resources	Additional Resources for FY 2024-25	Classification
Content Strategist	1 position	Information Tech. Specialist I (ITS I)
Research & Design Lead*	1 position	Information Tech. Specialist II (ITS II)
CDI Data Analytics Specialist	1 position	Information Tech. Specialist I (ITS I)
CDI Data Analytics Lead	1 position	Information Tech. Specialist II (ITS II)
Information Security Analyst	1 position	Information Tech. Specialist II (ITS II)
Total	5 positions	

*This position was previously requested in SPR 6; however, the position title and project unit have since been reclassified.

2023 Budget Act – CWS-CARES. The 2023 Budget Act included $130.2 million ($66.6 million General Fund) for 2023- 24 for state operations to continue the DD&I activities of the CWS-CARES project. Budget bill language includes authority to access an additional $70.1 million ($35 million General Fund) should project activities accelerate. Additionally, budget bill language makes expenditure of these funds contingent upon verification of satisfactory progress, as defined, by the Department of Finance, in consultation with the Department of Technology. Budget bill language further requires CDSS to convene monthly meetings with the LAO, legislative staff, the Department of Technology, the Department of Finance, and other relevant parties to review project status reports; provide stakeholders, counties, and the Legislature with monthly project status reports; and schedule an annual progress demonstration. Trailer bill language increases legislative oversight of the project and specifies project objectives.

Total Project Funding. The total project costs through 2028, provided by OTSI, are summarized below.

Total Project Cost Details through 2028:

Cost Category	CARES	CARES-Live
Project Costs (One-Time and Continuing)		
Staff (Salaries & Benefits)	$111,625,168	$20,707,213
Consulting & Prof. Services: Interdepartmental	$16,684,205	$3,121,222
Consulting & Prof. Services: External	$969,938,348	$85,876,580
Consolidated Data Centers	$25,561,033	$4,883,746
Information Technology	$179,485,291	$3,375,931
Misc. OE&E Rollup (Departmental Services; Central Administrative Services; Office Equipment; Other;	$227,183,327	$21,217,358

Cost Category	CARES	CARES-Live
Unclassified/Special Adjustment; Local Assistance)		
Total Project Costs (One-Time and Continuing):	**$1,530,477,372**	**$139,182,050**
Future Ops. IT Staff & OE&E Costs (Maintenance & Operations)		
Staff (Salaries & Benefits)	$32,219,160	$20,141,187
Consulting & Prof. Services: Interdepartmental	$2,575,306	$1,976,783
Consulting & Prof. Services: External	$82,109,226	$36,366,000
Consolidated Data Centers	$9,878,543	$29,161,674
Information Technology	$39,833,683	$5,232,437
Misc. OE&E Rollup (Departmental Services; Central Administrative Services; Office Equipment; Other; Unclassified/Special Adjustment; Local Assistance)	$13,918,154	$18,932,029
Total Future Ops. IT Staff & OE&E (Maintenance & Operations):	**$180,534,071**	**$111,810,111**
	Total CARES Costs	**TOTAL CARES-Live Costs**
	$1,711,011,443	**$250,992,161**
	TOTAL PROJECT COSTS	
	$1,962,003,604	

Subcommittee Staff Comment and Recommendation – Hold Open. As of the February 2024 report to the Legislature, $48.7 million of the 2023 Budget Act appropriation for CWS-CARES had been spent. OTSI reports that this is due to extended invoicing and claiming timelines and that they expect to use the full budget in 2023-24. The Legislature and LAO have requested monthly spending projections for the remainder of the current fiscal year.

Questions. The Subcommittee requests OTSI/CDSS respond to the following:

1. Please provide an overview of this proposal.

2. How much of the 2023 Budget Act appropriation for CWS-CARES has been spent? How does the Administration project spending the full amount in 2023-24?

3. What is the timeline for this project to be completed? How do delays in this project affect implementation of other initiatives, such as FFPSA implementation?

Issue 5: Families First Prevention Services Program Extension

Trailer Bill Language – Governor's Budget. The Governor's budget proposes trailer bill language extend the sunset date, from July 1, 2025 to July 1, 2028, for the Family First Prevention Services (FFPS) Program's contract exemption language consistent with the proposed reappropriation of unexpended funds for this program. This trailer bill language would also authorize CDSS to provide an exemption for small counties, as specified, from the requirement to use FFPS State Block Grant funds as a match for a Title IV-E eligible prevention services, enabling small counties to receive grant funds to provide other prevention services outside of the limited federally eligible Title IV-E prevention services.

Background on FFPS. The 2021 Budget Act appropriated $222.4 million General Fund one-time, currently referred to as the FFPS Program State Block Grant, to support the FFPS Program and expand the continuum of prevention services. WIC 16588(c)(3)(B) requires counties to utilize State Block Grant funds towards the nonfederal share of cost of prevention services as described in federal law. The FFPS Program State Block Grant is available for encumbrance or expenditure until June 30, 2024. Existing law also provides an exemption from state contracting requirements for the FFPS Program through June 30, 2024.

Trailer Bill Language would Extend FFPS Contracts Exemption. Contracts for the FFPS Program support development and implementation of prevention services to strengthen families and prevent children from entering foster care. The statutory exemption for FFPS contracts was created to expedite the procurement of critical services necessary to implement and support the program that would otherwise be subject to personal services contracting requirements. These contracts are not subject to the review or approval of the Department of General Services and are exempt from the competitive bidding process.

CDSS proposes to re-appropriate unexpended funding from the FFPS State Block Grant until June 30, 2028. The department's proposed statutory changes to extend the contract exemption would correspond with the re-appropriation. According to CDSS, without extension of the exemption, contracts are at risk of delays.

Trailer Bill Language would Exempt Small Counties from Match Requirements. Small counties may not have the same infrastructure and resources to immediately implement a Title IV-E eligible prevention service. According to CDSS, statutory change is needed to help make sure small counties can participate in the FFPS Program and provide foster care prevention services in their communities. The requirement that grant funds be used to support a federally eligible Title IV-E prevention service is a barrier to continued participation of small counties. Without this change, many small counties likely will not be able to participate in the FFPS Program, which could further increase program and resource inequities between smaller and larger counties as access to State Block Grant prevention funding will be limited for small counties.

Subcommittee Staff Comment and Recommendation – Hold Open.

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

1. Please provide an overview of this proposal.

Issue 6: Case Review Allocation Adjustment

Budget Change Proposal – Governor's Budget. CDSS requests an increase in reimbursement authority of $1.2 million in 2024-25 and $1.1 million in 2025-26 and ongoing for six positions to address the workload associated with federally mandated activities for the Child and Family Services Reviews. This proposal has no impact on the General Fund.

Background on Child and Family Services Reviews (CFSRs). The CFSR is a federal-state collaborative effort designed to verify quality services are provided to children and families through state child welfare systems. CFSRs are reviews of state child welfare programs and practices which identify strengths and challenges in state programs and systems, focusing on outcomes for children and families.

All 58 counties in California are required by ACF to complete a review of randomly sampled cases based on the combined caseload of the county probation and child welfare agencies, including both in-home and out-of-home cases. CDSS has worked with counties to verify full implementation of CFSR case reviews statewide. Full implementation includes fully trained and certified staff who can complete the required number of high-quality case reviews annually and utilize the data collected to improve practice outcomes. Under the federally mandated CFSR qualitative Case Review process, several small, rural counties have struggled to meet the mandate and have requested state assistance to comply with federal regulations.

In January 2019, CDSS contracted with small, rural counties to complete qualitative case reviews. Eligible counties for contracting are those who are required to complete 20 or fewer case reviews within a federal fiscal year. It was initially anticipated that 10-11 counties would contract for this work. However, 15 small rural counties currently have a contract in place with CDSS, with up to an additional five counties eligible for contracting services. The workload initially projected has almost doubled with the increased number of counties contracting with CDSS.

Additionally, CDSS uses a model of continuous quality improvement (CQI) to develop and refine policies. This framework shifted from compliance-based reviews to outcomes-based reviews after the passage of the state-level Child Welfare System Improvement and Accountability Act in 2001. These qualitative case reviews are an essential component to county and state CQI processes. CDSS currently provides technical assistance and this second-level of quality assurance to make sure there is uniformity across all California counties. The quality improvement framework has been utilized to evaluate the CDSS' effectiveness and enhance the processes to improve permanency outcomes for youth in the foster care and child welfare systems.

Request for Reimbursement Authority and Federally Funded Positions. CDSS conducts qualitative case reviews and contract oversight for rural counties to verify the state and counties are compliant with requirements to continue to receive federal Title IV-E funds and avoid potential federal penalties of up to $21 million annually, which is the lowest amount of penalties during the last Previous Improvement Plan Cycle. According to CDSS, the inability to complete case reviews effectively could impact reporting abilities and could increase penalties to over $75 million. The requested resources, equivalent to six positions, will allow CDSS to fund the additional workload associated with completing the required case reviews from additional counties. According to CDSS, this proposal ensures the state and counties are compliant with requirements which secure continued receipt of federal Title IV-E funds and minimize any penalty exposure.

Subcommittee Staff Recommendation and Comment – Hold Open. Subcommittee staff notes this proposal has no impact on the General Fund.

