

## Executive Summary

Over 1.4 million children in the United States receive child care subsidies each month, provided through the Child Care and Development Fund (CCDF) and administered at the state or local level (U.S. Department of Health and Human Services, 2015). Subsidies assist families in paying for child care arrangements so that low-income parents, including parents transitioning from welfare, can work or attend training and education programs. One of the key determinants of access to child care for families receiving CCDF subsidies is provider payment rates set by States and Territories. When payment rates are low relative to market prices, providers may choose not to serve children using subsidies or may charge parents the difference between the subsidy payment rate and the price the provider charges parents who do not receive a subsidy (where allowed).

Since the enactment of the Family Support Act in 1988 (which governed some of CCDF's predecessor programs), federal subsidy policy has required that provider payment rates be informed by market prices, based on the rationale that associating payment rates with prices would support parental choice and access. States and Territories conduct market rate surveys to collect information on child care prices, and, under CCDF, States are encouraged but not required to set payment rates at the 75th percentile of the market price. The 75th percentile is the number that splits the range of prices in the market such that 75 percent of prices are lower and 25 percent are higher than it. As described in the preamble to the final rule (81 FR 67512), the 75th percentile payment rate is viewed as a proxy for equal access. Setting payment rates at the 75th percentile demonstrates that CCDF families could have access to at least 3 out of every 4 available child care slots or programs. The Child Care and Development Block Grant (CCDBG) Act of 2014 reauthorized the CCDF program and expanded the options for States and Territories to include the use of alternative methodologies, such as a cost estimation model, when setting payment rates. Further, the CCDBG reauthorization in 2014 required States and Territories to demonstrate that their payment rates consider the costs associated with higher-quality child care.

States and Territories now face new considerations when collecting data to inform the process of setting provider payment rates. This brief provides information on key issues and criteria for choosing whether to conduct a market rate survey, use an alternative methodology such as a cost model, or both. In this context, the term *price* means the fees or tuition that child care providers typically charge parents. *Costs* refer to the value of all resources required to deliver child care services (e.g., salaries, rent and utilities, supplies). The prices charged by a provider may reflect underlying differences in the cost of providing care based on the age of the child, the quality of the care, and other factors. It is important to recognize, however, that the prices or fees that providers charge families may not cover providers' full costs if they have other sources of funding (e.g., grants or donations). In some locations, providers may be able to charge higher prices because of higher demand for child care services.

Market rate surveys and cost-based alternative methodologies can both be used to inform the setting of provider payment rates, with the goal of supporting access to high-quality child care for families receiving subsidies. With either approach, the data must be current and complete, and the data collection and research methods must be statistically valid and reliable. In addition to the need to provide valid results, States and Territories must consider whether a particular method captures variation in prices or costs along relevant dimensions such as provider type, different levels of provider quality, child age, and geographic location. States and Territories will need to consider the costs of conducting surveys or using a cost-estimation model, including the potential need for contracted support from researchers outside of the state agency administering CCDF. Demonstrating that the payment rates afford equal access to families receiving subsidies may be best accomplished with current and valid data on both market prices of child care and the costs of providing different levels of quality care to children of different ages and locations.