Early Childhood National Centers
NATIONAL CENTER ON
Subsidy Innovation and Accountability

Using Market Rate Survey and Other Data Sources to Set Subsidy Payment Rates

The subsidy rates that Child Care and Development Fund (CCDF) Lead Agencies pay to child care providers have a significant impact on the ability of families to access and retain high quality child care. The CCDF Final Rule requires Lead Agencies to certify that payment rates are sufficient to ensure that eligible children have equal access to comparable child care services provided to those not eligible to receive assistance under CCDF or other federal or state child care programs. Child care subsidies also account for most Lead Agency expenditures because Lead Agencies are required to spend specified amounts on direct child care services.[1] Therefore, understanding the CCDF rate setting process is critical for policymakers and program administrators.

This is the fourth in a series of briefs related to market rate surveys. The primary purpose of this brief is to discuss how market rate survey data and information from other sources can inform the CCDF rate setting process. As noted in previous briefs, rate setting is a different process from analyzing market prices or costs of care. It is the process by which provider payment rates are set for the child care subsidy program in a state, territory or tribe and local markets within their jurisdictions. In some states, the CCDF rate setting process could be a political process in which multiple stakeholders may participate including provider groups, unions, advocacy organizations, legislative leaders, and CCDF Lead Agency staff. Rate setting relies in part (although not fully) on information gathered through the market rate survey and evaluations or studies of the cost of providing care.[2] While this brief does not propose how Lead Agencies would go about setting their rates, it does provide guidance on what information should be used in the rate setting process.

The first brief in this series, *Planning Your Market Rate Survey,* published March 7, 2018, addresses the requirements for conducting market rate surveys, stakeholder engagement, and determining the survey objectives and methods. The second brief, *Designing and Conducting Your Market Rate Survey*, published April 23, 2018, discusses data sources that can be used to conduct or augment the survey, developing survey instruments, selecting the survey participants, timing and how to ensure adequate participation. The third brief, *Analyzing Your Market Rate Survey Data*, published on May 17, 2018, describes the process for analyzing the market rate survey results and developing price estimates that can then be used to assist Lead Agencies in setting base payment rates.

What are the Next Steps?

After the Lead Agency analyzes its market rate survey data, verifies that the survey is valid and reliable, and determines market rate percentiles, the Lead Agency may then want to consider other data sources needed to set its subsidy payment rates.

Under requirements in the CCDF Final Rule at 45 CFR 98.45, all states must consider some cost information when setting subsidy payment rates. They 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: 1) The cost of child care providers' implementation of health, safety, quality, and staffing requirements; and 2) the cost of higher-quality care, as defined by the Lead Agency using a QRIS or other system of quality indicators, at each level of quality. The cost study can be a comprehensive alternative methodology, or

[1] 45 CFR 98.50(e), (f), and (g). https://www.acf.hhs.gov/occ/resource/ccdf-final-regulations

[2] OPRE Report 2017-115 *Market Rate Surveys and Alternative Methods of Data Collection and Analysis to Inform Subsidy Payment Rates.* https://www.acf.hhs.gov/opre/resource/market-rate-surveys-and-alternative-methods-of-data-collection-and-analysis-to-inform-subsidy-payment-rates

it can be more narrowly focused as outlined in technical assistance resource guide titled, *Guidance on Estimating and Reporting the Costs of Child Care*.

Traditionally Lead Agencies have set rates based only on the results of their market rate surveys. However, there are several challenges to relying only on price data from the child care market for setting payment rates. "Market forces result in inequities that limit access to a range of quality child care and education in some communities, especially those in which large numbers of traditionally underserved children and families reside. For example, there may be little or no priced child care in rural and low-income communities. Reliance on informal arrangements such as relative caregivers (e.g., grandparents, great-grandparents, or siblings) may be the only option for families in these communities. Insufficient market information may present challenges when there are:

- too few providers in an area;
- providers who do not 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, special needs children, infants."[3]

Information about child care providers' participation in the CCDF subsidy program and any barriers to participation is additional data to gather and consider as part of the rate setting process. These data can be gathered as part of a market rate study or through a separate survey. Regardless of the process, all Lead Agencies are required to gather information about providers' participation in the subsidy program including the number or portion of children in their care receiving subsidies, any limitations placed on the numbers of subsidized children they allow to be enrolled, and any barriers to participation including low payment rates. It is recommended that in addition to tracking the number of providers participating in CCDF, Lead Agencies should also track the number and portion of children served by each provider who receives subsidies and whether the provider places any restrictions that limit access by subsidized families.

