RAISING CHILD CARE, RAISING AMERICA
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More Than a Cost Model

One State's Journey to an Alternative Market Rate Model

ChildCare Aware® OF AMERICA

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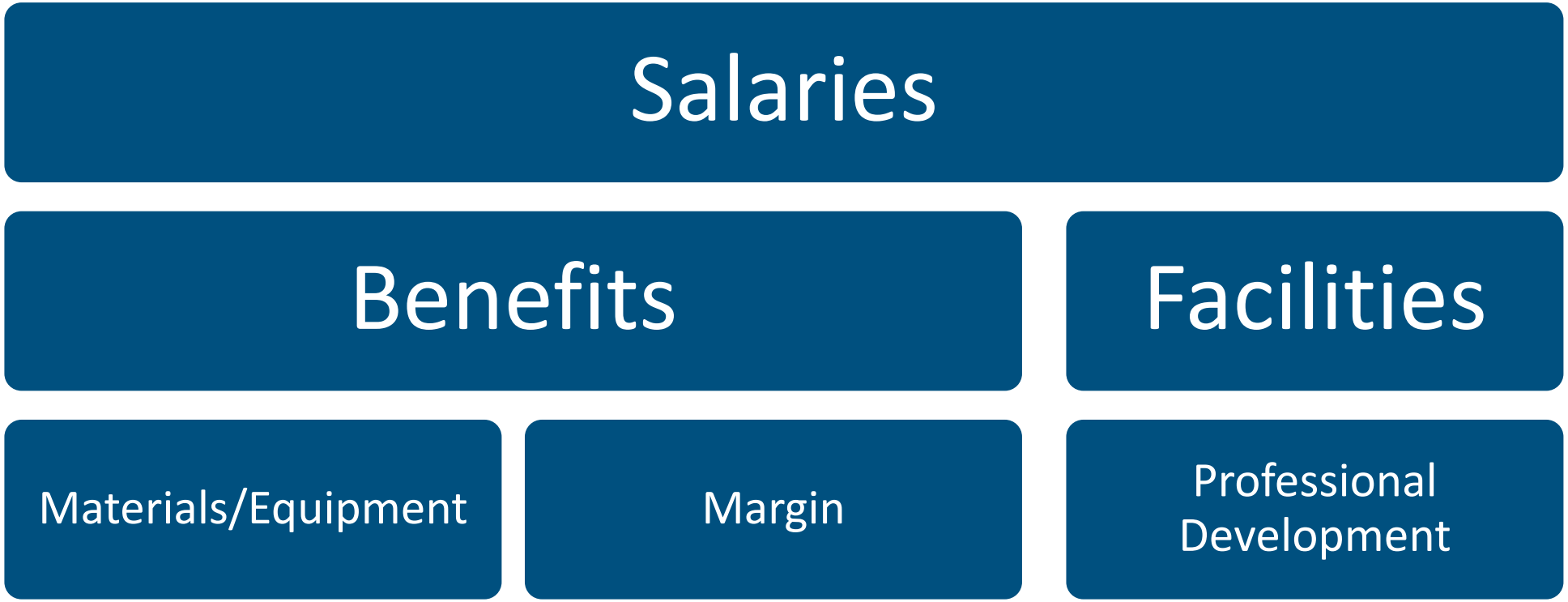
North Carolina's Goals

Two Approaches

- Cost-Based Approach aims to set subsidy rates based on true *current* costs of providing care (i.e., resources currently used)
- Adequacy-Based Approach aims to set subsidy rates based on the cost of all resources that *would be needed* for all providers to meet the requirements of a five-star license (highest quality care)

Cost Modeling

- Key Ingredients included in cost estimates:



Study Goals

Engage communities of interest

- Child care providers
- Subsidy administrators
- State leaders
- National experts
- Business owners

Explore existing innovations

- Review of other states' subsidy structures
- Understand best practices in other subsidized markets
- Investigate existing innovative strategies for funding child care

Develop three alternative models

- Gather data about resources from providers and estimate the true cost of care
- Propose three alternative rate models that use empirical cost-based information instead of market rates