Questions. The Subcommittee requests CDSS respond to the following:

1. Please provide an overview of this proposal.

Issue 7: Child Care Overview

Governor's Budget – Child Care Overview. The Governor's proposed budget includes $7.2 billion ($4.7 billion General Fund) for child care programs in 2024-25. The Governor's budget continues to fund the two-year, collectively bargained rates and parity package funded in the 2023 Budget Act pursuant to SB 140. The Governor's budget includes one major solution related to changing budget processes for CCTR slots, which is covered in Issue 9. The following chart, provided by the LAO, summarizes the total child care budget:

Figure 2

Child Care Budget

(Dollars in Millions)

	2022-23 Revised[a]	2023-24 Revised[b]	2024-25 Proposed[b]	Change From 2023-24	
				Amount	Percent
Expenditures					
CalWORKs Child Care Programs					
Stage 1	$532	$649	$709	$61	9%
Stage 2[c]	310	470	691	221	47
Stage 3	608	604	572	-31	-5
Subtotals	($1,450)	($1,723)	($1,973)	($250)	(15%)
Non-CalWORKs Child Care Programs					
Alternative Payment	$1,834	$2,054	$2,242	$189	9%
General Child Care and Development[d]	960	1,204	1,500	296	25
CFCC Family Child Care[e]	53	54	54	—[f]	1
Emergency Child Care Bridge	97	94	94	—	—
Migrant Child Care[g]	69	71	71	—[f]	—
Care for Children With Severe Disabilities	2	2	2	—[f]	2
Subtotals	($3,015)	($3,478)	($3,964)	($486)	(14%)
Support Programs	$2,187	$1,539[h]	$1,313[i]	-$226	-15%
Totals	**$6,653**	**$6,740**	**$7,250**	**$510**	**8%**
Funding					
Proposition 98 General Fund[j]	$2	$3	$2	-$1	-37%
Non-Proposition 98 General Fund	2,275	3,283	4,756	1,473	45
Proposition 64 Special Fund	292	270	247	-23	-8
Federal	4,084	3,183	2,245	-938	-29

[a] Reflects 2023-24 May Revision estimates with LAO adjustments.
[b] Reflects *2024-25 Governor's Budget*.
[c] Does not include $11.2 million provided to community colleges for certain child care services.
[d] Reflects funding for centers and family child care home education network providers operating through general child care and development contract.
[e] Reflects funding for family child care home education networks operating through CFCC contract.
[f] Less than $500,000.
[g] Reflects costs associated with Migrant Child Care and Development program and Migrant Alternative Payment program.
[h] Includes cost estimates for quality programs, child care infrastructure, Child and Adult Care Food Program, CCPU Retirement Benefit Trust, accounts payable, whole child community equity, court cases, and costs associated with 2023-24 collective bargaining and parity agreement.
[i] Includes cost estimates for quality programs, Child and Adult Care Food Program, accounts payable, whole child community equity, and costs associated with 2023-24 collective bargaining and parity agreement.
[j] Reflects Proposition 98 funds for Child and Adult Care Food Program.

CCPU = Child Care Providers United.

Source: LAO

According to the LAO, "the Governor's budget increases total funding levels for child care programs in 2024-25 by $510 million (8 percent) relative to revised 2023-24 levels—from $6.7 billion to $7.2 billion. The year-over-year net increase in child care expenditures reflects the net effect of cost increases, savings, and cost shifts. For example, the Governor's budget includes about $460 million to increase CCTR and CAPP slots in 2024-25. These costs increases are partially offset by the expiration of one-time funding in 2024-25 ($336 million total savings). Additionally, we estimate the Governor's budget shifts about $900 million in program costs to the General Fund in 2024-25 as a result of the expiration of COVID-19 federal relief funds."[7]

Background on Child Care Programs. The state funds subsidized child care through vouchers (known as California Alternative Payment Program, or CAPP) and direct contracts (known as General Child Care, or CCTR). These programs are summarized in the LAO chart below.

Figure 1

Overview of Child Care Programs

Program	Description[a]
CalWORKs Child Care	Provides subsidized child care services to current and former CalWORKs families. Slots are available to all children.
California Alternative Payment Program	Provides subsidized child care vouchers to working families. Slots are limited to budget appropriation.
General Child Care and Development	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.
CFCC 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.
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.
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.
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]

[a] Unless 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 cannot earn more than $83,172 annually in 2023-24 to be eligible for programs.

[b] Family 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.

[c] Child must have an individualized education program or an individualized family service plan issued through a special education program.

[d] Child care services provided up to 12 months, but may be extended for a compelling reason.

[7] LAO, "The 2024-25 Budget: Child Care," April 2024.

Child Care Funding. The state's subsidized child care programs are primarily funded with state General Fund, with a substantial portion of costs also covered by various federal funding sources. The state uses federal Temporary Assistance for Needy Families/Title XX funds to partially cover CalWORKs child care costs. Additionally, the state draws down federal Title IV-E funds to partially cover Emergency Child Care Bridge program costs—referred to as the Bridge program—and federal Child Care and Development Fund (CCDF) dollars to partially cover CAPP and CCTR program costs. As a condition of receiving CCDF dollars, the state must spend a portion of these dollars on activities intended to improve the quality of child care and establish a sliding fee scale for families receiving federally funded subsidized child care.

LAO estimates $700 million in child care funds could go unspent in 2023-24. According to the LAO, "as a part of the 2023-24 budget, the Legislature adopted supplemental reporting language that required DSS to provide, on or before March 1, 2024, an estimate of child care program funds that may go unspent by the end of 2023-24 and what amount of unspent funds cannot be appropriated and would revert back to the state or federal government. Thus far, the administration has provided a point-in-time estimate of unspent child care funds. Specifically, the administration estimates that about $1.4 billion of the funds that were obligated to be expended in 2023-24 and have been put into contract remain unspent as of the end of January 2024. To the extent monthly expenditure trends continue at current levels, we estimate that roughly $700 million ($450 million COVID-19 federal relief funds and $250 million other funds) could go unspent by the end of 2023-24."

Federal COVID Relief Funds. The Governor's budget continues to obligate most of the remaining $1.4 billion in COVID-19 relief funds to offset costs associated with the child care slot expansion plan. (The administration has indicated ongoing slot costs previously covered with federal relief funds would shift to the General Fund once the federal funds expire.) The Governor's budget also obligates a portion of remaining COVID-19 federal relief funds to support various one-time or temporary activities, including infrastructure grants and development of a new child care data system, as shown in the LAO chart below:

Figure 10

Distribution of COVID-19 Federal Relief Funds That Expire September 30, 2024

(In Millions)

	2022-23	2023-24	2024-25	Total
Slot expansion	$544	$779	$38	$1,361
Reimbursement flexibilities	50	—	—	50
Infrastructure grant program	1	24	—	25
Child care data system	1	4	—	5
CDE after school program	3	—	—	3
Totals	**$599**	**$807**	**$38**	**$1,443**

CDE = California Department of Education.

Hundreds of millions in federal funds for child care could revert to the federal government. According to the LAO, COVID-19 Relief funds are being spent at a slower pace relative to initial estimates. "The administration assumed about $600 million of the $1.4 billion in COVID-19 relief funds would have been spent by the end of 2022-23. However, as of December 31, 2023, only $383 million of the COVID-19 relief funds have been expended. By the end of 2023-24, the Governor's budget assumes only $38 million of COVID-19 relief funds would remain unexpended. However, we estimate that roughly $450 million of COVID-19 relief funds may remain unexpended by the end of 2023-24. The slower than expected expenditures of COVID-19 federal relief funds are likely due to slower than expected slot take-up. To the extent expenditure trends continue to come in lower than initial estimates, hundreds of millions of COVID-19 relief funds would likely revert back to the federal government in 2024-25."

Reversion of hundreds of millions in federal funds for child care was avoided in 2023. As noted by the LAO, "last year, our office identified about $550 million of COVID-19 relief funds that were at risk of going unspent by the September 30, 2023 federal deadline. To avoid these funds from reverting back to the federal government, the Legislature worked with the administration to carry over these unspent funds into 2023-24 and prioritize the use of expiring COVID-19 relief funds prior to using other fund sources, including the General Fund. This approach had the effect of freeing up an equal amount of General Fund, which the Legislature and administration set aside to support costs associated with the child care MOU and parity agreement."[8] The LAO recommends the Legislature direct the Administration to prioritize spending COVID-19 Relief Funds to minimize federal reversion and maximize General Fund savings.[9]

Slot Expansion Plan. As part of the 2021 Budget Act, the Governor and Legislature agreed to increase the number of child care slots by 206,500 across CAPP (142,620 slots), CCTR (62,080 slots), CMAP (1,300 slots), and Emergency Child Care Bridge (500 slots). Initially, these new slots were expected to be fully rolled out by 2025-26. However, as part of the 2023-24 budget, the slot expansion plan was paused for one year, delaying the full roll out to 2026-27.[10]

After CDSS allocates and awards new CAPP and CCTR slots, it typically takes agencies and providers a few months to ramp up capacity to recruit, enroll, and serve additional children. Additionally, some budgeted new CCTR slots may ultimately go unawarded to the extent the department does not receive enough applications. In both cases, a portion of budgeted funds for new slots would go unspent, resulting in one-time savings. Historically, the state would continue to appropriate the same amount of funding needed to fully implement all new CAPP and CCTR slots regardless if the actual number of filled or awarded slots fell below budgeted levels. Any unspent funds result in state savings in subsequent years.[11]

The total subsidized child care slots, reflecting the Governor's proposed changes to the CCTR slot expansion plan (which is covered in Issue 8 of this agenda) is summarized in the chart below:

[8] LAO
[9] LAO
[10] LAO

[11] LAO

Figure 3

Child Care Subsidized Slots

	2020-21 Final	2021-22 Revised	2022-23 Revised	2023-24 Revised	2024-25 Proposed	Change From 2023-24	
						Amount	Percent
CalWORKs Child Care							
Stage 1	25,018	29,066	48,095	58,322	63,241	10,227	18%
Stage 2	55,484	25,718	26,705	38,427	57,220	11,722	31
Stage 3	66,073	62,464	56,191	51,421	47,782	-4,770	-9
Subtotals	(146,575)	(117,248)	(130,991)	(148,170)	(168,243)	(17,179)	(12%)
Non-CalWORKs Programs							
Alternative Payment	66,712	129,332	161,332	161,332	177,332	16,000	10%
General Child Care and Development[a]	28,375	37,179	49,569	49,569	61,569	12,000	24
CFCC Family Child Care[b]	3,816	3,816	3,816	3,816	3,816	—	—
Emergency Child Care Bridge	5,037	5,537	5,537	5,537	5,537	—	—
Migrant Child Care[c]	3,962	5,262	5,262	5,262	5,262	—	—
Care for Children with Severe Disabilities	111	111	111	111	111	—	—
Subtotals	(108,013)	(181,237)	(225,627)	(225,627)	(253,627)	(28,000)	(12%)
Totals	**254,588**	**298,485**	**356,618**	**373,797**	**421,870**	**45,179**	**12%**

[a] Reflects slots for centers and family child care home education network providers operating through general child care and development contract.

[b] Reflects slots for family child care home education networks operating through CFCC contract.

[c] Reflects slots for Migrant Child Care and Development program and Migrant Alternative Payment program.