Preparing the Detailed Report

A final step in concluding the market rate survey process is to prepare a detailed report of the survey results. CFR 98.45(f)(1) requires Lead Agencies to prepare a detailed report containing the market rate survey results not later than 30 days after completing the survey. This reflects the statutory requirement and helps to ensure transparency. The report must be made widely available, posted on the internet and contain the following information:

- The results of the market rate survey (or alternative methodology);
- The estimated cost of care, including any relevant variation by geographic location, category of provider, or age of child to support child care providers' implementation of the health, safety, quality, and staffing requirements described in CFR 98.41 through CFR 98.44;
- The cost of higher-quality care as defined by the Lead Agency's QRIS system or other system of quality indicators, at each level of quality; and
- The Lead Agency's response to stakeholder views and comments.

[3] https://www.acf.hhs.gov/sites/default/files/opre/cceepra_methods_for_informing_subsidy_rates_508_compliant_v2b.pdf

Considerations in Setting Subsidy Payment Rates

After completing the detailed report, CFR 98.45(f)(2) requires Lead Agencies to set payment rates:

- In accordance with the results of the most recent market rate survey (or alternative methodology) conducted not earlier than two years before the date of the submission of the CCDF Plan.
- With base payment rates established at least at a level sufficient for child care providers to meet health and safety, quality, and staffing requirements.
- Taking into consideration the cost of providing higher-quality child care services, including consideration of the information at each level of higher quality.
- Taking into consideration the views and comments of the public and through other processes determined by the Lead Agency.
- Without, to the extent practicable, reducing the number of families receiving CCDF assistance.

Further, the Office of Child Care expects that the Lead Agency will use cost information to evaluate the gap between subsidy rates and cost of care as part of a strategic, long-term approach to setting rates.

Payment Practices

Another step in the rate setting process is to ensure that provider payment practices reflect those generally accepted by providers serving children who do not receive a child care subsidy. CFR 98.45(l) contains the following subparts that define the payment practices that must be demonstrated in the CCDF Plan, unless the Lead Agency provides evidence that the practices are not generally-accepted in the State or service area.

1. The Lead Agency shall demonstrate in the Plan that it has established payment practices applicable to all CCDF child care providers that:
    - Ensure timeliness of payment by either:
        - Paying prospectively prior to the delivery of services; or
        - Paying within no more than 21 calendar days of the receipt of a complete invoice for services.
2. To the extent practicable, support the fixed costs of providing child care services by delinking provider payments from a child's occasional absences by:
    - Paying based on a child's enrollment rather than attendance;
    - Providing full payment if a child attends at least 85 percent of the authorized time;
    - Providing full payment if a child is absent for five or fewer days in a month; or
    - An alternative approach for which the Lead Agency provides a justification in its Plan.
3. Reflect generally-accepted payment practices of child care providers that serve children who do not receive CCDF subsidies, which must include (unless the Lead Agency provides evidence in the Plan that such practices are not generally-accepted in the State or service area):
    - Paying on a part-time or full-time basis (rather than paying for hours of service or smaller increments of time); and

- Paying for reasonable mandatory registration fees that the provider charges to private-paying parents.

4. Ensure child care providers receive payment for any services in accordance with a written payment agreement or authorization for services that includes, at a minimum, information regarding provider payment policies, including rates, schedules, any fees charged to providers, and the dispute resolution process required by paragraph (l)(6).
5. Ensure child care providers receive prompt notice of changes to a family's eligibility status that may impact payment, and that such notice is sent to providers no later than the day the Lead Agency becomes aware that such a change will occur.
6. Include timely appeal and resolution processes for any payment inaccuracies and disputes.

