2015 CCPRC Annual Meeting
Session Summary: Workshop B-4

Workshop B-4 – Understanding Cost to Providing High-Quality ECE and Its Effects on Access 12.2.15

1. Descriptive Information

Workshop B-4 (Independence H&I) *Understanding Cost to Providing High-Quality ECE and Its Effects on Access* **Description** This workshop will follow an interactive, roundtable format. researchers, including members of the technical experts' panel on Access and Child Care Choices, will convene to brainstorm on how the cost of providing high-quality care plays into the setting of provider payment rates in the subsidy system as well as other supports that can increase access. The conversation will explore alternatives for setting subsidy payment rates that allow providers to offer high-quality care and allow parents to obtain it. The goal is to begin to develop useful advice for States struggling with the strengths and limitations of different approaches to identifying cost.	**Facilitator** • Carlise King, Child Trends • Kathryn Tout, Child Trends **Presenters** **Discussant** **Scribe** • Van-Kim Lin, Child Trends

- **Documents in Session Folder** (Please list any electronic documents or web links used during the session.)
  - No documents for the session
- **Introduction for the session- Kathryn and Carlise**
  - The purpose of this session to examine how payment rates can take into account high-quality care. The rates that providers are offering aren't covering high-quality care. Instead of using market rates, there may be alternate strategy to create rates. What should the alternate strategies be? What are the challenges and benefits of trying different strategies? What are some outcomes? For this session, attendees are asked to not think about how the policies might be implemented.
  - Three initial methods
    - Cost estimation model: Anne Mitchell and team developed a tool to look at factors of quality to estimate the cost of high-quality care (e.g., staffing, workforce with specific qualifications, payment rates)
    - Local market estimation: if you focus on a local market with 4-stars, you can look at cost and prices for that locality
    - Market rate survey: Measure prices and associate the price with different characteristics
- **Summary of Discussion**
  - **Reactions to the three proposed methods**
    - Bobbie: Geography is important because prices vary by geography. When we go to the cost model, there isn't a variation in costs, but parents still have to buy it. The cost calculator may not capture geography, or we have to figure out how to do that.
      - Ira: I agree that place matters. When we look around any city, real estate, competitiveness of labor, facilities, and instruction of child care all differ. We need to figure out a reasonable way to get off the average because the average can do damage in some places.
      - Bobbie: Cost is related to providers. Oregon is a rural state, and rural providers are convinced there's a conspiracy to harm them because payment rates get informed by the market rate study and they are finding huge differences. If you are in Portland, you get paid a lot more than in rural OR. They hate it, and it's impossible for them to accept. There's a tension between parent and provider empowerment.
    - Liz: Can rates promote high-quality? Is it really just about rates? We also have to broaden our thinking to think about supply and demand

- TA: The cost of quality calculator is supposed to inform policy and can be used to help provider improve their business practices. It looks at rates and gaps in the revenue. States have seen geographical differences in cost. For example, rural areas don't pay staff as well. The cost of quality calculator to inform policy. The calculator takes into account market wage like prevailing wage for someone with qualifications using BLS data, but the user can change inputs.
- Wladimir: If the idea is to generate an incentive system to have provider give more, we need to think about the pay provider receive and then think about the average cost. If we focus on the cost, the NSECE can give an average picture of all of the U.S. If you know the differences across the provision of prices for other services, you can construct a locally driven price to index cost. We can try to get from the provider what it would be for a specific provider to bring in another child at a certain level of quality with certain criteria, then think of all the components associated with doing so (to potentially modify behavior—not just average cost).
- Ivelisse: We want to measure the cost of implementing high-quality care. We know how to implement Head Start with high-quality and under what conditions.
- Liz: Cost and price are different. Price is from the market (reflects supply and demand). My concern with the cost model is that we won't take geography into account if wages and rents are higher, but supply is higher where demand is higher. Do we need to give parents incentive to get high-quality care (or at least disincentives). Price doesn't capture the full cost of care, so there are tensions between the two approaches.

