Introductions

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Equal Access and the Cost of Care
Equal Access

• 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.

• The final rule expands the equal access components to include additional factors that impact payment rates.
Webinar Overview

• Market rate surveys and alternative methods of data collection and analysis to inform subsidy payment rates
• Program instruction on alternative methodologies and cost analyses
• Guidance on estimating and reporting the costs of care
Participation

Type your questions into the chat box during the presentation. We will leave time at the end to answer questions.
Market Rate Surveys and Alternative Methods of Data Collection and Analysis to Inform Subsidy Payment Rates

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- Lynn A. Karoly, RAND Corporation
- Bobbie Weber, Oregon State University
- Pia Caronongan, Mathematica Policy Research
- Kathryn Tout, Patti Banghart, Sara Shaw, and Anne Partika, Child Trends

This resource is available at https://www.acf.hhs.gov/sites/default/files/opre/cceepra_methods_for_informing_subsidy_rates_508_compliant_v2b.pdf.
Acknowledgement

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Ivelisse Martinez-Beck is the OPRE Project Officer.
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.
  - How are prices related to costs?

- **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*.

**Alternative methods:**

• **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.
Process of Establishing Subsidy Payment Rates: Two Distinct Steps

1. **Collect, analyze, and report information to inform rate setting:** States and territories conduct studies or collect data by other means that can be used in the process of setting subsidy payment rates.

2. **Establish provider payment guidelines or payment rates:** Rate setting is a political process in which multiple stakeholders may participate, including provider groups, unions, advocacy organizations, and legislative leaders, as well as CCDF agency staff.
## Criteria for Assessing Methods that Inform Rate Setting

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Specific Considerations</th>
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<tbody>
<tr>
<td>Validity</td>
<td>• Does the method accurately measure (or produce) the desired information?</td>
</tr>
<tr>
<td>Captures variation</td>
<td>• Does the method capture variation in price or cost structure along relevant dimensions, such as provider type, provider quality, child age, schedule of care, geographic location, or other factors?</td>
</tr>
<tr>
<td>Timeliness</td>
<td>• Does the method reflect current conditions or is it out of date?</td>
</tr>
<tr>
<td>Cost</td>
<td>• What is the cost to conduct the study or maintain the information collected (e.g., a cost tool)?</td>
</tr>
<tr>
<td>Transparency</td>
<td>• How is the information from the study used and is it understandable to providers and other stakeholders (e.g., parents)?</td>
</tr>
<tr>
<td>Stability</td>
<td>• Does the method capture real market trends or reflect random fluctuations?</td>
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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 Surveys or Cost Study

- A cost survey is an approach that collects information from providers about the costs of resources used to provide services.
- Like a market rate study, the validity of the data collection and analysis methods are important, and various provider types and geographic areas must be represented.
- Cost surveys are resource-intensive and a burden to providers because of the complex and detailed information that must be collected.
  - Many providers do not have formal accounting systems.
  - Allocating costs across age groups, times of day, or classrooms may be difficult.
- It can be challenging to convert a “total cost of services” measure to a per-child cost (per time unit) to inform subsidy payment rates.
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.
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.
  • With any approach, the data must be current and complete, and the data collection and research methods must be statistically valid and reliable.
  • The method must account for variation in prices or costs along relevant dimensions, such as provider type, level of provider quality, child age, and geographic location.

• 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.
Conclusion: Demonstrating Equal Access

• Subsidy payment rates are informed by a recent, valid market rate survey or alternative methodology.

• Subsidy payment rates are set at the 75th percentile or higher of the current, valid market rate survey. Tiered rates reflect price differentials for higher-rated programs found in the market price survey.

• Tiered quality rates are based on a cost survey or cost modeling of costs at different levels.

• The proportion of subsidized children served by high-quality programs is documented. The proportion of high-quality providers willing to accept subsidies is high.

• Data indicate availability of high-quality programs that do the following: provide care during non-standard hours; offer transportation; give access to family support services; and provide care to children with special needs, dual language learners, infants and toddlers, homeless children, and other high-priority populations.
Program Instruction: Alternative Methodologies and Cost Analyses

Abdihakin Abdi, Office of Child Care

This resource is available at https://www.acf.hhs.gov/occ/resource/ccdf-acf-pi-2018-01.
Overview

• This instruction provides guidance to Lead Agencies on developing and conducting alternative methodologies and narrow cost analyses to establish subsidy payment rates.

• The guidance clarifies:
  – Procedures and timeframes regarding the approval of alternative methodologies
  – Requirements and the scope of “narrow cost analysis”
  – Potential options for narrow cost analysis

• This instruction is informed by a panel of experts convened through the Child Care and Early Education Policy Research Analysis project, which is funded by ACF’s Office of Planning, Research and Evaluation.
Alternative Methodology

• Lead Agencies have the option to base their payment rates on an alternative methodology instead of a market rate survey.

• The CCDBG Act of 2014 and the final rule do not define an alternative methodology, but indicate that a cost estimation model is one possible approach.

• Alternative methodology examines the cost to the provider of delivering services. The fees that parents pay in many cases do not align with the full cost of delivering child care services, particularly high-quality services.
Advance ACF Approval of Alternative Methodology

• An alternative methodology must be submitted for advanced ACF approval.

• Advance ACF approval is only necessary if the Lead Agency plans to replace the market rate survey with an alternative methodology.

• Advance ACF approval is not required if the Lead Agency plans to implement both a market rate survey and an alternative methodology.

• Lead Agencies must submit requests for ACF approval via letter to the Office of Child Care (OCC) Regional Office well in advance of the deadline for submitting the CCDF Plan (i.e., July 1, 2018, for the Fiscal Year 2019–2021 CCDF Plan).
Conducting an Alternative Methodology

- The Program Instruction identifies two types of potential alternative methodologies that Lead Agencies might use to inform their rate setting process:
  - **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 cost scenarios.
  - **Cost study/survey:** A study that collects data at the facility or program level to measure costs (of inputs used) to deliver services.