Often providers charge parents for the slot reserved for the child regardless of the child's attendance because they are still paying staff salaries and covering fixed costs, regardless of the number of children attending. Providers benefit from the financial stability they experience when payment practices support providers' fixed costs. Therefore, such policies as paying providers based on a child's enrollment rather than attendance, paying providers in a timely manner, and paying for a reasonable number of absent days, all support continuity of care for children and sustain providers' businesses.

Prior to reauthorization, many states only paid providers for when a child attended. However, it is recognized that the provider still has the same fixed costs, including paying the teachers' salaries, even if a child is occasionally absent. In the Final Rule, the Office of Child Care set 85 percent attendance per month as a benchmark, which aligns with Head Start. Still, Lead Agencies have discretion for setting their own thresholds.

Ensuring Equal Access

The processes outlined in this and the other three Market Rate Survey briefs in this series are all steps to ensure that families eligible for subsidy have equal access to child care as those not eligible. CFR 98.16(r) of the Final CCDF Rule requires Lead Agencies to include in their plans payment rates and a summary of the facts relied upon to determine that their rates are sufficient to ensure equal access. Section 4 of the FFY 2019-2021 CCDF Plan Preprint contains three sections that address market rates, the cost of care and equal access.

Section 4.2.5, *Assessing Market Rates and Child Care Costs*, addresses the regulatory requirements for preparing a detailed report of the market rate survey (or alternative methodology) results. Lead Agencies must provide the following information in their CCDF Plan submissions:

1. The date of completion of the market rate survey.
2. The date the report containing results was made widely available.
3. How the detailed report containing results was made widely available and the web link where the report is posted.
4. How the Lead Agency considered stakeholder views and comments in the detailed report.

Section 4.3, *Setting Payment Rates*, is where Lead Agencies provide information on their base payment rates, the unit of time (daily, weekly, monthly, etc.), and the percentile values of the rates derived from the market rate survey. Base payment rates are the CCDF payment levels that enable providers to meet the CCDF health, safety, quality, and staffing requirements. They must be based on the most recent market rate survey data and re-evaluated at least every 3 years. This section also includes information on any rate differentials or tiered rates established by the Lead Agency for non-traditional hours, children with special needs, specific age groups, or higher quality care.

Lead Agencies are not required to report percentile values if they conducted an alternative methodology *only*. However, percentile values are required if the Lead Agency conducted a market rate survey alone or in combination with an alternative methodology. As noted above, CFR 98.45(l)(3) of the Final CCDF Rule requires Lead Agencies to pay on a part-time or full-time basis rather than smaller units of time, unless they provide evidence that such practices are not generally accepted in the state or service area. For example, it may be permissible to establish hourly payment rates for before or after school care if it's a standard business practice of licensed family day care home providers to charge parents on an hourly basis.

Section 4.4, *Summary of Facts Used to Determine That Payment Rates Are Sufficient to Ensure Equal Access*, includes information on facts the Lead Agency used to demonstrate that payment rates are sufficient to ensure equal access. While the preamble to the Final Rule reaffirms that payment rates set at the 75th percentile of a recent market rate survey remains an important benchmark for evaluating equal access, other information can be used to demonstrate equal access for families receiving CCDF subsidies. For example, measures such as statewide and local enrollment trends, the extent to which subsidies cover the actual cost of care, and the proportion of quality rated providers that accept CCDF children are important indicators. The 2017 OPRE report, *Market Rate Surveys and Alternative Methods of Data Collection and Analysis to Inform Subsidy Payment Rates*[4] contains a comprehensive section on evaluating equal access.

Table 1 lists the factors that Lead Agencies must address in Section 4.4 of their 2019-2021 CCDF Plans to demonstrate equal access. We have also included several examples of measures or indicators Lead Agencies may consider when addressing the CCDF Plan criteria.

