MARYLAND STATE DEPARTMENT OF EDUCATION
PREPARING WORLD CLASS STUDENTS

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

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October 1, 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: Child Care Subsidy Program – Alternative Methodology - Report (MSAR #11246)

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

During the 2017 Legislative Session, the Maryland General Assembly passed Senate Bill 293/House Bill 395, "Child Care Subsidy Program – Alternative Methodology – Report." These bills require the Maryland State Department of Education to report to certain committees of the General Assembly on methodologies to set subsidy reimbursement rates in the Child Care Subsidy Program.

Please find attached the report containing the Workgroup's recommendations for conducting market rate surveys and using alternative methodologies. 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 – Alternative Methodology

REPORT TO THE MARYLAND GENERAL ASSEMBLY

September 2017

Submitted by:

Division of Early Childhood Development
Maryland State Department of Education

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Child Care Subsidy Program – Alternative Methodology

BACKGROUND

The Maryland State Department of Education (MSDE), Division of Early Childhood Development (DECD), Office of Child Care (OCC) is responsible for the regulation and oversight of child care programs. This includes facilitating the development of new child care resources, promoting the use of regulated care, encouraging the growth of caregiver professionalism, providing support to low income families to access child care services, and providing technical assistance to child care providers and families. The OCC is comprised of four major areas – Licensing; Child Care Subsidy; Credentialing (professional development system for child care providers); and Maryland EXCELS (the state's quality rating and improvement system.)

The Maryland General Assembly passed Senate Bill 293/House Bill 395, "Child Care Subsidy Program – Alternative Methodology - Report", during its 2017 session. These bills require the MSDE to report to certain committees of the General Assembly on methodologies to set subsidy reimbursement rates in the Child Care Subsidy Program (CCSP). The report is due to the General Assembly on or before October 1, 2017.

The report must include:

- Whether an alternative methodology for setting child care subsidy reimbursement rates in the Child Care Subsidy Program should replace the market rate survey (MRS) or be used in addition to the MRS;
- The benefits and constraints of various alternative reimbursement rate setting methodologies;
- How other states set child care subsidy reimbursement rates;
- Feedback on reimbursement rate setting methodologies from stakeholder meetings of the Office of Child Care Advisory Council, resource and referral agencies, child care worker organizations, and other appropriate entities, and
- What alternative reimbursement rate setting methodology should be used or, if no alternative is recommended, whether there are ways to modify the MRS method to

better measure the actual cost of child care and the cost of improvement to the quality of child care.

Maryland's Child Care Subsidy Program (CCS)

The MSDE's Division of Early Childhood Development (DECD) is responsible for the regulation and administration of the child care subsidy program. The financial assistance provided through this program helps eligible families pay for child care and allows those families to participate in work, training and school. DECD maintains all data related to the operation of the program.

The Child Care Development Fund (CCDF), one of the funding streams of the Child Care Development Block Grant (CCDBG), as well as State General funds, help fund the CCSP. The CCDF requires that a MRS be conducted at least every three years and recommends that subsidy rates be set at the 75^{th} 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. Maryland's child care subsidy rate is currently set at the 10th percentile, which means only 10% of all child care providers charge an amount equal to or less than the amount paid by child care subsidy. This means 90% of child care providers charge an amount above what is paid for through child care subsidy resulting in what is commonly called "the difference or differential." The amount, above the subsidy amount and the State assigned parent co-payment, may be collected by the child care provider causing families to shoulder a larger amount of the tuition payments.

The DECD established a workgroup as required by Senate Bill 293/House Bill 395. The workgroup included child care providers, analysists, Office of Child Care (OCC) staff and interested parties (Appendix D). The workgroup held four meetings to review and gather information, discuss the information gathered by workgroup members, and prepare recommendations for this Report.

Should an alternative methodology for setting child care subsidy reimbursement rates in the Child Care Subsidy Program replace the market rate survey (MRS) or be used in addition to the MRS?

Alternative Methodology Recommendation

The workgroup recommends that the State adopt a Hybrid Alternative Methodology MRS to set subsidy rates for the CCSP. The Hybrid Alternative MRS would consider the following three variables (at a minimum):

- Revised, simplified MRS;
- Cost of higher quality child care at level 5 of the Maryland Quality Rating Improvement System (QRIS);
- Ways to decrease out-of-pocket expenses for low-income working parents.

The following actions are necessary to implement this recommendation:

- Reduction of barriers that discourage providers from completing and returning the MRS, such as:
  - Length of current MRS places a substantial time-burden on providers to complete;
  - Hard-copy MRS and mail submissions are antiquated and do not promote optimal returns;
  - Access to the individual and collective data obtained from the MRS; and
  - Educating all providers (not just those participating in the CCSP) on the importance of completing the MRS.
- Address strategies to encourage providers to complete the MRS without making it a mandatory licensing requirement.
- Develop a process for implementing a Hybrid Alternative Methodology:
  - Phase 1 - establish cost based on what providers report on the Simplified MRS;
  - Phase 2 - determine costs of higher quality care at level five (5) of Maryland EXCELS (Maryland's QRIS);
  - Phase 3 - establish a Hybrid Alternative Methodology which would use the data gained from the Simplified MRS as the base, the cost of actual care at Maryland

EXCELS Level 5, and out-of-pocket expenses for child care not covered by the set child care subsidy reimbursement rate.

