

THIRD READING

Bill No: AB 2314
Author: Rogers (D), et al.
Amended: 8/21/26 in Assembly
Vote: 21

SENATE HUMAN SERVICES COMMITTEE: 5-0, 6/29/26

AYES: Becker, Ochoa Bogh, Laird, Pérez, Weber Pierson

SENATE APPROPRIATIONS COMMITTEE: 7-0, 8/13/26

AYES: Cervantes, Seyarto, Cabaldon, Dahle, Grayson, Richardson, Wahab

ASSEMBLY FLOOR: 78-0, 5/26/26 - See last page for vote

SUBJECT: Childcare: alternative payment program: report

SOURCE: Author

DIGEST: This bill (1) establishes a new Voluntary Temporary Transfer (VTT) process for Alternative Payment Program agencies (APPs), (2) requires the California Department of Social Services (CDSS) to respond to a VTT request within 30 calendar days of receipt by either approving, conditionally approving, or denying the request, and (3) specifies that a VTT request may only be denied under certain circumstances.

Senate floor amendments of 8/21/26 adopt most of CDSS technical amendments, with tweaks to retain support from Thriving Families California and 4Cs Sonoma.

ANALYSIS:

Existing Law:

- 1) Establishes the Child Care and Development Services Act to provide a comprehensive, coordinated, and cost-effective system of child care and development services for children from infancy 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 [WIC] §10207 et seq.)

- 2) Defines “alternative payment program” (APP) as a local government agency or nonprofit organization that has contracted with CDSS to provide alternative payments and to provide support services to parents and providers. (WIC §10213.5(b))
- 3) Provides that an APP shall have no less than 12 months, and no more than 24 months, to expend funds in any fiscal year. Provides that this does not apply to CalWORKs Stage Two and Stage Three services. (WIC §10225.5(d))
- 4) Requires CDSS to promote full utilization of child care and development funds and match available unused funds with identified service needs. Requires CDSS to arrange interagency adjustments between different contractors with the same type of contract when both agencies mutually agree to a temporary transfer of funds for the balance of the fiscal year. Requires CDSS to establish timelines for intra-agency contract fund transfers. (WIC §10330.5)
- 5) Requires CDSS to establish a contract classification system for purposes of identifying, monitoring, and providing technical assistance to contractors including a clear contract, provisional contract, and conditional contract, as specified. (WIC §10397(a))
- 6) Provides that agencies with conditional status shall receive technical assistance from the Child Care and Development Division of CDSS. Provides that technical assistance shall be provided to any contracting agency making a written request to its assigned consultant or administrator within 60 days of the request. (WIC §10397(b-c))
- 7) Authorizes a contractor to be placed on conditional contract status if a contractor demonstrates fiscal or programmatic noncompliance during the contract period, as specified. (5 California Code of Regulations (CCR) §18304)
- 8) Provides that a family shall be considered to meet all eligibility and need requirements for child care services, upon establishing initial or ongoing eligibility, for not less than 24 months, shall receive those services for not less than 24 months before having their eligibility or need recertified, and shall not be required to report changes to income or other changes for at least 24 months. (WIC §10271(h))

- 9) Clarifies the minimum 12-month eligibility requirement applies when children are newly added to families already participating in the subsidy program. Encourages Child Care and Development Fund Lead Agencies to align eligibility periods to the new child's eligibility period. (45 Code of Federal Regulations §§98.21(d) and 98.16(h))
- 10) Defines "displace families" as the disenrollment of families in order to reduce service levels due to insufficient funding or inability of a contractor to operate one or more sites because of incomplete renovations due to natural disasters, as specified. (5 CCR §18078(e); WIC §10286.5)

This bill:

- 1) Makes various findings and declarations.
- 2) Requires CDSS to prioritize the full and timely expenditure of state and federal child care and development funds allocated to APPs, consistent with federal and state law.
- 3) Requires CDSS, to the greatest extent practicable, to prioritize expenditure of funds allocated to APPs within the county or jurisdiction for which the funds were originally allocated before approving transfers outside the county of origin.
- 4) Requires CDSS, prior to transferring funds allocated to APPs outside the county of origin, to determine that reasonable efforts to maximize enrollment and expenditures within that county have been undertaken and documented.
- 5) Requires CDSS to consult with contractors and relevant stakeholders to develop guidance that supports enrollment maximalization, fiscal alignment, and continuity of care in APPs.
- 6) Provides it is the intent of the Legislature to promote continuity of care and family stability within subsidized child care programs.
- 7) Prohibits the addition of a newly eligible child, as specified, from resulting solely from enrollment balancing, as specified.
- 8) Prohibits CDSS from moving or reassigning a family to a different contractor or service area if the family is actively enrolled and receiving services through an APP, unless both the current contractor and the proposed receiving contractor mutually agree in writing to the transfer.