Recommend other policies and a phase-in plan

- Develop recommendations for model implementation and updates
- Recommend strategies to phase in an increase in child care subsidy rates

Robust Community Engagement

Subsidy Advisory Committee	National Advisory Group	Discussions with Business Leaders
Provider Surveys	Subsidy Administrator Surveys	Provider Focus Groups
Exploration of Other Subsidy Systems	Discussions with Leaders in other States	Review of Innovative Funding Strategies

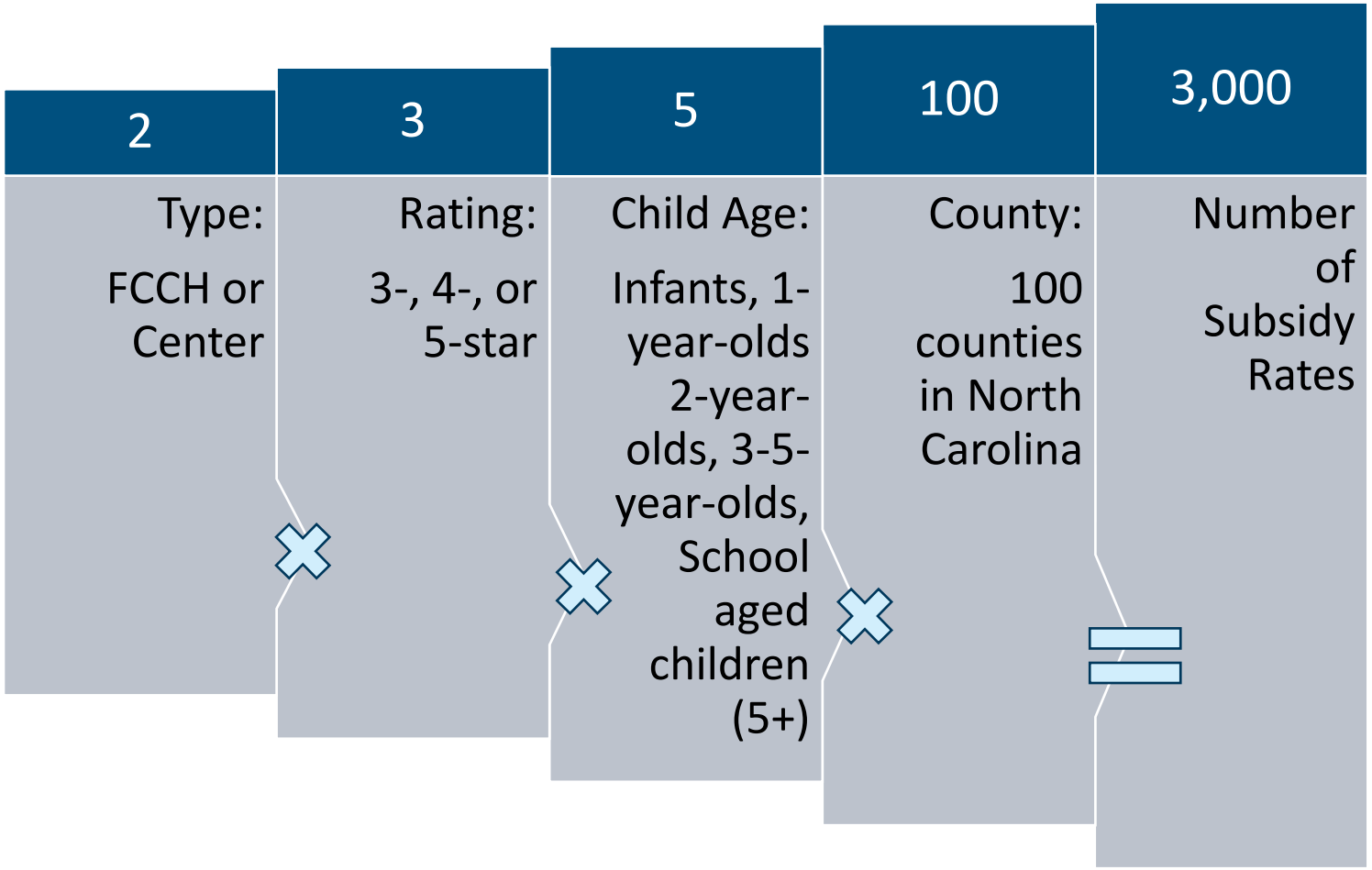
Issues Considered

- Funding slots vs. classrooms
- Sustainability of the cost model
- Efficient future data collection
- Local cost differences
- Opportunities for simplification
- Inclusion of an appropriate margin

