

B4: States' Experiences Setting Subsidy Payment Rates: Current Practices and Directions for Future Research

Wednesday, April 17, 2019

2:30 p.m. – 3:45 p.m. | Burnham

1. Descriptive Information

B4: States' Experiences Setting Subsidy Payment Rates: Current Practices and Directions for Future Research

Under the 2014 reauthorization of the Child Care and Development Block Grant (CCDBG), State and Territory Lead Agencies are required to demonstrate that subsidy-receiving children have access to high-quality care. States and Territories have taken different approaches to setting their subsidy payment rates to meet this requirement, and researchers need to know what is happening “on the ground” so that they can support States and Territories.

The objectives of this session are (1) to understand how several States are currently setting their subsidy payment rates, and (2) identify directions for future research.

The session opened with an overview of relevant findings from the 2018 OPRE and Child Trends report, *Market Rate Surveys and Alternative Methods of Data Collection and Analysis to Inform Subsidy Payment Rates*. Next, a panel discussion included representatives from Georgia, Massachusetts, and Arkansas; the selected panelists are currently supporting their States' efforts surrounding subsidy payment rates. A moderated discussion addressed questions, such as:

- How do States set subsidy payment rates?
 - o What information are they using?
 - o Are States using cost modeling? Market rate surveys? If both, in what ways will each be used?
 - o How are States setting tiered reimbursement rates for quality?
- What challenges have States come across in cost modeling?
 - o Any issues related to modeling costs when programs have blended/braided funding? High infant/toddler costs?
- What research questions do States have?

A representative from the Office of Child Care will serve as the discussant.

Facilitator

Rebecca Madill, Child Trends

Presenters

Elizabeth Davis, University of Minnesota | *Market Rate Surveys and Alternative Methods of Data Collection and Analysis to Inform Subsidy Payment Rates*

Jocelyn Bowne, Massachusetts Department of Early Education and Care

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

Lorraine McKelvey, University of Arkansas Medical School

Discussant

Rachel Demma, Office of Child Care

Scribe

Katie Caldwell, ICF

2. Documents Available on Website

- States' Experiences Setting Subsidy Payment Rates

3. Brief Summary of Presentations

- **Summary of Presentation #1: Elizabeth Davis**

- Two steps to establishing subsidy rates:
 - Collect, analyze and report information: intended to inform setting the rates
 - Establish provider payment guidelines or payment rates (can be political) and are not always well aligned
- Lead agencies are required to use their most recent market rate study
- Definitions:
 - Price: fees a parent would pay
 - Cost: value of all resources required to deliver child care services including salaries, rent, etc.
 - Subsidy payment rates (reimbursement rates): amount the state will pay providers for service to children
 - Market rate studies: study that collects data on the prices or fees child care providers typically charge
 - There are some alternative methods used that are slightly easier to use.
- What makes market rate studies the standard method to inform rate-setting process?
 - Parents understand price
 - Federal policy requires that payment rates be informed by market prices
- Costs sometimes not fully covered by prices charged to parents
- Market prices reflect inequalities in families' ability to pay
- Alternative methods:
 - Cost Estimation or Cost Model
- Equal access is required by the CCDBG
 - Look at the payment rate relative to the price

- **Summary of Presentation #2: Question and Answer Panel**

- *How does your state set payment rates? What information are you using?*

- Lorraine: Arkansas has been combining information from a market estimation with a cost model
- Woody: Georgia is relatively new to running the subsidy program. Tiered system was previously implemented to encourage providers to earn stars to receive bonuses on top of the base payment, still have some low base rates for those who haven't achieved a star through the QRIS system
- Jocelyn: Massachusetts relies heavily on the market rate studies. Work with board and legislature to set the rates. Looking ahead: no tiered rates, currently incentivize via grants from QRIS

- *Goals and objectives when setting rates?*

- Jocelyn: Making sure they are equitably addressing the rates
- Woody: We are hoping the bonus rates address market rates
- Lorraine: Our goal is to actually pay for what the care cost with a little bonus and prioritize infant/toddler rates

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

- Jocelyn: We are not yet
- Woody: By applying flat percentages to incentivize, we have created rate inequality within differing areas. Georgia has 3 zones, some areas the state rates are driving the market rates up and some (like in Atlanta) the rates are less competitive.
- Lorraine: Arkansas has decided to do an urban/rural split, plugged rates into the cost estimation tool to create more equity

- *What general challenges has your state come across?*

- Jocelyn: Massachusetts has a law that providers cannot charge less than the state rate so when the state increases rates it drives up rates for private pay families so some providers turn down rate increases. There aren't any mechanisms in place to make sure the salaries actually increase when the state rate increases.
- Woody: When Georgia did their most recent plan they were going to cut the number of children they were able to serve but got lots of push back. Stakeholder engagement was key to work together. The state currently has a 7% cap for a family fee for subsidy rates.