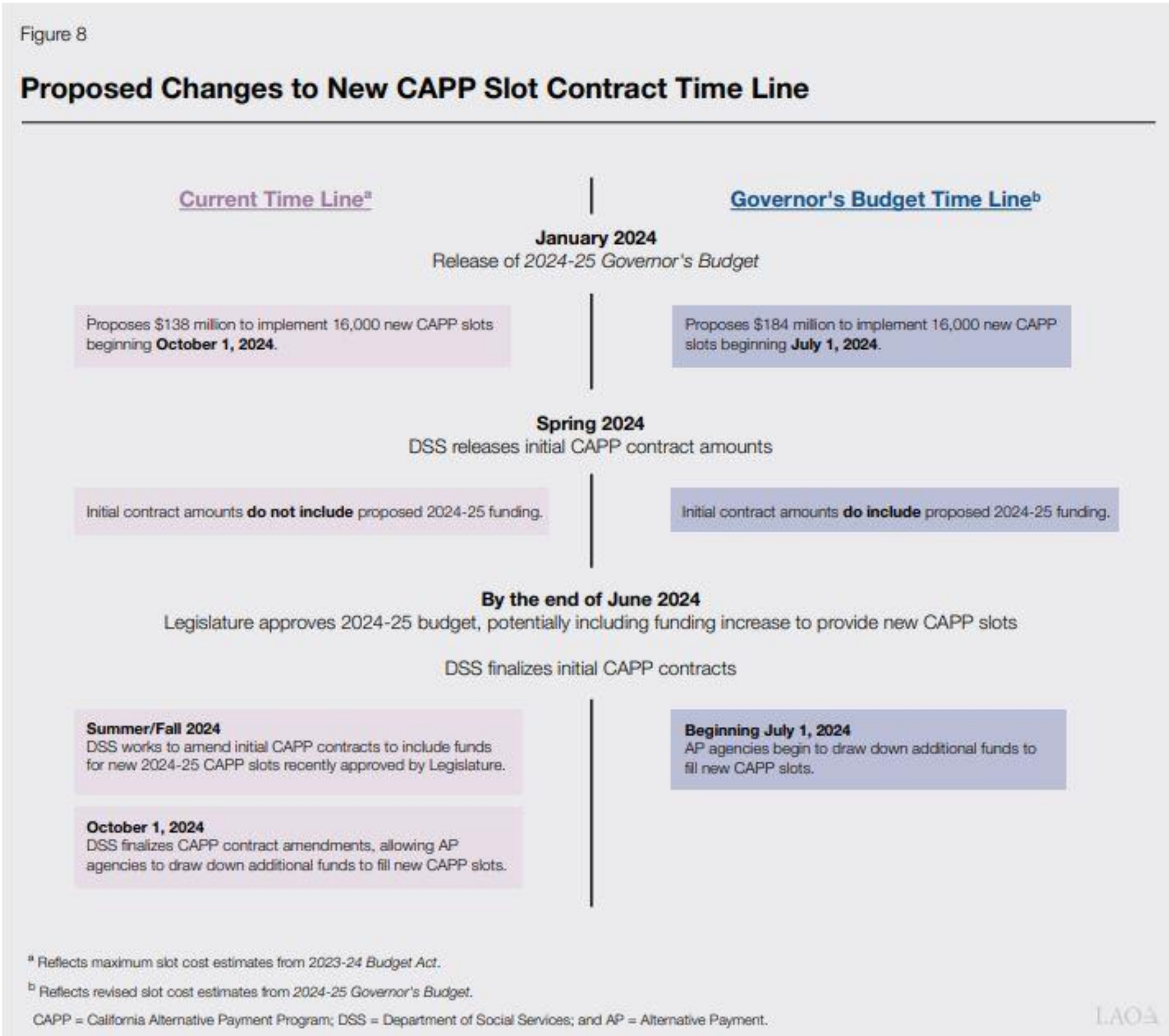
Note: Reflects Department of Social Services slot estimates. Under the *2024-25 Governor's Budget*, the number of budgeted slots in each program reflects projections of filled or awarded slots beginning in 2021-22, which is different from historical budgeting practices. Stage 2 does not include certain community college child care slots (less than 1,000 slots annually).

Source: CDSS

Governor's budget adjusts timeline for Voucher (CAPP) and General Child Care (CCTR) slots. The Governor's budget includes one solution to change the process for budgeting CCTR slots, which includes $581 million savings in 2023-24 and $318 million savings in 2024-25. The CCTR budgeting changes are covered in Issue 9 of this agenda. These changes reduce the number of new CCTR slots funded in 2024-25 compared to the slot expansion plan.

In addition to changing the CCTR budgeting process and timeline, the Governor's budget also proposes changes to the CAPP timeline, which incurs General Fund costs but does not affect the total number of CAPP slots awarded.

According to the LAO, consistent with the multiyear expansion plan, the Governor's budget proposes to provide 16,000 new CAPP slots in 2024-25. Under current budgeting practices, the department would have waited until after July 1, 2024 (or when the Legislature approves the 2024-25 budget) to allocate the new CAPP slots and amend existing contracts to include additional funds. Under this practice, the state would have assumed new slots would be allocated and implemented beginning October 1 and would have provided nine months' worth of funding in the first year of implementation ($138 million General Fund). However, the Governor's budget assumes new CAPP slots will be allocated and implemented beginning July 1 and provides 12 months' worth of funding in 2024-25 ($184 million General Fund). Compared to current budgeting practice of assuming an October 1 implementation date, this results in $46 million additional General Fund costs in 2024-25. Additionally, to meet the July start date, DSS would need to allocate and add funds for new CAPP slots to existing CAPP contracts in the spring of 2024—prior to enactment of the 2024-25 budget.[12] The chart below, provided by the LAO, illustrates the Governor's budget proposed CAPP slot contract timeline:



LAO Recommendation on CAPP Slot Changes. The LAO notes that assuming earlier implementation of new CAPP slots gets ahead of legislative authorization and increases costs. According to the LAO, "we understand that one potential benefit to assuming an earlier July 1 implementation date in CAPP is that DSS would be able to incorporate additional slot funds in initial contracts rather than having to take the extra step to amend contracts after July 1. Additionally, we understand that incorporating additional funds for new CAPP slots in initial July 1 contracts could make it easier for AP agencies to budget expenditures on an annual basis. Depending on how quickly AP agencies ramp up internal capacity to administer new CAPP slots, families may also be served earlier. This proposal, however, would effectively eliminate legislative oversight of total CAPP funding levels by allowing DSS to issue and execute contracts with

[12] LAO

additional slot funds prior to the Legislature enacting a state budget. Moreover, the projected budget deficit makes it so that the state would need to identify $46 million in other budget solutions in each of the next three years to afford this proposal."[13]

Emergency Child Care Bridge Funding. The LAO notes that the Governor's budget does not include carryover of unspent 2022-23 Bridge Voucher funds into 2023-24. "In past years, DSS carried over unspent Bridge voucher funds into the following fiscal year. The Governor's budget, however, does not display the availability of the 2022-23 carryover funds in 2023-24. If these unspent funds were accounted for, total Bridge voucher costs could be offset by $40 million General Fund in 2023-24."[14] LAO recommends reducing 2023-24 Bridge voucher costs by $40 million General Fund to reflect the carryover of unspent 2022-23 funds. In addition, "the Legislature could also ask the administration to provide a more precise estimate of the anticipated unspent 2023-24 funds as a part of the May Revision and proactively sweep these funds as additional budget savings."[15]

Prop 64 Funds. According to the LAO, since 2019-20, an average of $74 million in Proposition 64 funds allocated to child care programs go unspent each year. These Proposition 64 funds went unspent primarily due to slower slot take-up in the CAPP, CCTR, and Bridge programs. Any unspent funds are carried over into the following fiscal year. The Proposition 64 child care carryover balance as of March 2024 totals $296 million.

The administration estimates only $150.5 million of the $269.8 million Proposition 64 allocated to child care in 2023-24 will be spent. The unspent funds will carry forward into 2024-25, increasing the total carryover balance from $296 million to $415.3 million by the end of 2023-24. The Governor's budget does not include a proposal for using this carryover balance.

According to the LAO, "proposition 64 revenues, including carryover funds, are continuously appropriated, meaning that they are allocated by the administration and are not subject to the legislatively driven annual budget process. Proposition 64 carryover funds may be leveraged by the state in various ways. For example, carryover funds could make up for any future declines in Proposition 64 revenues. Alternatively, all or a portion of the Proposition 64 carryover funds could be used to offset General Fund costs in child care programs, resulting in additional one-time General Fund savings. Given the significant budget shortfall, the Legislature could consider working with the administration to determine if and how much of the Proposition 64 carryover funds could be used to maximize General Fund savings."

Increased Federal Funding Available through Child Care and Development Fund (CCDF). The LAO notes that based on actual federal notices of awards for 2023-24 and 2024-25, and increases to overall CCDF funding levels as part of the recently enacted federal budget, California will receive an additional $3 million CCDF in 2023-24. In 2024-25, California will receive an additional $38 million from updated awards, plus approximately $58 million in new CCDF discretionary funding. Some of these dollars do not need to be obligated until September 30, 2025; LAO recommends the Legislature direct the Administration to obligate all available CCDF dollars as part of the May Revision in order to maximize the amount of General Fund costs that could be offset in 2024-25.

[13] LAO
[14] LAO
[15] LAO

2023 Rates Package: Two-year, collectively bargained agreement. According to the LAO, The 2023-24 budget included $1.3 billion in one-time funds from various state and federal fund sources to cover child care costs resulting from the MOU and parity agreement. At the time, the set aside amount exceeded estimated child care-related MOU and parity costs by $106 million. The Governor's budget continues to set aside the same amount of funding to cover child care-related MOU and parity costs. Based on more recent data, CDSS now estimates that total child care MOU and parity costs would be $1.4 billion, which is $213 million above 2023 Budget Act cost estimates. According to the LAO, "we anticipate that a portion of these additional costs would be covered with the previously mentioned unobligated MOU and parity set aside funds ($106 million). Beyond the unobligated MOU and parity set aside funds, the state would need to provide an additional $107 million to cover the remaining amount of child care-related MOU and parity costs. Given the projected budget deficit, the Legislature could re-appropriate a portion of the previously identified funds that are projected to go unspent to cover the remaining amount of child care-related MOU and parity costs not covered by the MOU and parity set aside."[16]

LAO Estimate of Total Savings in Child Care. In total, the LAO recommends scoring additional one-time General Fund Savings in child care, as shown below:

Figure 4

Recommend Scoring Additional One-Time General Fund Savings

LAO Estimates (In Millions)

Additional Savings	
Offset costs with unspent COVID-19 federal relief funds[a]	$450
Offset costs with Proposition 64 carryover funds[b]	415
Proactively sweep potential unspent 2023-24 funds[c]	280
Offset costs with additional CCDF[d]	89
Offset Emergency Child Care Bridge costs with 2022-23 carryover funds	40
Additional Costs	
Increase funding to cover higher than estimated MOU and parity costs	-$107
Increase funding to reflect actual CCTR award amounts	-22
Net Savings	**$1,145**

[a] Assumes funds can offset slot costs and free-up General Fund.