Alternative Models: Key Model Considerations

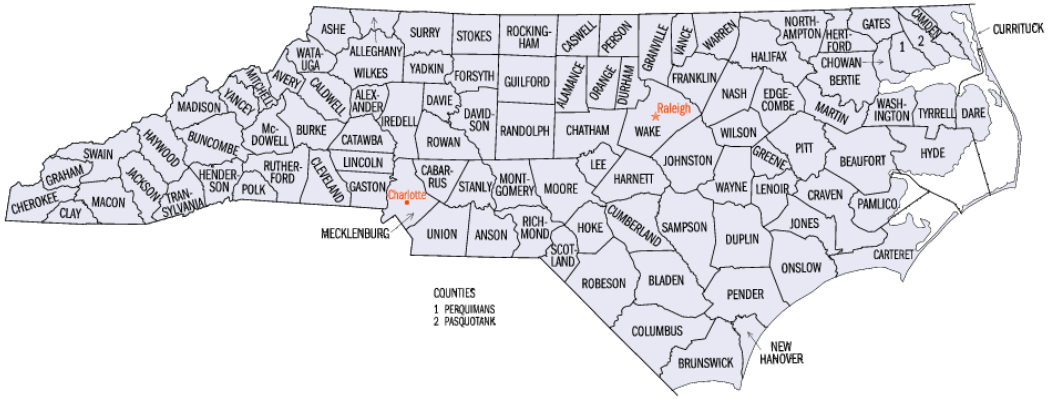
- Approach to setting costs
  - Cost-based or adequacy-based
- Subsidy rate structure
  - Statewide rate or locale-specific rates
- Adjusting for quality
  - Adjusting rates based on quality ratings (as required by current statute)
- Age-based cost differences
  - Explore opportunities to collapse age groupings for simpler rate structures

Current Subsidy Rate: Rate Structure



Note: FCCH Child Age: 0-12 months, 1-2-years-old, 2-3-years-old, 3-5-years-old, school age (5+)

How should subsidy rates vary by geography?



Three Proposed Alternative Rate Models

Cost-Based Model With Statewide Rate	Adequacy-Based Model With Statewide Rate	Adequacy-Based Model With Locale-Specific Rates
• Cost of resources used to provide current level of care • Single statewide rate by setting, age, and quality levels	• Cost of resources that would be needed to reach/maintain five-star rating • Single statewide rate by setting, age, and quality levels	• Cost of resources that would be needed to reach/maintain five-star rating • Metropolitan and non-metropolitan rates by setting, age, and quality levels

Alternative Model: Recommended Model

- The Adequacy-based Model with Statewide rate:
  - Substantially simplifies the subsidy rate structure, and
  - Funds the subsidy at a level that is most likely to lead to high-quality care.

Adequacy-Based Model With Statewide Rate

- Cost of resources that would be needed to reach/maintain five-star rating
- Single statewide rate by setting, age, and quality levels

Alternative Model: Age-Based Differences

- An exploration of the differences in costs by age showed that some differences are statistically insignificant.
  - The differences between infants, 1-year olds, and 2-year-olds are statistically insignificant in FCCHs.
  - The differences between 3-to-5-year-olds and school-age children are statistically insignificant in FCCHs.
- Therefore, we recommend age groups for FCCH subsidy rates are 0-2 and 3+ years.
- All age groups have significantly different costs in centers.

