

## Planning Your Market Rate Survey

Lead Agencies administering the Child Care and Development Fund (CCDF) programs should understand the range of prices, including relevant variations due to geographic location, type of provider and age of child, that licensed child care providers charge parents who pay the full rate for services in their state. Child care providers generally set the fees they charge in the private fee-for-service child care market. Conducting a market rate survey provides data about these fees and assists states in setting their child care subsidy rates to ensure that families who receive child care subsidies can buy child care services comparable to fee-for-service parents.

This is the first in a series of briefs addressing market rate surveys. While CCDF regulations allow Lead Agencies to use alternative methodologies to set payment rates, these briefs will focus solely on traditional market rate surveys. This brief includes: 1) the regulatory requirements for conducting a market rate survey, 2) the importance between prices charged and actual costs associated with providing care, and 3) proposed steps for planning the survey. Subsequent market rate survey briefs will address data sources, designing and conducting the survey, analyzing the results, and reporting and using survey results.

### What Is a Market Rate Survey?

A market rate survey is the collection and analysis of prices and fees charged by child care providers for services in the priced market. The priced market refers to the open market where the parent and provider do not have a relationship that could affect the price charged; in other words, an arms-length transaction. A well-planned and conducted market rate survey provides qualitative and quantitative insight into provider business practices and prices by location, setting, children's ages, and the time children are in care. The purpose of the market rate survey is to guide Lead Agencies in setting payment rates within the context of market conditions so that rates are sufficient to provide equal access to the full range of child care services, which may include high-quality child care. Additionally, a market rate survey may provide adequate information on the processes Lead Agencies use to determine their payment rates including the process of collecting, analyzing, and reporting data on prices in the market.

### What Do CCDF Regulations Require?

Market rate surveys are addressed in the *Equal Access* section of the CCDF final rule ([81 F.R. 67438](#)) at 45 CFR 98.45. Lead Agencies must conduct either a statistically valid and reliable market rate survey or an alternative methodology, such as a cost estimation model.

### What is a Valid and Reliable Survey?

A market rate survey is statistically valid and reliable if it

- includes the priced child care market;
- provides complete and current data;
- represents geographic variation;
- uses rigorous data collection procedures; and
- analyzes data in a manner that captures market differences.

(Grobe, D., Weber, R., Davis, E., Kreader, L., and Pratt, C., *Study of Market Prices: Validating Child Care Market Rate Surveys*, Oregon Child Care Research Partnership, 2008).

In conducting market rate surveys, Lead Agencies must

- develop and conduct a market rate survey or alternative methodology every three years and no earlier than two years before the date of submission of the Plan;
- ensure that surveys reflect variations in cost by geographic area, type of provider, and age of child;
- consult in advance with: State Advisory Council; local child care program administrators; local child care resource and referral agencies; organizations representing caregivers, teachers, directors; and other appropriate entities;
- make widely available, including on a website, a detailed report with results of market rate survey or alternative methodology no later than 30 days after its completion. The detailed report must include
  - estimated cost of care to support implementation of the health, safety, quality, and staffing requirements and
  - estimated cost of care necessary to support higher-quality child care services at each level of quality;
- respond to stakeholder views and comments; and
- set payment rates in accordance with this information and update it every three years.

Lead Agencies must track (through the survey or a separate source) information on the extent to which

- child care providers participate in the CCDF subsidy program and any barriers to participation, including those related to payment rates and practices; and
- child care providers participating in CCDF subsidy programs charge more than the required family co-payment when the price exceeds the subsidy payment, and the size and frequency of the charges.

Although closely aligned, rate setting is an entirely different process that occurs after the Lead Agency has conducted its market rate survey and has developed a detailed report outlining the results. In setting rates, Lead Agencies must

- set rates in accordance with the results of the most recent market rate survey or alternative methodology conducted;
- ensure base payment rates established at least at a level sufficient for child care providers to meet health, safety quality, and staffing requirements;
- take into consideration the cost of providing higher-quality child care services, including consideration of the information at each level of higher quality;
- take into consideration the views and comments of the public obtained in accordance with paragraph, and through other processes determined by the Lead Agency; and
- set rates without reducing the number of families receiving assistance, to the extent practicable.

## How Do I Get Started?

The first step in planning a market rate survey is to determine what the objectives are for the study. Having clearly defined goals will set the stage for the rest of the market rate survey design. For example, one acceptable objective could be “to obtain rate and supply information on specific age group or special populations.” Other common objectives include obtaining information to

- change the subsidy program rate structure from an hourly or daily rate to a weekly or other pricing mode;
- learn about mandatory fees providers charge parents beyond the established copayment amounts;
- realign geographic or administrative sub-markets or non-contiguous areas of the state with similar characteristics; and
- evaluate Quality Rating and Improvement System (QRIS) differentials paid for higher quality care.