[b] Reflects administration's estimate of carryover balance by the end of 2023-24. Proposition 64 revenues are continuously appropriated, meaning the administration would need to redirect carryover funds to offset General Fund costs.

[c] Reflects rough LAO estimate of program funds that will go unspent by end of 2023-24, including estimate of $30 million unspent General Fund from the Emergency Child Care Bridge program. Assumes savings from non-General Fund sources can be used to offset General Fund costs in 2023-24.

[d] Reflects net amount of available CCDF dollars after backing out increase to federally required CCDF quality set aside (about $10 million).

CCDF = Child Care and Development Fund; MOU = Memorandum of Understanding; and CCTR = General Child Care and Development.

[16] LAO

Subcommittee Staff Comment and Recommendation – Hold Open. Subcommittee staff notes that in 2023, CDSS was successful in ensuring that federal relief funds were "spent first" on allowable federal purposes in order to avoid any significant reversion of federal funds designated for child care to the federal government. In 2024, it will again be necessary for the Administration to prioritize spending federal relief funds both (1) to avoid any reversion of funds intended for child care to the federal government, and (2) to free up General Fund in the child care budget. The Legislature should also consider the additional non-federal fund savings identified by the LAO.

Questions. The Subcommittee requests CDSS/DOF respond to the following:

1. The LAO estimates approximately $450 million in federal relief funds could go unspent by the end of 2023-24. What is the Administration's estimate of this amount? What is the Administration's plan to ensure federal relief dollars are spent before General Fund on allowable purposes, to avoid any funding reverting back to the federal government?

2. The Legislative Analyst's Office estimates that another approximately $250 million in other funds could go unspent by the end of 2023-24. What is the Administration's estimate of this amount, based on recent expenditure trends?

3. Does the Administration plan to obligate all available federal Child Care and Development Fund (CCDF) funding in the 2024-25 budget, including newly available federal funds?

Issue 8: Child Care Rate Reform Update

Panel Discussion. The Subcommittee has invited the following individuals to participate in this discussion:

- Lupe Jaime Mileham, Deputy Director, CDSS
- Virginia Early, California Department of Education (CDE)
- Jackie Barocio, Principal Fiscal & Policy Consultant, Legislative Analyst's Office
- Dion Aroner, Child Care Provider's Union (CCPU)
- Donna Sneeringer, Vice President and Chief Strategy Officer, Child Care Resource Center

Background. California provides child care subsidies to some low-income families, including families participating in CalWORKs. For low-income families who do not participate in CalWORKs, the state prioritizes based on income, with lowest income families served first. To qualify for subsidized child care: (1) parents demonstrate need for care (parents working, or participating in an education or training program); (2) family income must be below 85 percent of the most recent state median income (SMI) calculation ($83,172 annual income for a family of three and $96,300 for a family of four); and (3) children must be under the age of 13. The following chart, provided by the LAO, summarizes the state's major child care programs:

State's Major Child Care Programs

Program	Payment Type	Key Eligibility Requirements
CalWORKs Child Care	Voucher	• Family is low income. • Parent(s) work or are in school. • Child is under age 13. • Slots are available for all eligible children.
Alternative Payment	Voucher	• Family is low income. • Parent(s) work or are in school. • Child is under age 13. • Slots are limited based on annual budget appropriation.
General Child Care	Direct contract	• Family is low income. • Parent(s) work or are in school. • Child is under age 13. • Slots are limited based on annual budget appropriation.

Source: Legislative Analyst's Office

Subsidized Child Care. The Department of Social Services (CDSS) provides child care and development programs through vouchers and contracts.

- **Vouchers (Also known as California Alternative Payment Program, or CAPP).** The three stages of CalWORKs child care and the Alternative Payment Program are reimbursed through vouchers. Parents are offered vouchers to purchase care from licensed or license-exempt caregivers, such as friends or relatives who provide in-home care. Families can also use these vouchers at any licensed child care provider in the state, and the value of child care vouchers is capped. The state will only pay up to the regional market rate (RMR), a different amount in each county based on regional surveys of the cost of child care. Beginning in 2022, the RMR was set to the 75th percentile of the 2018 RMR survey. Alternative Payment agencies (APs), which issue vouchers to eligible families, are paid through the "administrative rate," which provides them with 17.5 percent of total contract amounts.

- **Contracts (Also known as General Child Care, or CCTR).** Providers of General Child Care, Migrant Child Care, and State Preschool – known as Title 5 programs for their compliance with Title 5 of the California Code of Regulations – must meet additional requirements, such as development assessments for children, rating scales, and staff development. Title 5 programs contract with, and receive payments directly from, CDSS or the Department of Education (CDE), for the California State Preschool Program (CSPP). All Title 5 programs also operate through family child care home education networks, which serve children in those programs through family child care homes that are members of the network.

Child care and early childhood education programs are generally capped programs, meaning that funding is provided for a fixed amount of vouchers and fixed funding amount for slots, not for every qualifying family or child. The exception is the CalWORKs child care program (Stages One and Two), which are entitlement programs in statute.

Collective Bargaining. In 2019, Governor Newsom signed legislation granting collective bargaining rights to child care providers in California, allowing them to negotiate with the state over matters related to the recruitment, retention, and training of family childcare providers. Child Care Providers United - California (CCPU) represents voucher and direct contract providers that are family child care homes, or license-exempt home providers known as Family, Friend, and Neighbor (FFN) providers. In 2021, CCPU and the state negotiated their first Master Contract Agreement, which included rate increases, provider stipends, hold harmless policies, and a variety of other supports. In addition, the contracts included a process for continuing conversations through Joint Labor Management Committees on a single reimbursement rate system, and other provider needs such as retirement, and healthcare, among other topics. The 2023 Budget Act included ratification of a second CCPU collective bargaining agreement, ratified in July 2023, which is summarized below.

Background on Child Care Rate Reform. Pursuant to the 2021 Budget Act, CDSS, in consultation with CDE, convened a Rate Reform and Quality Workgroup to assess the methodology for establishing reimbursement rates and the existing quality standards for child care and development and preschool programs, informed by evidence-based elements that best support child development and positive child outcomes. The workgroup identified four core recommendations, which are detailed in the full report:

1. Ensure equity is foundational to all change. Work toward equity as an outcome and implement equity as a process.

2. 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.

3. 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.

4. Continuously evaluate the rate-setting methodology to address equity and adjust for changing conditions and rising costs.

Additionally, the Rate and Quality 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, to inform 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.

2023 Budget Act. The 2023 Budget Act included over $2 billion to implement a two-year, collectively bargained agreement between the state and CCPU. This package consists primarily of monthly per-child rate supplements, and 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. A summary of the agreement is included below:

Summary of Collectively Bargained Early Education and Parity Agreement

Across 2023-24 and 2024-25 (In Millions)

	Total Costs
Monthly per-child cost of care plus rate supplement[a]	$915
Administrative funds[b]	250
One-time transitional payment	229
CCPU Health Benefit Trust[c]	200
CCPU Retirement Benefit Trust[d]	160
Reimbursement based on certified need extension	155
Change of part-time definition	104
CCPU Training Fund[e]	15
Total	**$2,028**

[a]Monthly payments issued from January 1, 2024 through June 30, 2025.

[b]Includes administrative funds associated with monthly per-child cost of care rate supplement payments, one-time transitional payments, and other MOU-related activities. Administrative funds are allocated to counties, Alternative Payment agencies, direct contract providers, and a third-party contractor.

[c]Reflects maximum amount of potential annual deposits beginning April 1, 2024.

[d]Reflects initial $80 million deposit and maximum amount of potential annual deposit beginning July 1, 2024.

[e]Reflects maximum amount of potential annual deposit beginning July 1, 2024.

CCPU = Child Care Provider Union and MOU = Memorandum of Understanding.

Move to Alternative Methodology for Setting Child Care Rates. The collectively bargained agreement with CCPU, which was codified in budget trailer bill language through SB 140 (Committee on Budget and Fiscal Review), Chapter 193, Statutes of 2023, requires CDSS, in collaboration with CDE, 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 rates based on a percentile of regional costs in the private market.

SB 140 includes a series of milestones for CDSS to track progress towards developing a new single rate structure based on the alternative methodology and receiving federal approval. The SB 140 milestones are summarized below:

- **July 1, 2023:** CDSS, in consultation with CDE, shall begin the process of data collection and analysis to develop an alternative methodology, which shall build on the recommendations of the Rate and Quality Workgroup and the recommendations of the JLMC.

- **February 15, 2024:** CDSS, in collaboration with CDE and the JLMC, shall use information from the cost estimation model to define elements of the base rate and any enhanced rates to inform the state's proposed single rate structure. CDSS is required to report to the Legislature on progress made to conduct and alternative methodology and cost estimation model.

- **May 15, 2024:** CDSS shall report on the status of the draft Child Care and Development Fund state plan to the Legislature.

- **July 1, 2024:** CDSS shall submit the necessary information to support use of a single rate structure utilizing the alternative methodology to the federal Administration for Children and Families (ACF) as part of the Child Care and Development Fund (CCDF) State Plan. SB 140 requires this information to be shared with the Legislature by July 10, 2024.

- **Within 60 days of ACF Approval:** CDSS shall provide the Legislature with an outline of the implementation components of the approved single rate structure, with 30 days for legislative review.

Progress toward rate reform. CDSS received pre-approval from ACF in August 2023 to move forward with a single rate structure based on an alternative methodology for setting child care rates. CDSS has worked with consultant P5 Fiscal Strategies to conduct public engagement, collect data, and develop the cost estimation model. This public engagement work includes public meetings with the Rate and Quality Advisory Panel, over 100 virtual input sessions, multiple ad-hoc focus groups, and a survey to inform the development of the cost estimation model, which received over 9,250 responses.