o **Other suggested alternatives or methods**
  - **Hybrid model**
    - Bobbie: We may be headed towards a hybrid model to account for differences in salaries or high-price areas.
    - Dawn: It's not an either-or. It's about how we bill it. We think about intersection. We can't throw one part of the players out. We need to acknowledge that. At OCC, we are thinking about the questions in the plan and the market rate vs. alternative methodology approach. We need to think about both because not one or the other gets to the answer. We might need a hybrid or multiple-layered approach. We have to think about underserved areas or populations that prices alone won't tell you things or knowing cost alone won't give sustainable options for everyone. We need to know the factors and one methodology may lend itself better for certain areas and another for other areas.
    - Bobbie: Vouchers aren't our only tool. We don't just need one tool for every approach. We could experiment with contracted slots.
  - **Quasi-experimental alternative**
    - Wladimir: Say there are two center-based providers with similar enrollment rates, similar observations, but their funding streams differ (payers vs. CCDF or preK). To what extent do the providers using those funding structures provide care like the other one? What is the optimal reimbursement rate? We have to think about the counterfactual in the absence of the funding source. That's the underlying question. We could use quasi-experimental methods. There are many providers with no funding streams. We could make an observational equivalent, get the cost structure for the one who uses subsidies had they not and see.
    - Ivelisse: The provider who doesn't get the funding streams, would they serve the same populations?
    - Waldimir: They would have differential rates to families or poor families cannot access. If you know where they are physically and the population they served, you could look at wages, holding constant that make them observationally different. But it requires a bunch of data.
    - Kathryn: (To state folks) Do you have data like that? Do you have datasets that can make those calculations?
    - State folks: We have quality, cost, and funding source data

- Heather (WA): To set tier reimbursement rates, we had some success getting center costs to compare in a geographic region, but family homes were reluctant to give price or cost information.
- Bentley (GA): We did an economic impact study for an advocacy tool. We did a survey of providers to get that information with facilities to get at quality, who has PreK, etc. But to do that study and get providers to share that information, we had to do it out-of-house. The state doesn't have access to some of that data for IRB reasons?
- Kathryn: Do you feel you should have that since you reimburse at that rate?
- Bentley (GA): We ask for a lot of it (financial information) that they would not have provided if it was done by the state.

▪ **Bonus strategies**
- Kathryn: Has anyone tried a bonus or another strategy? In Minnesota, we had a pilot where they paid a school readiness bonus. They were able, for a child attending a high-quality program, receive a bonus. In order for sites to receive it, they had to have on staff, someone that was providing extra services to up the quality. So effectively, the child with the subsidy and the bonus got double the rate.

▪ **Reimburse at the classroom-level and not the individual child-level**
- Ivelisse: How does the density of subsidized kids impact issues? I was surprised by the data in the plenary to see that there was no difference in the access of center-based programs by community poverty or household income. They were more accessible providers that accepted CCDF subsidies in communities above 300% FPL for families. So, how does that situation of providers that are serving the low, low-income and how do they manage those things?
- Bentley: Georgia increased access for lower-income. PreK and summer transition programs had a large proportion of low-income kids. One served 3-4 year olds going into PreK , dual-language-learners (DLLs), and kids PreK kids going into kindergarten. In all cases, there was evidence of higher quality and child outcomes at the end of the programs. We funded the class, which includes teacher pay and family resources, and doesn't require the provider to get a family fee. So instead of paying by the child, we paid by the class.
- Kathryn: Did you determine a per child rate?
- Bentley: We calculated a per child amount, but it was really at the classroom. We looked at the teacher credentials, etc. and accounted that attendance needs would be met. Teachers who wouldn't have had a job, have a job. Parents who wouldn't have had care, have care. Children get care, so it's a win-win. Could we do a similar model in the subsidy system?

o **Other considerations**

▪ **Consider the state context**
- Bentley: It's hard not to think about implementation. In Georgia, we aren't paying great rates, but we have incredible participation and outcomes.
- Heather Moss (WA): We are struggling to get subsidy rates to the market rate in our state. There's the cost and what we can afford as a state.
- CA Department of Education rep: We do a market rate survey every other year, but we are now using the 2009 estimates. However, there was a price decrease.
- John Spears (MD): The rate survey has shown that MD are paying in the 10th percentile of the market for a number of years. I would think that the program would disappear, but it hasn't. What's going on that we don't do? Maybe we need a secret shopper to find actual rates.
- Amie Lapp Payne: Some programs that aren't funded at the highest quality may still produce quality above the expected and have positive outcomes for children. I hear from opponents in the legislature that setting thresholds has a value in the public policy arena.