The workgroup makes this recommendation based on a comprehensive review of information gathered from how other states/territories set subsidy rates for child care subsidy programs (Appendix B) and the limited timeframe given to complete this task.

The workgroup highly recommends that the OCC be given additional time to develop and properly investigate an alternative rate setting methodology to determine where to set CCSP reimbursement rates. It also recommended that additional resources be allocated to set subsidy rates closer to the 75^{th} percentile, as recommended by CCDF, and reflect the actual costs of child care.

Maryland's current methodology of the analysis used to determine reimbursement rates.

Current Methodology:

Maryland Family Network (MFN), under an agreement with the MSDE, collects and maintains rate information on all regulated child care facilities within the State. MFN provides rate information collected during the previous 24 months for each MRS it conducts. The rate information entered into the MFN database is collected primarily through an annual questionnaire sent to all licensed and registered child care providers. Providers may also update their 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 information on the whole population of child care providers.

The MRS examines the range of fees charged by providers in each region by type of care and age group and is prepared as follows:

- MFN extracts fee information for the requested age groups, types of care, and regions of care from its 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, 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 equals $112.5).
- *Types of care*: The MRS breaks the fees into registered family child care and child care center settings.
- *Regions*: Rates for each county and Baltimore City are grouped by comparable costs into the seven payment regions in the CCS regulations.
- 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 MFN sends the entire sheet to the DECD for analysis and reporting. A rate at the 75^{th} percentile of the market rate is 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 75^{th} percentile rate.

Proposed Methodology:

- Develop a simplified MRS to increase the collection of Market Rate Data;
- Address barriers that have resulted in a historically low return rate of MRSs by child care providers.
- Develop an instrument to capture the costs of higher quality care based upon Maryland's QRIS Level Five:
  - Maryland has defined quality as programs meeting the requirements of Maryland EXCELS (QRIS) based on its five levels of quality;
  - Level One of the QRIS is the entry level, based on licensing regulations. Level Five is based on program accreditation, higher staff credentials, greater program requirements; and
  - Each level of the QRIS brings additional costs as a program progresses through the levels. Those costs will vary depending on the type and size of the program.

- Review the process other states use to set subsidy rates for their Child Care Subsidy Program (Appendices B and C).
- Set the cost for the CCSP using a Hybrid Alternative Methodology that takes into consideration three factors:
    - Market Rate Survey;
    - Cost of higher quality care at QRIS Level 5; and
    - Reducing out-of-pocket expenses to parents who pay above the subsidy reimbursement to access child care.

The benefits and constraints of various alternative reimbursement rate setting methodologies.

An alternative methodology to set the subsidy rates allows states to analyze the actual cost of providing child care services. A MRS only provides the State with information about what the market will bear – in other words, what a child care provider can reasonably charge and expect parents to be able to pay for child care services. Many child care providers operate at a deficit due to the high costs associated with providing child care services. The majority of costs are associated with hiring and paying qualified staff to satisfy the child/staff ratios and qualifications. An alternative methodology considers the costs of staff based on qualifications, the costs associated with increasing the quality of care provided - such as meeting the requirements of program accreditation or establishing a Maryland EXCELS quality rating, and operating costs.

Maryland's subsidy rates are currently set at a very low percentile in comparison to the rates charged by providers, based on current subsidy reimbursement. Maryland is unable to serve all eligible families at this time and is currently maintaining a Wait List for families with incomes at the two 'highest' income categories. Without addressing existing funding constraints, Maryland would have to implement a complete CCSP freeze if the objectives are to set subsidy reimbursements near the actual cost of care and to expand access to higher quality care for more families.

The benefits of using an alternative methodology to set Maryland's Child Care Subsidy rates would include:

- The ability to reimburse providers closer to the cost of higher quality child care.
- Reduce the out-of-pocket expense, above the subsidy reimbursement, that parents have to pay to access quality child care.

The constraints of using an alternative methodology to set Maryland's Child Care Subsidy rates would include:

- Reimbursement at higher subsidy rates based upon current Child Care Subsidy allocation would result in Maryland:
  - Serving fewer eligible families;
  - Increasing the current program Wait List to the point of total program freeze, except for Temporary Cash Assistance families;
  - Inability of program growth; and
  - The potential of child care programs having to close statewide, specifically programs serving a high population of parents eligible for child care subsidy services.
- The agreement to provide child care service is between the parent and the child care provider. The CCS reimbursement rate paid to providers is meant to assist families in paying for the cost of child care. However, the out-of-pocket expense low-income parents have to pay in addition to the subsidy payment reduces access to higher quality child care for many families.

