MARYLAND STATE DEPARTMENT OF
EDUCATION
PREPARING WORLD CLASS STUDENTS

Karen B. Salmon, Ph.D.
State Superintendent of Schools

200 West Baltimore Street • Baltimore, MD 21201 • 410-767-0100 • 410-333-6442 TTY/TDD • msde.maryland.gov

August 22, 2017

The Honorable Nancy J. King, Senate Chair
Joint Committee on Children, Youth, and Families
223 James Senate Office Building
11 Bladen Street
Annapolis, MD 21401

The Honorable Arianna B. Kelly, House Chair
Joint Committee on Children, Youth, and Families
210 House Office Building
6 Bladen Street
Annapolis, MD 21401

The Honorable Edward J. Kasemeyer, Chair
Senate Budget and Taxation Committee
3 West, Miller Senate Office Building
11 Bladen Street
Annapolis, MD 21401

The Honorable Maggie McIntosh, Chair
House Appropriations Committee
211 House Office Building
6 Bladen Street
Annapolis, MD 21401

RE: 2017 Child Care Subsidy Program Reimbursement Rate Adjustments Report (MSAR #11209)

Dear Senator King, Senator Kasemeyer, Delegate Kelly, and Delegate McIntosh:

Section 9.5-111 of the Education Article requires that the Maryland State Department of Education (MSDE), beginning in 2017 and every two years thereafter, conduct a market rate survey or an alternative method allowable under federal law to formulate appropriate reimbursement rates for the Child Care Subsidy Program. By September 1, 2017, and every two years thereafter, MSDE must report specified information to the Joint Committee on Children, Youth, and Families, and the Senate Budget and Taxation and House Appropriations committees.

In response to §9.5-111 of the Education Article, please find attached the report concerning rate setting methodology and reimbursement rates for child care providers receiving Child Care Subsidy payments. We look forward to continuing to work on the many issues facing these programs to better serve the providers, children and families of Maryland.

Should you need any additional information or have questions regarding any of the information provided, please contact Elizabeth Kelley, Acting Assistant State Superintendent for the Division of Early Childhood Development by phone at 410-767-7806 or email at Elizabeth.kelley@maryland.gov.

Best Regards,

Karen B. Salmon, Ph.D.

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State Superintendent of Schools

cc: Carol A. Williamson
Elizabeth Kelley
Sarah Albert (DLS Library)

Child Care Subsidy Program – Reimbursement Rate Adjustments

REPORT TO THE MARYLAND GENERAL ASSEMBLY

September 2017

Submitted by:

Division of Early Childhood Development
Maryland State Department of Education

Child Care Subsidy Program – Reimbursement Rate Adjustments: Report for 2017

BACKGROUND

During Maryland's 2017 legislative session, the Maryland General Assembly passed Senate Bill 294/House Bill 418, "Child Care Subsidy Program – Reimbursement Rate Adjustments," which requires the Department to conduct an analysis and report to the General Assembly information concerning reimbursement rates set for the Child Care Subsidy Program (CCSP). The report is due to the General Assembly every two years, with the first report due on or before September 1, 2017.

The report must include:

- The methodology of the analysis used, whether market rate survey or an alternative method allowed by Federal Law;
- Cost estimates for raising the reimbursement rates to the 45th, 55th, 65th, and 75th percentile;
- The minimum base payment rate that is required for child care providers to meet health, safety, quality, and staffing requirements;
- The rate adjustment that the Department will implement based on the analysis;
- Any adjustments to program eligibility or family copay amounts; and
- Any potential impacts on families and providers due to any adjustments made to the program.

The Maryland State Department of Education's (the "Department") Division of Early Childhood Development (the "Division") is responsible for the regulation and administration of the child care subsidy program. The Division maintains all data related to the operation of the program.

Maryland's Child Care Subsidy Program (CCSP)

The MSDE's Division of Early Childhood Development (DECD), Office of Child Care (OCC) is responsible for the administration of the CCSP. The financial assistance provided through this program helps eligible families pay for child care and allows eligible families to participate in work, training and school.