[4] https://www.acf.hhs.gov/sites/default/files/opre/cceepra_methods_for_informing_subsidy_rates_508_compliant_v2b.pdf

Table 1. CCDF Plan Section 4.4.1 Equal Access Summary

Equal Access Factors	Example Data Measures and Indicators
a) How a choice of the full range of providers is made available to eligible children and any barriers to provider participation, including barriers related to payment rates and practices.	• Current and longitudinal CCDF child enrollment levels in licensed and high-quality child care programs broken down by age group. • Differences in child care enrollment rates between providers who are simply licensed and those licensed and providing high-quality child care. • CCDF enrollment rates across geographic regions or local market areas. • Changes in enrollment trends due to improvements in CCDF payment rates and practices. • Statewide and local trends in the number of legally-operating licensed facilities. • Child care supply issues, program closures and supply building strategies being considered or implemented. **Barriers** • Limited access to licensed care during non-traditional hours. • Lack of public transportation. • Prices or mandatory fees charged in addition to the CCDF payment rate, along with affordable family co-payments.

Equal Access Factors	Example Data Measures and Indicators
b) Describe how payment rates are adequate and have been established based on the most recent market rate survey or alternative methodology. Note that where updated data from a market rate survey or alternative methodology indicates that prices or costs have increased, Lead Agencies must raise their rates as a result (81 FR 67512).	• Payment rates reflect data obtained from the most recent market rate survey and/or alternative methodology completed not earlier than two years before the date of the submission of the CCDF Plan. • The full universe of providers in the child care market was adequately represented in the data, findings and rate setting. • Subsidy program rules authorize adequate hours to allow children to participate in a high-quality program, which may exceed the hours the parent works or attends education or training. • Payment rates model provider pricing practices such as paying for part and full-time care or other ranges of hours. • Payment rates focus on serving children in settings where training and regulation is in place and oversight is sufficient. • Payment rates are set at sufficient levels to preserve and expand access to quality child care for subsidy families. • The market analysis examined all localities recognizing that each local child care market has unique characteristics such as supply shortages, types of categories of child care programs or insufficient numbers of slots for certain age groups.
c) Describe how base payment rates enable providers to meet health, safety, quality, and staffing requirements under CCDF.	• Cost estimation or cost survey data indicates payment rates are adequate to meet the requirements. • Provide comparisons between the numbers of licensed/quality-rated programs operating in the state or local areas and those that accept CCDF children. • Payment practices recognize that provider staff work full days even when children are enrolled part time.
d) Describe how the Lead Agency took the cost of higher quality into account, including how payment rates for higher-quality care, as defined by the Lead Agency using a QRIS or other system of quality indicators, relate to the estimated cost of care at each level of quality. Note: States without a QRIS may use other quality indicators (e.g. provider status related to accreditation, pre-K standards, Head Start Program Performance Standards, or State- defined quality measures).	• Payment rates are set at the 75th percentile or higher. • Payment rates provide sufficient resources to cover costs associated with the provision of high-quality care. • Reimbursement levels are sufficient to attract and retain qualified caregivers, teachers, and directors. • Tiered rate differentials incentivize or promote the willingness of child care providers to serve CCDF children.

Equal Access Factors	Example Data Measures and Indicators
e) How will the Lead Agency ensure that the family contribution/co-payment, based on a sliding-fee scale, is affordable and is not a barrier to families receiving CCDF funds (98.16 (k))? Check all that apply. Limit the maximum co-payment per family. Describe: Limit the combined amount of co-payment for all children to a percentage of family income. List the percentage of the co-payment limit and describe. Minimize the abrupt termination of assistance before a family can afford the full cost of care ("the cliff effect") as part of the graduated phase-out of assistance discussed in 3.1.7. Describe: Other. Describe:	• Maximum family co-payment levels approximate the national average of 7 percent. • Assigns co-payments on a per family basis instead of individual copayments fee per child. • The state's sliding fee scale uses broad income ranges that avoid decreasing benefit levels or closing cases due to small gains in family income. • Lead Agency limits the maximum co-payment families pay based on income vs. family size. • Sliding fee scale is designed to gradually increase contributions toward the cost of care as family income increases. • Lead Agency waives co-payments for families with income below the poverty level or with children who receive or are at-risk of receiving protective services. • Lead Agency decreases the number of financial transactions between parents and providers by assigning co-payments to the children with the highest subsidy payment levels. • Co-payments increase in small increments during graduated phaseout periods to avoid abrupt termination of assistance.