An example of one alternative reimbursement rate setting methodology involves raising the reimbursement rate to the 75^{th} percentile of the MRS. In considering this methodology, MSDE's DECD requested the Regional Economic Studies Institute (RESI) of Towson University to develop a series of cost estimates at the 45^{th}, 55^{th}, and 75^{th} percentile to demonstrate both the benefits and constraints of a variety of potential rate increases for the CCS program.

Methodology:

The Maryland Family Network (MFN) collects data on rates using several different methodologies. MFN mails surveys that include questions about rates to providers periodically and providers may either mail their responses back or complete the survey online. Providers may also contact MFN through email or telephone to update their rates. The most recent rate compilation 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.

The estimated costs for SFY 2018 and 2019 are also presented, based on RESI's June 2017 Forecast of Child Care Subsidy Enrollment and Expense.

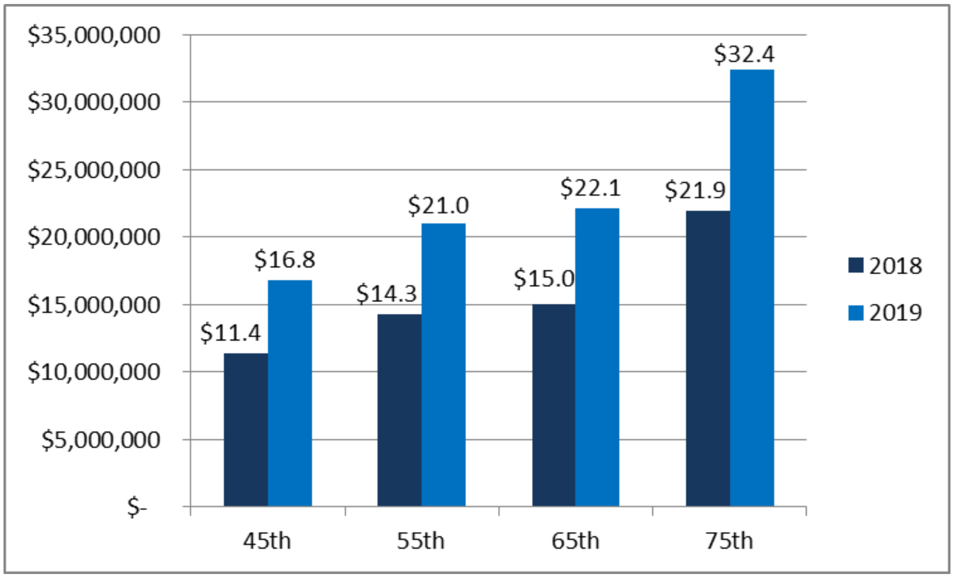
Results

The percentage increases thus identified, compared to current rates (raised by 2% effective July 1, 2017) are below.

45^{th} Percentile	55^{th} Percentile	65^{th} Percentile	75^{th} Percentile
26.4%	33.0%	34.7%	50.8%

The difference between the various percentiles is not regular. Moving the rates up to the 75^{th} percentile is much more expensive than moving them to the 65^{th}, while the 55^{th} and 65^{th} 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 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 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 QRIS 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 we did not attempt to model the impact on SFY 2019 enrollments. It is possible however, that the high scenario will become more likely in 2019 if the MSDE implements one of these rate increase alternatives.

How other states set child care subsidy reimbursement rates.

According to the Administration for Children and Families, Office of Child Care, six states use an approved alternative methodology and the MRS to set subsidy reimbursement rates for their child care subsidy program. Only the District of Columbia uses an approved Alternative Methodology to set the subsidy reimbursement rates. The remaining states/territories use a MRS to set rates for their child care subsidy programs.

The State Assessments of Market Rates and Child Care Costs for Center Child Care Payments as reported in the 2016 CCDF State Plans was used to establish how other states set child care subsidy rates (Appendix B). The following lists the methodologies used by other states/territories to set child care subsidy reimbursement rates:

- Cost models to inform the rate structure for tiered reimbursement rates, as well as a MRS to provide information about the implemented rate structure;
- Cost models to determine the cost of delivering services at each level of the quality rating and improvement system in centers and homes;

- MRS and an economic impact study that asked providers about their rates, revenues from other sources, and expenditures. The state compared the rates from the economic impact study with the rates from the MRS to determine the rate adjustment;
- A MRS and early childhood funding model was used to determine the target level of funding for each age group in care;
- The state conducted a MRS with an additional section to capture information on costs incurred by child care providers;
- A MRS and the quality cost calculator (https://www.ecequalitycalculator.com/Login.aspx) to assess the actual cost of quality care;
- Percentiles calculated based on QRIS Levels;
- MRS and administrative data from the past five years and feedback from parents to understand the availability of and access to services and the costs associated with participating in the program.

Feedback on reimbursement rate setting methodologies from stakeholder meetings of the Office of Child Care Advisory Council, resource and referral agencies, child care worker organizations, and other appropriate entities.

Maryland's subsidy rates need to be set at a higher rate than the current percentile of reimbursement. The workgroup acknowledges that implementation of an alternative methodology that addresses the actual cost of child care is not financially-feasible for Maryland without additional funding.

