Understanding Alternative Methodology: An Alternative to the Market Rate Approach for Child Care Subsidy Rate Setting

Federal Child Care Funding and Rate Setting

The Child Care Development Fund (CCDF) is the primary source of public funding to support access to child care for low-income working families. Each state or territory sets the payment rates which child care programs receive when serving a child who is eligible for subsidies under this fund.

- States have broad authority to set reimbursement rates.
- States are required to assess the cost of delivering high-quality services and then use this data to inform rates for subsidized child care every three years.

States—in consultation with the State Advisory Council on Early Childhood Education and Care, local program administrators, resource and referral agencies, and other appropriate entities—must develop and conduct:

- A statistically valid and reliable survey of the market rates for child care services in the State that reflects variations in the cost by geographic area, type of provider, and age of child,

or

- An *alternative methodology,* such as a cost estimation model.

- States may differentiate rates based on various characteristics of care.
- Payment rates must be sufficient to ensure equal access to the same services (type of care, quality of care) as children not receiving CCDF

What is the Market Rate approach?

Currently, the prevalent method of setting rates for publicly funded child care is through a market rate approach. Through this approach, a study of market prices for child care is done and this information is used by states to set subsidy rates. The market rate reflects the prices that providers charge families, which in turn reflects what families can afford. The cost of child care for a family with young children can be an overwhelming burden, particularly for a family earning a low income. Programs have to set tuition at what families in their communities are able to afford, not necessarily reflecting what the service costs. It is this information that informs the market rate for child care in a given region.

What is an Alternative Methodology for rate setting?

An alternative methodology for rate setting may be a cost study or a cost estimation model.

A *cost study* involves collecting data from providers about their current costs of operating a program that meets licensing standards as well as other quality standards, reflecting point in time data about provider costs.

A *cost estimation model* involves building a tool that is informed by provider data and that can run multiple scenarios to estimate the impact of several variables on cost, such as program characteristics (e.g., size and age mix), child populations served, program quality, and location in the state.

An alternative methodology approach should:

- Engage diverse body of child care stakeholders in all elements of process (vetting assumptions and model building, data collection, review of findings and more)
- Estimate the cost of providing care at varying levels of quality and the resources needed for a provider to remain financially solvent (key cost factors such as salaries and benefits, training and professional development, curricula and supplies)
- Examine the impact of program and facility size, ages of children served, geographic region, enrollment, bad debt, and other factors
- Demonstrate the impact of funding from multiple sources