Other important planning steps include

- communicating the value and purpose of the study;
- determining the timing and method for conducting the survey;
- developing the content of the survey and sample sizes;
- deciding whether data analysis can be done in-house; and
- identifying any potential policy changes needed to support revisions to payment rates and practices.

## What Is the Difference Between “Price” and “Cost”?

The CCDF final rule requires Lead Agencies to estimate the cost of care, including any relevant variation by geographic location, category of provider, or age of child. The terms “price” and “cost” are often used interchangeably but have different meanings. Price, in the context of CCDF market rates, is the amount child care providers charge for services. A survey of prices allows Lead Agencies to understand the priced market at a point in time. Price is not the same as how much it costs child care programs to provide services. Costs include expenses associated with operating the program; for example, rents and mortgages, equipment and supplies, salaries, consulting, food, licensing and accreditation, and other operating costs.

A primary reason why providers may not consider the cost of providing services when setting prices is that the prices generally reflect the amount the local market demands. Parents may not be able to afford the service if providers considered the actual cost of providing care in their rates, and providers often must find other ways to subsidize the true cost of care. For instance, providers may use free or low-cost space, underpay themselves or their employees, or seek other sources of funds to supplement their incomes. It is important for Lead Agencies to understand costs of providing child care to round out their understanding of how child care is financed in their state.

## What Do We Know About the Child Care Market?

Information already known about markets can help articulate survey objectives and inform program policies. For example, we know that licensed providers rely on parent tuition payments as their primary source of income. Programs seldom operate at full capacity, and few provide services during non-traditional hours. The earnings potential and sustainability of child care programs is not only affected by what consumers within a market area can afford, but also the degree to which providers are able to sustain enrollment levels.<sup>1</sup> These factors have implications for evaluating the number of children providers serve compared to their licensed capacity. In conducting a market rate survey, Lead Agencies should capture information not only on the child care slots available, but also the provider's typical or desired enrollment levels.

Often, the demand for child care in highly populated urban areas is greater than in rural areas with lower population densities. Localities with high unemployment and poverty rates may need financial incentives or direct service contracts to increase the supply of child care providers. Lead Agencies can address child care supply through questions in the market rate survey. For example, the survey can include a question that compares a provider's current enrollment with their desired enrollment. Significant under enrollment in an area that still isn't meeting the demand for care may lead to a deeper analysis of what is necessary to address access or supply. Lead Agencies can use the results to evaluate the need for restructuring geographic regions to ensure equal access in these areas. Lead Agencies can also adjust payment rates based on the survey results to ensure the rates are sufficient to provided consistent funding in areas with similar demographic and economic characteristics.

## What Types of Providers Should Be Included in the Survey?

Providers who are part of the priced market that provide services to the public should be included in the survey. Federal and state subsidized programs such as Head Start, or state-funded Pre-K should be excluded unless they also provide care to children that do not receive government subsidies. For example, some states contract with providers for a specific number of subsidized classrooms or slots. Slots in these programs that are not subsidized are part of the priced market and should be included.

Some unregulated providers and license-exempt (e.g., family, friend, and neighbor care) providers are not considered part of the priced market because the relationship between the parent and provider is not at arms-length. Some states exempt school programs, summer camps, and other types of settings that provide and charge for child care services from licensing. These providers are generally considered part of the priced market and should be included in the market rate survey, if they serve children who do not receive subsidies.

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<sup>1</sup> Mitchell, A (2016). *The Dollars and Cents of Early Learning: Investing in Success, A Summary of Findings from ground Work's Early Childhood Financing Project.*

## How Do I Engage Stakeholders?

Prior to conducting the market rate survey, Lead Agencies are required to consult with the state's Early Childhood Advisory Council or a similar coordinating body, including stakeholders such as child care directors; local resource and referral agencies; and organizations representing caregivers, teachers, directors, and other appropriate entities. This consultation sets the stage for transparency, critical for communicating the value of the survey and achieving buy-in. Strong communication with the Advisory Council and other stakeholders, including child care providers, will improve the Lead Agency's understanding of the child care market. In turn, stakeholders will better understand constraints faced by the Lead Agency.

Stakeholders can assist Lead Agencies by reviewing survey questions to ensure they are easily understood and relevant. In addition, advisors, particularly if they are child care providers, can market the value of the survey to their colleagues. These actions may result in better response rates and more accurate information. By engaging providers, the Lead Agency communicates the importance of responding and may help to alleviate concerns about the legitimacy of the survey or the protection of data.

With buy-in comes interest in ensuring accurate information and a good response rate as advisory committee members share the importance of the survey with their constituents. Stakeholders also can assist Lead Agencies by reviewing survey questions to ensure they are easily understood and relevant, which will also increase the survey's response rate. Lead Agencies should respond to stakeholder views and comments in the final report. By developing strong relationships with Advisory Councils, Lead Agencies will be better poised to respond effectively.

