

ASSEMBLY THIRD READING
AB 2258 (Ávila Farías)
As Amended April 14, 2026
2/3 vote

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.

Major Provisions

- 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.

COMMENTS

Background: *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.¹

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

¹ <https://www.cdss.ca.gov/Portals/9/CCDD/Contractor-Resources/CLPC%20Program%20Requirements%20FY%2025.26.docx>

following contract types are eligible to participate in the VTT process: CCTR, CMIG, Family Child Care Home Education Networks, Severely Handicapped Programs, and APPs.²

The VTT process is locally coordinated by LPCs, which must adopt fair and transparent policies, designate a coordinator or subcommittee, and convene contractors to identify voluntary participation and available funding. LPCs, in consultation with CDSS, verify fiscal eligibility and ensure transfers occur only within the same contract type and that receiving contractors have the capacity to immediately serve additional children. Matching is first attempted locally, then statewide if needed. Once matched, contractors submit formal documentation through the LPC to CDSS for review.

CDSS has sole authority to approve, modify, or deny transfers, issues contract amendments upon approval, and provides written justification for denials. While the process is designated to optimize utilization of children funds, statutory timelines for CDSS action are not specified, which may contribute to delays in funding adjustments and service delivery.

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,³ 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

² <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>

³ 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

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.

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.

"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."

Arguments in Support

According to First 5 California, "[This bill] improves efficiency in subsidized childcare programs by requiring the Department of Social Services to identify unspent funds and redirect them to Alternative Payment Programs to expand childcare access. By redirecting unused funds into these flexible programs, the bill helps ensure that available resources are more quickly translated into additional childcare slots for eligible families.

"Despite significant public investment, many eligible families remain on waitlists while funds go unspent due to administrative delays or timing issues. This disconnect reduces the effectiveness of existing programs and limits access to care for families who need it most.

"[This bill] ensures that existing resources are used more efficiently to expand access to childcare without requiring additional funding, helping more families receive timely support."

Arguments in Opposition

No opposition on file for the current version of the bill.

FISCAL COMMENTS

According to the Assembly Appropriations Committee on May 13, 2026:

Ongoing General Fund costs of an unknown amount, but potentially in the low millions of dollars annually to CDSS for approximately eight to 10 staff to implement the requirements of the bill, including identifying unspent moneys in multiple funds, establishing a streamlined process for redirecting those funds and spending the funds according to specified criteria. These tasks will likely require close monitoring of the transfers and coordination with multiple other offices.

The Legislative Analyst's Office recently warned of General Fund structural deficits of around \$35 billion per year in the 2027-28 fiscal year and ongoing.

VOTES

ASM HUMAN SERVICES: 6-0-1

YES: Lee, Calderon, Elhawary, Blanca Rubio, Ahrens, Tangipa

ABS, ABST OR NV: Castillo

ASM APPROPRIATIONS: 15-0-0

YES: Wicks, Hoover, Aguiar-Curry, Calderon, Caloza, Dixon, Fong, Mark González, Krell, Pacheco, Pellerin, Sharp-Collins, Solache, Ta, Tangipa

UPDATED

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