IDEAS
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RESULTS

Increased Payment Rates to Support Child Care

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January 2021

The Bipartisan Policy Center would like to thank the Robert Wood Johnson Foundation for their generous support of our partnership with the Center for American Progress, Child Care Aware of America, First Five Years Fund, and the National Association for the Education of Young Children, of which this brief is a part.

Early Childhood Initiative

Introduction

In March of 2018, Congress increased funding for the Child Care and Development Block Grant (CCDBG) by $2.37 billion, the largest single increase to CCDBG ever outside of emergency appropriations related to COVID-19.[1] States have significant flexibility in how they spend their CCDBG funds, and this flexibility continued with the increased fiscal year 2018 funds. However, the House Appropriations Committee's Joint Explanatory Summary outlined expectations for the historic increase, including that the funds should be used to help fully implement requirements in the 2014 reauthorization of the CCDBG Act.[2] These requirements included increasing the rates paid to child care providers serving children with a child care subsidy. As child care

programs across the country are financially impacted by closures and reduced numbers of children due to COVID-19 health and safety guidelines, revisiting how states addressed rates with the CCDBG increase provides a road map for where state policies are today in relation to child care payment rates. This paper outlines how states used the 2018 funds to help increase state payment rates.

Background on Subsidy Payment Rates

States determine the structure and payment rates for child care providers serving children receiving child care subsidies. States have significant flexibility in setting their rates, but they must be high enough that families receiving subsidies have access to the majority of the child care market in a region. States use a market rate survey to determine what rates child care providers are charging private-pay parents. As BPC's report The Limitations of Using Market Rates for Setting Child Care Subsidy Rates showed, market rate surveys are a flawed methodology that has not kept pace with the actual cost of providing child care.[3] Market rate surveys typically reflect regional income levels, and not child care costs, which serve to keep rates lower in low-income regions and exacerbates systemic inequity.[4] Alternative methodologies to determining payment rates have not been widely implemented by states, yet are a policy opportunity to increasing child care subsidy rates for all child care programs.

The federal government suggests that states set their child care subsidy payment rates at the 75th percentile of the current market rate, or the price at which 75% of the child care programs included in the market rate survey reported charging for child care services.[5] In other words, the rate should be set at a level that would give families access to three out of four available child care slots or programs in a state-determined region. However, in 2019, only four states did this; a significant drop from 2001, when 22 States set their payment rates at the recommended level. This decline is indicative of the chronic underfunding of the nation's subsidized child care system over time.[6]

There is great variation in payment rates *within* states, based on factors like child care program type—such as home-based family child care or center-based child care— a child's age, the program's locality, and quality level of the child care program. Family child care receives a lower rate than center-based programs in nearly every state, even when family child care may provide longer hours of care than center-based programs in a given community. There is also a large range of payment rates *across* states, ranging from an average annual subsidy per child of $3,000 in Hawaii to $11,000 in the District of Columbia.[7]

THESE LOW RATES UNDERMINE AFFORDABILITY FOR FAMILIES, AND THE LEVEL OF QUALITY PROVIDERS CAN DELIVER, AND CHILDREN RECEIVE.

Low payment rates make it difficult for child care providers to stay financially afloat, and nearly impossible to provide the high-quality early care and education experiences children need to thrive. Most child care providers serve a mix of children receiving child care subsidies and children whose parents pay out of pocket. Low payment rates challenge the ability to scale a child care program's quality for all children. Child care providers cannot afford the training, education, materials, and infrastructure required to provide an adequate—let alone high-quality—early learning experience. Low payment rates also force low- and middle-income working families to compensate by paying higher fees. These low rates undermine affordability for families, and the level of quality providers can deliver, and children receive. Further, the low value of subsidies makes it nearly impossible for families to afford high-quality care—they are priced out of the market. The payment rates are so low that some providers choose not to serve families receiving subsidies, greatly limiting parental choice.

Increasing Subsidy Rates with Increased Money

Increasing subsidy payment rates supports child care programs and staff, increases the quality of child care, helps affordability, and bridges the parent burden gap. Increased payment rates can support increased compensation, professional development, and educational opportunities for providers, and materials that enhance quality, such as curricula and developmental and behavioral screening tools.

