States' Experiences Setting Subsidy Payment Rates

Current Practices and Future Research Directions

CCEEPRC 2019: Session B4

April 17, 2019

CCEEPRA

Child Care and Early Education Policy and Research Analysis

Presenters

Elizabeth Davis
Professor, University of Minnesota

Jocelyn Bowne
Director of Research and PEG Administration,
Massachusetts Department of Early Education and Care

Woody Dover
Enterprise Project Management Director,
Georgia Department of Early Care and Learning

Lorraine McKelvey
Associate Professor, University of Arkansas for Medical Sciences

Rachel Demma
Special Assistant to the Director, Health and Human Services

Rebecca Madill
Research Scientist, Child Trends

Agenda

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3. Discussant Presentation
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Session Overview: Prices, Costs, and Setting Subsidy Payment Rates

Elizabeth Davis, Ph.D
University of Minnesota

CCEEPRC Consortium Annual Meeting
April 17-18, 2019

Process of Establishing Subsidy Payment Rates: Two Distinct Steps

1. **Collect, analyze, and report information:** States and territories conduct studies, collect and analyze data or use cost modeling to inform the process of setting subsidy payment rates.

2. **Establish provider payment guidelines or payment rates:** Rate setting is part of a political process in which multiple stakeholders may participate, including provider groups, unions, advocacy organizations, and legislative leaders, as well as CCDF agency staff.

A third piece of the puzzle is the information Lead Agencies are required to provide in their CCDF Plans.

Requirements re: Setting Payment Rates

Lead Agencies must use the information from their most recent alternative methodology or market rate survey to establish payment rates.

- Lead Agencies are required to analyze the estimated cost of care when setting payment rates—even if the state is conducting a market rate survey—primarily in two areas:
  - The cost of child care providers' implementation of health, safety, quality, and staffing requirements
  - The cost of higher-quality care, as defined by the Lead Agency using a quality rating and improvement system or other system of quality indicators, at each level of quality

Terminology (Prices, Costs, Rates) $$$$

- **Price**: The fees or tuition that child care providers typically charge parents.
- **Costs**: The value of all resources required to deliver child care services, including salaries, rent and utilities, supplies, etc.

- **Subsidy payment rates**: The amount that the state determines it will pay to providers for child care services, sometimes called *reimbursement rates*, usually denoted by a unit of time such as rate per hour, per day, or per week.
- **Rate setting** is the process of determining the subsidy payment rates.

More Terminology: Studies and Methods

- **Market rate survey (market rate study):** A study that collects data on the prices or fees child care providers typically charge. Might be called a ***market price study***.

<u>**Alternative methods**</u>**:**

- **Cost study/survey:** A study that collects data at the facility or program level to measure costs of inputs used to deliver services.
- **Cost estimation model:** A method that incorporates both data and a set of assumptions to estimate the expected costs that would be incurred by providers under different scenarios. Also called a *cost calculator* or a *cost tool*.
- **Combined or hybrid methods:** Strategies to use information from both a market rate (price) study and a cost method.

Advantages of a Market Rate Study as a Method to Inform the Rate-Setting Process

- Parents understand a price since that is what they see when seeking child care.
- Providers can accurately report prices.
- Providers can report prices for different age groups.
- The process for collecting price information and the quality of data on prices is generally similar across types of care (e.g., centers and family child care providers).
- Differentiating variation in prices by community (geographic location), type of care, and age of child is relatively easy.

Challenges to Using a Market Rate Study as a Method to Inform the Rate-Setting Process

- Insufficient market information may present challenges when there are
  - too few providers in an area;
  - providers who don’t charge a market price (e.g., those who enroll only children receiving subsidies); or
  - specialized services for which supply is limited (e.g., evening or weekend care, care for children with special needs, infant care).
- Costs are sometimes not fully covered by prices charged to parents (e.g., providers who use grants or donations to cover the full costs of providing care).
- Market prices reflect inequities in families’ abilities to pay for child care, such as when providers in communities with high numbers of children from families experiencing poverty or very low incomes are likely to have low prices.

