

Date of Hearing: March 24, 2026

ASSEMBLY COMMITTEE ON HUMAN SERVICES
Alex Lee, Chair
AB 1981 (Aguiar-Curry) – As Amended March 20, 2026

SUBJECT: Subsidized childcare: reimbursement rates: reporting

SUMMARY: Revises requirements placed on the California Department of Social Services (CDSS) to provide updates to the Legislature regarding the implementation of alternative methodology reimbursement rates for subsidized childcare. Specifically, **this bill:**

- 1) Removes the July 1, 2027, sunset for the CDSS requirement to provide the Assembly Committee on Budget, the Senate Committee on Budget and Fiscal Review, and the Legislative’s Analyst’s Office with quarterly updates on the implementation of the new reimbursement rates set under the alternative methodology, and instead requires those updates to continue until the new reimbursement rates are fully implemented.
- 2) Revises the requirement placed on CDSS, if the new reimbursement rates did not take effect on July 1, 2025, to provide the Legislature with a timeline for transitioning to the new rates, to now require CDSS to provide the Chairperson of the Joint Legislative Budget Committee with CDSS’ anticipated timeline for transitioning to the new rates.
- 3) Makes technical and conforming changes.
- 4) Makes the following findings and declarations:
 - a) The Legislature passed, and the Governor signed to enact, the Building a Better Early Care and Education System Act in 2019, codifying that family childcare providers have the right to form, join, and participate in a provider organization of their choosing to represent them and bargain on matters related to their employment terms and conditions;
 - b) Pursuant to the process established by the Building a Better Early Care and Education System Act, childcare providers organized and elected a statewide union, known as Child Care Providers United (CCPU), representing over 70,000 home-based childcare providers, which has successfully negotiated three contracts with the state;
 - c) The rate of pay for providers negotiated between the state and CCPU is informed by the rate methodology established in state law and funded in the state budget, and the current rate methodology is largely understood to leave providers significantly underpaid, leaving families without access to adequate, quality, reliable childcare in the locations, languages, and other necessities to meet families’ needs;
 - d) The Legislature has determined that the state should use a new alternative methodology. This methodology will apply the actual cost of care to calculate how subsidy payments are made to early childhood educators with one goal being to stabilize and improve childcare options for families;
 - e) California is committed to advancing racial, economic, geographic, and gender equity across its publicly funded systems, including early learning and care;

- f) Federal regulations allow states to use a cost estimation model. This model can replace a market rate survey to better reflect the true cost of high-quality childcare. It includes adequate compensation for the workforce, investments in health and safety, and compliance with licensing requirements;
- g) California's existing market-rate methodology significantly underestimates the actual cost of care, with a recent study from the state showing that providers earned just 30% of the cost of care in 2024. In a broken market where rates are set based on what families can pay as opposed to what it actually costs to provide quality, developmentally appropriate care reliance on regional market surveys perpetuate historic inequities by embedding disparities in family income, neighborhood wealth, and access to private tuition into the state's reimbursement structure;
- h) The early care and education workforce is almost exclusively female and predominantly people of color, including many recent immigrants, first-generation college students, and working mothers. An estimated 43% of early educators turn to public safety-net support to meet the basic needs of their family;
- i) Chronic underpayment has led to workforce instability, program closures, and less access to care for working families. These impacts are especially felt in low-income communities, rural areas, and communities of color;
- j) Childcare deserts are most prevalent in low-income communities, rural areas, tribal communities, and communities of color, where the market fails to generate rates sufficient to sustain licensed and license-exempt providers serving subsidized families;
- k) As part of developing the alternative methodology, CDSS was required to consult early childhood educator stakeholders. This includes CCPU, the bargaining representative for licensed and license-exempt family childcare providers receiving state subsidies. The goal was to inform the development of a cost-based rate mode;
- l) Despite this statutory direction and extensive stakeholder engagement, a rate structure based on the actual cost of care is nowhere near completion. This delay prevents much-needed stabilization of the childcare sector;
- m) Adopting a true cost of care methodology is needed to support the childcare workforce, help families in the state's subsidized childcare system, and protect the state's economy;
- n) Therefore, states legislative intent to enact the statutory changes to implement a childcare reimbursement methodology based on the actual costs of care and to ensure its timely implementation.