Equal Access Factors	Example Data Measures and Indicators
f) To support parental choice and equal access to the full range of child care options, does the Lead Agency choose the option to allow providers to charge families additional amounts above the required co-payment in instances where the provider's price exceeds the subsidy payment (98.45(b)(5))? ☐ No ☐ Yes. If yes Provide the rationale for the Lead Agency's policy to allow providers to charge families additional amounts above the required co-payment, including a demonstration of how the policy promotes affordability and access for families. ii. Provide data (including data on the size and frequency of such amounts) on the extent to which CCDF providers charge additional amounts to families. iii. Describe the Lead Agency's analysis of the interaction between the additional amounts charged to families with the required family co-payment and the ability of current subsidy payment rates to provide access to care without additional fees.	• Lead Agency pays for enrollment and other mandatory fees charged by providers. • Current and longitudinal evaluations of the distribution of children receiving CCDF subsidies demonstrates that payment rates are sufficient to provide equal access to a full range of higher quality child care settings. • Cost evaluation data indicates that payment rates provide reasonably adequate financial support to allow CCDF families to afford quality child care. • A low proportion of families report difficulty in finding affordable care in areas where supply is not a barrier. • Lead Agency does not receive a high number of complaints concerning non-payment of copayments or fees by parents.

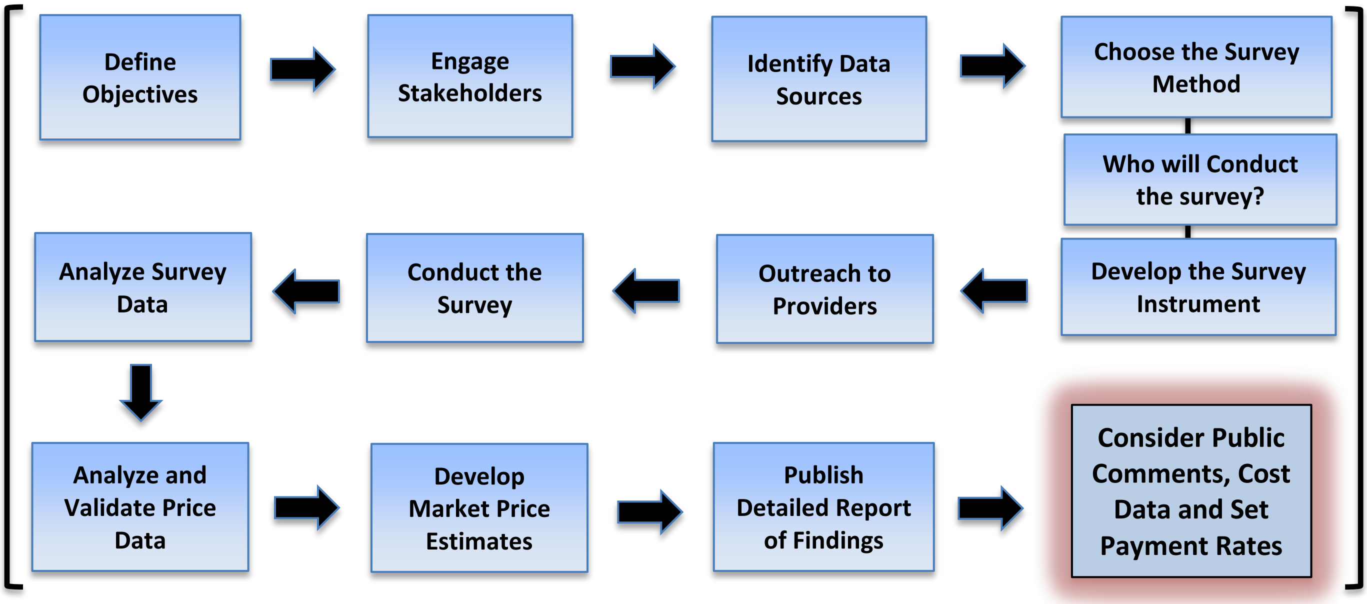
Equal Access Factors	Example Data Measures and Indicators
g) Describe how the Lead Agency's payment practices described in 4.5 support equal access to a range of providers.	• Lead Agency pays rates in either part or full-time increments for most provider settings and age groups. • Lead Agency pays for reasonable mandatory fees charged by providers to all subsidized and non-subsidized children. • Payment practices support the fixed costs of providing child care services by delinking provider payments from a child's occasional absences: - pay based on enrollment vs. attendance - issues full payment if a child attends at least 85 percent of the authorized time - provides full payment if a child is absent for five or fewer days in a month - other • Lead Agency pre-pays for services or pays within 21 days of receiving the invoice from providers. • Lead Agency has a formal provider appeal or resolution process to address claims of non-payment and payment inaccuracies. • Lead Agency provides written notice of payment or eligibility changes to providers. • Lead Agency ensures providers that families reimburse providers for payments issued directly to parents.
h) Describe how and on what factors the Lead Agency differentiates payment rates. Check all that apply. ☐ Geographic area. Describe: ☐ Type of provider. Describe: ☐ Age of child. Describe: ☐ Quality level. Describe: ☐ Other. Describe:	• An analysis of the market rate survey identifies rates by the various factors. • Results of alternative rate setting methodology or cost analysis of operating costs. • Evaluation of the cost of meeting minimum health, safety and staffing requirements. • Rationale for establishing tiered rate levels based on higher quality.

