Report of the Build Subsidized Child Care Rate Policy Task Force:

Recommendations for Action

June, 2004

Child Care Subsidy Rate Policy Task Force
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About Build and Pennsylvania Build

The Build Initiative is designed to help states build a coordinated system of programs, policies and services that:

- respond to the needs of families
- carefully use public and private resources
- effectively prepare young children for a successful future.

Pennsylvania is one of five states selected to participate in this national initiative. To learn more about Pennsylvania Build, contact Harriet Dichter, mailto:c-hdichter@state.pa.us at the Pennsylvania Department of Education, Office of Policy, 333 Market Street, 10th Floor, Harrisburg, PA 17126-3333, (717) 783-6828, and to learn more about the national Build project, visit http://www.buildinitiative.org/

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Background

In the Fall of 2003, the Pennsylvania Build Initiative convened a Rate Policy Task Force to broadly examine the issue of child care rates and make recommendations for action. The Task Force goal was two-fold 1) to suggest ways that the rate and payment process currently used by the Pennsylvania Department of Public Welfare (DPW) can better support the children and families who receive subsidized child care; and 2) to begin thinking about how DPW rates can be aligned with the early care and education finance approaches used by other public agencies and private funders.

While Task Force members represented many of the Commonwealth's early childhood programs and fund administrators, the group decided early on that it was essential to gather information from a much broader group of providers, consumers and administrators. To this end, Task Force members suggested that a series of forums -- discussion groups guided by facilitators and a common set of questions -- be convened across the state.

The Pennsylvania Child Care Association (PACCA) agreed to coordinate this effort. In February and March of 2004, forums were held in the following eight regions: Lehigh, Norristown, Philadelphia, Harrisburg, Scranton, Monroeville, Franklin and State College. After registering, attendees received a discussion guide (see Appendix A) so that they had time to think about the questions prior to the forum. Additionally, the forum questionnaire was posted on the PACCA website, and individuals who were unable to attend the forums were invited to respond by email, fax or mail. Over 350 individuals attended the forums. Most attendees (250, or 71%) were providers. Among the provider group, most attendees worked in child care centers, were participating in Keystone STARS, had more than 10 years experience in the field, and had a B.A. degree.

The strategy proved to be successful on several fronts. First, providers greatly welcomed the opportunity to share their views. Second, the forums proved to be a learning opportunity for many. In summarizing the forums, PACCA noted:

> *During discussions, a lot of providers had an awakening. Most providers entered the child care field because they love children. Most directors began as teachers. Providers see themselves as social service agents and will more often make choices for the benefit of the child than for their business. Many providers realized they had been doing budgets backwards…and didn't understand how the market rate survey data was to be used…. Most providers have little or no business training. "I'm a teacher!" exclaimed one director.*

One of the forum facilitators expressed a similar view:

> *I was able to attend five of the forums and I thought they were wonderful. Lots of creative problem solving, lots of thinking beyond 'what happens today'. It was also a great opportunity for us to hear how differently things are throughout the state, and it gave providers opportunities to talk and/or debate each other on issues such as co-pay*

collection, etc.

Addressing Quality, Cost and Price: A Difficult Challenge
Governor Rendell's vision for early childhood services was presented at the first Build meeting, and continued to be a major focus in the work of the Rates Policy Task Force. The vision has been articulated as follows:

> *All of the Commonwealth's children deserve the opportunity to learn--and an educated citizenry is our most effective economic development tool. Decades of research make clear that if we expect our students to achieve at high levels, we must start them off early and start right.*[1]

What does it mean to "start right"? It means focusing on programs that work; programs that actually result in improved early learning and lifelong success. Research indicates that high-quality early childhood programs require well-educated and consistent teachers, low staff-to-child ratios, comprehensive approaches, accountability and continuous improvement.[2] Experts concur that the annual cost of a full-day, year-round high-quality early care and education program is at least $7,000 per child--and typically much higher in metropolitan areas or for younger children.[3]

DPW child care reimbursement rate ceilings are currently based on "market rates". A market rate approach assumes that most families pay for their own child care, and that state assistance is provided to help low-income families pay their child care tuition. In 2002, Pennsylvania families reported that they paid, on average, about $336 per month (just over $4,000 annually) per child for their primary child care arrangement.[4] This is slightly more than half the amount that experts suggest is needed for a high-quality program. In short, the effective, high-quality early childhood programs Pennsylvania needs to help children succeed cost more that most families -- at any income level -- can afford. Thus, basing early care and education finance on the price of care will not support the high-quality services Pennsylvania needs to promote early learning. The provider forums clearly reinforced this view.

At the outset of its work, members of the Rate Policy Task Force were concerned that basing child care reimbursement on the price of care is a fundamentally flawed approach. Nevertheless, Task Force members took their job seriously and focused on ways that the current child care reimbursement rate system -- based on "market rates" -- can be improved. However, the group further expanded that inquiry to include recommendations aimed at linking rate ceilings to quality (via rate adjustments, rather than market rate survey data) and offering quality improvement grants that can supplement child care reimbursement rates and parent fees.

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[1] "The Rendell Administration's Priorities for Early Childhood." August 2003.
[2] Commonwealth of Pennsylvania Governor's Task Force on Early Childhood Care and Education. (2002) *Early Care and Education: The Keystone of Pennsylvania's Future.* Lemoyne: Center for Schools and Communities.
[3] Stoney, Groginsky and Poppe. 2002. *Investing in Our Future: A Guide to Child Care Financing.* Denver, CO: NCSL
[4] Ibid.