CCSP is funded by the Child Care Development Fund, (CCDF) one of the funding streams for the CCDBG, and State General Funds. CCDF requires that a market rate survey be conducted at least every three years and recommends that subsidy rates be set at the 75th percentile of the market rate – that is, an amount equal to or greater than the rate charged by 75% of all child care providers in a category.

(1) The methodology of the analysis used to determine reimbursement rates.

Maryland has used the market rate survey methodology since the inception of the Child Care Subsidy Program (CCSP). The 2014 reauthorization of the federal Child Care Development Block

Grant (CCBDG) encourages states to consider using an alternative methodology. Senate Bill 293/House Bill 395 *"Child Care Subsidy Program – Alternative Methodology – Report"*, passed during the 2017 Legislative Session, requires the Department to study and report on whether an alternative methodology would be used in the State in determining reimbursement rates for the CCSP. The report on Alternative Methodology is due to the Legislature October 1, 2017.

For this report, the Department has used the currently approved market rate survey methodology for setting CCSP reimbursement rates.

Methodology: Maryland Family Network (MFN), under an agreement with the Department, collects and maintains information on all regulated child care facilities in Maryland. For each market rate survey MFN provides rate information that was collected within the previous 24 months. The rate information entered into the provider database is collected primarily through an annual questionnaire sent to all licensed and registered child care providers. Providers may also update their rate information on the MFN website or over the phone with MFN staff. Updating rate information is an ongoing, continuous process. The goal is accurate, reasonably current rate information on the whole population of child care providers.

The market rate information is prepared as follows:

> Fee information for the requested age groups, types of care, and regions are extracted from the database of licensed providers.
>
> *Age groups*: MFN collects and maintains fees based on a child's age in years. If the requested age grouping is multi-year (e.g. the age group, "under 2 years" comprises 0-11 months and 12-24 months), fees are noted as follows: fees for each year are summed, then divided by the number of non-zero values (for example, if a provider reports fees of $125 for 0-11 months and $100 for 12-24 months, then the averaged fee for 0-24 months for that provider would be $112.5 ($125 + $100 = $225, divided by 2 fees equals $112.5).
>
> *Types of care*: The market rate survey breaks the fees into the categories of family child care and child care center.
>
> *Regions*: Rates for each county and Baltimore City are compared and grouped by comparable costs into seven payment regions.

A market rate survey examines the range of the fees charged by providers in each region by type of care and age group. The non-zero fees for each category are rank ordered in a spreadsheet from lowest to highest. The appropriate counts and percentiles are calculated and the entire sheet is sent to the Division for analysis and reporting. A rate at the 75th percentile of the market rate is the rate that would be equal to or greater than the rate charged by 75% of the providers in that category. Only 25% of providers in the category charge more than the 75th percentile rate.

(2) Cost estimates for raising the reimbursement rates to the 45th, 55th, 65th, and 75th percentile.

MSDE's Office of Child Care has requested that RESI of Towson University (RESI) develop a series of cost estimates for the variety of potential rate increases for the Child Care Subsidy program. Estimated costs for SFY 2018 and 2019 are also presented, based on RESI's June 2017 Forecast of Child Care Subsidy Enrollment and Expense.

Methodology

The rate increases are based on the results of an ongoing survey of child care rates in Maryland conducted by Maryland Family Network. Results are summarized and conveyed to MSDE every other January. The most recent report was received in January 2017, and it is this report that forms the basis for this analysis.

Maryland Family Network collects data on rates using several different methodologies. Surveys, including questions about rates, are mailed to providers periodically and may be either mailed back or completed online. Additionally, updated rates may be supplied via email or phone calls to MFN's offices. This compilation of rates included responses from 2,650 child care centers and 1,115 family home providers.

RESI receives rate data broken out by provider type and age group within the State's seven subsidy rate regions. They combine and weight the various responses based on recent child enrollment data (in this case, subsidy enrollments as of March 2017), and compare categories of market rates with current subsidy rates to arrive at a percentage increase to achieve a given overall percentile of the market.

