



# **Draft ECPC Recommendation: Adopt Flex Factor to Stabilize Contract Earning Floor**

## **Relevant ECPC Priority from 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 to protect providers from the fiscal shocks of fluctuating attendance."



## Flex Factor: Brief Summary of the Issue

- Historically, child care programs were often paid based on attendance.
- If a child stayed home from child care because they were sick or for other reasons, the center lost money but still had to pay fixed costs, such as the teacher’s salary, rent, utilities and other operational expenses.
- The State mitigated this fluctuation to some degree by instituting a 5% “flex factor” that enabled centers to be paid for the full contract amount if they met 95% of their attendance-based earnings.
- 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 ends June 30, 2026.
- Beginning July 1, 2026, the State will reimburse 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.



## Flex Factor: Brief Summary of Progress to Date

- The State's policy shift to reimbursing child care centers based on enrollment rather than on daily attendance is 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.



# Flex Factor: Brief Summary of Challenges and Gaps that Remain

- There are many factors that prevent full enrollment for various subsets of the ECE population: TK, declining birth rates, staffing issues, immigration enforcement and related fear of accessing subsidized programs. All of these prevent contractors from achieving full 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.
- Moreover, a large percentage of center contractors have only operated since the “hold harmless” protections were in effect. These contractors are unfamiliar with the dynamics of operating in an environment in which their earnings are subject to enrollment. For at least the next few years, contractors will be learning how to budget for fluctuating enrollment and related earnings. These contractors need a safety net to keep their centers open – at least during this transition period.

# Draft ECPC Recommendation: Adopt Flex Factor to Stabilize Contract Earning Floor



We urge the legislature and Governor to enact a 15% flex factor policy that allows child care providers who maintain at least 85% of their certified enrollment to be reimbursed at their full contract amount.

This provides a reasonable and data-informed approach to account for normal fluctuations in enrollment while maintaining accountability. This approach will help bring us closer to a stable foundation for early learning programs, supporting consistent staffing, preserving access to care, and ensuring that children and families can rely on these services.

This change would strengthen the system by providing clear expectations and pathways for programs that are working toward full enrollment, ensuring both stability and continuous improvement. The flex factor policy could be established via regulations and would not have a State Budget impact, as these funds are already allocated in contract funds.



# **Draft ECPC Recommendation: Advance Rate Reform**

## **Relevant ECPC Priority from 2026-27 Budget Letter:**

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



# Rate Reform: Brief Summary of the Issue

- California is transitioning to a cost-based alternative methodology to set reimbursement rates for the State's subsidized child care system.
- A 2021 law ratified an agreement between a newly formed Child Care Providers United (CCPU) union and the State, required the creation of a joint labor management committee (JLMC) to develop recommendations for a single rate structure (SRS), and provided one-time funding to supplement reimbursement rates for both family child care and center-based providers and address rate inequities.
- To support this transition, CDSS, in partnership with Prenatal to Five Fiscal Strategies, developed a cost estimation model based on provider data and stakeholder input across all 58 counties.
- The model aims to estimate the true cost of care by accounting for factors such as staffing, program type, child age, and geographic variation.



## Rate Reform: Brief Summary of the Issue, Continued

- The JLMC recommendations released in December 2025 emphasized that the model should inform, but not cap, rate-setting and should be regularly updated to reflect evolving costs.
- Under the proposed SRS, reimbursement rates would be determined using a consistent, cost-informed methodology across programs, with base rates supporting general operations and enhanced rates for factors such as non-traditional hours and inclusion supports.
- Following federal approval of the alternative methodology through the Child Care and Development Fund (CCDF) State Plan, CDSS is required to provide CCPU with an implementation plan and engage in further negotiations on rates and funding. CDSS is also required to provide quarterly updates to the Legislature on implementation through July 1, 2027.
- Because rates were not implemented by the statutory deadline of July 1, 2025, CDSS is also required to provide a transition timeline, but the law does not specify when that timeline must be submitted. According to CDSS' January 2026 rate reform update, full implementation of the SRS is expected to take at least two additional years and remains contingent on budget decisions, collective bargaining outcomes, and significant data system and administrative changes.



## Rate Reform: Brief Summary of Progress to Date

- 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.



# Rate Reform: Brief Summary of Challenges and Gaps that Remain

Despite this progress, several key issues remain unresolved:

- There are delays in full implementation.
- The statewide rate schedule has not been finalized.
- There is uncertainty about long-term funding.
- There remain disagreements about geographic regions and cost assumptions.
- There are concerns about data transparency in rate-setting.



# Draft ECPC Recommendations: Advance Rate Reform

## 1. Ensure Accountability for the Implementation Timeline.

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 ECPC Recommendations: Advance Rate Reform

## 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 consistency and equity, require the following elements to be included in implementation:

- a) Apply the same cost-based methodology uniformly across center-based and family child care providers, with appropriate adjustments for program type and structure.
- b) Ensure that rate-setting processes explicitly account for the race- and income-based inequities institutionalized by the RMR system, as identified by the Rate and Quality Workgroup.
- c) Meaningfully reflect geographic variation in rates, so that providers in high-cost regions are not disadvantaged by a structure that fails to account for local economic conditions.
- d) Update the cost estimation model on a regular and defined schedule to ensure rates remain responsive to evolving costs rather than becoming fixed and outdated.
- e) Make interim rate increases available to providers to bridge the gap between current reimbursement levels and the cost of care while the full Single Rate System implementation proceeds.



# Draft ECPC Recommendations: Advance Rate Reform

## 3. Require Transparent, Reproducible, and Honest Data in All Rate-Setting Decisions.

Require that all data used to develop, justify, or communicate rate reform decisions meet the following standards:

- a) Rates and fiscal estimates must be based on actual, verifiable cost data -- not figures that have been adjusted, deflated, or selectively presented to make reform appear more affordable than it is.
- b) Methodology must be clearly documented and sufficiently detailed to allow independent review and reproduction.
- c) All assumptions, limitations, and data gaps must be disclosed explicitly.
- d) When data, projections, or methodology change, those changes must be communicated transparently with a clear explanation of what changed and why.