EXISTING LAW:

- 1) Establishes the Child Care and Development Services Act to provide childcare and development services as part of a coordinated, comprehensive, and cost-effective system serving children from birth 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 Code [WIC] § 10207 *et seq.*)

- 2) States legislative intent that all families have access to childcare and development services, through resource and referral services where appropriate, and regardless of demographic background or special needs, and that families are provided the opportunity to attain financial stability through employment while maximizing growth and development of their children and enhancing their parenting skills through participation in childcare and development programs. (WIC § 10207.5)
- 3) Establishes a reimbursement rate system for subsidized childcare programs, including setting the standard reimbursement rate (SRR), requiring rates to be greater of specified benchmarks, and defining how contract reimbursement is calculated based on costs, enrollment, and program operations. (WIC § 10280)
- 4) Requires CDSS to establish and implement a regional market rate (RMR) reimbursement schedule for subsidized childcare based on periodic market rate surveys, with rates applied to alternative payment programs and updated consistent with federal requirements. (WIC § 10436)
- 5) Defines “alternative methodology” as a cost-based rate setting method, including a cost estimation model, on which to base payment rates pursuant to the requirements set forth in federal regulations in 11) below. (WIC § 10213.5(ak))
- 6) Declares legislative intent to use an alternative methodology, as defined in 5) above, to inform the setting of reimbursement rates for subsidized childcare (WIC § 10227.6(a))
- 7) Requires CDSS, in collaboration with the California Department of Education (CDE), to develop and conduct an alternative methodology to inform the setting of reimbursement rates for subsidized childcare and establish a single rate structure (SRS). (WIC § 10227.6(c))
- 8) Required the Governor and the Legislature, by no later than July 1, 2025, to establish reimbursement rates based on the alternative methodology. Requires provider reimbursement rates to not be reduced from the reimbursement rates that were in effect on June 30, 2024, pursuant to state law, inclusive of the cost of care plus rates. (WIC § 10277.6(i))
- 9) Requires the Governor and CCPU, consistent with the agreement dated June 25, 2021, to establish a Joint Labor Management Committee (JLMC) to develop recommendations for an SRS structure that addresses quality standards for equity and accessibility while supporting positive learning and developmental outcomes for children. (WIC § 10280.2(a)(1))
- 10) Declares legislative intent that:
 - a) Reimbursement rates are set pursuant to statute and informed by the alternative methodology;
 - b) Under the SRS, all programs, including the Alternative Payment Programs (APPs), Migrant Childcare and Development Programs, General Childcare and Development Programs (CCTR), Family Childcare Home Education Networks, Childcare and Development Services for Children with Special Needs, Childcare for Recipients of the CalWORKs Program, the Emergency Childcare Bridge Program for Foster Children, and education programs in the Early Education Act, as described, shall be reimbursed under a unified structure that takes into account a common set of rate elements;

- c) Rate levels shall be informed by the costs associated with meeting health and safety requirements and program requirements;
- d) Base rates shall be administered as a per-child amount, and programs shall be eligible to claim reimbursement for services they deliver consistent with enhanced rates, if any;
- e) Rates shall vary based on all of the following: geography; type of care setting; regulatory requirements applicable to each type of care setting; time categories; and, child age. (WIC § 10277.6(1)(2))

Federal law:

- 11) Requires states administering the Child Care and Development Fund (CCDF) to set childcare reimbursement rates and payment practices sufficient to ensure eligible families have equal access to care comparable to nonsubsidized families, based on a market rate survey or an approved alternative methodology. (45 Code of Federal Regulations § 98.45)

FISCAL EFFECT: Unknown, this bill has not been analyzed by a fiscal committee.

COMMENTS:

Background: *Subsidized Childcare.* California's subsidized childcare system is established under the Child Care and Development Services Act, intended to provide a coordinated, comprehensive, and cost-effective system of care for children from birth to 13 years of age and their families. Childcare and development services include supervision, health, and support services delivered through full- and part-time programs to meet the needs of families working, in training, seeking employment, incapacitated, or in need of respite.