- 9) Requires CDSS to ensure that fiscal monitoring and enrollment practices of APPs do not require the separation of siblings or disruption of services if the family remains eligible and sufficient funds have been allocated.
- 10) Requires CDSS to utilize fiscal projection methodologies, as specified.
- 11) Allows CDSS to authorize the use of unexpended funds for APPs in a subsequent fiscal year if those funds are reasonably attributable to families who were certified for services in the prior fiscal year but had not yet begun receiving care.
- 12) Requires CDSS to conduct periodic fiscal reviews during each fiscal year to identify projected over-expenditures and under-expenditures in APPs and to ensure full and timely utilization of appropriated funds, consistent with state law.
- 13) Allows a contractor, county, or other authorized APP to submit a written request at any time during the fiscal year regarding allocation adjustments, expenditure projections, documented over-enrollment, or voluntary temporary transfer of funds between providers.
- 14) Requires CDSS, in evaluating requests submitted pursuant to 13), to consider projected expenditures, enrollment levels, and the objective of maximizing utilization of appropriated funds consistent with state and federal law.
- 15) Requires CDSS to provide a written response to a request within 30 calendar days of receipt and send a copy of its response to the local child care planning council in which the requester is located. Requires the written response to include CDSS's determination and a general explanation of the basis for that determination. Requires CDSS to take one of the following actions in response to the request:
 - a) Approve the funding transfer request, as submitted, and allocate and make available the transferred funds within the same fiscal year for which the request was made.
 - b) Conditionally approve the funding transfer request, with the final dollar amount to be determined upon verification, through caseload reports or other documentation demonstrating over-enrollment or projected service obligations, that the transfer is justified. Upon verification, CDSS shall allocate and make available the approved transferred funds within the fiscal year in which the over-enrollment or projected service obligation justifying the transfer occurred.

- c) Deny the funding transfer request only if verified documentation demonstrates that over-enrollment or projected service obligations did not occur during the fiscal year for which the request was made.
- 16) Provides that fund transfers that are approved shall not be deferred, delayed, or reallocated to a subsequent fiscal year if the documented over-enrollment, service obligation, or allowable expenditure occurred during the fiscal year for which the request was submitted.
- 17) Prohibits CDSS from recapturing, reducing, or otherwise penalizing a contractor's allocation for a fiscal year due to administrative processing delays attributable to CDSS, including delays in reviewing requests, issuing determinations, or processing allocation adjustments or voluntary temporary transfers.
- 18) Provides that administrative or procedural delays by CDSS shall not serve as the basis for denying a funding transfer request that is otherwise supported by timely and sufficient documentation.
- 19) Requires CDSS to maintain publicly accessible information regarding voluntary funding transfer requests, including timelines, aggregate transfer amounts, and general program impacts, consistent with state and federal confidentiality requirements.
- 20) Requires CDSS to consult with statewide networks of Alternative Payment contractors and other child care and development stakeholders to promote transparency, fiscal alignment, and continuity of services.
- 21) Authorizes CDSS to implement and administer the above by all-county letters, child care bulletins, or similar written instructions until regulations are adopted.
- 22) Provides that the above provisions shall not be construed to require expenditures in excess of amounts appropriated or in conflict with state or federal law.
- 23) Requires CDSS, on or before September 1 of each year, to provide to the Legislature and the Department of Finance, and publish on its internet website, a summary of child care and development funds allocated and expended during the prior fiscal year. Requires the summary to include specified data.
- 24) Authorizes CDSS to utilize existing fiscal reports or publicly available documents to satisfy the reporting requirements. Clarifies the reporting requirements do not require the creation of a new data system.