CDSS has posted its draft Child Care State Plan for 2025-2027, which will include details on the single rate structure.[17] The ACF has recently provided states with flexibility to provide more details on their proposed rate structures after July 1, 2024, in recognition of several states transitioning to an alternative methodology for setting child care rates. CDSS anticipates meeting the July 1, 2024 deadline for submission to ACF.

Defining Elements of the Base Rate and Enhanced Rates. On March 22, 2024, CDSS submitted a report to the Legislature on progress made to conduct an alternative methodology and cost estimate model for child care and development subsidy rates, satisfying SB 140 requirements.[18] This report details the data collection, public engagement, and modeling that CDSS has conducted in the development of an alternative methodology.

In alignment with the SB 140 requirements, JLMC reached general consensus on the definition of base and enhanced rate elements and finalized documents reflecting the agreed upon definitions in March 2024.

[17] https://www.cdss.ca.gov/inforesources/child-care-and-development/fund-state-plan
[18] https://www.cdss.ca.gov/inforesources/child-care-and-development/rate-reform-and-quality

The details of that agreement are available on the CDSS Rate Reform and Quality website[19] and reflect the rate elements for family child care home providers. The key components of the base and enhanced rate elements, which are included in more detail in the report, are as follows:

Base Rate Elements:

- **Program characteristics**
  - Ratios and group size, as defined
  - Staffing pattern

- **Compensation**
  - Salary/wages. The model allows for various combinations of the following sources:
    - Bureau of Labor Statistics (BLS), 2023
    - MIT Living Wage Calculator for CA, 2023, with family composition adjustment.
    - Hybrid "BLS-Plus" approach that adjusts BLS upward by a percentage that varies by geographic region, using the MIT Living Wage Calculator to inform the adjustments.
    - A regional difference factor may be considered that varies by geographic region.
  - Mandatory expenses related to staffing
  - Discretionary benefits, including paid time off and health benefits

- **Professional Development Supports**
  - Training
    - 16 hours annually or more based on license type
  - Planning time

- **Quality Variables**
  - Family engagement (number of hours per child per year)
  - Child education and development (a flat amount per child and per home)
  - Child health (a flat amount per child depending on license type)
  - Inclusion Supports
    - Includes equipment and special materials, and fixed number of hours per week, based on number of applicable children
  - Dual language learner supports
    - Dollar amount per child per year, including a wage differential for Title 5.

- **Non-personnel Costs**
  - Administration/office costs (flat amount per child, includes supplies like food and diapers)
  - Occupancy (flat amount per child)
  - Education Program (flat amount per child)
  - Operating Reserve (a percent of total expense, based on license type)

[19] https://www.cdss.ca.gov/inforesources/child-care-and-development/rate-reform-and-quality

Enhanced Rate Elements:

- **Extended Evenings/Weekends**

- **Inclusion Supports**
  - Includes equipment and special materials, and fixed number of hours per week, based on number of applicable children.

- **Child Transportation**
  - Flat amount per child, separate from vehicle expenses, which is included in non-personnel.

JLMC-Defined Rate Elements Include Variables for the Cost Model, but not Dollars. The base and enhanced rate elements listed above, and described in more detail in the JLMC report, include a series of variables that will compose the base rate and any enhanced rates under the new single rate structure. However, it does not include the actual dollar amounts or values that would be assigned for each variable. The cost tool can be run under various scenarios that use differing assumptions based on how the defined variables can be selected or adjusted (for example, whether Bureau of Labor Statistics Data or the MIT Living Wage Calculator is selected for the "compensation" variable.) CDSS refers to these variables as "selection points."

According to CDSS "a selection point is the selection of a particular value that has to be made for each variable that is included as an element of the rate. For example, the Professional Development/Training variable is defined as the number of paid training hours. The actual number of paid training hours used as an input to the cost model is the value assigned to that selection point. The Rate and Quality Systems Structure Review JLMC has agreed upon the definition of base and enhanced rate elements. The selection point values are outside of the scope of what the JLMC was charged with recommending by February 15th."[20] No dollar values have been assigned to any variables, regardless of selection points.

March Report does not Define Rate Elements for Center-Based Providers. CDSS satisfied SB 140 requirements to work with the JLMC to define elements of the base and enhanced rates, and subsequently reported on progress to the Legislature. However, the JLMC report only defines elements of the rate structure for family child care providers (and FFN providers who are also represented by CCPU.)

CDSS has not provided information on how the elements would apply to licensed Title 22 and Title 5 child care centers, but has shared that they considered application to non-represented center-based providers as part of the definition process at the JLMC. The CCDF state plan submitted to the federal government on July 1 will include information on how the single rate structure will apply to child care centers as well as family child care homes. CDSS will also work with CDE regarding center-based providers who are part of the California State Preschool Program (CSPP).

Center-based providers have expressed concern about the lack of information on how the unique needs of center-based providers will be considered in the development of the cost estimation model, and ultimately, rate-setting. In particular, center-based providers have pointed out that the inclusion of Bureau of Labor

[20] CDSS, "Report to the Legislature on progress made to conduct an alternative methodology and cost estimate model for child care and development subsidy rates," March 22, 2024. https://cdss.ca.gov/inforesources/child-care-and-development/rate-reform-and-quality

Statistics (BLS) data as a variable for defining compensation/wages of child care providers could undermine the concept of basing rates on the true costs of care, because BLS data uses the existing market wages for child care providers. The purpose of the alternative methodology is to use a cost estimation model instead of the market rate.

Even after alternative methodology is fully developed and approved, actual implementation timeline for rate setting is unclear. As noted by CDSS in the March 2024 report, the final step subsequent to ACF approval of the alternative methodology is the actual rate setting and implementation.

While ACF requires CDSS to include an implementation plan as part of the state's plan, the new single rate structure will not take effect immediately or automatically upon federal approval, because it is essentially a model. This is no different from the current rate setting approach under the Regional Market Rate (RMR): the state determines rates based on the 2018 RMR Survey, and the state reimburses child care providers at the 75th percent of this rate (plus the rate supplements approved in the 2023 Budget Act pursuant to the CCPU MOU and parity package). Even after ACF approves the state's proposed alternative methodology based on the cost estimation model, reimbursement rates need to be funded as part of the annual budget process.

According to CDSS, "at this step, the cost estimation model is used to inform the state's rate setting and implementation. Pursuant to the 2023-2025 MOU, rate setting will occur following ACF approval of the Single Rate Structure utilizing the Alternative Methodology in the CCDF State Plan. Within 90 days subsequent to ACF approval, the State and CCPU will re-open the Articles of the MOU related to Rates and the Cost of Care Plus Rate for good faith negotiations to restructure the current subsidy reimbursement rates, and the associated funding, to be applied to family child care providers consistent with the ACF-approved Single Rate Structure, and the implementation thereof. Rate setting will occur for non-CCPU-represented provider/program types through the budget process, concurrent with and informed by rate negotiations for family child care providers. Rates will take effect when any other activities reasonably necessary to implementation have occurred such as regulatory and policy guidance, training for contractors, and updates to contracts and necessary data systems."

Subcommittee Staff Comment and Recommendation – Informational Item. No action is needed. Subcommittee staff notes that the current two-year collectively bargained rates package expires June 30, 2025. After the federal government approves the new rate structure, the Legislature and the Governor will need to set new reimbursement rates to take effect July 1, 2025 and appropriate the funding necessary for implementation. Additionally, within 90 days of federal approval, CDSS and CCPU can reopen bargaining negotiations to restructure the current reimbursement rates and associated funding. This timeline assumes that, regardless of the amount of funding appropriated in the 2025 Budget Act, CDSS will have the technical capacity and administrative infrastructure to implement the new rate model. However, CDSS notes in the March 2024 report that rates will take effect "when other activities necessary for implementation have occurred such as regulatory and policy guidance, training for contractors, and updates to contracts and necessary data systems." There is no timeline for these activities and it is unclear how the ramp-up time CDSS may need to implement new rates would align with the expiration of the current two-year collectively bargained rate package on June 30, 2025.

Questions. The Subcommittee requests CDSS respond to the following:

1. Please describe recent progress in the development of the alternative methodology. What are the milestones between now and July 1, 2024, when CDSS must submit the completed state plan to the federal government?
2. After federal approval, likely in fall 2024, what are the department’s next steps to implement the alternative methodology? What infrastructure, planning, and administrative changes are needed in order to implement the alternative methodology framework currently in development?
3. At what point will the Administration be prepared to implement the new rate structure envisioned under the alternative methodology framework, assuming federal approval? How does this timeline align with the expiration of the two-year CCPU MOU and parity agreement on June 30, 2025?
4. How will the elements of the base rate be developed for center-based providers? How is the department considering the unique needs and features of center-based providers and taking their feedback into the development of the alternative methodology?

Issue 9: Governor's Proposed Methodology for General Child Care Slots

Panel Discussion. The Subcommittee has invited the following individuals to participate in this discussion:

- Lupe Jaime Mileham, Deputy Director, CDSS
- Tamar Weber, Staff Finance Budget Analyst, Department of Finance
- Jackie Barocio, Principal Fiscal & Policy Consultant, Legislative Analyst's Office
- Ivonne Baltadano, Parent Voices San Francisco
- Christina Moore, MAEd & MBA, Vice President, ECE & Nutrition, Maryvale

Budget Solution – Governor's Budget. While the Governor's budget continues to assume a total of 62,080 new CCTR slots will be added by 2026-27, the administration proposes changes to how these slots are phased in relative to 2023 Budget Act. As a result of these and other changes to the CCTR budgeting process and Request for Application (RFA) time line, the Governor's budget includes, on net, $581 million total savings in 2023-24 and $318 million total savings in 2024-25.

Background on Slot Expansion Plan. As part of the 2021 Budget Act, the Governor and Legislature agreed to increase the number of child care slots by 206,500 across CAPP (142,620 slots), CCTR (62,080 slots), CMAP (1,300 slots), and Emergency Child Care Bridge (500 slots). Initially, these new slots were expected to be fully rolled out by 2025-26. However, as part of the 2023-24 budget, the slot expansion plan was paused for one year, delaying the full roll out to 2026-27.[21] The chart below shows new slots included in the expansion plan (this includes new slots only under the expansion plan, not total slots.)