The system is funded through a combination of federal and state funds and operates through a mixed delivery model, including licensed childcare centers, family childcare homes and license-exempt providers, such as family, friends or neighbors. Major childcare programs include CalWORKs administered through a three-stage system, the CCTR, which provides care through contracted centers and family childcare home education networks, and AAPs, which provide vouchers that allow families to choose care in centers, family childcare homes, or license-exempt settings. California also offers the California State Preschool Program (CSPP) for eligible three- and four-year old children, providing part- or full-day services.

For non-CalWORKs programs, families must meet both eligibility and need requirements, including income below 85% of the state median income (\$89,664 for a family of three), participation in certain public assistance programs, or circumstances such as homelessness or child welfare involvement. Families must also demonstrate a qualifying need, such as employment or training. Once deemed eligible, families are authorized for services for at least 24 months without recertification, unless income exceeds the threshold.

Current Rate Structure (RMR and SRR). California has historically used two different reimbursement rates: the RMR and the SRR, which apply differently across the mixed-delivery system.

The RMR is used for voucher-based programs, including AAPs and CalWORKs, and is federally funded through the Child Care and Development Block Grant. The RMR is informed by a

market rate survey that reflects the prices providers charge families. Rates vary by county, provider type, child age, and hours of care, and providers are reimbursed up to a regional ceiling. Currently, rates are set at the 75th percentile of the 2018 survey or the rate in effect as of December 31, 2021, whichever is greater. While intended to reflect regional variation and support parental choice, the RMR is based on what families can afford, not the actual cost of care.

The SRR, by contrast, is used for direct service programs, including CCTR and CSPP, which is funded through nonfederal funding sources such as Proposition 98 funds and is a statewide rate established through the budget. Unlike the RMR, it does not vary by region and has historically not reflected differences in the cost of care. The current SRR is \$54.93 per child per day, with adjustments based on factors such as age and hours of care. In 2021-22, the state allowed direct service providers to receive the higher SRR or RMR.

Both systems have notable limitations. The RMR can undervalue care in low-income communities where market prices are suppressed, while the SRR does not account for regional cost differences. Maintaining two separate rate structures has also led to inconsistencies across programs, inequities in provider reimbursement, and administrative complexity. Reimbursement rates have also not kept pace with rising costs and inflation. Family childcare providers report working an average of 64 hours per week, earning \$8.77 per hour or less, which contributes to financial instability among providers, with an estimated 17% living in poverty.

Shift to Alternative Methodology and Single Rate Structure. California is transitioning to a cost-based alternative methodology to set reimbursement rates, moving away from the RMR's price-based approach. This shift is driven by both policy and collective bargaining efforts.

In 2019, AB 378 (Limon), Chapter 385, Statutes of 2019, granted family childcare providers the right to unionize and collectively bargain with the state, leading to the formation of the CCPU. AB 131 (Committee on Budget), Chapter 116, Statutes of 2021, ratified the first agreement between CCPU and the state, required the creation of a JLMC to develop recommendations for an SRS, and provided one-time funding to supplement reimbursement rates for both family childcare and center-based providers and address rate inequities. AB 131 also established the Rate and Quality Workgroup, which found that the RMR system institutionalizes race- and income-based inequities and recommended adopting a cost-based alternative methodology and a unified SRS with base and enhanced rates.

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 counties¹. The model aims to estimate the true cost of care by accounting for factors such as staffing, program type, child age, and geographic variation. The JLMC recommendations released in December 2025,² 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.

¹ <https://www.sandiegouniontribune.com/wp-content/uploads/sdcn/ca-cost-of-quality-final-design-sept2022.pdf>

² https://childcareprovidersunited.org/wp-content/uploads/2025/12/DRAFT-JLMC-Final-Report-SRS-Recommendations_12.1.25_final.pdf

Following federal approval of the alternative methodology through the 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. If rates were not implemented by the statutory deadline of July 1, 2025, CDSS is also required to provide a transition timeline. Currently, the rates are still not implemented. According to CDSS' January 2026 rate reform update³, 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.

To ensure continued legislative oversight and progress toward cost-based reimbursement rates, *this bill* extends the requirement for quarterly updates until the SRS is fully implemented.