The workgroup recommends:

- A Hybrid Alternative Methodology to set rates for the CCSP based upon the cost of higher quality child care and the MRS with the goal of reducing out-of-pocket expenses to access child care.

- The provision of additional time to establish the protocol for the Hybrid Alternative Methodology and to collect the child care market data necessary to determine the cost of higher quality child care.
  - Washington D.C. hired a consultant to develop the Methodology it uses to set its subsidy rates; it took two years to complete the current methodology.
  - The workgroup believes Maryland will need similar time and will need to employ the expertise of a consultant to develop the Hybrid Alternative Methodology the workgroup proposes.

- Maryland has the highest State Median Income in the United States, yet is amongst the states that reimburse at the lowest percentile of the MRS. The workgroup strongly recommends that Maryland:
  - Immediately set subsidy reimbursement rates as close to the 75th Percentile of the MRS as possible, as recommended within the 2016 Federal Rule;
  - Determine how much additional funding would be necessary to set subsidy rates based upon a Hybrid Alternative Methodology while addressing the current Program Wait List and allowing for nominal Program growth; and
  - State legislators begin the discussion and actions required to secure the allocations needed to set reimbursement based upon the higher cost of quality child care in Maryland.

The workgroup noted the impact on families and providers if there is an increase in the costs to reimburse higher quality care.

Impacts on families would include:

- 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 out-of-pocket cost required to cover the tuition balance not covered by the subsidy reimbursement; and

- Increases in the reimbursement rate could enable families to choose a higher quality child care provider.

Impacts on providers would include:

- Child care providers have a more predicable income. When the State pays a larger reimbursement on behalf of families, the provider does not have to collect the difference from the family; and
- Increased enrollment for providers who may be more willing to accept CCS children.

Overall impacts without adequate program allocations:

- As reimbursement rates increase, the number of families who can be served may decrease; and
- Without additional funding, the CCSP would see crippled growth and the implementation of a deeper, or complete, Wait List for the program.

- The Workgroup recommends a Hybrid Alternative Methodology to determine the actual cost of higher quality child care and to set the subsidy reimbursement rate for CCS. Use of a Hybrid Alternative Methodology would provide Maryland with the following benefits:
  - Reimbursement of a subsidy rate that is more accurate and more reflective of the cost of higher quality care; and
  - Increased access to higher quality care to children from low income working families that result in the following short-term and long-term statewide benefits:
    - Increased school readiness;
    - Decreased costs of remedial services;
    - Decreased costs in juvenile and adult judiciary costs;
    - Increased preparedness for post-secondary education and lifetime learning; and
    - Increased population prepared to meet the needs of a technologically advancing workforce.

What alternative reimbursement rate setting methodology should be used or, if no alternative is recommended, whether there are ways to modify the market rate survey method to better measure the actual cost of child care and the cost of improvement to the quality of child care.

A Hybrid Alternative Methodology should be used to set the subsidy reimbursement rate for the CCS program and to determine the actual costs of higher quality child care in Maryland.

Proposed Methodology:

PHASE 1 - Simplified Market Survey

The Workgroup recommends the use of a Simplified MRS (Appendix A) with supporting cover letters from MSDE and the child care provider associations to encourage providers to complete and return the Simplified MRS.

Provider response in completing the MRS has been extremely low and limited to providers participating in the CCS Program. It is imperative that Maryland gains sufficient reply and return from a cross-section of child care providers to get a truer picture of the cost of child care. To gain the actual cost of child care across care types, the Workgroup agreed that the advocacy groups would conduct an outreach campaign that addresses how the MRS impacts a family's affordability and accessibility to child care and allows higher quality child care to become an option for low-income working parents.

The Workgroup believes that with the endorsement of the child care advocacy groups and the MSDE, child care providers would be more willing to complete and return the simplified Market Survey. Likewise, the Workgroup clarified and addressed concerns providers have with providing the data collected on the MRS, such as confidentiality and use of collected data.

PHASE 2 - Maryland EXCELS Level 5

The Workgroup recommends that part of the Hybrid Alternative Methodology determine the cost of higher quality care be determined based on the standards for Maryland EXCELS - Level

5. The Workgroup further recommends developing a resource tool to help providers better understand and record the costs of child care that would accurately capture the costs of achieving and maintaining a Level Five rating within Maryland EXCELS.

PHASE 3 - Hybrid Alternative Methodology

The Workgroup recommends developing a Hybrid Alternative Methodology for Setting Subsidy Rates for the Child Care Subsidy Program. It will be necessary for Maryland to identify which states use other methodologies separate from, or in conjunction with, the MRS to set subsidy rates and to determine if any model identified in whole or part could be used to establish the protocol for the deployment of Maryland's Hybrid Alternative Methodology.