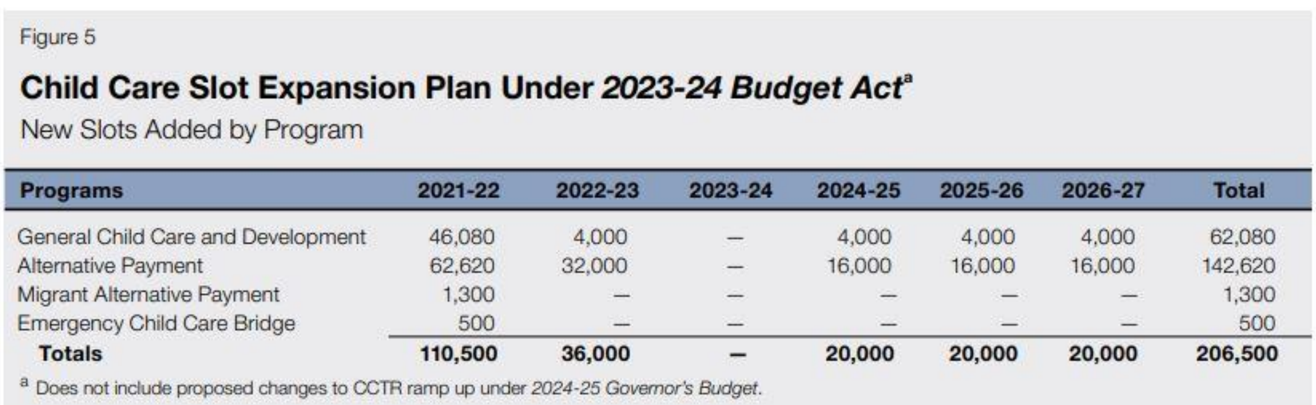


Figure 5

Child Care Slot Expansion Plan Under *2023-24 Budget Act*[a]

New Slots Added by Program

Programs	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	Total
General Child Care and Development	46,080	4,000	—	4,000	4,000	4,000	62,080
Alternative Payment	62,620	32,000	—	16,000	16,000	16,000	142,620
Migrant Alternative Payment	1,300	—	—	—	—	—	1,300
Emergency Child Care Bridge	500	—	—	—	—	—	500
Totals	**110,500**	**36,000**	**—**	**20,000**	**20,000**	**20,000**	**206,500**

[a] Does not include proposed changes to CCTR ramp up under *2024-25 Governor's Budget*.

Source: LAO

According to the LAO, "overall, DSS does not release any program funds until contracts have been finalized and executed. In past years, DSS would not award or place into contract funds for new slots until the funds were approved and appropriated by the Legislature through the annual budget process. For example, in 2022-23, the department began to amend initial CAPP contracts after July 1, 2022 with the goal of implementing all the new 2022-23 slots as early as October 1, 2022. For CCTR, the department

[21] LAO

released an RFA in the fall of 2022, with the goal of awarding and implementing new 2022-23 slots as early as April 1, 2023. The department also released an RFA in the fall of 2023 and is currently in the process of determining provider award amounts. The 2023-24 Budget Act appropriated $1.1 billion to support up to 50,080 new CCTR slots intended to be awarded through these RFAs. However, only 21,194 slots have been awarded thus far."

Governor's Budget Revises CCTR Slot Expansion Plan and Timeline. The Governor's budget includes a series of changes to the way CCTR is budgeted, incurring General Fund Savings of $581 million in 2023-24 and $318 million in 2024-25. Below are the LAO's descriptions of each of the CCTR budget changes:[22]

- **Reduces CCTR Budget to Only Reflect Estimated Number of Awarded Slots, Resulting in $662 Million Total Savings in 2023-24 and $385 Million Total Savings in 2024-25.** Between 2020-21 and 2022-23, the state increased funding to support up to 50,080 new CCTR slots, resulting in a $1.1 billion ongoing increase to total program costs. However, as of March 2024, only 21,194 of the 50,080 new CCTR slots have been awarded to providers. The Governor's budget proposes to reduce CCTR funding levels in 2023-24 to only reflect costs associated with the estimated number of awarded slots, resulting in $662 million total savings relative to the 2023-24 Budget Act. Similarly, the Governor's budget proposes to fund a total of 33,194 new CCTR slots in 2024-25, which is about 21,100 fewer slots than what would have been funded under current budgeting practices. This slot difference results in $385 million savings in 2024-25. (The 2023-24 and 2024-25 savings are partially offset by costs associated with other proposed program changes.)

- **Pushes Out Unawarded CCTR Slots From 2023-24 to Later Years**. The Governor's budget reduces the number of budgeted new CCTR slots by 28,886 in 2023-24—from 50,080 to 21,194—to reflect the current number of awarded slots. The Governor's budget assumes the 28,886 unawarded CCTR slots are phased in across 2024-25 to 2026-27 instead.

- **Updates Total Costs Associated With New CCTR Slots Awarded in Fall 2021 RFA and Fall 2022 RFA to Reflect More Recent Cost Per Slot Data.** Under the 2023-24 Budget Act, DSS estimated each new CCTR slot would cost about $22,470 annually across 2021-22 to 2026-27. The Governor's budget estimates that the average costs of new CCTR slots awarded between 2021-22 and 2022-23 is about $26,380 annually (17 percent higher than past estimates), increasing total costs for the slot expansion plan by $81 million in 2023-24. Similarly, the Governor's budget assumes the annual cost per slot after 2023-24 is about $23,150 (three percent higher than past estimates), increasing total costs for the slot expansion plan by $8 million annually from 2024-25 to 2026-27. We understand that the revised cost per slot estimate reflects more recent data on actual program costs.

- **Changes Budgeting Process and Timeline to Award, Put Into Contract, and Implement New CCTR Slots.** The Governor's budget proposes multiple changes to the timing in which new CCTR slots are awarded, put into contract, and implemented. Overall, LAO estimates these changes

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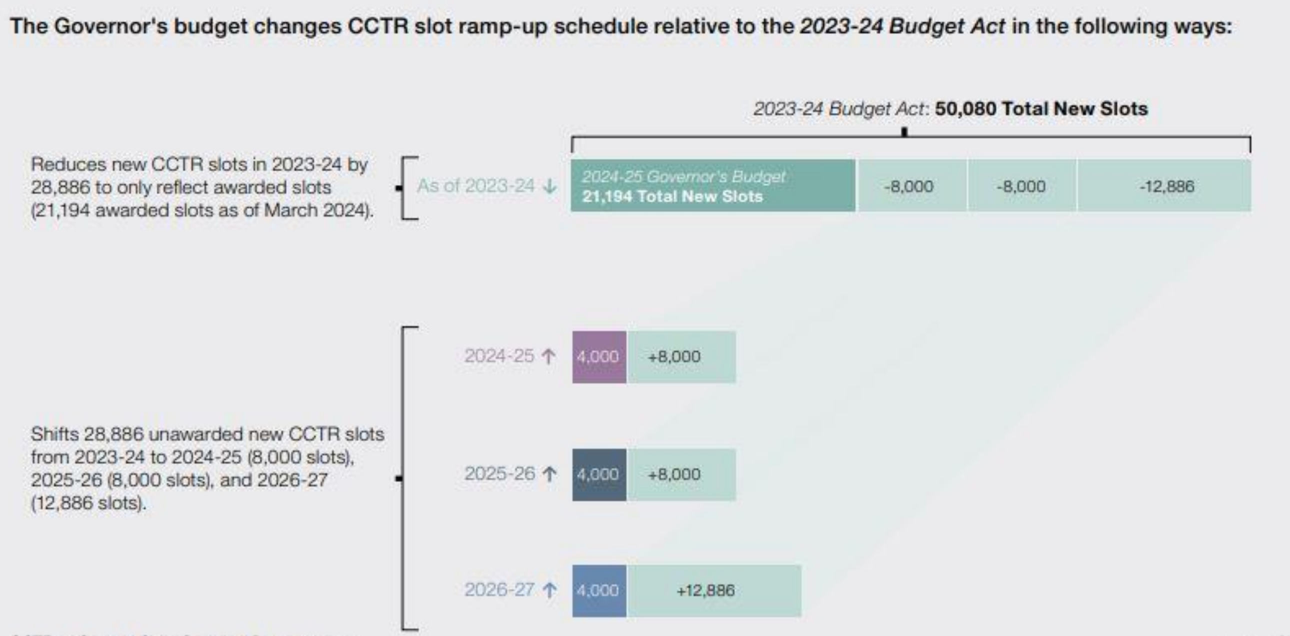
eliminate the need to provide three months of slot funding—$22 million General Fund—in the remaining years of the CCTR slot expansion plan.

Figure 6

Governor's Budget Pushes Out Unawarded 2023-24 CCTR Slots to Later Years



CCTR = General Child Care and Development.

Source: LAO

The LAO chart above demonstrates how the Administration's plan reduces new CCTR slots in 2023-24 and then adds them back in later years of the slot expansion plan.

- **Assumes Later Implementation Date for CCTR Slots Awarded Through Fall 2023 RFA**. Although the state did not provide funding for new slots in 2023-24, the department was able to issue an RFA in the fall of 2023 given the significant amount of previously appropriated funding that had not yet been awarded to providers. As a result of the fall 2023 RFA, the department anticipates awarding at least 12,000 CCTR slots in April 2024. Under the state's current budgeting practices, the state would have assumed all of these awarded CCTR slots would be implemented in April 2024, resulting in three months of costs in 2023-24. However, the Governor's budget assumes all awarded CCTR slots from the fall 2023 RFA would be implemented in July 2024. As a result, the Governor's budget does not need to provide three months of slot funding in 2023-24 ($22 million General Fund). The administration assumes the new July implementation date assumption will apply to all new CCTR slots awarded in future years. The LAO chart below illustrates the department's new proposed timeline for funding CCTR slots.

Figure 7

Proposed Changes to CCTR RFA and Award Time Line

Current Time Line[a] | **Governor's Budget Time Line[b]**

End of June 2024
Legislature approves 2024-25 budget

- Current Time Line: **Includes** three-months of funding for slots to be awarded through fall 2024 RFA
- Governor's Budget Time Line: **Does not include** funds for fall 2024 RFA

Fall 2024
DSS releases RFA to award new slots

Winter 2024
RFA submission deadline

January 2025
Release of 2025-26 Governor's budget

Current Time Line:

Maintains $1.15 billion appropriated in 2024-25 budget to fund 54,080 new slots, including three-months of funding for slots awarded in fall 2024 RFA.