Lessons learned from the forum, coupled with ideas and research gleaned from Task Force members, form the basis of this report. Section I summarizes key issues raised at the forums, and includes concerns and suggestions made by forum participants. Section II summarizes Task Force deliberations, research and ideas from other states. Section III offers recommendations from the Task Force.

Key Issues Raised at the Regional Forums

The discussion guide used at all of the forums included a series of specific questions, grouped into five categories: the market rate survey; rate-setting; subsidy administration; parent choice and business management; training and technical assistance. The responses and recommendations made by forum participants are summarized below, in each of these categories. A copy of the discussion guide is included in Appendix A.

The Market Rate Survey

The federal government requires states to conduct a biennial survey of child care prices.[5] States are encouraged to use this survey data when establishing reimbursement rate ceilings -- the maximum amount the government will pay for subsidized child care in a specific geographic area. Providers were asked to respond to a series of questions designed to help the Task Force learn about their ability to provide accurate price data for the bi-annual market rate survey.

It was clear from the comments, questions and discussion at each forum that most child care providers do not understand what a market rate survey is and what it can -- and cannot -- measure. Time and again, providers stressed that the rates they charge do not reflect the "true cost of providing care and education" and requested that the survey gather cost data. A market rate survey is designed to measure price, not cost. A completely different approach must be used to measure data on the actual cost of providing early care and education services.

> **What Is a Market Rate?**
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> The market approach to child care reimbursement recognizes that the child care delivery system in the US is primarily a private, fee-for-service system in which parents act as consumers by purchasing care for their children. When government enters the private child care market to purchase care for low-income children it should, therefore, establish a rate structure that gives subsidized families the ability to purchase care comparable to that available to non-subsidized families. Basing reimbursement levels on the price of child care can, in theory, achieve this end. Because families tend to purchase child care near their home or work, child care markets tend to be geographically defined. A child care market rate survey, then, measures the child care rates charged by the providers--and paid by the consumers--in a specific geographic area.
>
> *Promoting Access to Quality Child Care: Critical Steps in Conducting Market Rate Surveys & Establishing Rate Policies*. Stoney, L. 1994.

Provider responses to the discussion guide included the following:

- *Most child care providers believe that they cannot establish published rates that reflect the actual cost of providing services.* Some of the larger and more experienced providers at the forum were able to articulate the difference between the cost of

[5] 45 CFR Parts 98 and 99, CCDF Final Rule, pg 39988, Section 98.43(c). It is important to note that while federal regulations require states to conduct a market rate survey, they are allowed to use a range of methods to establish child care subsidy rate ceilings. States must ensure that the rates they pay are sufficient "to ensure equal access" to child care comparable to that provided to families that do not receive subsidies.

providing services and the prices they charge. These providers consistently stressed that they were unable to set rates that covered the full cost of care because parents could not afford to pay such high rates. They typically covered their costs with private fundraising. Many other providers, however, did not appear to have a clear understanding of the actual cost of the care they provided. And quite a few indicated that they were unable to prepare effective budgets or rate policies.

- *Most child care providers do not understand how the market rate survey data will be used.* A child care market rate survey measures the child care rates charged by the providers--and paid by the consumers--in a specific geographic area. These data are used to help the Commonwealth determine the appropriate rate ceiling (maximum payment) for child care subsidies.

- *Many of those who attended the forums believe that the survey response rate is too low, and largely includes providers who serve subsidized children.* Information from the Department of Public Welfare indicates that the most recent Pennsylvania child care market rate survey response rate was 72% -- a level that is generally considered acceptable.[6] However, quite a few forum participants believed that an insufficient number of child care providers who serve middle-class families, as well as those for whom English is a second language, respond to the survey.

- *The survey questions are clear to child care providers who have worked with DPW in the past, but may be confusing to new providers.* Ensuring that the

Establishing the 75th Percentile

Setting a subsidy rate at the 75th percentile means identifying the rate at or below which at least 75 percent of the providers in a category charge.

To determine the 75th percentile, all of the market rates collected in a category are ranked from highest to lowest. The rate that falls between that charged by the 25 percent of providers with the highest rates and that charged by the 75 percent of providers with the lowest rates is the rate associated with the 75th percentile.

The 75th percentile will reflect the units of service selected when the market rate survey was designed and may vary whether calculated by provider or by slot. To establish a subsidy rate for toddlers, for example, assume there are four providers in a market area. One provider has six toddler slots and charges $95 for each; another has two slots at $85 each; a third provider has three slots at $75 each; and the fourth has one slot at $70. The market rates are arrayed below, by slot and by provider, with the 75th percentile identified in bold:

Slot	Provider
$95	$95
$95	**$85**
$95	$75
$95	$70
$95	
$95	
$85	
$85	
$75	
$75	
$75	
$70	

Promoting Access to Quality Child Care: Critical Steps in Conducting Market Rate Surveys and Establishing Rate Policies. Stoney, L. 1994.

[6]According to national experts, a response rate of 80 to 85% is ideal; however 70 to 75% is generally considered acceptable. U.S. Department of Health and Human Services, Administration for Children and Families, Child Care Bureau (January, 2001). *Effective Approaches to Market Rate Surveys: Issue Brief.* Washington, D.C.:Caliber Associates.

survey questions are worded clearly and can elicit accurate and consistent data is key. Responses from some providers at the forums indicated that, in some cases, providers are not clear what is being asked of them.