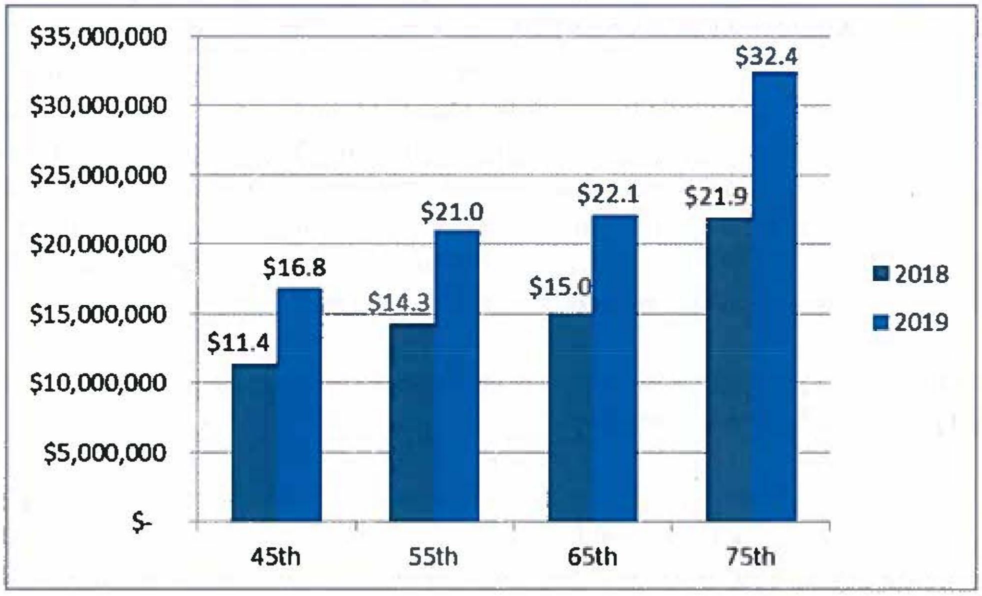
Results

The percentage increases thus identified, compared to current rates (which were recently raised by 2%) are shown below.

45th Percentile	55th Percentile	65th Percentile	75th Percentile
26.4%	33.0%	34.7%	50.8%

The difference between the various percentiles is not regular. Moving the rates up to the 75th percentile is much more expensive than moving them to the 65th, while the 55th and 65th percentiles are very similar. This is because provider rates are packed tightly in the middle of the distribution.

Applying these percentages to RESI's June 2017 forecast of Child Care Subsidy program enrollment and expense, assuming an October 1, 2017 implementation, produces the following increases for the middle scenario[1] of SFY 2018 and 2019. The low and high scenarios (not shown) have proportional changes, with the high scenario's 75th percentile at $37.1 million increase, and the low scenario at $27.6 million increase.



Adding these, and similar totals to all three scenario forecasts produces the following grand total estimated expense for the various rate options (expressed in millions):

		2017	2018	2019
High	45th	$ 76.8	$ 84.9	$ 95.5
	55th	$ 76.8	$ 88.0	$ 100.3
	65th	$ 76.8	$ 88.8	$ 101.5
	75th	$ 76.8	$ 96.3	$ 113.3
Middle	45th	$ 76.5	$ 78.9	$ 83.3
	55th	$ 76.5	$ 81.7	$ 87.5
	65th	$ 76.5	$ 82.5	$ 88.6
	75th	$ 76.5	$ 89.4	$ 98.9
Low	45th	$ 76.3	$ 72.9	$ 71.2
	55th	$ 76.3	$ 75.5	$ 74.8
	65th	$ 76.3	$ 76.2	$ 75.7
	75th	$ 76.3	$ 82.5	$ 84.5

[1] A scenario is a forecast alternative based on a set of logical alternative assumptions. Currently, RESI's monthly *Child Care Subsidy Forecast of Enrollment and Expense* is run with two sets of alternative assumptions, producing six alternative scenarios. These alternative assumptions are 1) different economic and program outcome assumptions called Middle (the most likely), High and Low, and 2) different assumptions about future subsidy rate increases, one to the 45th percentile of the most recent Maryland Family Network market rate survey, and one to the 75th percentile of that same survey.

