Department of Developmental Services
Proposed Trailer Bill Legislation
Fiscal Year 2026-27

Rate Reform/Quality Incentive Program Contract Exemption
FACT SHEET

1. Proposal:

The Department of Developmental Services (Department) proposes extending the contract exemption authorized in the annual Budget Act for rate reform and the Quality Incentive Program to December 31, 2030. The Department also proposes extending the timeline to finalize rate reform regulations from June 30, 2028, to December 31, 2030.

2. Background:

The 2021 Budget Act authorized a multi-year implementation of rate reform, in Welfare & Institutions Code section 4519.10. Given the complexity of rates for developmental services and the timeline to implement adjustments, recent Budget Acts provided a contracting exemption through provisional language authorizing the Department to execute service contracts related to implementation, with the Budget Act of 2025 providing this exemption through June 30, 2026.

Full implementation of rate reform took effect January 1, 2025. Additionally, Chapter 904, Statutes of 2024 (AB 2423) requires the Department to review and update the rate models posted on its website every two years beginning July 1, 2025. These updates are essential to identifying accurate, cost-based payment structures for service providers.

Updating rate models and a vast number of regulations for a variety of services supporting more than 500,000 individuals with intellectual and developmental disabilities require the continued but ultimately temporary ability to secure and maintain specialized expertise.

3. Justification for the Change:

Existing law requires the Department to review and update the rate models used for payments to service providers. These cost-based rate models must be posted by January 1 every other year. Updating the rate models requires a detailed cost analysis of each service code's rate model. This process has been supported by the expertise and technical capacity of a contractor. Changing contractors at this time would cause delays and inefficiencies and lose the current contractor's specialized expertise and history with the rate models, preventing the Department from meeting the ongoing requirements. Retaining the current contractor through 2030 for rate model updates and regulations also will facilitate ongoing rate model knowledge transfer to Department staff.

Additionally, current law requires the Department to complete rate reform regulations by June 30, 2028. However, the substantial technical revisions to Title 17 regulations, the complexity of the rate models across hundreds of service codes, and the need for stakeholder engagement, require more time for the regulatory process to be completed.

4. Summary of Arguments in Support:

Preserving the current contracting authority will allow for ongoing rate updates in the near future while also continuing the knowledge transfer process while addressing rate reform's complexity and scale and importance, within the statutory timelines.

Extending the timeline for the regulations to December 31, 2030, acknowledges the additional time needed to complete the rulemaking process and engage stakeholders.