

Date of Hearing: April 23, 2026

ASSEMBLY COMMITTEE ON HUMAN SERVICES

Alex Lee, Chair

AB 2258 (Ávila Fariás) – As Amended April 14, 2026

SUBJECT: Early childhood education and childcare: alternative payment support program

SUMMARY: Requires the California Department of Social Services (CDSS) to identify on a quarterly basis unspent or projected unexpended subsidized childcare funds and, to the maximum extent permitted by law, redirect those funds into a newly created and continuously appropriated Alternative Payment Program (APP) Enrollment Fund to enroll additional eligible families.

Specifically, **this bill:**

- 1) Requires CDSS, notwithstanding any other law, to, no less than quarterly, identify unspent or projected unexpended moneys from all administered subsidized childcare and development programs, including, but not limited to:
 - a) General childcare and development programs (CCTR);
 - b) Migrant childcare programs (CMIG);
 - c) California Work Opportunity and Responsibility to Kids (CalWORKs) childcare programs, including Stages 1, 2, and 3; and,
 - d) Any other state- or federally funded subsidized childcare programs.
- 2) Requires CDSS, to the maximum extent permitted by federal and state law, to redirect and deposit the identified unspent or unexpended moneys to the APP Enrollment Fund, as hereby created in the State Treasury.
- 3) Provides that all moneys in the APP Enrollment Fund are continuously appropriated, without regard to fiscal years, to CDSS for the purpose of enrolling additional eligible families in APPs.
- 4) Requires CDSS to expend moneys in the APP Enrollment Fund in a manner that prioritizes all of the following:
 - a) Contractors with demonstrated capacity to enroll additional families;
 - b) Enrollment of families currently on waitlists or in the eligibility determination process; and,
 - c) Continuity of care for children, including maintaining placements for siblings and preventing disruptions in care.
- 5) Requires CDSS to establish a streamlined and timely process for the transfer or redirection of moneys, including improvements to or expansion of existing voluntary temporary transfer of funds (VTT) processes, to ensure that moneys are fully utilized within the applicable fiscal period.

- 6) Prohibits moneys redirected from being subject to administrative delays that would prevent their timely obligation or expenditure.
- 7) Provides that nothing in these provisions shall be construed to reduce or eliminate funding allocations for existing contracts. Provides that these provisions are intended solely to maximize the utilization of moneys that would otherwise remain unspent.
- 8) Makes the following findings and declarations:
 - a) California's economy depends on the ability of working families to access stable, affordable, and reliable childcare. Childcare is essential workforce infrastructure that enables parents to work, employers to operate, and businesses to grow;
 - b) Access to consistent childcare promotes healthy child development, supports school readiness, and contributes to long-term educational and economic outcomes for children;
 - c) Disruptions in childcare arrangements create instability for children and families, undermine workforce participation, and result in lost productivity for employers and the state's economy;
 - d) California has made significant public investments in subsidized childcare and early learning programs; however, a portion of these funds remain unspent each year due to administrative barriers, timing misalignments, and structural inefficiencies across programs;
 - e) APP contractors serve as the primary delivery system for voucher-based childcare and are uniquely positioned to rapidly enroll families, support parental choice, and deploy available funding efficiently;
 - f) Community-based organizations administering childcare programs play a critical role in connecting families to childcare and related supports, including food, housing, and health services, thereby strengthening family stability and economic self-sufficiency;
 - g) Maximizing the use of existing childcare funding, in addition to making new investments, is essential to serving more families without unnecessary delay or additional cost; and,
 - h) Unspent childcare funds represent missed opportunities to serve eligible families and maximizing the use of all currently appropriated funds is an essential first step toward achieving universal access to childcare in California.
- 9) Declares legislative intent to do all of the following:
 - a) Prioritize continuity of care for children and families, including maintaining care placements across eligibility periods and minimizing disruptions due to administrative processes;
 - b) Ensure that California's childcare system operates as a coordinated, responsive infrastructure that meets families where they are and eliminates barriers to access; and,

- c) Ensure that all appropriated childcare funds are fully utilized to serve eligible families and that systems are aligned to maximize enrollment, continuity of care, and timely access to services.