- Marianna (MI): We are starting to ask questions about cost and not just rates.

- **Model other reimbursement programs**
  - Lynn: When we talk about the market rate survey, we are capturing prices vs. cost, so if you want to get at the cost, we can't look at price. We may be able to look at other areas that are reimbursing cost to see if there are other models.
  - Research Scholar: We estimated the cost in public preschool and Head Start. We did it a certain way there, so we could borrow ideas for how to think about subsidies.
  - Ira: We can maybe draw a parallel to HUD since it costs different to give subsidies in different zip codes.
  - Van-Kim: We did a first look at other subsidized areas (e.g., healthcare, higher education, housing, food), but we can do a second look to see how their rates are set.
  - Group thoughts: We could look at the Affordable Care Act, K-12 funding, charter school scholarships, Department of Defense for outside installation child care to understand their reimbursement rates
- **Consider that programs have mixed funding streams**
  - Lynn: A lot of providers are getting revenue from multiple subsidized sources, so they don't need to break even on every child, but break even overall. A class with a preschool isn't different from the class with subsidies, but the funding is different, so the charge may not be what it costs.
  - What structure do we use for how a public system can reimburse?
    - Lynn: Formula-based structure can think about the drivers of the underlying cost. The formula can take into account all of the other geographic differences but also cost for the workforce, facilities, and rents.
    - Herman: Even if we increase subsidies, the vast majority of providers won't change the service they can provide unless they have another incentive or another support structure.
    - Bentley: They can find legal loopholes in policies to make businesses work.
  - Ivelisse: Don't providers establish prices, taking into account that they will subsidize children themselves because payment rates in states are too low and they can't get a copayment? So, how does that affect prices that copaying clients are paying? When they actually are reporting prices, they are reporting what people are actually paying.
    - Herman: It varies based on the corporation of the center. In a chain, in areas where parents can't pay the difference, they'll waive it to fully enroll, knowing that the other center in another part of town is going to make up the difference because they have more full-paying families or a 3-year-old is going to go into the 4-year-old and get the cost of a six-hour day that the subsidy can't pay.
- **Understand why programs may not take subsidized children**
  - Carlise: What is the rate that will increase access for families to get high-quality and how close is your rate to that rate? What can you look at now to prepare for when additional funds might be available? How do you maximize the resources you currently have? How can we see what we're doing relative to where we want to be?
  - Amie: Do we know about programs who are geographically near those in poverty but have high-quality but who do not offer care for children receiving subsidies? Does that have value? How come kids with subsidies can't access that care? It's because providers don't have to and because they can't afford to accept "those kids."
  - John: We have that issue in East Baltimore where Hopkins is. Child care takes Hopkins faculty but not the low-income children in that area.
  - Bobbie: On surveys, providers with contracted positions who don't accept subsidized children said that "those families don't appreciate what I have to offer." The state has a higher criteria than the QRIS for a contract slot. Some couldn't reach the population because of geography. Shannon Lipscomb did a project where they put $16,000 into a program per year to improve the quality of care for children who received subsidy. Providers said they would take those kids, but they took the money and didn't take the

kids. We need to know who to reach, what to give, and what strategies with what providers will lead to results. Do we go to providers with kids we are already looking at?
    - Lynn: Some private preschool programs that aren't serving kids with subsidies but are subsidizing care with scholarships. They are attentive, more economic and have racial diversity. Providers fear the instability of families with subsidies because they aren't guaranteed that the child will be there for the year. If they are deciding between two kids, they will choose the one that is more stable. We need to know what goes into that decision-making to see if we can understand something about how providers are operating and what it takes to have that kind of diverse population. This is an issue other than reimbursement to consider.
    - Wladimir: Using a hybrid model may make providers with a lower rate take subsidies.
- **Seek simplicity**
    - Existing subsidy payment structures are overly complicated. We can't explain it to providers or legislators.
    - Simplicity and transparency is important. We need to know what we are trying to achieve and for whom. There may not be one method to set rates, but we need to keep it simple and transparent.
    - If it's clear what will happen if a provider makes a change, then the base rate won't be an issue. If they do something and they know they can get X amount, it will be clear how much it will increase their revenue.