Author's Statement: According to the Author, "Child care providers are the backbone of our early education system and a critical part of California's economy, yet too many of these mostly women- and minority-owned small businesses are barely scraping by. [This bill] is about ensuring providers are paid based on the true cost of delivering care. [This bill] ensures continued transparency and accountability by requiring ongoing quarterly updates from CDSS on the transition to the new reimbursement rate system until it is fully implemented. After nearly two decades of unfulfilled commitments to reform child care rates, the Legislature deserves clear accountability and transparency from the Administration on when these changes will finally take effect. Paying providers fairly will help stabilize the child care workforce, keep providers' doors open, and ensure families can access the care they need. This is especially critical as the federal government implements the work requirements included in H.R. 1, and other policies that raise the cost of living for California families. Now more than ever, working parents need reliable child care to remain employed and support their families."

Equity Implications: Expanding reporting to support a cost-based rate system can improve transparency, oversight, and accountability, as well as help ensure reimbursement more accurately reflects the cost of care across regions and provider types, which may benefit serving low-income and historically underserved communities, while benefiting a workforce that is disproportionately women of color.

Policy Considerations: CDSS has indicated that full implementation is expected to take at least two additional years beyond the original statutory timeline, prolonging the period during which reimbursement rates do not reflect the true cost of care. These delays may continue to strain providers, particularly those serving subsidized care, and risk further reductions in childcare supply in high-need communities.

Should this bill move forward, the Author may wish to consider adding an urgency clause given the ongoing delay in implementing the SRS.

Arguments in Support: Co-sponsors CCPU, SEIU California State Council, and United Domestic Workers/AFSCME Local 3930 writes, "[This bill] seeks to address inequities in access to affordable child care by strengthening accountability for implementing reimbursement rates

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<https://cdss.ca.gov/Portals/9/CalWORKs/CCT/CCDD/January%20Update%20to%20the%20Report%20to%20the%20Legislature%20on%20Implementation%20of%20the%20Single%20Rate%20Structure.pdf>

that reflect the true cost of care. The bill would benefit several vulnerable populations, including low-income families, children in subsidized childcare programs, and the childcare workforce—who are overwhelmingly women and disproportionately women of color. When reimbursement rates remain below the true cost of care, providers serving subsidized families often struggle to stay open or expand capacity. By requiring the California Department of Social Services to submit and annually update a timeline for implementing cost-based reimbursement rates, [This bill] promotes accountability and progress toward a more sustainable funding structure. This can help stabilize providers, preserve childcare supply in high-need communities, and improve access to affordable, reliable care for families who depend on subsidized programs.”

Arguments in Opposition: None on file.

RELATED AND PRIOR LEGISLATION:

SB 120 (Committee on Budget), Chapter 13, Statutes of 2025, extended quarterly updates to the Legislature on the implementation of childcare rate reform through July 1, 2027.

AB 596 (Aguiar-Curry) of 2023, would have required CDSS, in collaboration with CDE, to develop and implement an alternative methodology for calculating subsidy payment rates for childcare services and CSPP services; would have required CDSS, in consultation with CDE, to develop an equitable sliding scale for the payment of family fees and prohibit family fees from being collected until the new equitable sliding scale was implemented; and would have increased reimbursements to state preschool and childcare providers, as specified. *AB 596 was held on the Senate Appropriations suspense file.*

SB 246 (Leyva) of 2021, would have required CDSS to establish an SRS for early learning and care programs, including variation for regional costs and quality adjustment factors. *SB 246 was referred to the Assembly Appropriations Committee with no further action.*

AB 131 (Committee on Budget), Chapter 116, Statutes of 2021, see comments above.

AB 378 (Limón), Chapter 385, Statutes of 2019, see comments above.

REGISTERED SUPPORT / OPPOSITION:

Support

Child Care Providers United (CCPU) (Co-Sponsor)
SEIU California State Council (Co-Sponsor)
United Domestic Workers/AFSCME Local 3930 (Co-Sponsor)
California Chamber of Commerce
Early Edge California
Oakland Starting Smart & Strong
Parent Voices California

Opposition

None on file.

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