Forty-three states and DC used, or plan to use, the increased FY 2018 CCDBG funds to increase subsidy payment rates for child care providers, making it the most common use of the increased funds.[8] Some states used payment rates to target specific populations being served in child care programs. For instance, Wisconsin initially raised payment rates for infants and toddlers by 5% with a $15 million investment.[9] Other states used their state quality rating and improvement systems (QRIS) to increase tiered rates that incentivize high-quality child care. Iowa increased both the base rate of child care subsidy, as well as the tiered rates that child care providers participating in QRIS receive.[10] Many states used the CCDBG increase to address historic stagnation of child care subsidy rates, such as Arizona, which increased all categories of child care subsidy rates for the first time since 2007.[11]

These increases have made a real difference for child care providers and families. However, the CCDBG program has been severely underfunded for years, so while the historic increase in FY 2018 was significant, it was imperative to focus on policies that created incredibly low payment rates for child care providers. New subsidy payment policies can take time to implement through state systems changes and ultimately reach the child care providers rate increases are meant to support. CCDBG administrative data indicate that the average annual subsidy per child only increased by $276 between FY 2017 and FY 2018.[12] States have three years to spend their FY 2018 funds so it is very likely that future data will better capture the actual increase in subsidy payments to child care providers.

Challenges Caused by COVID-19

The historic increase for CCDBG in FY 2018, plus the subsequent increases in FY 2019 and FY 2020, has moved states to make long overdue changes to how much they pay child care providers caring for children receiving subsidies. While there is still a long way to go, there was momentum in the right direction, but then the pandemic hit the United States. State policies around child care closures varied, but that didn't change the fact that frontline and essential workers still needed child care as they could not work from home. In response to this need and the additional risks that may come with caring for children of individuals in high-risk situations, many states changed their payment policies and rates. One significant change is that at least 15 states paid child care providers who previously served children receiving subsidies based on the authorized hours instead of attendance.[13] Another change was to increase rates or provide bonuses to child care providers caring for the children of essential workers. As of July 2020, at least 12 states increased subsidy payment rates or provided bonuses for programs serving the children of essential workers.[14]

These changes were critical to address the increased costs of providing care during the pandemic, as well as taking care of staff who may not have access to health insurance or paid sick days. As these were put in place in response to the emergency, it is unclear whether states will continue some of the new policies. As of September 2020, 13 of the 34 states that paid child care subsidies based on pre-pandemic enrollment over the summer reverted to attendance-based payments, while 10 will continue enrollment-based payments for future months.[15] Enrollment-based payments stabilize child care revenues by continuing to provide for fixed costs for a program—such as staff and physical facilities—even as

actual attendance may fluctuate due to the pandemic. Although eight states that reverted to attendance-based payments moved to distribute funds via grants through the fall, the grants do not necessarily pay for child care slots on an ongoing basis. For example, Kentucky ended enrollment-based payment this fall, and distributed one-time grants to child care programs that provided $130 per child.[16] Contracts and grants that pay for child care slots can stabilize revenues for child care programs during and after COVID-19.

Looking ahead, states may propose cutting other policies, including the critical subsidy payment rate increases prompted by the FY 2018 CCDBG increase. Unfortunately, as states begin to prepare for severe budget shortfalls, some are considering walking back increased payment rates funded by the FY 2018 increase. For example, California initially proposed a 10% cut to rates across the board, although these cuts were not included in the final budget.[17]

Conclusion

Low subsidy rates limit parental choice, hurt child care providers, and undermine the quality of care that children receive. The fact that most states used at least some of their increased FY 2018 CCDBG funding to increase rates to providers is a step in the right direction. However, these investments may be in trouble due to budget concerns caused by the pandemic. Child care is critical to ensuring economic recovery after the pandemic, and cutting funds for providers will force more to permanently close and hurt parents, children, businesses, and the economy as a whole.

Endnotes

1 Consolidated Appropriations Act of 2018, Pub. L. No. 115-141, March 23, 2018. Available at: https://www.congress.gov/bill/115th-congress/house-bill/1625/text.

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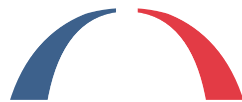

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