Proposes $67 million in 2025-26 to reflect annualized costs of slots awarded through fall 2024 RFA.

Proposes $22 million in 2025-26 to reflect **three months of costs** of an additional 4,000 new slots expected to be awarded and implemented through fall 2025 RFA beginning April 1, 2026.

Governor's Budget Time Line:

Maintains $836 million appropriated in 2024-25 budget to fund 33,194 new slots.

Proposes $278 million in 2025-26 to reflect annualized costs of an additional 12,000 new slots expected to be awarded and implemented through fall 2024 RFA beginning July 1, 2025.

Does not include funds for fall 2025 RFA.

March 2025
DSS notifies applicants of score and if application was approved or denied

April 1, 2025
DSS releases initial award letters

Current Time Line:

Award letters include fall 2024 RFA funds **approved by Legislature** in 2024-25 budget.

Assumes provider contracts are finalized and awarded fall 2024 RFA slots are fully implemented.

Governor's Budget Time Line:

Award letters include fall 2024 RFA funds **not yet approved by Legislature.**

End of June 2025
Legislature approves 2025-26 budget

Current Time Line:

Includes funds for fall 2025 RFA.

Governor's Budget Time Line:

Does not include funds for fall 2025 RFA.

Beginning July 1, 2025
DSS finalizes provider contracts and assumes fall 2024 awarded slots are fully implemented.

[a] Reflects maximum slot cost estimates from *2023-24 Budget Act*.

[b] Reflects revised slot cost estimates from *2024-25 Governor's Budget*.

CCTR = General Child Care and Development; RFA = request for applications; and DSS = Department of Social Services.

LAO

Source: LAO

- **Assumes DSS Would Release Future RFAs and Award New CCTR Slots Prior to Legislative Approval.** By continuing to appropriate funds for slots that had not yet been awarded, the 2023-24 Budget Act provided DSS with the necessary funding authority to release a fall 2023 RFA and issue award letters in the spring of 2024. DSS plans to release a fall 2024 RFA and issue award letters in the spring of 2025. Based on current budgeting practices, the administration would have sought legislative approval to set aside at least three months of new slot funding as a part of the 2024-25 budget process so that DSS has an authorized funding stream to release a fall 2024 RFA and award slots in the spring of 2025. However, the Governor's budget does not propose to provide any funding in 2024-25 to support slots awarded through the fall 2024 RFA. The administration instead plans to seek legislative approval for the necessary funding authority for the fall 2024 RFA as part of the 2025-26 budget process. As a result of no longer proactively proposing a three month set-aside to support future RFAs and award letters, total CCTR program costs decrease by $22 million General Fund in 2024-25 relative to the 2023-24 Budget Act.

- **Includes Provisional Language Allowing Administration to Increase CCTR Funding Levels Mid-Year.** The Governor's budget proposes provisional budget language that would allow the Department of Finance (DOF) to increase CCTR funding levels mid-year if expenditures are "estimated to exceed the expenditures authorized" in the 2024-25 budget. While DOF would be required to report any mid-year augmentations to the Legislature, legislative approval would not be required for the funding augmentation to take effect.

LAO Comments on Governor's Proposed CCTR Budget Changes. The following are LAO's comments on the Governor's proposed changes to CCTR budgeting:

- **Seems Reasonable to Push Out Funding for New CCTR Slots Based on Current Slot Take-Up Trends and Projected Budget Deficit.** As a part of the 2023-24 Budget Act, the state reduced 2022-23 CCTR funding levels to reflect more realistic estimates of expenditures based on the actual number of awarded CCTR slots. Similarly, the Governor's 2024-25 budget reduces the number of funded CCTR slots to only reflect estimates of awarded slots on an ongoing basis. We estimate this change has the effect of reducing total CCTR slot costs, on net, by about $570 million in 2023-24 and about $310 million in 2024-25 relative to the 2023-24 Budget Act. We believe this is a reasonable budgeting approach given the slower than expected take-up of new CCTR slots and projected budget deficit.

- **Slower Than Expected CCTR Slot Take-Up May Be, in Part, Due to Delays in Contracting Processes.** We understand that it takes DSS, on average, between six to seven months to finalize and execute a contract once new CCTR slot funds are awarded to providers. This exceeds the Governor's budget assumption that final CCTR contracts will be executed within three months following the award date. Based on conversations with the department and providers, the delay in executing contracts may be due to various reasons, including the department prioritizing amending contracts for existing providers before executing contracts for new providers, new providers needing additional technical assistance to obtain a state license, and providers receiving conflicting guidance from different DSS staff members on supporting documents needed to execute contracts. Additionally, some CCTR providers have expressed that, given the contracting delays, they may be less likely to apply for additional slot funding in future years.

- **Changes to CCTR Budgeting Process and Time Line for New Slots Reduces Legislative Oversight of the Slot Expansion Plan.** Historically, the Legislature reached an agreement with the administration on the maximum number of new CCTR slots to be added in any given fiscal year and associated funding levels. We are concerned that allowing the administration to release RFAs and award new CCTR slots prior to the enactment of the state budget gets ahead of the Legislature's appropriation authority. Decisions regarding budgeted slots would effectively be based on the spring RFA process, which is completely controlled by the administration. Furthermore, while the provisional language in the Governor's budget requires notification to the Legislature, ultimately it would allow the administration to independently increase CCTR funding levels beyond what was appropriated by the Legislature through the budget process.

- **Unclear Under What Conditions Administration Would Use Provisional Language to Increase CCTR Funding Levels Mid-Year.** The proposed provisional language lacks any detail on how DOF would go about determining whether CCTR funding levels should be increased. Based on our conversations with the administration, CCTR funding levels could be increased if actual costs for slots awarded through the fall 2023 RFA exceed budgeted levels. For example, CCTR funding levels could be increased to address higher than expected cost per slot. Under this scenario, it is unclear how big of a cost difference the administration would need to observe to make a mid-year adjustment. The administration also expressed that provisional language may allow the administration to increase CCTR funding levels in order to issue another RFA and award additional CCTR slots above what was authorized in the 2024-25 budget to the extent provider demand and capacity increases. However, it is unclear how the administration would go about monitoring provider demand and capacity throughout the fiscal year and what amount of excess provider demand and capacity would need to be observed for the administration to make a mid-year adjustment. We also do not know to what extent the administration would consider broader issues, such as the projected multiyear budget deficit, prior to making any mid-year funding adjustments.[23]

LAO recommends the Legislature adopt the Governor's proposed CCTR funding levels to only reflect awarded new slots, but reject the proposed changes to the budget process and timeline for new CCTR slots. According to the LAO, "we believe the administration's proposed changes to the process for issuing new CCTR slots would significantly reduce legislative oversight and input over the slot expansion plan. Specifically, the proposed CCTR time line changes would allow DSS to issue annual RFAs and award slots without the necessary legislative funding authority. While this change would result in some initial General Fund savings, we do not believe the savings outweigh the trade-off of side stepping the legislative budget process. Additionally, the proposed provisional language would allow the administration to independently change the total CCTR funding levels and potentially the total number of funded CCTR slots through mid-year adjustments. The Legislature could reject the Governor's proposal and continue to use the existing process, where RFAs are based on the amount of funding provided in the enacted budget. Under this approach, the Legislature could include a modest amount of funding in the 2024-25 budget as a way to provide DSS with the necessary funding authority to release a fall 2024 RFA. The Legislature could also develop an alternative budgeting approach that achieves the same amount of General Fund savings, avoids any cost increases, and maintains legislative oversight. For example, the Legislature could

[23] LAO

codify the ramp-up schedule for the child care slot expansion plan to maintain legislative input over the maximum number of slots the administration could award in any given year."[24]

The LAO additionally recommends the Legislature explore ways the CCTR contract process can be streamlined to increase the number of awarded and filled slots.

Subcommittee Staff Comment and Recommendation – Hold Open. As noted by the LAO, the Administration's proposed new process for budgeting CCTR slots would allow CDSS to issue annual RFAs and award slots prior to receiving the necessary legislative funding authority in the annual budget act. This would essentially remove legislative input over the slot expansion plan. In both 2023 and 2024, the Administration has proposed various changes to the slot expansion plan – in 2023, the Governor proposed (and the Legislature approved) pausing the 20,000 new slots originally planned for 2023-24, moving the overall 200,000 new slots goal from 2025 to 2026. In this budget, the Administration is essentially proposing to hold new 2024-25 CCTR slots to the amount awarded based on a fall 2023 RFA. While these approaches are different, they both have the effect of slowing down the slot expansion plan. Given these changes, it is important that the Legislature to continue to exercise oversight over the CCTR budget and RFA timeline, to ensure the 200,000 new slots agreed upon materialize in 2026.

One of the reasons the department's revised RFA timeline would involve issuing slot awards without the requisite fiscal authority is because the slot expansion plan agreed to by the Governor and Legislature in the 2021 Budget Act is not codified in statute. Instead, the slot expansion plan has been implemented via appropriation in each year's budget act. The Administration has stated their commitment to reaching over 200,000 new subsidized slots by 2026-27. Codifying the slot expansion plan in statute would maintain legislative oversight and provide transparency on the slot expansion plan moving forward.

Questions. The Subcommittee requests CDSS/DOF respond to the following:

1. How does the Governor's budget change the number of CCTR slots added in future years per the current slot expansion plan?
2. Does the Administration maintain its commitment to funding 200,000 new subsidized child care slots by 2026?
3. How would the Administration ensure legislative input over the number of CCTR slots added in future years per the current slot expansion plan?
4. Where is the Administration deriving the fiscal authority to issue RFAs for new slots prior to the funding for those slots being appropriated in the next year's budget act?

[24] LAO

Issue 10: Child Care Program Staffing

Budget Change Proposal – Governor's Budget. CDSS requests $7.9 million in federal funding authority and permanent position authority for 41 positions and one limited-term position to provide policy, program, and administrative support to child care and development programs. The resources will be funded with federal dollars awarded at consistent annual levels by the federal Administration of Children and Families (ACF) from the Child Care and Development Block Grant (CCDBG) and the Preschool Development Grant (PDG). This proposal has no impact on the General Fund.