- *The survey does not gather information on the prices and provider policies for part-week care.* A significant concern raised by forum participants regarding the survey was that that it did not request information on the rates charged by providers for part-week care. In other words, those responsible for administering the survey assumed that if a provider charged $150 a week for full-week care, that they would charge $25 per day for part-week care. Providers who attended the forum indicated, however, that this was not the case. Many providers do not offer part-week care at all, and those who did often stressed that the care was only available in particular "blocks" of time when they could find children to fill alternate days. For example, an early childhood program might offer two part-week schedules: one on Monday/Wednesday/Friday and another on Tuesday/Thursday. Parents who selected the M/W/F schedule would pay one fee. Those who selected T/TH would pay another. However, a parent who needed care on Wednesday, Thursday and Friday would have to purchase a full-time slot--since this schedule straddled the two part-week offerings. Other providers indicated that they offer flexible, part-work schedules only because they have raised additional, third party funds to cover the shortfall.

- *The survey assumes that providers who offer part-day care will charge the same rate for a four hour block of time, regardless of the time of day the care is needed.* This concern is similar to the part-week example noted above. While the survey requested information on the price charged for up to 5 hours of care each day, it did not indicate when that care was offered. Some providers indicated that they do not offer part-time care. Others reported that they did so only in specific blocks of time--for example, from 7 am to noon or from noon to 5 pm. If, however, a child attended the program from 10 am to 2 pm the parent would have to purchase a full-time slot--since this schedule straddles the two part-day schedules.

- *The market rate survey does not gather data on the number of child care "slots" that are available at each price.* Several individuals who attended the forums were concerned that the survey established rate ceilings by program rather than slot. (See box, right, for a more detailed explanation of this issue.)

Rate-Setting

A market rate survey is a tool for gathering information on the price of child care in specific geographic areas. These data are then used to help establish rate ceilings as well as other rate policies and procedures. It is important to stress that DPW establishes market rate *ceilings*; they do not establish rates. Providers are paid what they charge or the maximum rate ceiling (by age of child, type of care and geographic location) -- whichever is lower.

The federal government also requires states to report the results of their market rate survey at the 75th percentile, even though the state may not have the funds needed to actually establish rate ceilings at this level. When presented as a statewide average, current DPW rate ceilings are at the 50th percentile of the local market rate. However, these rate ceilings vary widely, based on the type of care, age of child, length of day and location of program. In July 2004, the rate ceiling for some part-time care in some counties was as low as the 15th percentile of the local market rate. And in some parts of the state the rate ceiling for full-time care is at the 100th percentile. Rough estimates from the Department of Public Welfare suggest that it would cost approximately $20 million -- or 4.8% of the current child care budget -- to raise all child care reimbursement rate ceilings in all counties to the 75th percentile.[7]

Forum participants were asked to respond to a number of questions about current and proposed DPW rate policies. The following issues were raised in nearly all forums:

- *DPW rate ceilings and policies for part-day and part-week care do not reflect provider practices.* This issue was discussed at length in the previous section on market rate surveys. State law mandates that programs maintain a specific staff to child ratio at all times.
- Providers noted that it was not possible to generate the revenue needed to maintain this ratio unless programs are structured for specific blocks of time. If a subsidized parent has a flexible or atypical schedule, providers believe that DPW should be prepared to purchase a full-time slot.

- *The school age child care "blended rate ceiling" is not high enough to cover the days that schools are closed in some areas.* DPW uses statewide averages to establish this rate ceiling. Child care programs in school districts with snow days or school holidays above the average reported that this policy was a problem for them.

- *CCIS and CAO do not always factor in travel time when determining how many hours of child care they authorize for employed families.* Several providers noted that the caseworkers were only authorizing child care for the time period during which a parent works. This does not accurately reflect the amount of time a child will need to be in care, and resulted in inadequate reimbursement to the child care provider.

- *Many children who have behavior problems or developmental delays have not been diagnosed with a special need, but still require additional support services and attention.* Providers who attended the forums indicated that they serve significant numbers of children with social, emotional and behavior problems. Most of these children, they report, do not have a special needs diagnosis. Many providers felt that these children needed lower child:staff ratios as well as staff with specialized training-services that they were unable to provide under the current rate structure.

- *Providers generally support the concept of a "tiered" reimbursement rate system that links rates to quality.* The forum questionnaire asked if DPW should link rates to levels of quality and, if so, what those quality measures should be. Most providers endorsed the idea of linking rates to quality at least in theory. A majority of participants believe that Keystone

[7] Personal correspondence with Robert Frein, April, 2004.

Stars would be the best measure of quality. However, participants were concerned that Keystone Stars, as it is presently administered, is not accessible to all providers.[8]

- *Providers believe that public reimbursement for child care should not be based solely on the price of care and should be related to the actual cost of providing early education and care.* As noted earlier, in every forum providers raised concerns about the disparity between the price and cost of child care. Many requested that the market rate survey gather cost data (which it cannot.) It is possible, however, to gather cost data using an alternative methodology. One approach is to conduct a cost study. Another is to "model" child care costs at various levels of quality, based on the standards established under Keystone Stars. Cost information could then be used to inform the development of alternative, or supplementary, financing strategies.

