The Cost of Care and Provider Rate Reform in California

May 2026

Legislative Background

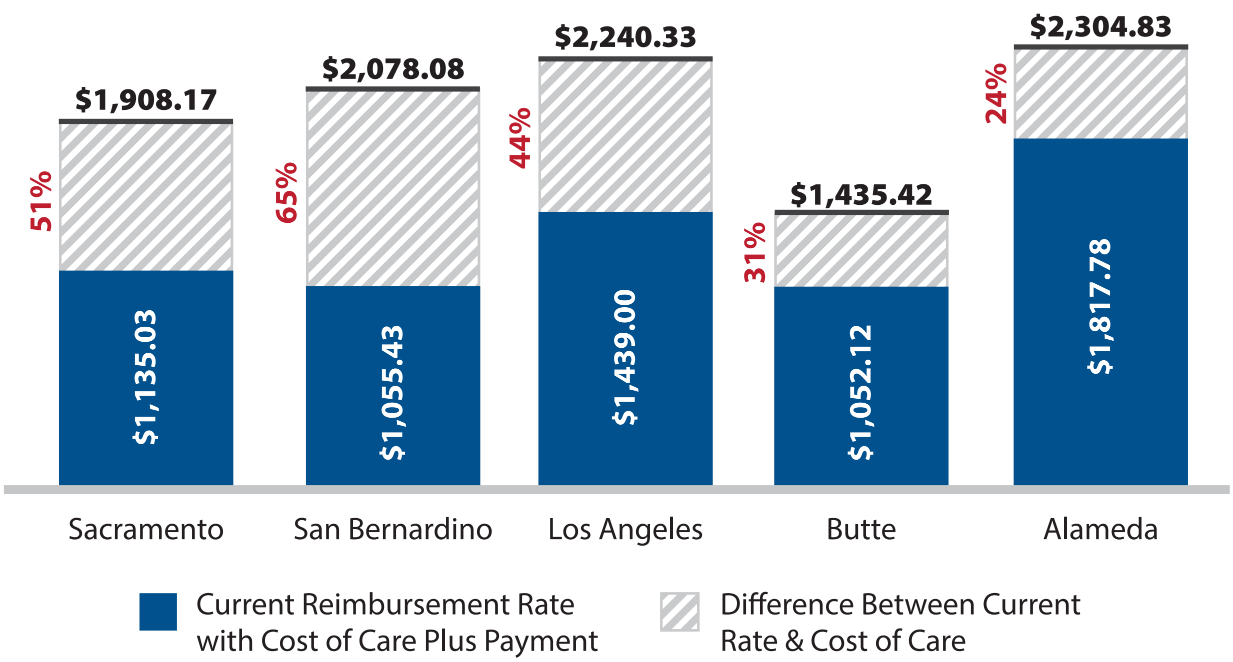
AB131 was ratified by the state of California in 2021 to establish a work group that would recommend a new, single reimbursement rate structure. In 2023, the California Department of Social Services formed the Rate Reform Joint Labor Management Committee tasked with developing an alternative methodology to replace the outdated Regional Market Rate (RMR) and the Standard Reimbursment Rate (SRR) by 2025.

For years, the child care provider reimbursement rate system has not kept up with inflation and the true cost of care. Providers were reimbursed based on the Regional Market Rate (last updated in 2018) or based on attendance which failed to reflect the true cost of running a child care program in California.

California policymakers have spent the past few years refining an alternative methodology, but full implementation for a single rate structure has yet to be rolled out. In the meantime, California legislators, committed to ensuring providers are compensated for the actual cost of care, have approved a Cost of Care Plus payment (in addition to the RMR or SRR rate) temporarily to minimize the gap between the rate and cost of care until a permanent payment structure is adopted.