Appendices

Appendix A - Simplified MRS

Appendix B - How States/Territories Set Market Rates

Appendix C - MRS and Alternative Methodology Examples for Maryland

Appendix D - Alternative Methodology Workgroup Members

Appendix A

Cost of Child Care – Statewide Provider Rates

The Maryland State Department of Education, Office of Child Care (MSDE/OCC) is requesting information from child care providers to determine the cost of child care across Maryland. The information gathered is confidential and used for data analysis only. The data collected is not related to, nor will it be shared, with licensing or posted on any website. By completing this document, you are helping the MSDE/OCC document the cost of providing child care in Maryland and determine the appropriate reimbursement rates for providers accepting child care subsidy. This form may be filled out on line at: xxxxxxx faxed to: xxxxx or mailed to: xxxxxxxxxxx. Thank you for your cooperation.

Facility Name (for Family Child Care please use your name):		
LICENSE/REGISTRATION NUMBER (used for identification purposes only):		
Do you participate in Maryland EXCELS?	☐ YES	☐ NO
FACILITY TYPE:	☐ Child Care Center	☐ Family Child Care Home
	☐ Large Family Child Care Home	☐ Letter of Compliance Facility
TELEPHONE NUMBER:	FAX:	
EMAIL:		
CARE ADDRESS:		
CITY:	STATE:	ZIP:
MAILING ADDRESS:		
CITY:	STATE:	ZIP:

Please complete the following information for each age group served. Do not include any discounts applied based on family size or income.

Fees are charged/collected: ☐Weekly ☐Monthly

Age Group(s) Served	RATES				
	Regular Full Time	**Before/After School**	**Daily**	**Non-Traditional (Overnight)**	**Non-Traditional (Weekend)**
Infant (Birth-18mo)	$		$	$	$
Toddler (18mo-24mo)	$		$	$	$
2 year olds	$		$	$	$
3 year olds	$		$	$	$
4 year olds	$	$	$	$	$
5 year olds	$	$	$	$	$
School-Age (5+)	$	$	$	$	$

Registration Fee (if any): $_________________
Registration is Assessed: ☐ Per Child ☐ Per Family Annually: ☐Yes ☐No

I understand this information will be used to help determine the cost of quality care being charged to parents within Maryland.

____ ____________________________

Printed Name of the Person Completing this information DATE

How States/Territories Set Subsidy Rates

State Assessments of Market Rates and Child Care Costs for Center Child Care Payments (As Reported in CCDF Plans), 2016

State	Methodology Used	Date of Most Recent MRS or Alternative Methodology [1]	Reimbursement Rates as a Percent of the Market Rate for the Most Populous Geographic Region (by Age of Child)			
			6 months	18 months	48 months	72 months
Alabama	MRS	8/31/2014	46	46	44	55
Alaska	MRS	1/25/2016	11	21	11	5
Arizona	MRS	10/1/2014	8	5	5	12
Arkansas	Alternative Methodology and MRS [AR1]	1/1/2016 [AR2]	98	98	97	98
California	MRS	11/1/2014	55-60	55-60	55-60	55-60
Colorado	MRS	11/17/2015	10-25	10-25	10-25	10-25
Connecticut	MRS	12/16/2015	4 [CT1]	4 [CT1]	6 [CT1]	50 [CT1]
Delaware	MRS	5/1/2015	65	65	65	65
DC	Alternative Methodology [DC1]	2/15/2016	NA	NA	NA	NA
Florida	MRS	6/17/2015	25	27	27	26
Georgia	Alternative Methodology and MRS [GA1]	7/1/2013 [GA2]	50	50	50	50
Hawaii	MRS	8/31/2015	56	56	21	100
Idaho	MRS	12/16/2015	40	30	30	65
Illinois	MRS	12/31/2015	30.5	30.5	28	72.9
Indiana	MRS	2/26/2016	32	26	31	43
Iowa	MRS	12/9/2014	40	40	25	50
Kansas	MRS	11/25/2014	15	15	37	37
Kentucky	MRS	3/31/2015	33	40	25	41
Louisiana	Alternative Methodology and MRS [LA1]	4/30/2015	50	50	50	<75
Maine	MRS	12/11/2015	50	50	50	50
Maryland	**MRS**	**1/31/2015**	**21**	**21**	**13**	**13**