Equal Access Factors	Example Data Measures and Indicators
i) Describe any additional facts that the Lead Agency considered in determining its payment rates to ensure equal access. Check all that apply and describe: ☐ Payment rates are set at the 75th percentile benchmark or higher of the most recent MRS. Describe: ☐ Based on the approved alternative methodology, payment rates ensure equal access. Describe: ☐ Feedback from parents, including parent surveys or parental complaints. Describe: ☐ Other. Describe:	• Input from the State Advisory Council and other stakeholders is noted. • Input from parents and the provider community was indicated. • Public comments and recommendations on the Lead Agency's detailed report of the market rate survey or alternative methodology were included in final report and were addressed. • Lead Agency policy on countable income considers earned and unearned income sources that are not accessible to the family or available to support living costs, such as SNAP benefits, child support payments or amounts withheld from earnings for certain reasons. • Lead Agency has a policy for individuals experiencing temporary interruptions in employment, education or training. • There are other program supports and initiatives designed to support economic growth and family self-sufficiency.

In summary, through the four briefs addressing market rate surveys we have laid out a series of steps that are critical to conducting valid and reliable market rate surveys. Figure 1 provides an overview of the market rate survey and rate setting processes. Each step is equally important starting with defining the objectives, obtaining input from stakeholders, choosing the right survey method, determining who will conduct the survey and analyze the data; through the final steps of developing the market price estimates and setting the subsidy program's payment rates.

It is also important for CCDF administrators to maintain oversight of the process. This will ensure that each step is completed in a manner that meets the Lead Agency's objectives. A "hands-on approach" also builds confidence that the data obtained are reliable, representative of the prices CCDF families will encounter in their local markets, and that they form a sound basis for establishing payment rates that provide equal access.

Figure 1. Market Survey Workflow Process



Other Resources

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

FFY 2019-2021 CCDF Plan. https://www.acf.hhs.gov/occ/resource/ccdf-acf-pi-2018-02

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

Program Instruction: Guidance on alternative methodologies and cost analyses for purposes of establishing subsidy payment rates. https://www.acf.hhs.gov/occ/resource/ccdf-acf-pi-2018-01

CCDF-ACF-PI-2016-08 Attachment: *CCDBG Act and Final Rule Requirements for Market Rate Surveys & Alternative Methodologies*. https://www.acf.hhs.gov/sites/default/files/occ/ccdf_acf_pi_2016_08_attachment_ccdbg_act_and_final_rule_requirements_for.pdf

OPRE Report 2017-115 *Market Rate Surveys and Alternative Methods of Data Collection and Analysis to Inform Subsidy Payment Rates.* https://www.acf.hhs.gov/sites/default/files/opre/cceepra_methods_for_informing_subsidy_rates_508_compliant_v2b.pdf