EXISTING LAW:

- 1) Establishes the Child Care and Development Services Act to provide childcare and development services as part of a coordinated, comprehensive, and cost-effective system serving children from birth to 13 years of age and their parents including a full range of supervision, health, and support services through full- and part-time programs. (Welfare and Institutions Code [WIC] § 10207 *et seq.*)
- 2) States legislative intent that all families have access to childcare and development services, through resource and referral where appropriate, and regardless of demographic background or special needs, and that families are provided the opportunity to attain financial stability through employment, while maximizing growth and development of their children and enhancing their parenting skills through participation in childcare and development programs. (WIC § 10207.5)
- 3) Defines “childcare and development services” to mean services designed to meet a wide variety of children and families’ needs while parents and guardians are working, in training, seeking employment, incapacitated, or in need of respite. These services may include direct care and supervision, instructional activities, resource and referral programs, and alternative payment arrangements. (WIC § 10213.5(j))
- 4) Defines “alternative payment program” as a local government agency or nonprofit organization that has contracted with CDSS, as specified, to provide alternative payments and to provide support services to parents and providers. (WIC § 10213.5(b))
- 5) Provides that an APP shall have between 12 and 24 months to expend allocated funds in any fiscal year, requires CDSS to develop a process implementing this timeframe, and exempts CalWORKs Stage 2 and 3 childcare contracts from these provisions. (WIC § 10225.5(d))
- 6) Requires an APP, including agencies administering CMIG to report monthly to CDSS on childcare caseloads in both alternative payment and migrant programs, including county-level caseload data, expenditures, unit costs, family fees, and any additional variables requested by CDSS to inform any additional state allocations to these programs and support emergency response. (WIC § 10234)
- 7) Requires CDSS and the California Department of Education (CDE) to maximize the use of childcare funds by facilitating both intra-agency and interagency transfers of unused funds to meet service needs, and authorizes implementation through guidance, including timelines for submitting transfer requests. (WIC § 10300.5)
- 8) Declares legislative intent that local childcare planning councils (LPCs) provide a forum for the identification of local priorities for childcare and the development of policies to meet the needs identified within those priorities. (WIC § 10485(a))

- 9) Requires an LPC, upon approval by the county board of supervisors and the county superintendent of schools, to annually submit to CDSS and CDE by May 30 the county childcare priorities based on a comprehensive needs assessment conducted at least every five years that evaluates supply, demand, cost, and market rates, including subsidized and unsubsidized families, waitlists, vulnerable populations, income, language, geography, and age cohorts; and, to document findings, solicit public input through at least one hearing, develop a countywide childcare plan, periodically review state-funded programs, collaborate with providers and stakeholders, design a system to consolidate waiting lists if none exists, coordinate part-day programs with full-day care, obtain local approval prior to submission, and designate up to two representatives to participate in state proposal review processes outside their jurisdiction. (WIC § 10486(b))
- 10) Requires CDSS to allocate funding within each county in accordance with the priorities identified by the LPC of that county and submitted to CDSS, unless the priorities do not meet the requirements of state or federal law. (WIC § 10486(e))

FISCAL EFFECT: Unknown, this bill has not been analyzed by a fiscal committee.

COMMENTS:

Background: *Subsidized Childcare.* California's subsidized childcare system, established under the Child Care and Development Services Act, is intended to provide a coordinated, comprehensive, and cost-effective system of care for children from birth to 13 years of age. Services include supervision, health, and support services delivered through full- and part-time programs for families who are working, in training, seeking employment, incapacitated, or in need of respite.