Alternative Model: Adjusting for Quality

- Current NC statute mandates that child care subsidy rates include a quality differential.
- Recommended quality adjustments use the *average subsidy rate difference between quality ratings in current rates* to adjust for quality level:
  - Adequacy-based approach: Uses the adequacy-based cost estimates as 5-star rates and adjusts downward to arrive at 3- and 4-star rates
  - Cost-based approach: Uses the cost-based cost estimates as 3-star rates and adjusts upwards to arrive at the 4- and 5-star rates

Alternative Model: Adjustments for Specific Care Needs

- Children with special needs require some specialized equipment and materials and more highly trained staff, who require a higher wage.
- We recommend a 5% increase to the subsidy rate for children who have special needs and are served in an inclusive setting.

- Providers struggle to attract and retain employees to provide non-standard hours of care.
- We recommend the following subsidy rate adjustments:

Weekly Hours of Non-standard Care	Percent Increase in Subsidy Rate
1-10	5%
10-20	10%
20+	15%

Recommendations: Summary

- Implement a model using the adequacy-based approach, including collapsed FCCH rates by age, with one statewide rate and adjustments for children with special needs and those needing non-standard hours care.
- Set subsidy rates at 100% of the estimated cost of providing five-star license care (after a phase-in period), with adjustments for 3- and 4-star care providers.
- Automatically adjust rates annually for inflation.
- Mandate participation from all licensed providers in an updated administrative data system to collect key information about salaries and materials used, to inform cost model updates.
- Once the federal Office of Child Care approves North Carolina's alternative rate model, update the cost model every 2 years to adjust subsidy rates.
- Revisit cost model assumptions after the QRIS is updated and fully implemented.