State	Methodology Used	Date of Most Recent MRS or Alternative Methodology [1]	Reimbursement Rates as a Percent of the Market Rate for the Most Populous Geographic Region (by Age of Child)			
			6 months	18 months	48 months	72 months
Massachusetts	MRS	12/8/2015	58	53	35	40
Michigan	MRS	6/17/2015	71	71	56	51
Minnesota	MRS	9/31/2014	25.5	26.9	23.7	35.5
Missouri	MRS	12/20/2014	46	46	38	50
Montana	MRS	7/1/2013	75	75	75	75
Nebraska	MRS	4/1/2015	60	60	60	60
Nevada	Alternative Methodology and MRS [NV1]	11/1/2015	8.3	5.17	3.01	4.48
New Hampshire	MRS	11/2/2014	50	50	50	50
New Jersey	MRS	12/23/2015	19	35	50	14
New Mexico	MRS	5/29/2015	74	50	31	49
New York	MRS	4/1/2014	69	69	69	69
North Carolina	MRS	7/10/2015	56	56	56	64
North Dakota	MRS	6/25/2015	33	32	35	55
Ohio	MRS	2/1/2015	16	16	16	16
Oklahoma	MRS	10/1/2014	35.67	39.86	39.4	67.55
Oregon	MRS	1/5/2015	75	75	75	75
Pennsylvania	MRS	3/31/2014	22.2	31.1	18.3	21.4
Rhode Island	MRS	1/11/2016	12	21	18	19
South Carolina	MRS	12/31/2015	75 [SC1]	75 [SC1]	75 [SC1]	60 [SC1]
South Dakota	MRS	5/31/2015	80	80	90	75
Tennessee	MRS	10/8/2015	21	14-20	19	51-57
Texas	MRS	6/1/2015	57	48	31	25
Utah	MRS	4/30/2015	69	69	68	70
Vermont	MRS	10/31/2015	1.08	1.08	4.14	6.99
Virginia	MRS	9/30/2015	18	24	32	38

State	Methodology Used	Date of Most Recent MRS or Alternative Methodology [1]	Reimbursement Rates as a Percent of the Market Rate for the Most Populous Geographic Region (by Age of Child)			
			6 months	18 months	48 months	72 months
Washington	MRS	8/1/2015	8.2	6	4.4	69.9
West Virginia	MRS	10/8/2015	75	75	75	75
Wisconsin	MRS	2/25/2016	53	53	49	50
Wyoming	MRS	7/31/2015	15	24	23	53
American Samoa	Alternative Methodology and MRS [AS1]	3/1/2016	100	100	100	100
Guam	MRS	8/30/2015	NA	NA	NA	NA
No Mariana Islands	MRS	3/1/2015	68	68	68	58
Puerto Rico	MRS	1/8/2016	75	75	75	75
Virgin Islands	MRS	3/1/2016	85	85	85	85

Source: CCDF Policies Database October 1, 2016 Data

[1] The date the MRS was completed may not reflect the date the data were collected. If the state or territory uses both a MRS and an alternative methodology, then the date indicates the date of the MRS. If available, the date of the alternative methodology is included as a footnote.

[AR1] The state used cost models to inform the rate structure for tiered reimbursement rates, as well as a market rate study to provide information about the implemented rate structure.

[AR2] The cost models for the alternative methodology were developed in 2013 and 2014.

[CT1] The percentiles are calculated for the North Central Region.

[DC1] The state used a cost model to determine the cost of delivering services at each level of the quality rating and improvement system in centers and homes.

[GA1] In addition to a MRS, the state conducted an economic impact study that asked providers about their rates, revenues from other sources, and expenditures. The rates from the economic impact study were similar to the rates from the MRS so the state did not update their rates.

[GA2] The economic impact study for the alternative methodology was completed in March 2015.

[LA1] In addition to a MRS, the state used an early childhood funding model to determine the target level of funding for each age group in care.

[MS1] The state conducted a MRS with an additional section to capture information on costs incurred by child care providers.

[NV1] In addition to a MRS, the state used the quality cost calculator (available on the Administration for Children and Families' website) to assess the actual cost of quality care.

[SC1] The percentiles are calculated for Level B Centers.

[AS1] In addition to a MRS, the territory used administrative data from the past five years and feedback from parents to understand the availability of and access to services and the costs associated with participating in the program.

MRS and Alternative Methodology Examples for Maryland

The National Center for Subsidy Innovation and Accountability (NCSIA) is providing technical assistance to Maryland in response to a TA request for the benefits and constraints of various alternative reimbursement rate-setting methodologies. Below are examples of MRS (or price study), alternative methodology (or cost study), and combination strategies states have used to understand the cost of child care and ensure families have equal access to quality child care.

Definitions

MRS (or price study) is a study of the prices or fees child care providers typically charge and parents typically pay per unit of care (e.g., per day, per week, per month) in the priced child care market. Market prices are based on arms-length transactions.[2]

Cost study is a study that collects data at the facility or program level to measure costs (of inputs used) to deliver services. The State may develop cost-modeling scenarios that incorporate both cost data and assumptions to estimate cost of care to deliver child care services.[3]

Rate setting is the process by which provider payment rates are set for the child care subsidy program in a particular state (or sub-state regions).[4]

MRS and Alternative Methodology: CCDF Final Rule Requirements

Based on Section 658E(c)(4)(B) of the Act, § 98.45(c) of the final rule requires Lead Agencies to conduct, no earlier than two years before the submission of their CCDF Plan, a statistically valid and reliable MRS or an alternative methodology, such as a cost estimation model.

Statistically Valid and Reliable MRS. A MRS is an examination of prices, and Lead Agencies have flexibility to use data collection methodologies other than a survey (*e.g.,* administrative data

[2] State and Territory CCDF Administrators' Meeting September 29, 2016: "Alternative Methodologies and Market Rate Surveys Options and Strategies for Identifying and Incorporating Cost of Early Care and Education in Subsidy Payment Rates" http://www.occ-cmc.org/stam2016/resources.aspx

[3] STAM 2016 Presentation: Alternative Methodologies and Market Rate Surveys http://www.occ-cmc.org/stam2016/resources.aspx\

[4] 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

from resource and referral agencies or other sources) so long as the approach is statistically valid and reliable.