Background

Purpose of the Bill. According to the author, “California has made significant investments in child care, yet there are families still waiting while funds go unspent or are delayed in reaching care. Currently, only 16% of eligible children are enrolled in publicly funded child care programs through CDSS. AB 2314 ensures that every dollar appropriated is used efficiently by creating a clear, timely process for transferring funds where they are most needed and requiring transparent, written responses from the California Department of Social Services. This bill strengthens fiscal oversight to prevent resources from sitting idle and ensures funding decisions reflect real-time demand. It also protects families from unnecessary disenrollment, contractor transfers, or sibling separation, promoting stability and continuity of care. By improving access to reliable child care, AB 2314 supports working parents, strengthens providers, and boosts California's economy.”

Subsidized Child Care. California’s subsidized child care system is designed to provide assistance for income eligible parents and guardians who are working, in training, seeking employment, incapacitated, or in need of respite. The state’s largest subsidized child care programs are General Child Care, Alternative Payment, CalWORKs child care, and the California State Preschool Program. Despite recent historic investments in California’s subsidized child care system, the state has more children eligible for subsidized child care than it has the funding to serve. According to the California Budget and Policy Center, only 16% of children eligible for CDSS child care programs receive care. In 2024, 349,000 children were enrolled in CDSS child care programs, and over 1.7 million were eligible but not enrolled.

Alternative Payment and Alternative Payment Program Agencies (APPs).

Alternative Payment provides vouchers to families, which they can use to obtain child care at a center, family child care home, or from a license-exempt provider. Families are income eligible for Alternative Payment if their household income is below 85% of the State Median Income, depending on family size. In 2025–26, a family of four is income eligible if their annual family income is at or below \$108,237.

CDSS contracts with APPs to administer child care subsidy payments for families in all 58 counties. Of the 70 APPs, 46 are nonprofit community-based organizations, 15 are county offices of education, seven are county welfare departments, one is a school district, and one is a city government. In addition to

income eligibility, statute outlines the order in which APPs must prioritize families for enrollment. Once a family and their chosen child care provider are enrolled, the APP makes payments for child care services directly to the provider.

Voluntary Temporary Transfer of Funds (VTT). VTT is a process that allows for the transfer of funds between over-earning and under-earning contractors within the same contract type. In subsidized child care, over-earning a contract means the contractor has expended, or is projected to expend, more dollars than they are allocated in their Maximum Reimbursable Amount, or total contract funding. Over-earning is associated with over-enrolling, which means enrolling more children than the contractor has funding to cover. Conversely, under-earning a contract means the contractor has expended, or is projected to expend, fewer dollars than they are allocated in their Maximum Reimbursable Amount. Similarly, under-earning may be due to under-enrolling, which means enrolling fewer children than the contractor has funding to cover. The VTT process allows under-earning contractors to voluntarily and temporarily transfer their excess funds to an over-earning contractor to cover expenses above the over-earning contractor's Maximum Reimbursable Amount. The VTT process is facilitated by Local Planning Councils and CDSS and is meant to support the full utilization of child care and development funding.

The VTT process is outlined in the Child Development Fiscal Services Handbook (Child Care Fiscal Handbook). To participate in VTT, contractors must be in good standing and in full compliance with the Funding Terms and Conditions, fiscal reporting requirements, regulatory requirements, and statutory requirements. Additionally, over-earning contractors must demonstrate their expenditures in excess of their Maximum Reimbursable Amount are reimbursable costs.

The VTT request process is comprised of three forms, which must be submitted by a county's Local Planning Council to their CDSS fiscal services analyst for consideration. In addition, according to the Child Care Fiscal Handbook, "Contractors may be required to provide CDSS with internal projections and enrollment plans to better evaluate the risk, extent, and/or timing of potential over-enrollment and over-earnings." While VTT requests can be submitted within the first two weeks of November or the last two weeks of April, the Child Care Fiscal Handbook states CDSS will also accept VTT requests from November through April on an as-needed basis. The decision to approve or deny a VTT request is made on a case-by-case basis by CDSS.

Multi-Year APP Contracts. When child care programs were housed under the California Department of Education, APP contracts were amended to extend the time period to expend funds from 12 months to 24 months. This meant that APPs who had under-earned their contract were allowed an additional fiscal year to fully expend their Maximum Reimbursable Amount. This resulted in APPs holding two active contracts. For example, in Fiscal Year 2025–26, an APP would have both a 2024–26 contract and 2025–27 contract. The change to multi-year APP contracts was implemented beginning with the 2019–20 fiscal year. The California Department of Education created a worksheet to help APPs identify which active contract expenses should be reported to for a given month.