Subsidy Administration

DPW administers child care subsidies via two separate offices. The County Assistance Offices (CAO) administer child care assistance for families receiving welfare who are working, in job search or in training programs. Child Care Information Services (CCIS) administer child care assistance for families who have left welfare for work and for low-income working families. The two offices have different eligibility and reporting requirements, participation rules and payment schedules. Forum participants were asked to provide information about their experiences with these two agencies. Comments included the following:

- *Most providers reported that they had positive experiences with CCIS agencies, although some indicated that policies and paperwork are not consistent among local CCIS agencies.*

- *CAO offices received negative marks from providers*. PACCA estimates that approximately 85% of the forum participants reported negative experiences with CAO. Provider complaints included:

  "I can’t get in touch with a CAO caseworker; they never return phone calls."
  "Payments are delayed, sometimes up to 10 weeks"
  "The high turnover of caseworkers is a problem; paperwork gets lost."
  "There is no customer service mindset. The caseworkers have an 'I don’t care' attitude."
  "Payments are sent to the wrong account."
  "CAO doesn't provide me with notice when a client is terminated, or the notice is late. So I provide care when it isn't authorized and have to fight to get payment."
  "I don’t get the Service Authorization Fee and Agreement (SAFA) forms on time."

- *Providers reported spending extensive amounts of time on paperwork and case management for families that receive child care assistance--especially those whose care is paid by CAO.*

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[8] Shortly after the forums were held, DPW announced changes in Keystone Stars that will make it an “open program” starting in FY 04-05.

- *Providers are not happy that payment is retroactive.* Some forum participants indicated that CCIS payments are not received until almost two months after services are provided.

- *Transitions from CAO to CCIS continue to cause serious problems*. Participants told many stories about families getting lost in the system and/or staff spending large amounts of time trying to track transition cases. In addition to switching subsidy offices and caseworkers, transitions also mean that families face a different set of rules, payment policies and, over time, eligibility requirements.

- *Parents do not appear to understand what is expected of them regarding co-payments, paperwork, re-determination policy and so forth.* Providers who attended the forums frequently mentioned problems that arose because parents were not clear about what was expected of them as participants in the CAO and CCIS child care subsidy programs.

Parent Choice

The federal government requires states to ensure that parents are able to use child care subsidies to purchase any form of legal child care, including care provided by relatives, friends and neighbors. Forum participants were asked several questions about the impact that child care provided by relatives and neighbors has had on their business. Participants were also asked to suggest ways that the state could support high-quality child care without limiting parent choice. Forum participants expressed concerned about the competition posed by, and the quality impact of, relative/neighbor care. The following concerns were raised:

- *Because relative/neighbor care is unregulated, many forum participants worried that children were not safe.* Participants frequently called for policies that required all child care providers to meet health and safety standards, and for all practitioners to participate in training. Several suggested background checks for the immediate family members when unregulated child care is provided in a home-based setting.

- *Forum participants believed that fraud frequently occurs in unregulated child care settings.* When a parent chooses unregulated care the reimbursement check is sent to the parent -- not the provider. There is no way to verify if -- or how much -- the child care provider is paid when reimbursement checks are sent to parents. Many forum participants were concerned about accountability, and questioned whether parents were actually passing these reimbursements on to their providers and making the required co-payment.

- *Many forum participants feel that there is a "disconnect" between the Commonwealth's commitment to improving the quality of early childhood services and the use of unregulated child care.* Pennsylvania has recently made a commitment to expanding support for, and links to, an early childhood quality rating system called Keystone Stars. Providers by and large support this effort, but expressed desire that the policy be uniformly applied. They do not understand why some early childhood programs and providers must meet higher standards while others are permitted to remain completely unregulated.

- *Forum participants believed that the reimbursement rate for unregulated child care should be significantly lower than the rate ceilings established for regulated care.* As noted earlier, child care reimbursement rate ceilings are typically based on data from a price survey. Since it is not possible to select a statistically valid random sample of unregulated child care providers, gathering accurate price data for this group is simply not possible. The providers who attended the forum argued that the cost of meeting state regulation is substantial, and warrants a significantly higher rate ceiling. (Note: Pennsylvania currently sets the reimbursement rate ceiling for relative/neighbor care at 65% of the family child care rate ceiling in the county.)

Business Management, Training and Technical Assistance
Managing the finances of a child care business is hard work. Many early childhood professionals are experienced in child development/early education but do not have training or experience in business management. Not surprisingly, they struggle to create sound budgets, establish appropriate rates and manage cash flow. Forum participants were asked to speak about their experiences and needs with regard to budgeting, collective fees and managing enrollment.

Forum discussions revealed a number of problems with fiscal management. Many small child care programs reported that they had "a very informal budget process" and several indicated that they did not have a budget at all. It was clear that quite a few providers did not know what their per-child costs were or how to establish fee policies. Participants reported that many different staff were involved in creating budgets and collecting fees. While many of the larger child care agencies had a formal budget process and some had administrative or fiscal staff to develop budgets and help with accounts receivable, even these agencies reported that it was difficult to collect what was owed to them.

Effectively maintaining full enrollment -- which is vital to a successful child care business -- was also a challenge for most forum participants. Providers named several issues they believed were the cause of low enrollment, including: a poor economy, irregular work hours, competition from pre-kindergarten programs in public and private schools, and increased use of relative/neighbor care.

