Thriving Families
CA FOUNDATION

Families are meant to **thrive**, not just survive.

**A California where all families thrive.**

www.thrivingfamilies-ca.org • thriving@thrivingfamilies-ca.org

January 16, 2026

To: The Honorable Gavin Newsom
Governor, State of California

The Honorable John Laird, Chair
Senate Budget & Fiscal Review Committee

The Honorable Jesse Gabriel, Chair
Assembly Budget Committee

**RE: Impact of 2026-27 Proposed Budget on family child care providers, families & community-based partners**

On behalf of the Thriving Families California (TFC) Foundation, we are deeply concerned that the Governor's January 2026-27 Proposed Budget[i] fails to include timely investments to support family child care providers and centers, activate previously promised child care slots, or address the unnecessary bureaucratic barriers that prevent public dollars from being fully and efficiently deployed to serve children and working families.

For more than 48 years, Thriving Families California's Community-Based Organizations (CBOs) and Alternative Payment Programs (APPs) have upheld parental choice by ensuring families can select child care that meets both the developmental needs of their children and the work schedules of parents. What families bring through our doors, however, is far more complex than child care alone. Over time, our programs have evolved to connect families to food assistance, housing supports, health care, mental and behavioral health services, transportation, and other critical resources that help move families from crisis to stability and ultimately to self-sufficiency.

Today, these programs function as multidimensional family-support hubs—not simply child care administrators—while still ensuring stable continuity of care for infants, toddlers, and young children during the most critical years of brain development. By serving both parents and children, they generate two-generation impacts that are essential to breaking cycles of poverty and supporting long-term educational and economic success.

In 2025–26, Alternative Payment Programs supported child care for **319,185 children[ii]**, including **52,505 in CalWORKs Stage 1**, **56,575 in CalWORKs Stage 2**, **45,970 in CalWORKs Stage 3**, **161,332 California Alternative Payment Program (known as "*vouchers*")** and **2,803 in the Migrant Alternative Payment program**, serving children from birth through age 13. Although counties are the statutory administrators of CalWORKs Stage 1[iii], with **38 of California's 58 counties contract this responsibility to APPs**, underscoring the state's reliance on these community-based systems to deliver timely, flexible, and family-centered services.

Yet the Governor's January 2026–27 Proposed Budget does not align with this reality. Despite historic appropriations for child care, the budget includes **no immediate funding to stabilize family child care businesses or centers, no mechanism to release already-promised child care slots, and no investments to reduce the bureaucratic inefficiencies that prevent public dollars from reaching families and providers**. As a result, funds appropriated on paper are not translating into access for parents or sustainable payments for providers.

This disconnect is especially damaging to the two-generation model California has spent decades building. Without prospective and timely provider payments, family child care businesses—particularly those serving low-income, CalWORKs, migrant, and non-traditional-hour families—cannot remain open. When providers close or limit enrollment, families lose not only child care, but their access point to food assistance, housing navigation, mental-health supports, and employment stability.

California cannot achieve its workforce, poverty-reduction, and early-learning goals if the systems that deliver these services are under-resourced and constrained by outdated fiscal and administrative structures. The January budget's failure to invest in provider stability, activate funded slots, and streamline payment and contracting processes threatens to unravel the very infrastructure the state depends on to serve hundreds of thousands of children and working families each year.

Additionally, despite California's stated commitment to transition from market-based child care subsidy rates to a cost-of-care–informed alternative methodology, the Governor's proposed 2026-27 Budget does not include funding or implementation steps to advance this shift. The Budget does not reflect the alternative methodology process under development by the California Department of Social Services in partnership with Prenatal to Five Fiscal Strategies, delaying progress toward system stability and equity. Consequently, family child care providers and centers will remain reimbursed based on Regional Market Rate data originating from the 2017 survey—now nearly a decade old.

In our initial review of the proposed 2026-27 Budget, **Thriving Families California** appreciates the inclusion of the following investments:

- **Funding for Los Angeles child care infrastructure** impacted by recent fires through a one-time $11.5 million allocation from Proposition 64.
- **Continued funding for existing child care programs**, including support for approximately 146,000 of the promised 206,800[iv] child care slots.
- **A 2.41 percent Cost-of-Living Adjustment (COLA)** for child care, state preschool, and child nutrition programs.

As the budget process moves forward, we would like to partner with the Administration and the Legislature to realize the following actions that will make meaningful impacts in the lives of the struggling families seeking long-term self-sufficiency and stability:

- **Maximize the timely deployment of allocated resources to serve families** by providing the **California Department of Social Services (CDSS)** with clear authority and operational flexibility to reallocate child care slot funding to agencies that are over-enrolled and actively serving families. Under current administrative practices—an example being the Voluntary Temporary Transfer (VTT)—tens of millions of dollars in voucher and center-based funding remain unspent each year, not due to lack of demand, but due to limited flexibility and inconsistent application of administrative rules.

  Efforts by the field to support the timely movement of one-time or underutilized funds have been constrained by procedural barriers, including rigid timelines, staffing limitations, and a disconnect between CDSS administrative assumptions and how contract projections and real-time enrollment management function within multi-year Alternative Payment Program (APP) voucher contracts. This ongoing misalignment has the unintended consequence of leaving hundreds of thousands of low-income families on waiting lists while allocated funds remain unspent—reflecting administrative barriers rather than a lack of need.