- Lorraine: There is a minimum wage increase going into effect in Arkansas and the state is thinking about rates related to that.
- *Has your state had any issues related to setting payment rates when programs have blended funding? High infant/toddler costs?*
 - Lorraine: Arkansas had the same reimbursement rate for family care and center care and infant/toddler costs are in the 75th percentile. About half of families are in the QRIS. However, the state pays well but the quality is not going up. The model is hard to apply to individual programs.
 - Woody: It has been a mixed bag in Georgia. Offer a different subsidy rate for the early head start child care partnership grantees; this has worked well for some but not others.
 - Jocelyn: Just starting to look at the program level, state preschool grant- funding to expand access to preschool- the state is granting at the classroom level, which is in some way an experiment. Hoping to work with the programs to understand the cost of these classrooms as the grant moves forward.
- *What research questions do you wish researchers would consider to help states with their payments rates and tiered reimbursements?*
 - Lorraine: Will be relying on market price studies. It would be helpful to think through how to prove equal access.
 - Woody: Understanding our cost modeling potential. Have required providers to tell the state how they use the dollars they receive but the states hasn't been utilizing that data well.
 - Jocelyn: Information to guide some of the tradeoff decisions the state is making. Understanding the changes in rates might affect the market and providers with private pay families, how long should we be serving families and children? Concerns about the growth in behavioral challenges and how to support programs in dealing with these behavior issues and what the costs in serving those children would be.
- *Is there any information (specific data collections) that would help you set payment rates and tiered reimbursements, but your state doesn't have the capacity to collect?*
 - Lorraine: we are moving too quickly to stay on top of all the data we could be collecting.
 - Woody: Georgia collects data very well but doesn't have a lot of time to use it.
 - Jocelyn: Any data that would allow for forward thinking is helpful
- **Summary of Presentation #3: Rachel Demma**
 - Federal perspective from the most recent submission of the Child Care Development Fund (CCDF) state plans
 - Provisions within CCDF reauthorization for equal access and to improve quality and trying to avoid the tension of both those goals
 - Corrective action status and some challenges states are facing:
 - 21 states placed on corrective action plans (gives states 1 year to come into compliance otherwise they have to pay up to a 5% penalty) for low rates, states need to come up to 25th percentile for market rates.
 - Waivers for several provisions within CCDF
 - 41 states are paying below the 75th percentile of the market rate threshold set within CCDF
 - States are also on a corrective action plan for market rate survey implementation. The market rate survey that is used is required to be completed in the last two years.
 - 1 state saying they will use an alternative methodology versus the 7 states that initially were interested in doing so
 - Takeaways:
 - Just because there are policy drivers in place it doesn't mean it's going to move states in that direction because of how complex it is
 - Aware there was a time lag from when the legislation was implemented to when the federal dollars began coming in to support the program
 - There aren't mutually exclusive methodologies, new methodologies don't take away the need for a state to know where they stand on a market rate study.

4. Brief Summary of Discussion

- Do you have a method for states to come together to share and discuss like this?
 - Woody: Not really, personally trying to contact other states but no formal network
- Why is it hard to convert the cost of care to the payment rates?
 - All the different scenarios are hard to extrapolate to all children in all areas for all ages, etc.

5. Summary of Key Issues Raised

- There is promise in utilizing new cost estimation methodologies but these newer methodologies do not negate the need for conducting market rate surveys. States may still find it useful (and possibly necessary) to conduct a market rate survey in order to provide the information required in the CCDF State Plan. Additionally, it appears difficult for states to explore the newer methodologies while also implementing the newer regulations from the most recent CCDF reauthorization.
- Some technical assistance or networking opportunities to allow states to meet and discuss their approaches to implementing the new rules could be very useful.
- Topics of future research interest include: how to use all the data states are collecting, examining equity related to tiered rates.