Draft Recommendation—Adopt Flex Factor to Stabilize Contract Earning Floor

Recap of Process to Date

- At the May 27 ECPC meeting and June 9 joint meeting of the Workforce Advisory Committee and Parent Advisory Committee, our subcommittee shared a first draft of a Council recommendation pertaining to the following ECPC priority in its 2026-27 Budget Letter:

  "Providing support for child care policy changes that build a more resilient ECE ecosystem, prioritizing provider-centered fiscal reforms that ensure operational stability by moving towards enrollment-based funding models, such as an 85% contract-earning floor for center-based programs to protect providers from the fiscal shocks of fluctuating attendance."

Draft Recommendation—Adopt Flex Factor to Stabilize Contract Earning Floor

Key Updates Made to Current Draft Recommendation

Based on the feedback received at these meetings, our subcommittee has made the following changes to the current draft recommendations:

- **Clarified terminology**: Replaced "child care providers" with "center-based programs" in relevant sections to eliminate confusion, as family child care homes (FCCHs) are already eligible for maximum certified hours, and the flex factor does not apply to them.
- **Framed recommendation as a short-term bridge**: Explicitly designated the Flex Factor as a temporary/short-term stabilization strategy while the state transitions to permanent rate reform (under AB 1981).

Draft Recommendation—Adopt Flex Factor to Stabilize Contract Earning Floor

Brief Summary of the Issue(s)

Historically, child care programs were paid based on attendance. If a child stayed home from child care because due to illness or for other reasons, the center lost money but still had to pay fixed operational costs, such as the teacher’s salary, rent, utilities and other operational expenses. The State previously mitigated this fluctuation to some degree by instituting a 5% “flex factor,” meaning it would reimburse centers for the full contract amount if they met 95% of their attendance-based earnings. This flex factor was specific to center-based programs, as family child care homes (FCCHs) were already eligible for maximum certified hours.

Draft Recommendation—Adopt Flex Factor to Stabilize Contract Earning Floor

Brief Summary of the Issue(s), continued

During COVID, the State implemented “hold harmless” protections for child care centers such that contractors could be paid the maximum amount of their contract regardless of attendance – to account for the pandemic crisis. This “hold harmless” protection ended on June 30, 2026.

As of July 1, 2026, the State reimburses child care centers based on enrollment rather than on daily attendance. However, the enrollment-based reimbursement structure is not accompanied by a “flex factor” policy to support a contract earning floor.

Draft Recommendation—Adopt Flex Factor to Stabilize Contract Earning Floor

Brief Summary of Progress Made to Date (Successes)

The State’s policy shift to reimbursing child care centers based on enrollment rather than on daily attendance was a significant milestone in improving the sustainability of child care provision in California.

Enrollment-based reimbursement provides a more predictable revenue stream that doesn't fluctuate weekly.

Reliable revenue allows directors to budget for the entire year and set a realistic budget that allows for guaranteed hours and salaried positions, which are essential for long-term workforce professionalization.

Draft Recommendation—Adopt Flex Factor to Stabilize Contract Earning Floor

Brief Summary of Challenges and Gaps that Remain

Many factors prevent center-based programs from achieving full enrollment, including Universal Transitional Kindergarten (TK) expansion, declining birth rates, staffing shortages, immigration enforcement and related fear of accessing subsidized programs. Additionally, many center contractors have only operated under the “hold harmless” rules and are unfamiliar with budgeting for fluctuating enrollment.

As a result, a flex factor policy is still needed in the enrollment-based payment structure to support child care sustainability and access. Without this policy change, child care centers will continue to struggle with unpredictable budgets and loss of staff, which negatively impact families’ access to child care.

Draft Recommendation—Adopt Flex Factor to Stabilize Contract Earning Floor

Draft Recommendations for ECPC Consideration

[Policy] We urge the legislature and Governor to enact a 15% flex factor policy for center-based contractors, allowing center-based programs that maintain at least 85% of their certified enrollment to be reimbursed at their full contract amount.

This serves as a critical, short-term stabilization safety net to keep center doors open and retain staff during the transition toward long-term rate reform. This regulatory change will have no State Budget impact, as these funds are already allocated within existing contract allocations.

Draft Recommendation—Adopt Flex Factor to Stabilize Contract Earning Floor

Council Feedback

This is the Council's last opportunity to offer substantive feedback on this recommendation before voting at the November meeting on its submission in the Annual Report.

Please share your feedback, as follows:

> If anything holds you back from supporting this recommendation: what concerns you, and how would you suggest changing it?

Draft Recommendation—Advance Rate Reform

Recap of Process to Date

- At the May 27 ECPC meeting and June 9 joint meeting of the Workforce Advisory Committee and Parent Advisory Committee, our subcommittee shared a first draft of a Council recommendation pertaining to the following ECPC priority in its 2026-27 Budget Letter:

“Funding the rate reform to ensure compensation for the true cost of care and at rates reflecting economic realities.”

Draft Recommendation—Advance Rate Reform

Key Updates Made to Current Draft Recommendation

Based on the feedback received at these meetings, our subcommittee has made the following changes to the current draft recommendations:

- **Tribal Sovereignty**: Formally recognized the Tribal Child Care Association of California as an active sovereign partner in planning, rate discussions, and data collection.
- **Base Rate Enhancements**: Expanded the rate structure to explicitly cover the costs of non-traditional hours, inclusion supports for children with special needs, predictive pay, and employee benefits (retirement and health insurance).
- **Meaningful Collaboration**: Added language to address friction among CCPU, the State, and stakeholders, ensuring State-imposed prerequisites do not impede implementation.
- **Facilities as a Structural Barrier**: Highlighted the need to address the facilities gap and licensing delays, especially in rural areas.

