State Subsidized Child Care
Payment Rates

Summary

Over the past decade, the lasting and positive impact quality child care has on the lives of children has received increasing attention in multiple research studies. Wages paid to child care teachers and providers have been historically low, and attracting and keeping a well trained and capable child care workforce is impacted by the adequacy of wages paid. State reimbursement rates for child care have a profound impact on those wages; thus, it is important for policymakers to understand reimbursement rates and the methodology by which they are determined including the Regional Market Rate (RMR). When California first established and implemented a RMR as part of the GAIN (Greater Avenues to Independence Welfare Reform Program) in 1988, the rate ceiling was 1.5 standard deviations above the mean cost of care and lowered to the 85th percentile, thus reducing the rates paid for subsidized child care. California currently utilizes the 2005 Regional Market Rate survey to determine rates at this reduced level. Rates paid to license-exempt child care providers were further reduced in the 2011-2012 budget cycle. They are now set at 60% of the 85th percentile maximum ceiling paid to licensed family child care providers. To further complicate the system, child development programs that receive contracts (governed by Title V of the Education Code) from the California Department of Education are reimbursed by a different rate structure known as the Standard Reimbursement Rate (SSR). In some cases the SRR is lower than the corresponding RMR in the same county.

Background

When considering policy decisions that impact subsidized child care in California it is important to have a solid and accurate understanding of the factors that influence how it is paid for. These include the business component of child care; payment procedures, and reimbursement rates and structures used with different types of child care providers. Since California's diverse child care delivery system relies on a mix of both private and state-contracted programs, changes to state reimbursement rates could affect the entire child care system, threatening parents' access to quality child care at the local level.

Stagnate or reduced reimbursement rates increase the probability that well trained and educated providers will be hesitant to accept subsidized children. If they cannot receive compensation commensurate with their education and training, it is likely that they will forgo working in programs serving subsidized children. This can decrease both the quality and quantity of subsidized child care available to parents who may only have access to providers with less training and education.

Due to numerous factors, including the variety in type of child care programs available, reimbursement rates are one of the more complicated components of the subsidized child care system. One of the most straightforward caveats to child care reimbursement is that no child care provider can be reimbursed at a level greater than what they charge for non-subsidized children receiving the same type of care. This is confirmed annually by local Child Care Resource & Referral or Alternative Payment Programs. With that overarching policy in mind, there are two main categories of rate reimbursement: the Standard Reimbursement Rate (SRR) and Regional Market Rates (RMRs).

The Standard Reimbursement Rate is utilized with agencies that have direct contracts with the California Department of Education (CDE), such as state preschool programs. It is important to note that as part of their contract, these providers are required to meet additional training and program standards which are not required of non-contracted providers. Despite this fact, CDE contracted providers in some regions receive less pay for the same type of care than their non-contracted counterparts. This greatly inhibits the expansion of contracted child care programs.

The SRR set by California Legislation in 1980, received a 5% increase in the 2014-15 FY. This was the first increase that was not based on a Cost of Living Adjustment (COLA) (the last COLA increase was provided in 2007). The rate is currently set at $36.10 per child per day of enrollment. SRR contracts are based on a standard of 250 enrollment days per year, for a total annual reimbursement of $9,025 per child. The SRR does specify adjustment factors based on the number of hours each child receives care. It also has positive adjustment factors to account for the child's age (3 years and older is considered the standard rate), special needs, disability, whether the child is at risk of abuse or neglect, and if the child is non-English or limited-English speaking.

Regional Market Rates[1] are used for child care programs paid through voucher-based programs. RMRs are based on aggregate child care provider rates analyzed using market profiles as determined by biennial Regional Market Rate Surveys of California Child Care Providers. Currently, rates are reported on a county level creating 58 reimbursement rate sheets organized by type of care (licensed center, licensed home, and license-exempt), age of child (infant, preschool, and school-age), and hours of care (full-time and part-time). Similar to the SRR, the RMR includes adjustments factors applied to different types of care. These adjustment factors also apply to non-traditional hours (evenings/weekend) and exceptional needs care. There are two significant points to clarify regarding the market rate surveys: 1) By the nature of a cap on the reimbursement rate within a market rate survey, some providers will naturally fall above the maximum allowable rate & 2) Although the surveys are conducted regularly (at least every two years), there is currently no law stipulating that the most recent data and rates must be utilized. This second point is illustrated by the fact that current RMR ceilings are based on data from the 2009 RMR Survey less a deficit factor of 10.11%.

Rates collected through the RMR survey are used to sets maximum reimbursement ceilings by type, age, and hours of care. RMR ceilings are set so that licensed providers are reimbursed up to the 85th percentile of the rates charged by private providers in the area offering the same type of child care. This means that parents should be able to access 85% of providers in their market. If a parent chooses a provider above the maximum ceiling then the parent would need to pay the additional cost of care[2]. The purpose of the maximum ceiling was to increase parental choice for low-come families so that they would have quality child care options in the face of a limited supply of licensed care and consistent with the choices available for private-pay families.

The RMR also calculates reimbursement ceilings for license-exempt care (Trustlined or Family/Friend/Neighbor). Given that the RMR survey only collect rates for licensed programs, the ceiling rates for license-exempt providers are derived from the 85th percentile ceilings for licensed family child care homes. The ceiling for license-exempt care is capped at 60% of the 85th percentile of licensed care rates and was lowered to this level through the 2011-12 budget process. Prior to this recent change, license-exempt providers were reimbursed at 80% of the 85th percentile of licensed care rates.

1 Prior to the implementation of RMRs, reimbursement rates were set at fixed statewide levels. The use of statewide rates was less complicated, however it was decided that they did not appropriately take into account the significant socioeconomic diversity within the state, making most child care options unavailable for subsidized families in more expensive communities. Implementation of county-wide RMRs was the chosen compromise; not as specific as other methods that have been considered (such as utilizing zip codes), but relatively more simple to calculate and appropriately inclusive for most of the state's subsidized families.

2 Currently the federal minimum is the 75th percentile of rates charged by private providers for the same type of care; however the higher level has been maintained in California in order to preserve access for children of income-eligible families to more appropriate levels of quality child care in their communities.