Task Force Deliberations: Responding to the Forums With Effective Policy

From the perspective of an early childhood program, financial stability depends upon a consistent and predictable revenue stream. Programs must generate enough revenue each month to cover their expenses. While the per-child reimbursement rate ceiling established by DPW is a key part of that revenue stream, it is by no means the only significant factor. Equally important are issues such as:

- Collecting tuition, fees and co-payments -- in full and on-time -- from all families.
- Maintaining full enrollment -- every day, in every classroom.
- Receiving the full amount that is authorized by DPW for each child who attends the program.
- Securing additional, third party funds to cover funding gaps,[9] services for families who are on the DPW subsidy waiting list, or special services for children and families who have additional needs (e.g. disabilities, behavioral challenges, bi-lingual, social or health services.)
- Securing additional, third party funds for quality improvements.[10]

Task Force members were keenly aware that, to be effective, rate policy must be viewed in a broader context. To this end, when reviewing the data gathered from the provider forums the Task Force questioned whether the most appropriate response was to adjust the rate ceilings or to expand other financing strategies. In many cases the appropriate response was to do both. The recommendations that follow reflect this approach.

The Need to Expand Both Portable and Direct Subsidies

There are many ways to fund early care and education services. One way is to offer *portable* support that is tied to a specific child and follows them to whatever program is selected. This is how the DPW child care assistance program works. Eligible families receive a child care certificate that authorizes payment to the provider of their choice. From the perspective an early childhood program, these certificates pay a portion of the tuition that is charged to fee-paying families. In general, portable subsidies do not increase the overall revenue for a program; they simply replace a portion of the tuition and fees that are typically charged to a family.

Public and private funders can also help make early care and education affordable by providing *direct*, institutional support to programs. These funds are not tied to a specific child, although they may be linked to a group of children or specific quality outcomes. Direct support can increase overall revenues, especially if combined with portable aid. Indeed, nearly every educational institution in the United States relies on some form of third party, direct assistance to keep tuition affordable for the families they serve.

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[9] Funding gaps most frequently occur when the DPW rate ceiling plus parent fees does not cover he full cost of care.

[10] This includes funding to: increase the programs "star level" in the Keystone Stars quality rating system, attain and/or maintain accreditation, assist staff in attaining degrees, improve the facility and/or equipment, and so forth.

Making it possible for early childhood programs to easily combine portable and direct financing is an excellent way to make high-quality early care and education affordable for all families. This approach has been used to finance higher education in the United States. Both public and private colleges secure direct, institutional aid from a range of sources (state and federal allocations, public and private grants, endowments, sales, etc.) This support allows the university to offer higher education to all families at affordable tuition. No one pays the full cost of higher education, and all families, regardless of income, benefit from this institutional support. In addition, portable assistance is made available to lower-income families (as grants and scholarships) as well as to middle and upper-income families (as tax credits as well as subsidized loans and savings plans). Colleges and universities rely on both direct and portable aid, combined, to meet their costs.[11]

In launching the Keystone Stars initiative, Pennsylvania has taken an important step toward a rational system of finance that combines portable and direct assistance and is linked to quality and accountability. Keystone Stars includes three grant programs -- Star Support Grants, Merit Awards, and Education and Retention Awards. Each of these (direct) grants is linked to a program's star level and is awarded <u>in addition</u> to the revenues generated from parent fees and (portable) DPW child care assistance. The Task Force believes that direct assistance is key to effective early care and education finance and therefore recommends that, in addition to adjusting DPW rate ceilings, the Keystone Stars grant programs be expanded.

However, finance reform efforts must extend beyond the Keystone Stars initiative. The primary early care and education funding streams (CCDF, TANF, Head Start, pre-kindergarten, etc.) were developed independently rather than as components of a cohesive system. As a result, it is difficult for early care and education programs to combine portable and direct assistance from these sources. Each funding stream has different rules, rate-setting and data collection procedures. Each has a separate process for program monitoring and auditing. Each requires a separate budget and paper trail. Effectively financing an early care and education system will require a careful look at each funding stream with the goal of developing a common set of policies and procedures as well as clear guidance for programs that seek to layer portable and direct funding from multiple public and private agencies.

The Devil is in the Details: Billing for Child Care Services
As noted above, to remain financially viable early childhood programs must receive the full amount that is authorized by DPW for each child who attends the program. This means that all paperwork is correct and up-to-date; family eligibility is continuous, with no breaks in service or payment; billing errors are reconciled promptly; and so forth. Unfortunately, this is a daunting task, given that child care reimbursement is processed by two different government agencies--CCIS and CAO--with different offices, personnel, policies, procedures and payment rates. Providers who attended the rate forums were very critical of CAO child care policies, and reported numerous negative experiences with lost paperwork, delayed payment, lack of communication among caseworkers, and so forth. While some concerns were also raised about

[11] Stoney, Groginsky and Poppe. 2002. *Investing in Our Future: A Guide to Child Care Financing*. Denver, CO: NCSL.

the CCIS system, providers indicated that these problems were not likely to occur in the CCIS system.

Since both CCIS and CAO fall under the jurisdiction of DPW, and funds for both entities come from the same source, it seems unnecessary to maintain separate systems. Bringing them together under one system could result in significant improvements for children, families and providers. And given that CCIS received high marks from providers, it seems logical to use that system as the basis for a merger.