As of 2021, child care programs are administered by CDSS. CDSS utilizes Public Assistance Reporting Information System (PARIS) to manage fiscal operations of child care programs. PARIS has 12-month functionality, which means CDSS relies on APPs to submit fiscal reports at the end of a fiscal year to manually enter the “rollover” amount of unearned (not yet earned) funding from the first year of a two-year contract.

APP Fiscal Reporting and Projections. Among other contracting requirements, APPs are required to report expenditures using the accrual method, establish separate accounts for each fund source, and submit monthly caseload and fiscal reporting. Additionally, APPs are responsible for ensuring sound fiscal management of their contracts, including maintenance of enrollment levels and expenses within their Maximum Reimbursable Amount. APPs placed on conditional status must submit additional reporting. According to the Child Care Fiscal Handbook, while CDSS staff provide technical assistance, contractors are ultimately responsible for monitoring and projecting enrollment and expenditure levels to ensure they remain within their Maximum Reimbursable Amount.

There is no standardized method for how an APP calculates its projections, as each APP serves a unique geographic area with differing characteristics such as area birth rate, availability and cost of child care services, and attrition. Multiyear expenditure authority is still relatively new, which must also be accounted for when calculating projections. Additionally, APPs submitting a VTT request may be required to provide CDSS with their projections. These requirements allow APPs to maintain autonomy and local control while CDSS maintains fiscal oversight and discretionary authority.

Exceptions to VTT. VTT may not always be feasible or practical. For example, if an APP is on conditional status, which occurs when a contractor evidences fiscal or

programmatic noncompliance, the APP may not request additional program funds. This is done to ensure an APP can manage its existing funds before providing the APP with additional funding. In other cases, CDSS may determine that a “program-to-program” transfer is necessary, which would transfer a family’s Alternative Payment enrollment to another APP. This may alleviate caseload for the over-enrolled APP and altogether avoid the need to transfer funds if the accepting APP has sufficient available funding. This alternative may also be referred to as an enrollment balancing practice. Enrollment balancing is disliked by APPs because it requires additional work for APPs and enrolled families. For families, having their enrollment moved to a new APP also means working with a new caseworker.

VTT as One Time Funding. By definition, VTT funding is temporary. The VTT process cannot be used to permanently increase an APP’s Maximum Reimbursable Amount (total contract funding). While an infusion of funding would benefit the receiving APP in the short-term, that APP is expected to absorb associated ongoing costs within their next year’s contract funding. Ideally, APPs should not rely on the VTT process for funding in future years, as this would assume that another APP would continuously relinquish funding.

Child care slots are an ongoing cost. Once a family is enrolled for a child care slot, they may recertify for services after each 24-month period so long as the family remains income eligible and the child remains age eligible. A family may be disenrolled from services for various reasons, such as if they falsify information, abandon services, or do not provide information during the recertification window. A family may also be disenrolled, or displaced, if there is an unavailability of program funds. If it is necessary to displace families due to lack of funding, families will be displaced in reverse order of enrollment priority.

Comments

This bill seeks to formalize the VTT process for APPs by imposing requirements on CDSS to streamline approval of VTT requests and update the department’s fiscal projection methodologies. The current VTT process is described in the Child Care Fiscal Handbook. This bill would add a new VTT process in statute. This bill would not make changes to the VTT process for other child care programs.

In the past year, a handful of APPs have submitted VTT requests for additional funding. In some cases, the APPs were significantly over-enrolled, resulting in unprecedented requests for as much as tens of millions of dollars. Recent child care reforms may have complicated APPs’ enrollment and fiscal projections. For

example, the increase from 12-month eligibility to 24-month eligibility may be contributing to families remaining in child care for longer, resulting in less caseload attrition. Additionally, APPs may still be adjusting to the change from a 12-month to a 24-month “multiyear” APP contract.