Alternative Methods: Cost Estimation or Cost Model

- A cost calculator or cost estimation model involves establishing a set of parameters that define the type and structural features of the care environment being modeled and the cost of the associated inputs given those assumptions (e.g., labor, facilities, food, materials, etc.).

- The key advantage of a cost estimation tool is the ability to determine levels of cost associated with assumptions about the provider’s characteristics, some of which may be related to quality (such as teacher qualifications and salaries).
  - Using a cost estimation tool *may be* less expensive and less burdensome than a full cost survey.

Challenges to a Using a Cost Model as a Method to Inform the Rate-Setting Process

- Lots of decisions (assumptions) feed into the cost calculations, which influence the results.
  - For example, for center costs, the size and mix of classrooms and ages will change the total cost numbers, yet there is little guidance on how to choose these numbers.
- For some states and territories, understanding the assumptions about cost drivers and their impact may require the assistance of a consultant.
  - Estimating costs for different ages, different geographic areas, and different types of care will require multiple model scenarios.
- Conversion of the cost estimations from the model to a subsidy payment rate is not necessarily straightforward.

CCDBG Equal Access Requirements

- The Child Care and Development Block Grant (CCDBG) Act of 2014 requires Child Care and Development Fund (CCDF) Lead Agencies to certify that their payment rates are sufficient to ensure equal access for eligible children that are comparable to child care services provided to children whose parents are not eligible for CCDF.

- The Act also requires Lead Agencies to provide a summary of the facts used to determine that their payment rates are sufficient to ensure equal access.

- Lead Agencies are expected to use cost information to evaluate the gap between costs and payment rates as part of the strategic, long-term approach to setting rates that support equal access.

Using the Data to Inform Subsidy Payment Rate Setting

- Market rate surveys and cost-based alternative methodologies can both be used to inform provider payment rate setting with the goal of supporting access to high-quality child care for families receiving subsidies.

- Demonstrating that the payment rates afford equal access to families receiving subsidies may be best accomplished with current and valid data on both market prices of child care and the costs of providing different levels of quality care to children of different ages and at different locations.

Resources for Lead Agencies

- The Office of Planning, Research, and Evaluation's report, *Market Rate Surveys and Alternative Methods of Data Collection and Analysis to Inform Subsidy Payment Rates* (2017), https://www.acf.hhs.gov/sites/default/files/opre/cceepra_methods_for_informing_subsidy_rates_508_compliant_v2b.pdf.

- The Administration for Children and Families' *Program Instruction on CCDF, Alternative Methodology, Narrow Cost Analysis, and Payment Rates* (2018) https://www.acf.hhs.gov/occ/resource/ccdf-acf-pi-2018-01.

- The National Center on Subsidy Innovation and Accountability and the National Center on Early Childhood Quality Assurance's *Guidance on Estimating and Reporting the Costs of Child Care* (2018) https://childcareta.acf.hhs.gov/resource/guidance-estimating-and-reporting-costs-child-care.

Acknowledgement

The content of this presentation draws on a brief and webinar funded through the Office of Planning, Research and Evaluation (OPRE) in the Administration for Children and Families (ACF) and managed through the Child Care and Early Education Policy and Research Analysis contract with Child Trends.

Ivelisse Martinez-Beck is the OPRE Project Officer.

Panel Discussion:
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How does your state set payment rates?

What information are you using?
Are you using cost modeling? Market price surveys? If both, how are you combining this information?

How does your state set tiered reimbursements for quality? What information are you using?

What general challenges has your state come across when setting payment rates?

Has your state had any issues related to setting payment rates when programs have blended/braided funding? High infant/toddler costs?

What research questions do you wish researchers would consider to help states with their payment rates and tiered reimbursements?

Is there any information (e.g., specific data collections) that would help you set payment rates and tiered reimbursements, but your state doesn't have the capacity to collect?

Rachel Demma
Health and Human Services

CCEEPRA
Child Care and Early Education Policy and Research Analysis

THANK YOU!

The planning for this presentation was funded through the Office of Planning, Research and Evaluation (OPRE) in the Administration for Children and Families (AF) and managed through a contract with Child Trends.

Contact: Rebecca Madill rmadill@childtrends.org

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