The system is funded through a combination of federal and state funds and operates through a mixed delivery model that includes licensed childcare centers, family childcare homes and license-exempt providers, such as family, friends or neighbors. Major programs include CalWORKs administered through a three-stage system, CCTR, which provides care through contracted centers and family childcare home education networks, and APPs, which provide vouchers that allow families to choose care in centers, family childcare homes, or license-exempt settings. California also offers the California State Preschool Program for eligible three- and four-year old children, providing part- or full-day services.

For non-CalWORKs programs, families must meet both eligibility and need requirements, including income at or below 85% of the state median income, which is \$89,664 for a family of three, participation in certain public assistance programs, or circumstances such as homelessness or child welfare involvement. Families must also demonstrate a qualifying need, such as employment or training. Once enrolled, families are authorized for services for at least 24 months without recertification, unless income exceeds the threshold.

According to the California Budget & Policy Center, approximately 1.8 million children eligible for subsidized childcare are not enrolled, largely due to limited childcare slots and insufficient funding, leaving tens of thousands of families on long waiting lists and unable to access affordable care.¹ While prior commitments aimed to expand childcare access to more than

¹ <https://calbudgetcenter.org/resources/understanding-californias-1-8-million-gap-in-publicly-funded-child-care/>

200,000 children, the state has indefinitely paused funding for planning expansions that would have added about 129,800 new slots. The Governor's 2026-27 Budget does not propose additional slot increases.

Alternative Payment Programs are one of California's primary delivery systems for subsidized childcare and are administered through contracts between CDSS and local alternative payment agencies, many of which are community-based organizations. APPs provide vouchers that allow families to choose their own childcare provider, including licensed childcare centers, family childcare homes, and license-exempt providers.

Providers are reimbursed based on authorized hours of care and applicable reimbursement rate rules, and APPs receive funding for both services and administrative costs. APPs also manage countywide centralized eligibility lists, enroll families from waitlists, and track caseload and expenditure data for the state. Agencies are required to report monthly data to CDSS on expenditures, unit costs, and family fees, which the state uses to monitor how allocated funds are used and to inform decisions about redistributing or allocating additional funding. As of 2025-26, approximately 70 APPs serve 161,332 children.

Local Childcare Planning Councils were created by legislation in 1991, following the federal establishment of the Child Care and Development Block Grant program, to ensure that local voices influence how these funds are allocated. Each county in California has an LPC established to identify local childcare priorities and develop policies to address those needs. State law requires the county board of supervisors and county superintendents of schools to appoint members to these councils, ensuring balanced representation with equal parts of consumers, childcare providers, public agency representatives, community representatives, and discretionary appointees.

LPCs are responsible for conducting comprehensive childcare needs assessments at least every five years, developing countywide childcare plans, and establishing zip-code level priorities to guide the allocation of state and federal childcare funding. They also maintain or support centralized eligibility lists, which track family demand and waitlists for subsidized care, and provide key data on gaps between supply and need. LPCs also facilitate the VTT process by identifying contractors with unspent funds and those with the capacity to enroll additional families, and by supporting the local matching and transfer of funds.²

The Voluntary Temporary Transfer of Funds process is facilitated by the Child Care and Development Division of CDSS, which allows childcare contractors with unspent funds ("under-earning") to temporarily transfer those funds to contractors that are able to fully utilize additional funding ("over-earning"), in order to maximize the use of appropriate childcare funds. The following contract types are eligible to participate in the VTT process: CCTR, CMIG, Family Child Care Home Education Networks, Severely Handicapped Programs, and APPs.³

The VTT process is a collaborative process involving state-funded childcare contractors, LPCs, Program Quality and Improvement (PQI) Consultants, CDSS Fiscal Analysts, and the CDSS

² <https://www.cdss.ca.gov/Portals/9/CCDD/Contractor-Resources/CLPC%20Program%20Requirements%20FY%2025.26.docx>

³ <https://www.cdss.ca.gov/inforesources/child-care-and-development/quality-improvement-initiatives/local-child-care-and-development-planning-councils/local-planning-council-forms/vtt-guidance>

LPC Liaison. Under this process, CDSS requires each LPC to establish a local, fair, and transparent policy to govern the temporary transfer of contract funds pursuant to state law requiring CDSS and CDE to maximize the use of childcare funds by facilitating both intra-agency and interagency transfers of unused funds to meet service needs.