Caveats

These forecasts are subject to a large number of potential errors, based on assumptions of growth and on the relevance of historical and future conditions. Major areas of risk include the future effects of the Maryland EXCELS quality rating system on the provider population, the impact of the 12-month voucher requirement, especially on Temporary Cash Assistance (TCA) child care costs, and the continuing impact of declines in informal provider enrollments. A rate increase will most likely have a positive effect on enrollments, as providers perceive improved income opportunities in serving subsidy families and advertise the program to their customers; this effect is difficult to estimate and no attempt has been made to model the impact on SFY 2019 enrollments. It may well be, however, that the high scenario will become more likely in 2019 if one of these rate increase alternatives is implemented.

(3) The minimum base payment rate that is required for child care providers to meet health, safety, quality, and staffing requirements.

It is not possible to determine the base payment rate required to meet health, safety, quality and staffing requirements due to several factors:

- All child care providers are required to meet minimum requirements for health and safety set in the Code of Maryland Regulations for child care licensing and registration.
- Child care providers set their payment rates based on the market they serve. The region within the state, the type of program offered, staffing costs, and the ages of the children served influence these rates.
- Maryland has defined quality as programs meeting the requirements of Maryland EXCELS. Maryland EXCELS is based on five levels of quality – Level One being the entry level, based on licensing regulations, through Level Five, based on program accreditation, higher staff credentials and greater program requirements. As a program progresses through the levels additional costs are associated, but will vary depending on the type and size of the program.

The agreement to provide child care service is between the parent and the child care provider. The child care subsidy reimbursement rate paid to providers is meant to assist families in paying for the cost of child care. Families at lower income levels receive higher levels of State assistance. As the family income increases the level of State reimbursement decreases. The intent of this methodology is to gradually move the family from dependence to self-sufficiency.

(4) The rate adjustment that the Department will implement based on the analysis.

Based on the allowance for the program, the Department raised the reimbursement rate by 2%, effective July 1, 2017. Any additional adjustments are contingent on funding and program utilization rates.

(5) Any adjustments to program eligibility or family copay amounts.

The CCDBG rule requires states to cap family copay amounts at 7% of income. Maryland will be adjusting the copay amounts to comply with the Federal rule. The Department does not intend on modifying the eligibility requirements at this time, but will continue to monitor the utilization and expenditures of the program.

(6) Any potential impacts on families and providers due to any adjustments made to the program.

There are many potential impacts on families and providers due to adjustments in reimbursement and copay amounts. The impacts on families could include:

- A reduced state-assigned copay amount due to the cap established by the CCDBG Act of 2014. It should be noted that many child care providers require families to pay the difference between the state reimbursement rate, the state-assigned copay and the rate charged to non-subsidy families. For example, if the facility charges the general public $400 per week for child care, the State reimbursement is $200 and the parent copay is $50, there is a $150 difference between the reimbursement/copay ($250) and the amount charged ($400). Many child care providers require the parent to pay the difference, for a total cost to the family of $200, to bring the amount paid to the provider up to the amount charged.
- As the reimbursement rate increases, the State picks-up a larger amount. Therefore, the cost passed to the parent decreases, enabling families to pay their copay amount and have a reduced additional cost.
- Increases in the reimbursement rate could enable families to choose a higher-level of quality child care which typically has a greater cost.

Impacts on providers may include:

- A more stable cash flow. When the State pays a larger amount (reimbursement) on behalf of families, the child care provider has a more predicable income and does not have to collect a large difference from the family.
- More providers may be more open to providing care to children with child care vouchers and willing to accept child care subsidy reimbursements.

Overall impacts of changes:

- As reimbursement rates increase, the number of families able to be served may decrease.