An Elastic Market: Paying for Unregulated Child Care

All early childhood programs are hurt by the fact that child care markets are what economists refer to as "elastic." Elastic markets are highly competitive and lack product differentiation. "In a perfectly elastic market, suppliers are price takers--they must accept the prevailing price or they sell nothing."[12]

Child care markets are indeed highly competitive. Even though a given community may have a limited number of slots in a regulated child care center or home, the families in that community still have access to countless lower cost, informal, unregulated child care arrangements available from relatives, friends and neighbors.

Child care markets also lack product differentiation. While parents may know that center-based child care is different from home-based child care, they do not have an easy way to determine which setting is most likely to provide high-quality early learning opportunities. The new Keystone Stars quality rating system can help address this need. Child care centers and homes can now receive a "star quality rating" so that consumers can easily determine the differences among settings. But Keystone Stars is still in its infancy. And unregulated child care opportunities are readily available.

Competition from unregulated child care was frequently mentioned at the provider forums. Task Force members were concerned about this issue, but struggled to come up with effective ways to limit competition and continue to support low-income families. Many of the families who receive DPW subsidies work in jobs that require evening, weekend or rotating child care schedules, and regulated child care programs are simply not able to meet this need. Ensuring parent choice is, moreover, central to federal child care policy.

After discussing the issue, and exploring policy in other states, the Task Force came to the conclusion that the most effective way to reduce the use of unregulated child care was to strengthen DPW rate policy and procedures and continue to expand Keystone Stars. Indeed, research in Rhode Island revealed that the probability that a family would use a child care subsidy to purchase informal, unregulated care declined significantly in the years following implementation of a range of child care subsidy reforms. The decline occurred in all cases, including current and former TANF recipients as well as families that had never received cash

[12] *Price Elasticity of Demand.* vcsd.neric.org/distancelearning/Ch21notes/tsld007.htm

assistance.[13] Since 1998 Rhode Island has been implementing a series of reforms to its subsidy system, including: raising reimbursement rate ceilings to the 75th percentile (increases applied to regulated care only; unregulated care rate ceilings were not changed); raising income eligibility ceilings; implementing a new direct grants program for comprehensive services; and, streamlining and consolidating the child care subsidy policies and procedures. Kentucky, another state that has maintained child care reimbursement rate ceilings at the 75th percentile and has invested in a quality rating system called "Stars for Kids Now", also reports that use of informal child care arrangements has declined significantly. Currently, 80% of all Kentucky families who receive child care subsidies use regulated settings.[14]

Business Management: Is Training the Answer?

While public policy can address some early care and education finance needs, the bottom line is that most programs are independent small businesses. Collecting fees, maintaining full enrollment, overseeing cash flow, and raising additional third party funds are all crucial to a successful business. Information gathered at the provider forums suggests that many programs struggle to perform these tasks effectively. While forum participants were not directly asked to recommend policies that might strengthen business management, several participants suggested training on fiscal and business management and mentoring for less experienced providers on how to establish a budget.

The Task Force discussed business management needs, current training opportunities and possible alternatives. As discussion deepened, it became clear that training child care directors -- who have multiple tasks to perform and are most often skilled in child development rather than business management -- may not be a viable approach.

To run effective businesses, early childhood programs need specialized staff with expertise in fiscal management, marketing and fundraising. Only a handful of very large programs, or those connected to larger, umbrella organizations, can afford to hire staff with this level of expertise. Louise Stoney, who served as a consultant to the Task Force, has recently written a report on collective management in early care and education that profiles seventeen current strategies and offers several new approaches.[15] Her work suggests that a group of early childhood programs could, by working collectively, develop automation systems and/or fiscal management structures that allow them to benefit from skilled fiscal and management staff. The Task Force was intrigued by this approach, and recommended a new, venture grant program aimed at testing some of these ideas.

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[13] Witte, A., Queralt, M. and Long, H. (March, 2004) *An Examination of the Child Care Choices of Low-Income Families Receiving Child Care Subsidies.* Wellesley Child Care Research Partnership. http://www.wellesley.edu/Economics/partner/

[14] Personal conversation with Michael Cheek. (May, 2004) Kentucky Department of Health and Human Services, Division of Child Care.

[15] Stoney, L. 2004. *Collective Management of Early Childhood Programs: Approaches That Aim to Maximize Efficiency, Help Improve Quality and Stabilize the Industry.* http://www.earlychildhoodfinance.org/handouts/CollectiveManagementfullreport.pdf

Task Force Recommendations

The eight regional forums provided valuable information on child care provider understanding of, and experiences with, the market rate survey and child care rate policy. Using issues raised at the forums as a springboard, the Rates Policy Task Force explored a range of policy options, looked at experiences in other states, and made the following recommendations. (As noted below, some of these recommendations are already in the process of implementation; others will require a longer-term strategy and cooperation from other agencies.)

1. **Make every effort to ensure that the market rate survey conducted by DPW gathers accurate information on the price of child care.** This work should include the following steps:

   - Conduct annual, regional training for child care providers on what a market rate survey is and how to accurately respond when they receive a copy of the survey instrument.

   - Make the survey instrument, as well as outreach materials, available in English and Spanish.

   - Establish a toll-free number for providers who have questions, and post this number on the survey instrument.

   - Reach out to all providers, including those who do not currently serve subsidized children, to ensure that they understand why it is important for them to participate in the survey.

   - Explore the feasibility of requiring all child care programs to submit rate data as part of the licensing process.

   - Explore the feasibility of gathering rate data via an on-line or telephone survey.

   - Revise the survey instrument to gather data on price by slot (e.g. current enrollment) as well as provider practices with regard to part-day and part-week services.