Each LPC designates a coordinator, either an individual or a subcommittee, to administer the process. If a subcommittee is formed, it must operate free of financial or personal conflicts of interest and develop procedures to facilitate transfer requests. The LPC convenes meetings with state-funded contractors in the county to explain the VTT process, timelines, and eligibility requirements. Participation is voluntary, but contractors may identify themselves as under-earning or over-earning and indicate the amount of funding they can release or are prepared to accept.

Once contractors express interest, LPC coordinators consult with CDSS PQI Consultants and Fiscal Analysts to assess contractor standing and verify fiscal capacity. Transfers are limited to the same contract types (e.g. CCTR to CCTR), and receiving contractors must demonstrate the ability to exceed their current contract earnings within existing licensed capacity and be prepared to immediately enroll additional children or already be over-earning.

After eligibility is confirmed, LPCs attempt to match under- and over-earning contractors within the county. If no local match is available, LPCs coordinate with CDSS to identify potential matches across counties. Once a match is identified, contractors compile formal documentation indicating their agreement to release or accept funds, along with a cover letter that requests review of the submitted documents. These requests are then submitted electronically by the LPC to the CDSS PQI Consultant and Fiscal Analyst, typically between November 1 and November 15 and April 15 and April 30, although CDSS may process additional requests between November 1 and April 30 on an as-needed basis.

After CDSS receives the request to transfer funds, the department reviews all submitted documentation to ensure the request is complete and evaluates whether the proposed transfer amount aligns with each participating agency's projected service earnings and allowable reimbursable costs. CDSS retains sole authority to approve, modify, or deny all VTT requests. Upon review, CDSS notifies the LPC of the determination. If the agreement is modified, CDSS provides the opportunity to agree before the contract modification is finalized. When the request is approved or modified, CDSS issues contract amendments and fiscal adjustments to participating agencies. In cases where funds are released, the transferring contractor must execute and return contract amendments before funds can be reallocated to the receiving contractor. If a request is denied, CDSS provides written justification to the affected agencies. The fiscal handbook and statute do not specify a timeline for CDSS to respond to contractor requests for funding adjustments, which may result in decisions and access to care being delayed and a reduced ability for contractors to respond to real-time service needs.

Advocates state that the VTT process is administratively complex, lacks clear timelines, relies on outdated structures, and does not support timely reallocation of funds. As a result, some agencies underspend available funding while others are over-enrolled and unable to serve additional families, and funds are not consistently directed to areas with the greatest need.

Nuances for Alternative Payment Program Contracts. According to CDSS' 2024 Childcare Fiscal Handbook,⁴ APPs have multi-year contracts and ongoing contract adjustments based on expenditures and caseload in order to maximize the use of childcare funds. State law allows APP contractors up to 24 months to expend funds allocated in a given fiscal year, allowing unspent funds from a prior fiscal year to be carried over and utilized in a subsequent year through a contract amendment. As a result, contractors may have two active contracts at the same time: a prior-year contract that has been extended into a second-year and a current-year contract. Contractors that fully expend their prior-year funds will generally have a single, current-year contract.

Additionally, CDSS continuously monitors contractor expenditures and caseload data to determine whether agencies are on track to fully utilize their funding. Based on this information, CDSS may increase contract amounts for agencies that are able to serve families or reduce funding for agencies that are projected to under-earn to better align funding with demand. These adjustments rely on contract-reported data and require administrative processes, including projections, documentation, and contract amendments.

