



Implementing Early Education Rate Reform: Fully Funding the Mixed-Delivery System of Early Learning and Care

Overview

California's Early Learning and Care (ELC) system operates as a mixed-delivery system offering services to eligible families with children from birth to age five at a reduced or no cost. This mixed-delivery system includes public and private providers such as child care centers, family child care homes, family, friend, or neighbor care, and school-based programs, working together to meet the diverse needs of families. The California Department of Social Services (CDSS) oversees most subsidized child care programs, while the California Department of Education (CDE) administers the California State Preschool Program (CSPP). In addition to CSPP, CDE also funds Transitional Kindergarten (TK), a school-based program for four-year-olds within the TK-12 education system, which is funded by Proposition 98 and administered by local school districts. Although services are comparable across subsidized child care programs in delivering quality early learning experiences, the administration of these programs and how they are funded and reimbursed can vary.

The education achievement gaps evident in California's TK-12 system are in part due to an ELC system that is underfunded, fragmented, and inefficient.¹ While California has made great strides in recent years to fund and implement Universal Prekindergarten (UPK), maintaining and accelerating this momentum is necessary to fully realize the vision of an equitable, sustainable, and comprehensive ELC system.

Subsidized child care and preschool providers are paid either by accepting state vouchers based on a Regional Market Rate (RMR)² survey or through a direct contract with the state using the Standard Reimbursement Rate (SRR).^{3,4} These two payment processes do not reflect the true cost to providers of delivering quality child care and also fall significantly below the recent increases seen in the state's minimum wage. To temporarily increase reimbursement rates above the RMR and SRR, the Child Care

Providers United (CCPU) bargaining agreement and the California Legislature established “cost of care” stipends through June 2026, but these stipends are still not nearly enough to cover the true cost of care for providers.⁵

Although California has increased funding for subsidized child care programs since the Great Recession,⁶ the funding level has been insufficient to meet the real demand for affordable child care options. As of 2023, in a state where 12% of families live below the federal poverty line,⁷ only 14% of children eligible for subsidized child care programs were enrolled.⁸ This low percentage reflects the lasting impact of Great Recession-era cuts and the gap between demand and supply, with more families eligible for assistance than there are available slots or stable funding to support them. The lack of a sustained and dedicated source of state revenue for ELC, unlike Proposition 98 funding for the K-12 system, has contributed to instability in the mixed-delivery system, which continues to rely heavily on federal funds and one-time state investments, making it challenging to fund the true cost of child care and the entire mixed-delivery system itself.⁹

Moreover, the ELC workforce has long struggled with high turnover rates and a lack of stability due to low wages, limited benefits, and inadequate professional support, making it difficult to recruit and retain qualified providers, particularly in underserved communities.¹⁰

For the first time in 45 years, the state is working to reform rates by developing and implementing an alternative methodology that would fairly cover the true costs of care for providers in contracted and voucher-based child care programs. This shift will move away from the RMR and toward a rate that considers the setting, age group, cost of living, and other elements in providing child care.¹¹ Using the new rate set by the alternative methodology as the minimum floor, specific rates for Family Child Care providers (FCC) and license-exempt providers like Family, Friend, or Neighbor (FFN) caregivers will depend on bargaining agreements made with the home-based care provider union CCPU.¹²

California’s Early Learning and Care system is critical to closing achievement gaps, but chronic underfunding, fragmented administration, and unsustainable provider reimbursement rates limit access, quality, and stability, making rate reform and dedicated funding essential to building an equitable, comprehensive system for all families.

Problem

Our mixed-delivery system is sustained by a dedicated ELC workforce, which is predominantly made up of women of color and immigrants.¹³ These child care providers are the backbone of California's economy and diverse communities, enabling workforce participation and driving economic growth that has helped position the state as the fourth-largest economic power in the world. But the reality is, nearly half of child care provider households qualify for and participate in at least one public safety net program.¹⁴ Many are experiencing adverse effects on their emotional and physical well-being, which is compounded by the inadequate compensation they receive.¹⁵ For decades, child care providers have advocated for adequate pay and benefits. Yet, their essential work remains underpaid and undervalued, making provider compensation not just an economic issue but a matter of racial and gender inequity. As long as California continues to underpay providers, it will continue to uphold a legacy of racial and economic injustice rooted in the devaluation of ELC work.

Despite their essential roles, child care providers have long been paid far less than they deserve and lack access to adequate benefits, with the state consistently failing to recognize the expertise, education, and critical contributions involved in their work. The current rate-setting system, which reimburses providers for delivering care, uses the RMR survey focused on what families can afford, rather than the true cost of providing quality early childhood education and care, leading to suppressed provider wages and a lack of benefits.¹⁶ The state also lacks comprehensive data collection across state agencies needed to understand state investments in childcare, public access to child care, and compensation for ELC providers across settings, making it challenging for state policymakers to assess the current system statewide, develop solutions, or make adequate investments.¹⁷ As a result, providers are forced to do more with less when caring for and educating our youngest children. Poor compensation has led to providers closing their doors, discouraging others from entering the field, and negatively impacting the stability and quality of care that young children receive.

Although the state has been working to reform rates by developing and implementing an alternative methodology that would fairly cover the true costs of providing child care, there have been numerous unanticipated delays, state-level data gaps, and unmet milestones in achieving this much-needed and just rate reform for ELC.

Solution

To expand affordable early learning options to meet the demands of eligible families and stabilize California's mixed-delivery system, the state must complete the

implementation and funding of the alternative methodology. This will ensure providers are reimbursed fairly for the true cost of care, support the development of a well-trained ELC workforce, and provide child care providers with the livable wages, benefits, and professional development they deserve.

The state must commit to a sustained, long-term source of revenue for ELC that goes beyond one-time investments, including consideration of eliminating tax breaks, closing tax loopholes, and identifying new revenue streams that prioritize early childhood. These investments must be inclusive of all programs and providers within the mixed delivery system, including home-based family child care, center-based care, and licensed-exempt caregivers. Only a fully funded ELC system would be able to support provider well-being, strengthen quality improvement, and expand access for eligible families.

To accurately assess the true demand and cost of care, the state must also commit to the improvement and coordination of data collection across all ELC programs and the development of an Early Childhood Integrated Data Systems (ECIDS). Without rate reform through an alternative methodology and state-level integrated data systems, California risks further decline of its ELC workforce and program offerings. California must ensure sustainable and equitable access to early learning and care options for all families, and that begins with fairly compensating providers. Although formal rate-setting for FCC providers and FFN caregivers will depend on collective bargaining agreements with CCPU every two years, the state must implement and fund an alternative methodology to equitably and fairly reimburse all other providers in ELC settings. While the state's 2025-26 Budget Act demonstrates commitment to implementing an alternative reimbursement rate methodology, California must establish a robust, clear, and timely transition plan; integrate state-level data systems across all ELC programs and secure sustainable funding to achieve rate reform and prevent further erosion of the ELC workforce and services.

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