2. **Establish DPW reimbursement rate ceilings that accurately reflect the price of child care in each county.** This work should include the following steps:

   - Establish a goal of raising DPW rate ceilings to the 75th percentile market rate in every county of the state. This should be accomplished through annual increases, beginning with equalizing the rate ceiling in all counties to a consistent percentile of the local market rate and then implementing annual increases in the base rate ceiling.

   - When establishing a "blended rate" for school-age child care, ensure that the number of school days included in the calculation reflects local school district policies.

3. **Establish child care rate policies that encourage providers to attain higher levels of quality, and cover the cost of providing high-quality services.** This work should include the following steps:

    - Provide additional support for programs participating in Keystone Stars via an explicit "tiered" DPW Keystone Stars reimbursement rate supplement in addition to the minimum market rate ceiling and the other grants (Star Assistance, Merit, and Education and Retention awards) associated with Stars. This supplement would be in addition to the base rate increases mentioned above.

    - Expand access to, and increase the level of, Keystone Stars Merit Awards.[16]

4. **Conduct an annual review of the cost, price and resources available for early care and education programs at each level of Keystone Stars.** The goal of this analysis should be to ensure that the Commonwealth has a clear understanding of what it costs to provide high-quality early care and education services, what resources are currently available, and how funds from multiple sources can be effectively "layered" into a single program to cover these costs.

5. **Work with the other Offices of the Department of Public Welfare and the Department of Education to explore ways to improve the capacity of staff who teach children with difficult social, emotional and behavior problems.** This work should include the following steps:

    - Explore the feasibility of getting Transitional Support Services to provide support to the classroom teacher and the entire class--not just the child with disabilities.

    - Re-examine the current continuing education and professional development requirements for early care and education staff with an eye to strengthening capacity to support children will difficult social, emotional and behavior problems.

6. **Establish a single administrative entity to manage all DPW child care subsidy funds.** This work should include the following steps:

    - Continue the effort to make parent eligibility policies consistent, regardless of reason for care or funding stream.

    - Establish consistent policies (that apply to care funded by either CCIS or CAO) regarding required forms, rates, co-payments, frequency of eligibility determination, documentation, payment policies and procedures.

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[16] Merit awards were recently increased. See http://www.pacca.org/Policy/Stars04/grants.pdf for award levels.

- Streamline and automate billing and payment so that the paperwork for a subsidized child is no more complex than what is required for a private, fee-paying family. To the maximum extent feasible, use internet, telephone and fax communications to streamline submission and processing of paperwork.

- Establish a single point of entry for families seeking to apply for child care assistance.

- Invest in training for all relevant staff (in CAO and CCIS), so that the system is administered consistently across the Commonwealth.

- Develop additional training materials for parents -- videos, brochures to accompany oral communication -- on what is expected of them when they participate in the child care subsidy system.

- Make it easier for parents to apply for subsidy and/or report problems. This could be done by: minimizing the number of times parents must appear in person; maximizing the use of internet and telephone technology; or, when face-to-face meeting is essential, establishing satellite offices for CCIS or keeping the current offices open later.

7. **Establish incentives for parents to use higher-quality, regulated child care, and for relative/neighbor care to become part of the regulatory system.** This work should include the following steps:

   - Make all child care payments directly to the provider rather than the parent.

   - Renew efforts to require all caseworkers (in CAO and CCIS) to distribute information to parents about child care options in general and the Keystone Stars quality rating system in particular.

8. **Establish a new grant program designed to encourage and support the development of shared fiscal/administrative services for the child care industry**. Funds could be used for a range of collaborative activities that would serve multiple providers, such as:

   - Selecting/purchasing/installing new automation systems or software to manage funds and/or collect fees (including implementing automatic deposits for fee collection.)

   - Implementing financial system controls (i.e. ongoing supervision of bookkeeping, accounting and overall fiscal management.)

   - Shared staff to work on marketing to maintain full enrollment.

   - Shared administrative staff to maximize efficiency (e.g. a group of child care programs contract with a single entity to manage all accounts receivable and payable, prepare monthly profit and loss statements, manage payroll, write grants, etc.)

- A shared contracts coordinator, to negotiate agreements with school districts and Head Start on behalf of a group of child care providers. The goal is to create a network of comprehensive, multi-funded, full-day/year-round preschool care and education services that can meet the needs of working families and serve a diverse group of children.

Conclusion

The Build Rate Policy Task Force played a key role in gathering information about early care and education finance in general, and DPW rate policy in particular. With support from PACCA, they reached out to providers across the state. In addition to reviewing current policy and feedback from the forums, the Task Force looked at experiences in other states, explored a range of options, and made recommendations for next steps.

The Pennsylvania Department of Public Welfare must now work to implement these recommendations, in partnership with staff from other public agencies--such as the State Departments of Education and Health as well as the federal Regional Office that oversees Head Start funds and grantees. The Task Force urges these public agencies to take the recommendations noted in this report seriously, and to keep early care and education providers up-to-date on their progress. An annual report on what has been accomplished with regard to rate policy is suggested as an effective way to keep the field informed.

The work of the Rate Policy Task Force concludes with this report. However, since Build is a three year project, we trust that these recommendations will become a key part of the overall planning effort.

Appendix A

Early Learning Team Rate Policy Task Force
Provider Forum Discussion Guide

Early care and education providers have expressed concern about the way child care subsidy rates are determined in Pennsylvania - now is your chance to do something about it.