Advocates contend that fiscal processes are largely structured around single fiscal-year assumptions, resulting in contractors having to project enrollment months in advance, account for families who are approved but not yet enrolled, and manage demand across fiscal years. Advocates further note that without fiscal tools that align with these multi-year timelines, contractors face planning challenges and risk both over-enrollment and under-enrollment. Furthermore, while the state budget takes effect on July 1, funding is often not distributed to contractors until several months into the fiscal year. As a result, contracts must either enroll families without confirmed funding or delay enrollment despite having approved capacity, which can lead to under-enrollment early in the year and reduce the efficiency of service delivery.

The VTT and APP contracting processes show that while the state can redirect unspent childcare funds to areas of need, the approach is largely reactive and administratively driven. *This bill* aims to create a more proactive and systemic process to identify and redirect unspent funds to enroll additional families and improve timely fund use. *This bill* also prioritizes the use of these funds to enroll families on waitlists or in the eligibility process, support contractors with the capacity to serve additional families, and maintain continuity of care for children. *This bill* further requires CDSS to streamline the transfer of funds to ensure timely expenditure within the fiscal year and clarifies that this process is intended to maximize the use of existing funding without reducing current contract allocations.

Author's Statement: According to the Author, "About 1.8 million income-eligible children in California do not have access to subsidized childcare. California has made significant public investments in subsidized childcare and early learning programs. However, a portion of these funds remain unspent each year due to administrative barriers, time misalignments, and structural inefficiencies across programs. Unspent childcare funds represent missed opportunities to serve eligible families and maximizing the use of previously appropriated funds is a cost-neutral first step toward achieving universal access to childcare in California."

⁴ https://www.cdss.ca.gov/Portals/9/CCDD/FiscalResources/Fiscal%20Handbook/FY%2023-24%20Child%20Care%20Fiscal%20Handbook_APU%20Approved.pdf?ver=2024-04-02-133439-770

“Alternative Payment Program (APP) contractors serve as the primary delivery system for voucher-based childcare and are uniquely positioned to rapidly enroll families, support parental choice, and deploy available funding efficiently. [This bill] addresses the gap between funding and subsidized childcare by requiring the Department of Social Services to identify unspent funds across all childcare programs and redirect those funds, where allowable, to APP contractors for immediate use.”

Equity Implications: *This bill* could improve equity in counties by directing unspent childcare funds toward families with the greatest unmet need, particularly those on waitlists or in the eligibility process, and may reduce disruptions in care that disproportionately affect families with unstable work schedules or limited childcare options. Because APPs often serve diverse, low-income families and those needing flexible care, *this bill* may expand access for populations that have historically faced barriers to subsidized childcare.

Arguments in Support: None on file.

Arguments in Opposition: None on file.

RELATED AND PRIOR LEGISLATION:

AB 2314 (Rogers) of the current legislative session, requires CDSS to prioritize full and timely expenditure of childcare and development funds allocated to APPs, conduct periodic fiscal reviews and authorize funding transfers to maximize utilization of appropriated funds, promote continuity of care by preventing disenrollment or transfer of eligible families, and provide an annual summary of funds allocated, expended, and unexpended. *AB 2314 is set to be heard by the Assembly Committee on Human Services on April 23, 2026.*

AB 131 (Committee on Budget), Chapter 116, Statutes of 2021, required an APP to have no less than 24 months to expend allocated funds in any fiscal year, required CDSS to develop a contracting process enabling this expenditure timeframe, and stipulated that the APP spending timeframe does not apply to CalWORKs Stages 2 and 3 childcare contracts.

AB 1106 (Weber), Chapter 716, Statutes of 2017, required an APP to have no less than 36 months to expend allocated funds in any fiscal year, required the Superintendent of Public Instruction to develop a contracting process enabling this expenditure timeframe, and stipulated that the APP spending timeframe does not apply to CalWORKs Stages 2 and 3 childcare contracts.

REGISTERED SUPPORT / OPPOSITION:

Support

None on file.

Opposition

Acclamation Insurance Management Services
Allied Managed Care
California Retailers Association
Family Business Association of California

Flasher Barricade Association
National Federation of Independent Business
Orange County Business Council
Solano County Taxpayers Association
Southern California Rental Housing Association

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