CDSS provides oversight of APP contracts, which includes the department’s authority to determine whether a VTT request is reasonable and may be executed. This bill would limit CDSS’s discretion to handle VTT requests on a case-by-case basis. This bill requires CDSS to approve, conditionally approve, or deny a VTT request within 30 calendar days of receipt. Current law requires CDSS to provide technical assistance to a child care contractor within 60 days of receiving a written request. This bill does not allow CDSS to deny a VTT request for good cause, such as not including an APP’s projections in the submission, a request by a contractor on conditional status, or insufficient funding. Under current practice, CDSS may deny a VTT request in such circumstances. The number of Alternative Payment slots or vouchers is limited to federal and state funding made available through the state budget. Under this bill, if a VTT request cannot be denied due to insufficient funding, the funds would presumably have to come from other APP contracts. If no APP has funds to relinquish, it is unclear where the money would come from. For large VTT requests, a deficit may need to be addressed over a period of several years. Reducing CDSS’s ability to deny a VTT request could result in a need to continue borrowing funding from other APPs for more than one year, which could decrease the giving APP’s ability to serve its community in favor of making an overspent APP whole.

[NOTE: See the Senate Human Services Committee analysis for additional information on this bill.]

Related/Prior Legislation

AB 2258 (Ávila Farías) would have required CDSS to identify unspent or projected unexpended moneys from subsidized child care and development programs on a quarterly basis. AB 2258 would have required CDSS to redirect and deposit the unspent or unexpended moneys identified to the APP Enrollment Fund, as established by the bill. AB 2258 would have continuously appropriated all moneys in the Fund to CDSS for the purpose of enrolling additional eligible families in Alternative Payment. AB 2258 was held on the Senate Appropriations Committee suspense file.

AB 131 (Committee on Budget, Chapter 116, Statutes of 2021), a budget trailer bill, transferred child care programs and authority from the California Department of Education to the CDSS. Among other things, AB 131 required CDSS to develop a process to implement multiyear APP contracts.

AB 1808 (Committee on Budget, Chapter 32, Statutes of 2018), a budget trailer bill, authorized an APP to have no less than 12 months, and no more than 24 months, to expend funds allocated to that program in any fiscal year, except for CalWORKs Stage Two and Stage Three programs. AB 1808 required the Superintendent to develop a process to implement multiyear APP contracts.

FISCAL EFFECT: Appropriation: No Fiscal Com.: Yes Local: No

According to the Senate Appropriations Committee, “Unknown ongoing General Fund costs, potentially hundreds of thousands, for the California Department of Social Services (CDSS) for state administration.”

SUPPORT: (Verified 8/25/26)

Catalyst Family INC.

Central Valley Children's Services Network

Child Action

Child Care Coordinating Council of Alameda

Child Care Resource Center

Child Development Associates

Child Development Incorporated

Child Development Resources of Ventura County, INC.

Community Child Care Council (4CS) of Alameda County

Community Resources for Children

Del Norte Child Care Council

Family Resource Center

Glide Foundation

Marin Child Care Council

North Coast Opportunities

Sierra Nevada Children's Services

Solano Family & Children's Services

Thriving Families CA Foundation

Valley Oak Children's Services, INC.

YMCA of San Diego

OPPOSITION: (Verified 8/25/26)

None received

ASSEMBLY FLOOR: 78-0, 5/26/26

AYES: Addis, Aguiar-Curry, Ahrens, Alanis, Alvarez, Arambula, Ávila Farías, Bains, Bauer-Kahan, Bennett, Berman, Boerner, Bonta, Bryan, Calderon, Caloza, Carrillo, Castillo, Chen, Connolly, Davies, DeMaio, Dixon, Elhawary, Ellis, Flora, Fong, Gabriel, Gallagher, Garcia, Gipson, Jeff Gonzalez, Mark González, Hadwick, Haney, Harabedian, Hart, Hoover, Irwin, Jackson, Johnson, Kalra, Krell, Lackey, Lee, Lowenthal, Macedo, McKinnor, Nguyen, Ortega, Pacheco, Papan, Patel, Patterson, Pellerin, Petrie-Norris, Quirk-Silva, Ramos, Ransom, Michelle Rodriguez, Rogers, Blanca Rubio, Sanchez, Schiavo, Schultz, Sharp-Collins, Solache, Soria, Stefani, Ta, Tangipa, Valencia, Wallis, Ward, Wicks, Wilson, Zbur, Rivas

NO VOTE RECORDED: Muratsuchi, Celeste Rodriguez

Prepared by: Diana Dominguez / HUMAN S. / (916) 651-1524
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**** **END** ****