ACF is not defining *statistically valid and reliable* within the regulatory language but is establishing a set of benchmarks, largely based on CCDF-funded research to identify the components of a valid and reliable MRS. ACF will consider a MRS to be statistically valid and reliable if it meets the following benchmarks:

- **Includes the priced child care market**. The survey includes child care providers within the priced market (*i.e.,* providers that charge parents a price established through an arm's length transaction). In an arm's length transaction, the parent and the provider do not have a prior relationship that is likely to affect the price charged. For this reason, some unregulated, license-exempt providers, particularly providers who are relatives or friends of the child's family, are generally not considered part of the priced child care market and therefore are not included in a MRS. These providers typically do not have an established price that they charge the public for services, and the amount that the provider charges is often affected by the relationship between the family and the provider. In addition, from a practical standpoint, many Lead Agencies are unable to identify a comprehensive universe of license-exempt providers because individuals frequently are not included on lists maintained by licensing agencies, resource and referral agencies, or other sources. In the absence of findings from a MRS, Lead Agencies often use other facts to establish payment rates for providers outside of the priced market (*e.g.,* license-exempt providers); for example, many Lead Agencies set these payment rates as a percentage of the rates for providers in the priced market.

- **Provides complete and current data**. The survey uses data sources (or combinations of sources) that fully capture the universe of providers in the priced child care market. The survey should use lists or databases from multiple sources, including licensing, resource and referral, and the subsidy program, if necessary, for completeness. In addition, the survey should reflect up-to-date information for a specific time period (*e.g.,* all of the prices in the survey are collected within a three-month time period).

- **Represents geographic variation**. The survey includes providers from all geographic parts of the State, Territory, or Tribal service area. It also should collect and analyze data in a manner that links prices to local geographic areas.

- **Uses rigorous data collection procedures**. The survey uses good data collection procedures, regardless of the method (mail, telephone, or web-based survey; administrative data). This includes a response from a high percentage of providers (generally, 65 percent or higher is desirable and below 50 percent is suspect). Some research suggests that relatively low response rates in certain circumstances may be as valid as higher response rates. Therefore, in addition to looking at the response rate, it is necessary to implement strong sample designs and conduct analyses of potential response bias to ensure that the full universe of providers in the child care market is adequately represented in the data and findings. Lead Agencies should consider surveying in languages in addition to English based on the languages used by child care providers, and other strategies to ensure adequate responses from key populations.

- **Analyzes data in a manner that captures market differences**. The survey should examine the price per child care slot, recognizing that all child care facilities should not be weighted equally because some serve more children than others. This approach best reflects the experience of families who are searching for child care. When analyzing data from a sample of providers, as opposed to the complete universe, the sample should be appropriately weighted so that the sample slots are treated proportionally to the overall sample frame. The survey should collect and analyze price data separately for each age group and category of care to reflect market differences.

The purpose of the MRS 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, including high-quality child care. However, the child care market itself often does not reflect the actual costs of providing child care and especially of providing high-quality child care designed to promote healthy child development. Financial constraints of parents prevent child care providers from setting their prices to cover the full cost of high-quality care, which is unaffordable for many families. As a result, a MRS may not provide sufficient information to assess the actual cost of quality care. Therefore, it's often important to consider a range of data, including, but not limited to, market rates, to understand prices in the child care market.

State Level Analysis and Examples

Looking at the 2016-18 State Plans, the District of Columbia is the only state/territory that conducted solely an alternative methodology. I have attached the brief describing the Office of the State Superintendent of Education's (OSSE) cost model approach as well as a PowerPoint presented to Region III State Administrators. One important note related to OSSE's model is that although the methodology collected the data needed to show the true cost of care, the methodology did not collect the current market rates. In previous conversations with NCSIA, Beverly Wellons, Region III RPM, indicated that Elizabeth Groginsky, Assistant Superintendent for Early Learning and CCDF Administrator, would be happy to talk to you about their methodology and lessons learned.

There were 6 States/Territories that conducted both a MRS and an alternative methodology. They were American Samoa, Arkansas, Georgia, Louisiana, Mississippi, and Nevada.

American Samoa has 25 active authorized providers. Based on the size, NCSIA did not dig into their methodology. Here is a quick summary of other methodologies, pulled from the State Plans.

Louisiana: In addition to the MRS, the Lead Agency will use an alternative methodology. The Lead Agency recently developed an early childhood funding model, which demonstrates the target level of funding for each age group. The funding model was requested by the state legislature (HCR 61, 2014) and was approved by the Board of Elementary and Secondary Education. The funding model is found here: http://www.louisianabelieves.com/docs/default-source/early-childhood/ecce-ac---12-8-presentation-on-funding-model-and-considerations.pdf?sfvrsn=2

For the MRS, a survey was mailed to child care providers across the state and made available online. For the funding model, the CCDF Lead Agency worked with national experts to identify cost factors affecting providers' statewide cost impact and state policies. In addition, the CCDF Lead Agency worked with child care providers to understand their cost factors. The funding model also included a plug and play calculator that could be used to determine statewide costs of varying options.