Draft Recommendation—Advance Rate Reform

Brief Summary of the Issue(s)

California is transitioning to a cost-based alternative methodology to set reimbursement rates, moving away from the price-based Regional Market Rate (RMR), which institutionalizes race- and income-based inequities. While progress has been made, including the right of family child care providers to unionize and the development of the cost estimation model, full implementation of the Single Rate Structure (SRS) is delayed, contingent on budget decisions, and expected to take at least two additional years.

Draft Recommendation—Advance Rate Reform

Brief Summary of Progress Made to Date (Successes)

- Family child care providers were given the right to unionize and collectively bargain with the State, leading to the formation of the Child Care Providers United (CCPU).
- The State has developed the alternative methodology cost model.
- The State is formally moving toward a Single Rate Structure.
- The State has provided funding for implementation activities and automation infrastructure.
- The State extended and expanded "Cost of Care Plus" payments, a form of interim financial relief while the State works toward permanent cost-based reimbursement rates.
- The State extended policies allowing providers to be reimbursed based on certified enrollment rather than attendance alone.

Draft Recommendation—Advance Rate Reform

Brief Summary of Challenges and Gaps that Remain

Despite this progress, several key issues remain unresolved. Unresolved issues include delays in statewide rate schedules, funding uncertainty, and disagreements over geographic cost assumptions. Ongoing gaps include:

- **Lack of Workforce Benefits and Stability**: The lack of structural allowances for retirement, health insurance, and predictive pay for employees in both centers and FCCHs.
- **Tribal Exclusion**: The State's failure to collect distinct data on and partner with sovereign tribal child care programs.
- **Facility Barriers**: Severe facility resource limitations and licensing bottlenecks, which prevent providers from competing with public TK expansions.
- **Collaboration Gaps**: State-identified prerequisites for rate reform are increasingly viewed by providers as policy barriers rather than supportive steps.

Draft Recommendation—Advance Rate Reform

Draft Recommendations for ECPC Consideration

1. **Ensure Accountability for the Implementation Timeline.** *[Policy]*

   Require CDSS to submit a timeline for transitioning to the new reimbursement rates by January 31, 2027, and update it annually until rate implementation is complete.

Draft Recommendation—Advance Rate Reform

Draft Recommendations for ECPC Consideration, continued

2. **Ensure Consistent and Equitable Application Across the Mixed-Delivery System.**

To ensure the shift to a Single Rate Structure delivers on its promise of equity, the implementation plan must:

a. **Ensure Equity Across Provider Types**: *[Policy]* Apply the same cost-based methodology uniformly across center-based and family child care providers, with appropriate structural adjustments.

b. **Incorporate Comprehensive Base Rate Enhancements**: *[Policy]* Explicitly design base and enhanced rates to cover non-traditional hours, inclusion supports for children with disabilities, predictive pay, and benefits (health insurance and retirement).

Draft Recommendation—Advance Rate Reform

Draft Recommendations for ECPC Consideration, continued

c. **Address Infrastructure and Facilities**: *[Policy]* Establish dedicated support mechanisms to help providers navigate licensing and overcome facility barriers when expanding or adapting to serve younger age groups (0-3).

d. **Partner with Tribal Sovereigns**: *[Policy]* Formally recognize and include the Tribal Child Care Association of California as a distinct partner in State planning, rate negotiations, and data collection.

e. **Address Other Legacy Inequities**: *[Policy]* Ensure the rate-setting process accounts for the race- and income-based inequities of the legacy RMR system.

f. **Keep the Model Current**: *[Policy]* Update the cost estimation model regularly to prevent rates from becoming outdated.

g. **Don’t Wait to Increase Rates**: *[Policy/Budget]* Provide immediate interim rate increases to bridge the gap to the true cost of care.

Draft Recommendation—Advance Rate Reform

Draft Recommendations for ECPC Consideration, continued

2. **Require Transparent, Collaborative, and Honest Data in All Decisions.**

Rates and fiscal estimates must be based on actual, verifiable cost data rather than deflated or selectively presented figures.

a. **Foster Active Co-Design**: *[Policy]* Address unresolved disagreements transparently. Ensure CDSS actively engages in meaningful, ongoing collaboration with CCPU and other ECE stakeholders, ensuring that prerequisites for rate reform serve as building blocks rather than administrative barriers.

b. **Ensure Data Transparency**: *[Policy]* Ensure the methodology is documented clearly enough for independent review and explicitly communicate any changes in projections or data assumptions.

Draft Recommendation—Advance Rate Reform

Council Feedback

This is the Council's last opportunity to offer substantive feedback on this recommendation before voting at the November meeting on its submission in the Annual Report.

Please share your feedback, as follows:

> If anything holds you back from supporting this recommendation: what concerns you, and how would you suggest changing it?

Next Steps

- **September 21** joint meeting of Workforce Advisory Committee and Parent Advisory Committee: Share current draft content for feedback.
- **November 19** Council meeting: Seek Council vote on recommendations.