## Who Will Conduct the Survey?

Lead Agencies should consider the pros and cons of conducting a survey in-house versus contracting with experts to conduct some or all of the survey. Once the survey's objectives have been defined, Lead Agencies can determine the scope of the survey and evaluate their internal capacity. For example, if the objective is to gather information on current market prices and mandatory provider fees, the scope may be narrower than if the objective is to change rate structures or evaluate realignment of regional breakdowns. Lead Agencies should evaluate the level of in-house expertise for conducting an accurate and reliable survey and completing the statistical analysis. For instance, are staff able to generate random samples and analyze the results of the survey while ensuring statistical validity, or is this something that would best be left to a professional researcher or polling institute?

While designing the survey might be more easily accomplished by in-house staff, there may be benefits to having a neutral party conduct the survey; for example, in providing needed resources, improving response rates, promoting transparency, and ensuring the validity of the results and analysis. These factors should be weighed against the costs of each method compared to the benefits. When analyzing costs, the Lead Agency must weigh the costs of conducting the survey in-house, including staff time. Even if a contractor is used, the Lead Agency should still provide ongoing oversight of the process, which is critical to ensuring the survey is successful.

## What Method Should Be Used for the Survey?

Common methods for conducting market rate surveys include gathering data by telephone, mail, or the web; analyzing administrative data; or a combination of these methods. Each approach has advantages and disadvantages. The method chosen is best left up to the Lead Agency. Table 1 displays common characteristics of each method.

**Table 1. Survey Methods**

Method	Sample	Time to Gather Data	Response Rate	Cost
Telephone	Smaller sample	Less time to complete	High	Most expensive
Mail	Full universe / Larger sample	More time to complete	Less predictable	Less expensive
Web survey	Full universe / Larger sample	More time to complete	Less predictable	Less expensive
Administrative data	Full universe / Larger sample	Less time to complete	High	Least expensive

Mail and web-based surveys are relatively inexpensive; however, the response rates can be unpredictable, and the consistency of the responses depends on how the questions are interpreted by the provider. Larger sample sizes are needed to ensure response rates that provide a valid result across all geographic areas of the state. A response rate of 65 percent or higher is desirable as recommended in the final rule. Telephone surveys conducted by a research institution generally have the highest costs, but they also have significant advantages. Call center staff can follow up with nonresponsive providers and arrange convenient interview times, which may increase response rates. Additionally, having well-trained interviewers can improve the consistency of the responses.

The use of pre-existing administrative data may be the least costly option, but also has significant disadvantages. The data may not cover the full range of active providers or may not meet the objectives of the survey. If using administrative data, Lead Agencies must understand how the data are collected and maintained. For example, child care resource and referral databases may include outdated information, duplicate data fields, or data that were collected in an inconsistent manner. Subsidy program databases only contain information on providers participating in the subsidy program, and price information on parent/provider agreement forms may be unreliable.

Lastly, to ensure an even more sophisticated survey, Lead Agencies should consider weighting prices by the provider’s actual or desired enrollment levels vs. maximum licensed capacity. We will address slot weighting recommendations from leading researchers in future briefs.

## Other Resources

Lead Agencies may be interested in the following resources to help plan for their market rate surveys.

- Program Instruction: Timeline and Requirements for Market Rate Survey and Alternative Methodology. <https://www.acf.hhs.gov/occ/resource/ccdf-acf-pi-2016-08>
- CCDF Final Rule. <https://www.acf.hhs.gov/occ/resource/ccdf-final-regulations>
- Weber, R., Grobe, D. Davis, E., Kreader, J., Pratt, C. (May 2007), *Study of Market Prices: Validating Child Care Market Rate Surveys*. <http://www.researchconnections.org/childcare/resources/14724>
- Grobe, D., Weber, R., Pratt, C., Emlen, A., (September 2003), *Market Rate Study Guidebook—A Guide to Implementing a Child Care Market Rate Study Using Child Care Resource & Referral Data*. <http://health.oregonstate.edu/sites/health.oregonstate.edu/files/sbhs/pdf/2003-ChildCare-Market-Rate-Study-Guidebook.pdf>
- Ohio State University Statistical Consulting Service, Ohio Department of Job and Family Services, (January 2017), *2016 Ohio Child Care Market Rate Survey Analysis*. <http://jfs.ohio.gov/cdc/docs/2016MarketRateSurvey.stm>
- Illinois Department of Human Services, *Market Rate Survey of Licensed Child Care Programs in Illinois Fiscal Year 2014*. [http://www.dhs.state.il.us/page.aspx?item=82489#a\\_toc1](http://www.dhs.state.il.us/page.aspx?item=82489#a_toc1)