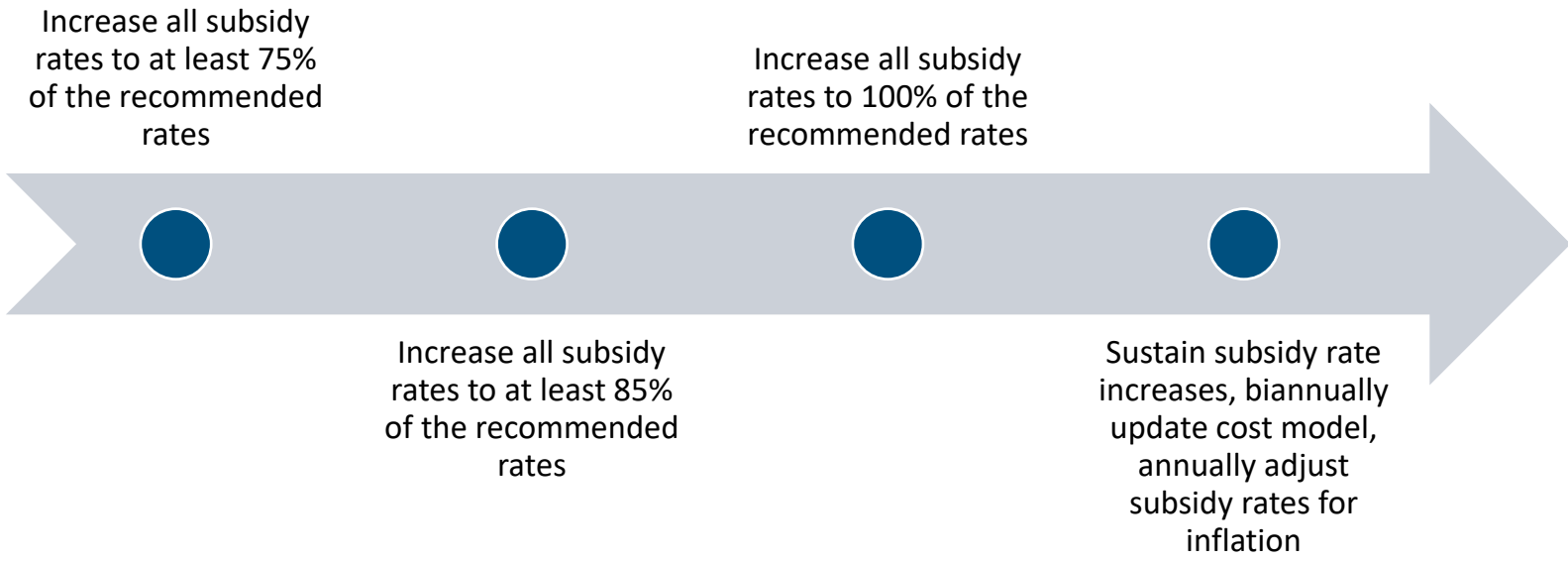
Phasing In New Rates: Summary

- Estimated total cost to the state includes:
  - per-child cost of the recommended rates multiplied by current number of children (by age and setting) served by the subsidy program
  - Estimated total county-level administration costs
- Assumes that funding will begin in 2025 with annual adjustments for inflation (3%).
- 75% of new rates in Year 1, 85% in Year 2, 100% in Year 3

Estimated Cost of the System: Per-Child Rates and Administrative Costs

Phase-In Plan: Recommended Strategy

- Adopt a financing plan that increases all subsidy rates and administrative funding incrementally over three years. Hold harmless counties with current rates higher than new rates each year.



Perspectives from a Local Administrator

Next Steps

NC DEPARTMENT OF
HEALTH AND
HUMAN SERVICES
Division of Child Development
and Early Education

AIR®

Panel Discussion: Lessons Learned

Q&A

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Thank You

Please fill out our survey.

Pocket Slides

For reference if needed

1. Adequacy-based Model with Statewide Rate (Recommended)

- The Adequacy-based Model with Statewide Rate uses the average cost of the resources that would be needed to achieve or maintain a 5-star license for each setting, age, and quality level.
- This model makes it more likely that providers can achieve and maintain a 5-star rating.
- A single statewide rate simplifies the rate structure for families, providers, and administrative staff at the local and state levels.
- Uses the highest rate (based on estimated cost) for a locale within a setting and age group as the state rate for that group

2. Cost-based Model with Statewide Rate

- The Cost-based Model with Statewide Rate uses the average cost of resources used to provide the *current levels of care* for each setting, age, and quality level.
- A single statewide rate simplifies the rate structure for families, providers, and administrative staff at the local and state levels.
- Uses the highest rate (based on estimated cost) for a locale within a setting and age group as the state rate for that group.

3. Adequacy-based Model with Locale-specific Rates

- Uses the average cost of resources needed to achieve or maintain a 5-star license for each setting and age.
- Adjusts rates for locale, but is still far simpler than the current 100-county structure.
- This model the average uses one rate for metropolitan areas (i.e., urban and suburban areas) and one for nonmetropolitan areas (i.e., rural).

Review of Other State Subsidy Systems

- Review of all state CCDF plans and other relevant documents
- Interviews with 13 state leaders to gather more information on decision-making process, advantages, disadvantages of current approach
- States were selected based on:
  - Public documents or stakeholder conversations identified as having implemented or moving toward an alternate rate model
  - Similarity to North Carolina demographically or politically
  - Interest from DCDEE based on other contextual or policy information
- Interviewed states: Alabama, Arkansas, Colorado, Delaware, Georgia, Nevada, New Mexico, Ohio, Oregon, Utah, Virginia, West Virginia, Washington D.C.

Subsidies in Other Industries

- Food Nutrition and Services (SNAP)
- Medicaid: Managed Care and NC Health Choice (CHIP)
- Work First (TANF)
- Housing Choice Voucher Program (Section 8)
- Utilities: Low-Income Energy Assistance (LIEAP)
- Utilities: Low-Income Household Water Assistance (LIHWAP)
- Senior Services
- Military Child Care In Your Neighborhood (MCCYN)
- Head Start
- Agriculture Subsidies

Locales: Definitions and Numbers of Providers

Description	Metropolitan*	Nonmetropolitan
Urban: Areas inside an urban area and inside a principal city	1,808	
Suburban: Areas outside a principal city and inside an urban area	1,032	
Rural: Areas that are at least 5 miles away from any urbanized area and are at least 2.5 miles away from any urban cluster		1,986