But the cost of living in California has only risen. The Cost of Care Plus payment[1] has made only a small impact in bridging the gap between the true cost of care and what providers are reimbursed. As seen in **Figure 1**, the gap between what providers are being reimbursed and the cost of care continues to fall short, with a difference as high as 24% to 65% for a center-based, preschooler depending on region.[2]

Figure 1. The 2026 Rate vs the Cost of Care

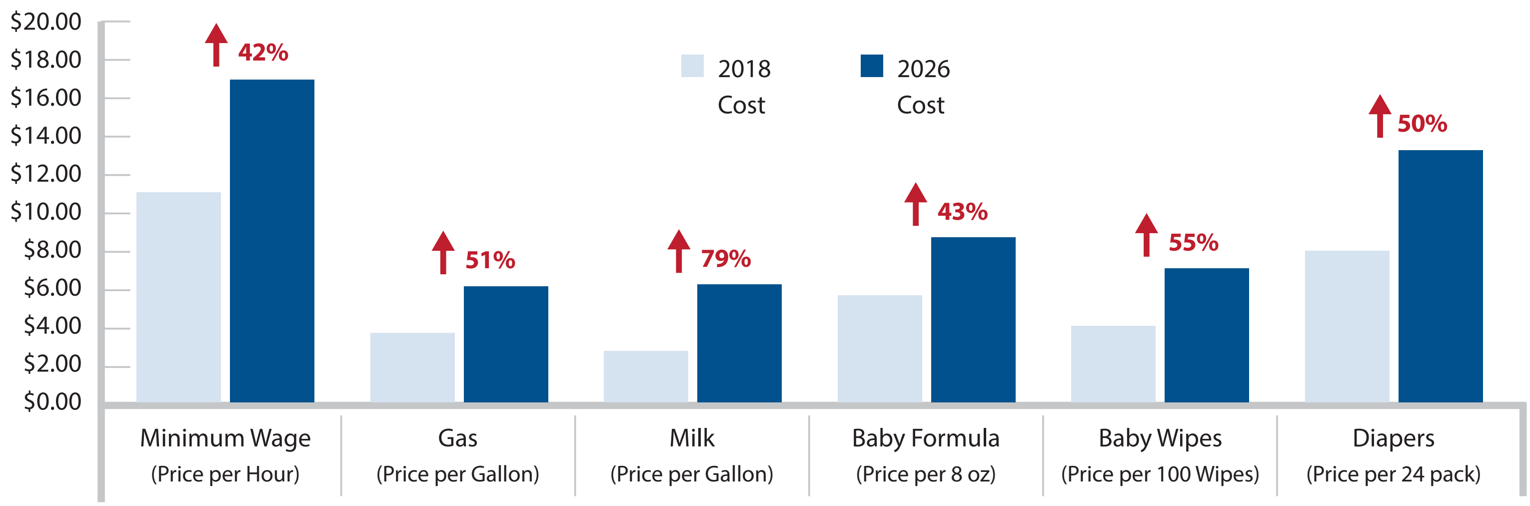


1 CDSS sets the Cost of Care Plus Payment by region. This is determined by care type and is a per child, monthly payment. Effective January 1, 2026 this rate was increased. https://www.cdss.ca.gov/inforesources/child-care-and-development/child-care-provider-resources/provider-payments.

2 The cost per child is derived from the P5 Fiscal Strategies' cost of care model that shows the cost of child care by regions as an aggregate, however, in this figure only the counties are listed. These rates are monthly rates for a licensed center-based program for preschool-aged children. https://www.prenatal5fiscal.org/californiacostmodelreport2022

In addition, minimum wage has increased by 42% since 2018 and the cost of commodaties such as gas, milk, baby formula, and wipes have also increased as high as 40% (See **Figure 2**). For many child care providers, these are operating costs that are essential to providing high quality care to the children in their programs. Recently, the cost of car insurance has also risen, and for many providers who offer pick-up and drop-off services, this has tremendously upended their operating costs.[3]

Figure 2. Cost Comparison of Market Items from 2018 and 2026



Caring for California's youngest constituents is important and valuable work. Giving child care providers a fair and livable wage ensures consistent, high-quality care and provides California families with the stability they need to remain in the workforce. Child care providers are not just a support system for working families — they are the driving force behind our economy and provide safe, nurturing environments where children can build a foundation for lifelong learning and development. Ensuring their economic stability is the foundation of a thriving community.

3 https://kfiam640.iheart.com/content/2026-01-13-california-faces-third-highest-car-insurance-rate-hike/

For more information, please contact:

Donna Sneeringer
President & Chief Strategy Officer
dsneeringer@ccrcca.org

Susan Savage
Director, Research
ssavage@ccrcca.org