Mississippi: The Lead Agency conducted an MRS but added a supplemental section which captured information regarding costs incurred by the child care provider for the provision of care. More information about the MRS, including a detailed analysis, is available on the Division of Early Childhood Care and Development (DECCD) website at http://www.mdhs.ms.gov/media/328817/MDHS-DECCD-Market-Rate-Survey-2016_final-analysis.pdf.

Nevada: Both a MRS and an alternative methodology were conducted. The alternative methodology was conducted to assess the true cost of quality using the Quality Cost Calculator available on the Administration of Children and Families website. The Alternative Methodology was used to determine the difference between the market and the true cost of quality and whether or not the State can reimburse at the true cost of quality as an incentive to provide higher quality care (3-, 4-, and 5-stars on Nevada's QRIS), care to infants and toddlers, and/or care for children with special needs.

Since submitting State Plans, other States and Territories are exploring alternative methodologies. This past fall at STAM, Kathryn Tout of Child Trends led a workshop titled, "Alternative Methodologies and MRSs: Options and Strategies for Identifying and Incorporating Cost of Early Care and Education in Subsidy Payment Rates." The two states that presented during this workshop were Colorado and New Mexico. Colorado focused on Cost Modeling as a way to inform adjustments to market prices so that rates and better align with the costs of delivering child care. New Mexico established a base rate using the MRS and also partnered with an economist to evaluate and assess quality rates based on FOCUS implementation. (FOCUS is New Mexico's Tiered Quality Rating and Improvement System.) Digging into New Mexico a bit more, their team used the PCQC to help determine the amount of payment necessary (for specific age groups and at specific QRIS levels) to offset the costs that providers absorb as their quality increases. New Mexico has historically set tiered payment rates so the rate increases by a set dollar amount for each QRIS level. By better understanding cost increases—and potential lost revenue—by age group and quality level, New Mexico was able to differentiate rates not only by quality level, but also by the age of the child. This rate structure ensures that programs will have the financial support necessary to meet the lower staff-child ratios required in levels 4 and 5 of the QRIS.

There are many good state examples of MRSs. I have included two summaries below, but can certainly send more examples, if needed.

Oregon: The 2014 Oregon Child Care Market Price Study was determined to be valid and reliable based on the completeness of the data, geographic representativeness, response rate and currency of the data. Price data was complete for 86 percent of facilities in the database. The 14 percent not represented included facilities that typically do not charge parents (i.e. Head Start), have complex rates, or choose to discuss rates directly with parents. Price data was collected from all 36 Oregon counties. The response rate was 99 percent with a six-month standard. 98 percent of prices in the database were updated within the three month period prior to the data pull.
http://www.oregon.gov/OCC/OCC%20Forms/Document/CCMR%202014%20Report_Final.pdf

Indiana: The Lead Agency's database, CCIS, receives the provider market rate data electronically from the Indiana Association of Child Care Research and Referral (IACCRR), utilizing an export from NACCRRAware Data System (NDS). The provider rate data within NDS must be updated by IACCRR via telephone surveys to programs at least every 6 months. To ensure a valid Sample size for the 2015 survey, the lead agency required that the total population be surveyed and the response rate of that total population surveyed may not be less than 95%. For the 2015 survey, the response rate was 95.7%.

Weekly, daily and hourly rates are collected by six age group categories (infant, toddler, 3-5 years, kindergarten, School Age before/after and School Age other). Data is imported for each provider that responded to enable analysis of the rates by provider type, Paths to Quality (PTQ) level, county, geographic region, and more. Following the initial data import, quality checks were completed on all data responses received in the sample. Outliers were flagged to be reviewed and verified. Once completed, analysis on the rates begins.

Analysis is conducted on the rates to determine the percentile of the current reimbursement rates by many different categories, including provider type, PTQ level, age group, geographic region, county, county size and combinations of these categories. Other analysis includes comparisons of average rates, comparisons of survey data received and analysis on the part-time rates. Results are also compared with previous year calculations.

In April of 2014, the Office of Early Childhood and Out-of-School Learning (OECOSL) implemented tiered reimbursement rates based on the provider's PTQ rating level. These new rates were designed to support access to high quality programs for families receiving a CCDF voucher by covering more of the cost of quality and reducing the likelihood of overage charges. Current rates are reviewed in particular relative to the percentiles that rates represented when deployed in 2014. Different rate structures are currently being evaluated, determining the level of access to high quality programs and estimating the financial impact and the effect on caseloads of implementing these structures in order to make decisions on implementing an update to reimbursement rates this year.
http://www.in.gov/fssa/files/MR_Report_Indiana_20160321.pdf

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