- **Ensure Cost-of-Living Adjustments (COLAs) are applied to actual reimbursement rates** for family child care providers and child care centers, as well as to the community-based organizations (CBOs) and county offices of education that administer these programs. Historically, when a COLA is included in the Budget Act, it is often used to fund additional child care slots rather than being applied to existing reimbursement rates, limiting its effectiveness as immediate financial relief for providers currently serving families.

As a result, both providers and the nonprofit and county entities responsible for program administration continue to absorb rising operating costs—including labor, facilities, insurance, and compliance—without corresponding increases in reimbursement. Applying COLAs directly to reimbursement rates and administrative payments would provide timely stabilization, support continuity of care, and strengthen the infrastructure necessary to sustain services for families.

- **Release new child care slots.** The proposed 2026-27 Budget does not fund any new child care slots beyond those already authorized under prior multi-year agreements. While the Administration previously committed to releasing approximately 44,000 slots in the current year and an additional 33,000 slots in the following year, the Budget does not propose new slot growth to respond to current or projected demand.

  This approach comes amid increasing unmet need for subsidized child care. In 2024[v], only approximately 349,000 of an estimated 2,125,000 eligible children were served—representing a coverage rate of roughly 16 percent. This reflects a continued increase in unmet need, up from 14 percent in 2023 and 11 percent in 2022.

- **Implement a rate reimbursement structure that covers the true cost of providing care.** The proposed 2026-27 Budget includes no new funding to implement a cost-of-care–informed alternative rate methodology that would reimburse family child care providers and centers at rates reflecting the true cost of delivering quality care. This omission stands in contrast to the direction articulated in California's 2025-27 Child Care and Development Fund (CCDF) State Plan[vi], which anticipates moving away from market-based reimbursement to alternative methodologies aligned with cost of care and quality outcomes.

  Without dedicated resources, the State cannot operationalize the alternative rate methodology to ensure provider reimbursement aligns with actual costs. Many providers will continue to operate at a loss, reduce enrollment, or leave the field entirely—creating gaps in care that force parents to miss work, limit their income, and disrupt local businesses. Reimbursement rates that fail to cover the true cost of care directly threaten workforce stability, reduce access for eligible families, and compound the economic consequences for both families and the broader California economy.

- **Align subsidized child care payment policies with standard private-pay practices.** As federal policy discussions raise the possibility of moving away from prospective payment models, California has an opportunity to affirm and operationalize policies that align subsidized child care with standard private-pay practices. Preserving and strengthening **enrollment-based prospective payment** at the state level would provide predictability for providers, reduce administrative burden, and support continuity of care for families—particularly during periods of federal uncertainty. Proactive state action would position California to maintain system stability, maximize the effective use of available funds, and safeguard access for families should federal guidance shift.

- **Repurpose 2025-26 AP automation funds for core system modernization.** The 2025-26 automation funds provided to Alternative Payment (AP) contractors for prospective payment implementation should be repurposed to support essential system modernization activities that are required regardless of whether prospective payment is implemented. These foundational upgrades—including enrollment-based data structures, authorization tracking, payment calculation logic, reporting, and interoperability—are necessary to ensure accurate payments, timely fund deployment, fiscal accountability, and alignment with evolving state and federal requirements. Allowing contractors flexibility to use these funds for core automation needs would strengthen system readiness, reduce administrative burden, and avoid stranded or underutilized investments should prospective payment policy timelines shift.

  Repurposing the 2025-26 automation funds to support core system upgrades would maximize the return on state investment by ensuring funds are used for improvements that are universally required, rather than limiting their use to a single policy pathway. This approach reduces the risk of delayed implementation, unused funds, or duplicative future appropriations.

As federal policy discussions increasingly call into question the future of prospective payment and other stabilizing child care practices, the absence of decisive state action poses growing risk. Federal uncertainty should not translate into instability for California families or providers. Instead, it presents a clear opportunity for California to lead—by codifying enrollment-based payment practices, modernizing administrative systems, and ensuring that public investments result in real access for families.

Without timely state action, federal volatility threatens to compound existing system fragility, deepen provider attrition, and leave families without the supports they need to work and remain self-sufficient. California has the capacity, the infrastructure, and the responsibility to act now. We stand ready to partner with the Administration and the Legislature to ensure the state's child care system remains resilient, equitable, and responsive—regardless of federal shifts ahead.

Thank you for your consideration of the above. If you have any questions or need additional information, please let me know.

Sincerely,

Denyne Micheletti, CEO

CC: The Honorable Gavin Newsom, Governor
SEN Budget & Fiscal Review Committee Members
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Members, Legislative Women's Caucus
Joe Stephenshaw, Department of Finance
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Richard Figueroa, Office of the Governor
Paula Villescaz, Office of the Governor
Jennifer Troia, California Department of Social Services
Lupe Jaime-Mileham, EdD, California Department of Social Services

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[i] California Budget
[ii] Reference Documents for 2025 May Revision
[iii] California Code, WIC 11320.32.
[iv] California Code, WIC 10212.6.
[v] Only 16% of California Children Eligible for Subsidized Child Care Are Actually Enrolled | Created with Datawrapper
[vi] Child Care and Development Fund (CCDF) Plan for State/Territory (FFY 2025 - 2027)