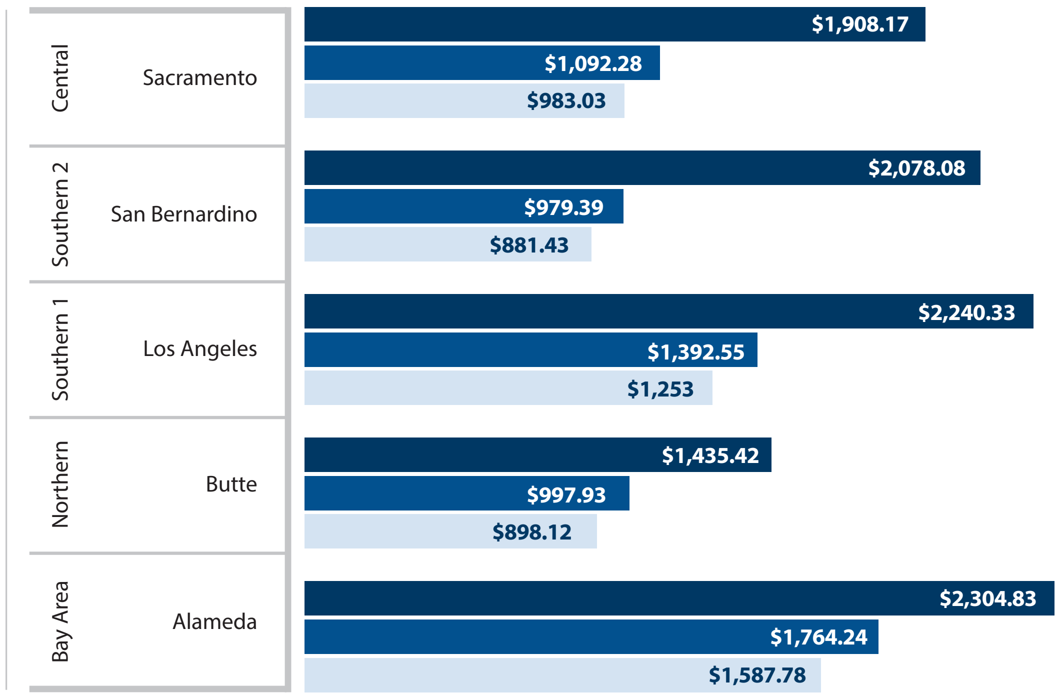
The Cost of Providing Child Care Far Exceeds Current Reimbursement Structure

Inflation has caused providers to experience an increase in the overall cost of operating their programs, yet reimbursement rates that enable them to purchase goods and maintain quality care have failed to keep up with rising costs. This combined with the continued use of a market rate survey that is based on a well documented failed market has made child care an unsustainable business. Although we are grateful for improvements implemented by the California State Legislature last year, provider reimbursement is still grossly insufficient, resulting in an untenable number of providers across the state leaving the industry and considerably impacting working families' ability to seek and access care.

Figure 1. Monthly, Full-time Center Preschooler Cost per Child and 2018 75th Percentile RMR (Current and Inflation Adjusted)

The cost of providing care for a preschooler in a full-time center far exceeds the current reimbursement rate and the inflation adjusted 2018 rate.

- Cost of Care by Region Monthly
- 2023 Inflation Adjusted 2018 Rate
- 2018 75th Percentile



Notes: Adjusted for January 2023 inflation and region cost per child data derived from P5 analysis of cost of care which are averages for the region.[1]

Figure 1 shows how the cost of providing quality care greatly exceeds the rate at which providers are currently reimbursed. For example, providers in Southern 2 (areas such as San Bernardino, Riverside, and San Diego) must cover over 53% of the total cost of each preschooler in their center. This discrepancy places an undue financial burden on the shoulders of underpaid and overexerted providers that results in providers subsidizing care.