Background. The federal and California state governments have invested billions of dollars in critical child care programs, with most of the federal funding provided through the CCDBG. According to CDSS, these historic investments have significantly increased CDSS's workload. A few of the investments include: (1) investments associated with agreements with the Child Care Providers United Union - California (CCPU), (2) expanded access to child care subsidies, (3) establishment and continuation of the Infrastructure Grant Program (IGP), and (4) expenditure authority for the PDG work on behalf of California Health and Human Services Agency. State operations resources did not keep pace with these historic increases in investments; therefore, CDSS lacks sufficient resources to administer child care programs as required by federal and state laws and regulations.

- **CCPU and Bargaining**: The second State of California/CCPU Memorandum of Understanding (MOU) was ratified on September 13, 2023. The MOU extended two previously established Joint Labor Management Committees (JLMCs), to review processes and policies, leading to joint recommendations for investments and policy changes. Without the appropriate leadership position to make decisions for CDSS, the critical workload and urgent decisions that need to be made on behalf of CDSS are unable to be met. The workload associated with the JLMCs was not initially anticipated, and additional management-level support is required to ensure effective oversight of the bargaining relationship.

- **Elevated Response to Critical Family Needs:** CDSS received approximately $5.3 billion in federal relief funds to support child care programs during the pandemic. The funding was used for a variety of supports, including child care vouchers, a multiyear expansion of subsidized child care, waived family fees, and additional paid non-operation days. Several initiatives are ongoing, including the expansion of subsidized child care, continued changes to decrease family fees, the continuation and increased investment in the IGP to improve and increase the supply of child care sites, additional increases in child care provider rates, and a commitment to ensuring that state-subsidized providers can elect payment via direct deposit. CDSS staff supporting these programs have been redirected from other critical areas. This, in addition to insufficient staffing, has resulted in delays in releasing direct deposit and IGP funds.

- **Expansion of Child Care Programs and Training.** CDSS oversees and supports 463 California child care community contractors with 753 contracts and close to 50,000 providers serving over 300,000 children. The recent expansion of the General Child Care and Development (CCTR) over 2021-22 and 2022- 23 resulted in 208 CCTR awards. Of the 208 awardees, 105 agencies were new to CCTR, which includes 68 contractors who will be receiving their first child care and development contract. CCTR program, fiscal, and audit requirements are extensive and require many hours of training and onboarding by the assigned consultant. Proper training and technical assistance of new contractors is imperative to ensure compliance with existing laws and regulations, including on-site visits.

- **Infrastructure Grant Program:** The 2021 Budget Act included $150 million General Fund to fund new construction or major renovations of existing buildings currently not being used as child care facilities, and $100 million in federal funds from the American Rescue Plan Act of 2020, to fund minor renovations and repairs related to meeting licensing requirements or health and safety standards. The 2022 Budget Act included an additional $100.5 million in federal funds for the minor renovation and repairs infrastructure grant. An estimated 4,500 grants in total are to be processed for payment. While some program resources were received when the IGP program was established, the multi-year requirement for technical assistance and the sheer volume of grants was unknown at that time.

- **Preschool Development Grant (PDG) Unit:** In December of 2015, the ACF issued grant funding to all states for the PDG. The California Health and Human Services Agency transferred the PDG staff unit to CDSS in October of 2022, along with all administrative responsibilities pertaining to the current PDG grant and PDG-Renewal (PDG-R) amounting to $40.2 million of contracts and state operations funds. PDG-R's purpose is to build, strengthen, and maintain an equitable, comprehensive, quality, and affordable Early Learning and Care (ELC) mixed-delivery system for children, families, programs, and workforce development support in our state. Currently, PDG staff are in limited-term positions, and CDSS is requesting permanently funded positions because of the ongoing nature of the PDG work.

Request for Federally Funded Resources and Staffing. The requested positions would be spread across various program units for the increased workload described above. According to CDSS, the department will not be able to fulfill the recent historic investments in child care without these positions.

Program Unit	Funding type	Quantity and Tenure
PDG	Federal Fund (CCDBG)	4.0
Infrastructure Grant Program (IGP)	Federal Fund (CCDBG)	5.0 (including 1.0 one-year LT position)
Training	Federal Fund (CCDBG)	6.0
CCDD Administrative Support	Federal Fund CCDBG	14.0
Support Divisions	Federal Fund CCDBG	13.0

Subcommittee Staff Comment and Recommendation – Hold Open.

Questions. The Subcommittee requests CDSS respond to the following:

1. Please provide an overview of this proposal.

Issue 11: Child and Adult Care Food Program Staffing

Budget Change Proposal – Governor's Budget. CDSS requests permanent position authority for 26 positions to support the Child and Adult Care Food Program (CACFP). This proposal has no impact on the General Fund.

Background. The CACFP consists of approximately 1,340 participating organizations and over 24,000 sites approved to serve reimbursable meals and snacks to an average of 938,220 Californians a day. The Early Childhood Development Act of 2020 transferred administration of the Child and Adult Care Food Program (CACFP) from the California Department of Education (CDE) to CDSS, effective July 1, 2021. Since the transfer of the CACFP, the CACFP Branch (CACFPB) of CDSS has identified a critical lack of appropriate staffing levels for specific program integrity activities.

Program integrity activities in the CACFP are 100 percent federally funded through the United States Department of Agriculture (USDA) Audit Fund (AF) provided to the CDSS annually. AF resources support federally required program audits and state agency activities that are intended to ensure CACFP program integrity. These state agency activities include the federally required administrative reviews (AR) of participating organizations, annual reviews of participating organizations' updated application materials, pre-approval visits for applicant organizations, data analysis of AR findings to identify trends and gaps, and technical assistance and training for participating organizations to address AR findings.

Currently, for 2023-24, CDSS has $5.3 million budgeted for AF expenditures in the following areas:

Cost Category	Budgeted Amount
Salaries/Fringe Benefits	$4,520,094
Operating Expenses and Equipment	$172,000
Indirect Costs	$635,000
Total Costs	$5,327,094

CDSS expects to leave $5.1 million in available federal funds unspent in 2023-24.

Request for Position Authority. According to CDSS, the resources requested in this proposal will enable the department to maximize its use of the AF each year through increased staffing to conduct program integrity activities across the branch. This proposal has no General Fund impact, as all funds within this proposal are federal.

Prior to July 2021, the CACFP was administered by the CDE in the Nutrition Services Division (NSD). The CDSS has identified that either no staff or insufficient staff resources were transferred for the following critical areas:

- Financial Management, including forecasting spending authority, creating annual budgets, and monitoring State spending and participant reimbursement.

- Civil Rights and Complaint Coordination to ensure all incoming complaints are addressed according to federal requirements and all Civil Rights requirements, such as annual state staff training, are complete.

- Technology Support, such as subject matter expertise and support for the current CACFP database solution.

As a result, existing staff are not able to dedicate the time needed to these critical monitoring and support activities, and CDSS has determined it does not have sufficient staffing for federally required administrative reviews (ARs).

Currently, the CDSS caseload is approximately 20 ARs per reviewer and 153 ARs per review closure analyst. As a result, the CDSS did not meet its federal mandate for conducting ARs, and is currently not on track to complete the required number of reviews in 2022-23 nor 2023-24. In 2021-22, CDSS was able to conduct 418 of 463 required reviews. In 2022-23, CDSS is scheduled to complete only 270 of 446 required reviews. As a result of the staffing shortfall, CDSS is requesting a waiver from the USDA that will allow CDSS to complete fewer than the required number of reviews each through 2027-28 and return to full compliance with the federal administrative review requirements in 2028-29. This proposal's request for positions is a primary component of CDSS' plan for successfully fulfilling the terms of the waiver request and returning to compliance in 2028-29.

The requested staff are as follows:

- The SSM III and SSM II - lead the Community Nutrition Programs Bureau and Community Nutrition Support Section, respectively.

- AGPAs in the Community Nutrition Support Unit - achieve acceptable caseload distribution for application reviews, technical assistance, and training.

- AGPAs in the Nutrition Education, Training, and Support Section - support program operators and state review staff with the development of targeted learning pathways and training materials to address program operators' review findings.

- AGPAs in the Data Integrity Unit - support data analysis of administrative review activities to identify program gaps and trends.

- One Attorney V - support the CACFPB's increased workload and corresponding legal reviews and advice created by the increased staffing. The Attorney V will provide legal consultation services to CDSS and to the CACFPB on issues related to funding compliance and audits.

- Two Information Technology Specialists - manage software and hardware for the program and provide ongoing project management support.

Subcommittee Staff Comment and Recommendation – Hold Open.

Questions. The Subcommittee requests CDSS respond to the following:

1. Please provide an overview of this proposal.

Issue 12: Stakeholder Proposals for Investment

Stakeholder Proposals for Investment. The Subcommittee has received the following proposals for investment related to Child Care and Child Welfare.

Presentation Item:

- **Food with Care.** Nourish California and the Child and Adult Care Food Program (CACFP) Roundtable propose $1.5 million ongoing to eliminate the child care meal reimbursement gap that exists for family child care providers. According to Nourish California, "Child care is the largest setting to support access to nutritious foods during the critical early years of development. However, existing law in California only reimburses Family Child Care providers for 75 percent of the meals served to the children in their care, and those providers are forced to make up the difference. The state meal reimbursement rate gap is the result of a racist legacy of child care laws—still in place today—that undervalue and underpay labor historically performed by Black, Latina, and immigrant women."

Non-Presentation Item:

- **California Success, Opportunity, and Academic Resilience (SOAR) Guaranteed Income Program.** A coalition of organizations including the Economic Security Project, End Poverty in California, Mayors for a Guaranteed Income, Young Invincibles, and GenUp, propose $67 million one-time for a program to provide 12th grade high school students experiencing homelessness with monthly unconditional cash payments in the summer months subsequent to high school graduation. According to this coalition, "unrestricted direct cash payments allow people to address their own particular needs. For a graduating senior heading to college or work, that could mean moving expenses, tuition, an apartment security deposit, books, a laptop computer, work attire, or food. Instead of dictating how, where, and on what terms youth can build their lives, cash offers the dignity and self-determination that recognizes a one-size-fits-all approach is antiquated and rooted in distrust. Instead, research from guaranteed income pilots and data from the Child Tax Credit show that when given unrestricted payments, people spend on their needs, creating economic stability for themselves. The CalSOAR Guaranteed Income Program would equip youth experiencing homelessness with the financial resources to enter adulthood with stability, and enables them to pursue their goals."

Issue 13: Public Comment