

Introduction

The [American Rescue Plan Act of 2021](#) (ARP Act) includes \$14.99 billion in supplemental Child Care and Development (CCDF) Discretionary funds to help states, territories, and Tribes recover from the COVID-19 pandemic and rebuild a better child care system. [Guidance from the Office of Child Care \(OCC\)](#) strongly recommends CCDF Lead Agencies use funds to expand access to high-quality child care by increasing provider payments, [among other strategies](#).

This implementation guide provides strategies to address base payment rates. Increasing payment rates is an important element for meeting equal access requirements, addressing equity issues tied to a chronically underpaid workforce, and supporting child care for underserved populations in low-income communities. Yet Lead Agencies may find it difficult to overcome possible hurdles to increasing their subsidy rates.

How to Use this Implementation Guide

Lead Agencies are strongly encouraged to consider opportunities to increase payment rates and overcome possible hurdles standing in the way of action. This guide does the following:



Identifies possible hurdles to rate increases



Offers strategies and rationales to overcome these hurdles

This guide also identifies resources to support the strategies, which are listed after each section.

Strategies to Overcome Hurdles



There is a reluctance to support rate increases that may not be sustainable.



Lead Agencies can do the following:

- Communicate how rates traditionally do not cover providers' costs, particularly for quality care. Increasing base payment rates is necessary to make progress toward covering the estimated costs of care. Also, remind leaders and key constituents and partners that paying adequate base payment rates is a key requirement of the CCDF final rule equal access provisions, and increasing base rates is one of the primary purposes of the ARP Act Discretionary supplemental funds.
- Remind leaders that Congress approved a historic increase of \$2.4 billion in CCDF Discretionary funds in fiscal year (FY) 2018 and additional increases of \$50 million in FY 2019 and \$550 million in FY 2020 (separate from supplemental COVID-19 relief funding) to help Lead Agencies comply with equal access requirements. These funds have continued to be appropriated by Congress annually and may be targeted to increasing base payment rates in conjunction with new ARP Act funds.

Strategies to Increase Base Payment Rates

An Implementation Guide to ARP Act Discretionary Supplemental Funds

- Partner with providers and families to help communicate the positive, long-term impact of rate increases on building higher quality child care. Whether funding is sustained or time-limited, increased revenues can support providers in better compensating, training, and equipping their staff to deliver high-quality services.
- Use available data and research to inform decisionmakers of the lasting impacts of child care access and quality on child and community outcomes (see resource 1 below).
- Consider the impact 3 years of ARP Act funds can have on supporting economic development and building more equitable access to child care in your state, territory, or Tribal jurisdiction by providing an incentive to child care providers to serve children eligible for subsidy (see resources 1 and 2).
- Consider increasing rates in a more limited manner if there is a reluctance to raise base payment rates across the board—for example, for specific age groupings, vulnerable populations, or geographic areas, based on data regarding unmet needs or the greatest gaps between rates and the true cost of care. This may allow you to sustain the funding once ARP Act funds have been spent.
- Develop partnerships with businesses and philanthropists and in Tribal communities, with Tribal Leadership or human services departments. Partners may be willing to dedicate funds to help sustain rate increases (see resources 3 and 4).

RESOURCES

1. For resources offering evidence for investing in high-quality child care to support parents in the workforce and build human capital, see the following:
 - a. *Workforce of Today, Workforce of Tomorrow: The Business Case for High-Quality Childcare* (2017), U.S. Chamber of Commerce Foundation's Center for Education and Workforce, <https://www.uschamberfoundation.org/reports/workforce-today-workforce-tomorrow> and
 - b. *Better Jobs and Brighter Futures: Investing in Childcare to Build Human Capital* (2020), Amanda E. Devercelli and Frances Beaton-Day, <https://openknowledge.worldbank.org/handle/10986/35062>
2. For assistance in building more equitable access to child care, see *Executive Summary: Assessing Child Care Subsidies through an Equity Lens* (2021), Urban Institute, https://www.urban.org/sites/default/files/publication/104776/executive-summary-assessing-child-care-subsidies-through-an-equity-lens_1.pdf.
3. For tips on communicating with key constituents and partners, see *Effective Communication Planning: Key Concepts to Get You Started* (2021), Office of Child Care, https://childcareta.acf.hhs.gov/sites/default/files/public/child_care_stabilization_grants_effective_communications_planning.pdf.
4. For examples and ideas on building partnerships, see Council for a Strong America (n.d.), <https://www.strongnation.org/>.



We lack access to adequate data to make rate increase decisions.



Lead Agencies can do the following:

- Rely more heavily on cost data rather than prices collected through the market rate survey for rate setting. Supplemental funding can be used to conduct cost studies, including narrow cost analyses (see resources 5, 6, and 8 below).
- Consider using data from your previous market rate survey and narrow cost analysis to inform increases in provider rates, moving closer to rates that reflect the estimated cost of care. For Tribal programs, since conducting a market rate survey or cost studies is optional, compensation studies may be helpful in adjusting rates that more closely align with the cost of care. Adjust the data to reflect changes in the consumer price index since the studies were conducted (see resources 5, 8, and 9).
- Use estimates on increased prices and costs due to the impact of the pandemic. A simple survey of providers or focus group discussions may help you evaluate the impact of the pandemic on provider prices and costs (see resource 7).
- Use state economic forecasts or indexes to assess costs and revise rates (see resource 9).
- Develop estimates of costs based on assumptions from other cost studies. Consider using the value of costs (for example, salaries aligned to those of kindergarten teachers) and not just the accounting cost (the actual expenses).
- Use data and needs assessments previously developed by agencies with oversight for federal, Tribal, and state health programs; Temporary Assistance for Needy Families; Supplemental Nutrition Assistance Program; housing; Medicaid; Maternal, Infant, and Early Childhood Home Visiting Program; Part C of the Individuals with Disabilities Education Act (IDEA); and Part B of IDEA to identify high-need areas and underserved populations to help build the case for base payment rate increases (see resource 10).
- Ensure data informing rate decisionmaking is inclusive of all types of care, including home-based care, to address issues of equitable access to child care (see resource 2).