Figure 2. Monthly, Full-time Center per Preschooler Cost vs 2018 75th Percentile RMR (Dollar and Percent Difference)

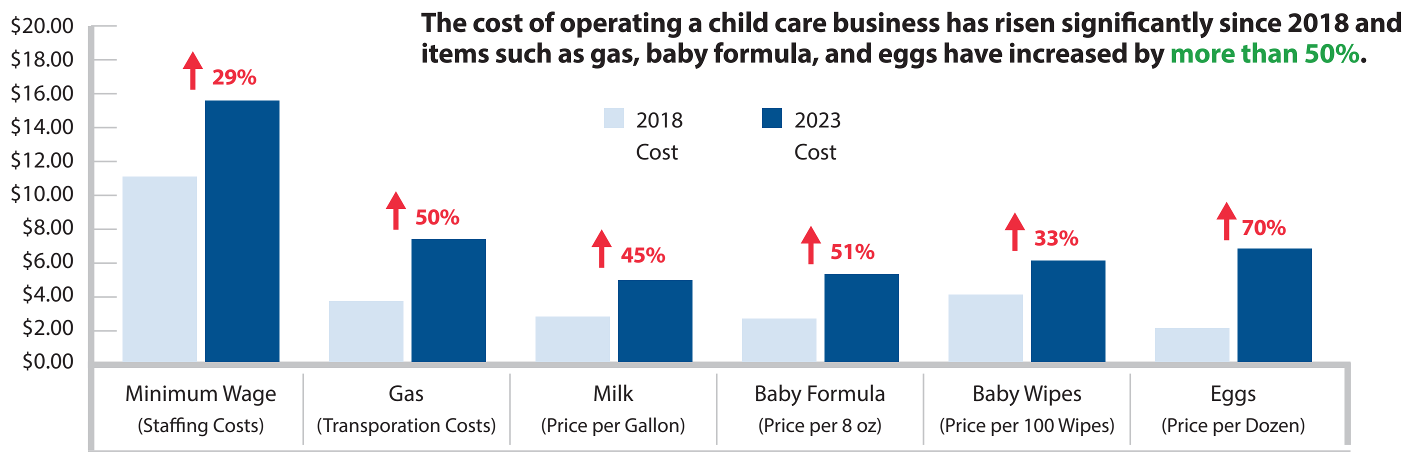
The monthly rate providers receive from the 2018 RMR is 30% to 60% less than what it cost to provide care per child.

	Alameda	Butte	Los Angeles	San Bernardino	Sacramento
Dollar Value Difference	-$541	-$437	-$848	-$1,099	-$816
Percent Difference	-31%	-37%	-44%	-58%	-48%

Basing reimbursement rates off the market rate has led to systemic underfunding of the early care and learning field because the reimbursement rate is **substantially lower than** the actual market rate charged by child care programs – by at least 30% to over 50% (see **Figure 2**).

[1] 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. These regions are Southern 1 (only Los Angeles), Southern 2 (San Bernardino, San Diego, Riverside, etc.), Central (Sacramento, Fresno, San Joaquin, Merced, etc.), Northern (Butte, Colusa, Placer, etc.), and Bay Area (Alameda, San Mateo, Santa Cruz, Sonoma, etc.) https://www.prenatal5fiscal.org/californiacostmodelreport2022.

Figure 3. Cost Comparison of Market Items from 2018 and 2023



Moreover, inflation has impacted the cost of essential items such as milk, baby formula, and baby wipes necessary for providing care. **Figure 3** illustrates how staffing costs, gas, milk, and even eggs have all risen by over 30% since 2018.

To addres this, shifting away from a market rate cost model to a cost of care model can have an immense impact on the fiscal constraints felt throughout the child care industry. An immediate 25% increase to providers can effectively move child care providers closer to earning livable wages they deserve to provide quality care. In addition, suspending the family fees and sustaining hold harmless measures (subsidy payment based on enrollment vs. attendance) can further protect California parents from rising costs.

> "We are at a crisis point in our child care system. Child care employment rates have long struggled to meet the need for California families…Providers have been underpaid, undervalued, and over utilized. It is past time that we pay child care workers what they are worth."
>
> –Senator Limón

Overview of RMR, SRR, Title 5 and Title 22

The Regional Market Rate (RMR) and the Standard Reimbursement Rate (SRR) are both used to reimburse child care providers. However, there are differences in requirements that have created confusion around funding. **Table 1** shows the difference between the RMR and the SRR:

Table 1. Regional Market Rate vs Standard Reimbursement Rate

Regional Market Rate (RMR)	Standard Reimbursement Rate (SRR)
❒ Applies to voucher-based programs such as CalWORKs and APP	❒ Applies to CSPP, CMIG, and CCTC
❒ Must meet Title 22 licensing requirements	❒ Must meet both Title 22 and Title 5 licensing requirements
❒ Funded federally through CCDBG	❒ Funded primarily through non-federal funding sources

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