PACCA and the state's new Build initiative are convening a series of provider forums in February and March that will focus exclusively on child care provider rate policies. These forums are an opportunity to gather input from early care and education providers on a range of rate and payment issues, including: setting the county market rate ceiling; administering the payment system; business management support and technical assistance; parent choice; and rate policy in general. This session will give providers the unique opportunity to make suggestions directly to the Commonwealth on how to address rate inequities.

To help guide the discussion, we are asking providers speak to the following issues:

The Market Rate Survey - The federal government requires states to survey all child care programs every two years to determine the prices they charge to fee-paying clients for their services. The Department of Public Welfare (DPW) has asked the Child Care Information Services (CCIS) staff to gather this information through the use of a provider rate survey that will be completed with your provider agreement. The questions CCIS staff ask are included below:

> *If I bring a child for ten hours a day -- anytime between 6:00 am and 6:00pm, five days a week (M-F) --how much would I be charged weekly?*
>
> *If I bring a child for four hours, 59 minutes (not five hours) a day -- anytime between 6:00am and 6:00pm ,five days a week (M-F) -- how much would I be charged weekly*?

Do you understand how to respond to these questions?

1. If you find the questions confusing, please let us know exactly where they are not clear. How could this question be more "provider friendly"?

2. Do you have suggestions for how to improve the process of gathering information on the prices you would charge for your services?

3. Do you need additional training or technical assistance in how to complete a budget, set rates and/or respond to a market rate survey?

Rate-setting - DPW uses data from the market rate survey (the prices charged by providers) to guide them in establishing rate ceilings. DPW does not set the actual reimbursement rates that you receive for payment; DPW sets maximum rate *ceilings*. Providers are paid what the CCIS determines is your daily rate from the provider survey you completed above or the maximum rate ceiling for your county (based on type of care, setting, fulltime or part-time care and the age of child) whichever is lower.

DPW has established *daily* rate ceilings based on the factors listed below.

Age of child - rate ceilings vary by infant, young toddler, older toddler, preschool, young school-age, old school-age.

Provider location - rate ceilings vary by county.

Length of Day - a full day is defined as up to 10 hrs per day. Part-day is defined as up to 4 hrs 59 minutes per day. Extended hour care and non-traditional hour care is defined as care provided between 6 pm-6 am or on weekends or beyond 10 hours per day.

Type of Care - rates vary for center-based, group family child care, family child care, and relative/neighbor care that participates in CareCheck.

Special Needs of Child - children with disabilities may receive reimbursement based on the child's developmental age rather than their chronological age.

1. Do you believe that these factors accurately reflect variations in your prices and those of our colleagues? If not, in your opinion, what other factors should be taken into consideration when establishing rate ceilings?

2. How do you determine the price you charge for your services? Is it based on the cost of providing the care?

3. How often do you review your price policies? How often do you raise your price?

4. The Department has the policy that it will only pay for actual number of days enrolled. Is this a problem for you?

5. If DPW took steps to link DPW child care subsidy reimbursement rates to levels of quality, in your opinion what quality measures should they use?

6. If you were able to raise your prices and/or receive a higher reimbursement rate from DPW, how would those funds be used? What adjustments would be made in your expense items; please list the first 3 priorities?

Subsidy Administration - In Pennsylvania, child care subsidies are administered by two entities. CCIS administers funds for income-eligible families (e.g. low-income working families and former TANF participants who are currently not receiving public assistance) and CAO (the County Assistance Office) administers funds for families that are receiving public assistance.

1. As a general matter, how do you describe your experience with the payment process administered by both of these agencies?

2. Do you understand what funds are owed to you (from CCIS and CAO) each month? If not, can you be specific about the problem?

3. How much staff time, on average, do you spend processing CCIS and CAO invoices each month?

4. How long does it take to get paid once you have submitted your invoice? Are there specific impediments to timely payment that we should know about? Does the length of time vary depending upon whether the payment agent is CCIS or CAO?

5. Are you having trouble when families transfer from CAO to CCIS? If so, please describe the problems.

6. When a child's subsidy is terminated, do you receive timely notice from CAO? From CCIS?

Parent Choice - The federal government requires states to ensure that parents are able to use child care subsidies to purchase any form of legal child care, including care provided by relatives, friends and neighbors. Simultaneously promoting access to high-quality child care and ensuring parent choice is difficult. We welcome your input on this issue.

1. How has the use of child care subsidies for relative/neighbor care affected your program?

2. Are there particular state policies that you believe encourage or discourage the use of relative/neighbor care?

3. Are there particular policies that you would suggest to support high-quality care without limiting parent choice?

Business Management Training and Technical Assistance - Managing the finances of a child care business is hard work. Many early childhood professionals do not have training or experience in business management, and struggle to create sound budgets, establish appropriate rates and manage cash flow. Please help us understand more about your needs vis-à-vis management training and TA.

1. Do you go through a formal budget planning process or do you use a more informal approach? Who prepares the budget for your child care program?

2. What is the job title and responsibility of the person who collects parent fees--including the co-payment required from subsidized families? What are the barriers to collecting parent fees?

3. Is your program currently fully enrolled? Has your enrollment pattern changed over the last 2 years? If so, how has this change affected your program?

If your issue has not addressed in this forum,
we encourage you to write your concern and send to:

PACCA
2300 Vartan Way, Suite 103,
Harrisburg, PA 17110