RESOURCES

5. For help understanding the process of using data to inform rate setting, see *Using Market Rate Survey and Other Data Sources to Set Subsidy Payment Rates* (2018), National Center on Subsidy Innovation and Accountability, https://childcareta.acf.hhs.gov/sites/default/files/public/using_market_rate_data_brief_4.pdf.
6. To access a tool and resources to calculate the cost of care by levels of quality, see “Provider Cost of Quality Calculator” (n.d.), Early Childhood Training and Technical Assistance System, <https://childcareta.acf.hhs.gov/pcqc>.
7. For information on considering the costs and differential effects on child care associated with the pandemic, see *Promoting Sustainability of Child Care Programs during the COVID-19 Pandemic: Considerations for States in Allocating Financial Resources* (2020), Andrew Burwick, Elizabeth Davis, Lynn Karoly, Theresa Schulte, and Kathryn Tout, <https://www.acf.hhs.gov/opre/report/promoting-sustainability-child-care-programs-during-covid-19-pandemic>.
8. For support in considering costs of child care in setting rates, see *Guidance on Estimating and Reporting the Costs of Child Care* (2018), National Center on Early Childhood Quality Assurance and National Center on Subsidy Innovation and Accountability, https://childcareta.acf.hhs.gov/sites/default/files/public/guidance_estimating_cost_care_0.pdf.
9. To access measures of consumer goods and services in the market, see “Consumer Price Index” (n.d.), U.S. Bureau of Labor Statistics, <https://www.bls.gov/cpi/>.
10. To find maps identifying areas most in need of support due to poverty, lack of transportation, inadequate housing, and other factors, see the following:
 - a. “CDC/ATSDR Social Vulnerability Index” (n.d.), Agency for Toxic Substances and Disease Registry, <https://www.atsdr.cdc.gov/placeandhealth/svi/index.html>
 - b. “Map of Opportunity Zones” (n.d.), U.S. Department of Housing and Urban Development, <https://opportunityzones.hud.gov/resources/map>



We are unsure how to address the complexity of rate setting across different age groups for providers who serve mixed-age groups (for example, the cost of care for younger children is often balanced by serving older children due to differences in ratios and group sizes).



Lead Agencies can do the following:


Strategies to Increase Base Payment Rates

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- Focus on increasing the rates for infant and toddler care as it is the costliest age group to serve and has the widest gap between market prices and the true cost of quality (see resource 11).
- Ensure market rate surveys and cost analyses are inclusive of school-age care providers, including data about care before and after school and care during school holidays and summer breaks (see resource 12).
- Use a cost calculator to develop estimates of the costs of care across age groups and adjust payment rates accordingly (see resource 6).

RESOURCES

11. For access to a tool designed to support leaders in identifying and assessing best practices for high-quality infant and toddler child care, see *Strengthening State and Territory Infant/Toddler Child Care System Policies and Practices: A Tool for Advancing Infant/Toddler Child Care Quality* (n.d.), Child Care State Capacity Building Center, <https://childcareta.acf.hhs.gov/infant-toddler-resource-guide/strengthening-infant-toddler-child-care-policy-tool>.
12. For information on collecting data and setting rates for school-age care, see *Voices from the Field: School-Age Child Care Surveys and Rate Setting* (2020), National Center on Afterschool and Summer Enrichment, <https://childcareta.acf.hhs.gov/sites/default/files/public/ncase-school-age-child-care-surveys-and-rate-setting-508c.pdf>.

 Increasing subsidy provider payment rates may negatively affect the private-pay child care market by increasing private pay rates.

 Lead Agencies can do the following:

- Explore the option available to Lead Agencies to pay individual programs above their private pay rates. Consider using supplemental funds to underwrite some provider costs so they will be less likely to increase their private pay rates.
- Determine the extent of the potential impact by first examining data on the percentage of providers, by type, that participate in the child care subsidy program. Then, consider convening a group of providers to discuss the potential impact of higher rates on the child care market and possible steps to mitigate the effects. Effects may vary between center-based programs and family child care.
- Invest in a short-term evaluation project to determine the impact of increased payment rates.
 - Evaluate the impact on workforce compensation.
 - Consider the impact on programs with low density or no children receiving a subsidy.
 - Extend data collection and analysis to the community at large.
 - Examine the impact on private pay rates and the overall supply of child care.

Access Technical Assistance

CCDF Administrators from states, territories, and Tribes can request additional technical assistance on any topic related to ARP Act funding. Administrators may contact their Regional Office or state systems specialist who will coordinate with the Office of Child Care national technical assistance centers to provide the support they need. Technical assistance services are funded by the Office of Child Care, and there is no fee to Lead Agencies.