- An alternative methodology must reflect relevant variations by geographic area, category of provider, and age of child.
Conducting an Alternative Methodology

- Alternative methodologies may account for key factors that impact the cost of providing care, such as the following:
  - Staff salaries and benefits
  - Training and professional development
  - Curricula and supplies
  - Group sizes and ratios
  - Enrollment levels
  - Facility sizes
  - Other costs
Using Information for Rate Setting

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

• OCC expects Lead Agencies 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.

• If the most recent alternative methodology indicates costs have increased, Lead Agencies are expected to raise their rates to support equal access.
Narrow Cost Analysis

- 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 rather than an alternative methodology—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
Narrow Cost Analysis

- The purpose of narrow cost analysis is to provide additional cost information for Lead Agencies to consider when setting payment rates.
- Lead Agencies have significant flexibility in determining the approach and methodology for narrow cost analysis, and may use existing information and data to limit burden.
- Depending on the rigor of the narrow cost analysis and whether results are generalizable across provider types and geographic locations, Lead Agencies need to determine how much weight to assign these results in the rate-setting process.
- Advance ACF approval is not required for the narrow cost analysis.
Potential Options for Narrow Cost Analysis

- The Program Instruction outlines the following methodologies that may satisfy the narrow cost analysis requirement:

  1) Use cost information from existing studies
  2) Develop a cost model using the Provider Cost of Quality Calculator
  3) Conduct a limited cost survey or study
  4) Examine cost differentials for higher quality care
  5) Use other existing information
  6) Use market rate survey data
Guidance on Estimating and Reporting the Costs of Child Care

This resource is available at https://childcareta.acf.hhs.gov/resource/guidance-estimating-and-reporting-costs-child-care.
Estimating Costs
A Narrow Cost Analysis …

- Can be used to estimate costs for base-level and higher quality care at each level
- Can be used in conjunction with a market rate survey to gather data used to set rates
- Does not necessitate conducting a comprehensive survey
- Is not a full scale alternative methodology
Cost Estimates Consider …

- Personnel expenses
  - Staffing
  - Salaries and wages
  - Benefits
  - Ratios and group sizes

- Nonpersonnel expenses

- Factors that change as quality improves
Using Available Data

- Licensing
- Quality rating and improvement systems (QRISs)
- Child care resource and referral (CCR&R)
- Provider associations or networks
- Bureau of Labor Statistics
- Other data (Head Start, workforce studies, economic impact studies)
Using an Advisory Group: Requirements

- Consult in advance of the study with
  - state advisory council;
  - local child care program administrators;
  - CCR&Rs;
  - organizations representing caregivers, teachers, and directors; and/or
  - others, as appropriate.

Child Care and Development Fund, 45 C.F.R. § 98.45(e) (2016).

- Include your response to stakeholder views and comments in the final report

Using an Advisory Group: Recommendations

- Include providers who reflect the types of market categories you want to model
  - Engage them early in the process
  - Have them review cost estimates
  - Seek their input on the final report
Tools for Estimating Cost

- Provider Cost of Quality Calculator (PCQC)
- Spreadsheet
- Rough estimate (back of the envelope)
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<td>Salary Costs</td>
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<td>Mandatory Benefits</td>
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<td>Additional Benefits</td>
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<tr>
<td>Substitutes</td>
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<td><strong>Total Personnel Expenses</strong></td>
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<tr>
<td>Sum of Child-Level Costs</td>
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<td>Sum of Per-Classroom Costs</td>
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<td>Sum of Per-Provider Costs</td>
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<td><strong>Total Non-Personnel Expenses</strong></td>
<td>$203,682</td>
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<td><strong>TOTAL EXPENSES</strong></td>
<td>$461,353</td>
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<td>Sum of Revenue</td>
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<td>Sum of Revenue As Pct. of Total</td>
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<td><strong>TOTAL REVENUE</strong></td>
<td>$556,484</td>
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<table>
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<th>NET REVENUE</th>
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<tbody>
<tr>
<td>Net Revenue</td>
<td>$95,131</td>
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<tr>
<td>Net Revenue As Pct. of Total</td>
<td>17.1%</td>
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<tbody>
<tr>
<td>Total Enrollment</td>
<td>68</td>
</tr>
<tr>
<td>Total Teaching Staff (FTE)</td>
<td>8</td>
</tr>
</tbody>
</table>
Next Steps
Including the Narrow Cost Analysis in the Detailed Report

- Relevant variation by
  - geographic location;
  - category of provider; and
  - age of child.

- The cost of care necessary to support
  - providers’ implementation of the health, safety, quality, and staffing requirements in Child Care and Development Fund, 45 C.F.R. §§ 98.41–98.44 (2016); and
  - higher quality care.

- Response to stakeholder views and input
Additional Considerations

- Ensuring supportive provider payment practices
- Adopting supportive financing policies
- Supporting shared services
- Educating on sound business practices
- Promoting use of multiple funding sources
Technical Assistance Support


Contact Information

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NATIONAL CENTER ON
Early Childhood Quality Assurance

QualityAssuranceCenter@ecetta.info
877-296-2250


- A spreadsheet calculation tool is available upon request to help Lead Agencies estimate the per-child cost of care. Email the National Center on Subsidy Innovation and Accountability (ncccsia@ecetta.info) or the National Center on Early Childhood Quality Assurance (QualityAssuranceCenter@ecetta.info) for more information.

- A list of cost studies and additional cost of quality resources is available in the download pod of this webinar.
Addressing Your Questions
Thank you for all you do for children and families!