HB 395

Department of Legislative Services

Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
First Reader

House Bill 395 (Delegate Kelly, *et al.*)
Appropriations

Child Care Subsidy Program - Alternative Methodology - Report

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This bill requires the Maryland State Department of Education (MSDE), by October 1, 2017, to report to specified committees of the General Assembly on methodologies to set reimbursement rates in the Child Care Subsidy (CCS) Program.

The bill takes effect July 1, 2017.

Fiscal Summary

State Effect: None. MSDE can handle the bill's requirements with existing budgeted resources.

Local Effect: None.

Small Business Effect: None.

Analysis

Bill Summary: By October 1, 2017, MSDE must report to the Joint Committee on Children, Youth, and Families, the Senate Budget and Taxation Committee, and the House Appropriations Committee on:

- whether an alternative methodology for setting reimbursement rates in the CCS Program should replace the market rate survey or be used in addition to the market rate survey;
- the benefits and constraints of various alternative reimbursement rate setting methodologies;

- how other states set child care subsidy reimbursement rates;
- feedback on reimbursement rate setting methodologies from stakeholder meetings of the Office of Child Care Advisory Council, resource and referral agencies, child care worker organizations, and other appropriate entities; and
- what alternative reimbursement rate setting methodology should be used or, if no alternative is recommended, whether there are ways to modify the market rate survey method to better measure the actual cost of child care and the cost of improvements to the quality of child care.

Current Law/Background: The Child Care and Development Fund (CCDF) serves as the primary source of federal funding to states to help provide child care assistance for low-income families through CCS programs. The Child Care and Development Block Grant Act of 2014 reauthorized the program for the first time since 1996. The reauthorizing legislation shifts the focus from one largely dedicated to enabling low-income parents to work, to an increased emphasis on promoting positive child development and wellness through greater child care quality, safety, and access requirements.

In Maryland, the CCS program is administered by MSDE. For each child needing care, the family receives a voucher that indicates the subsidy rate and the parent's assigned co-payment. The family uses the voucher to purchase child care directly from the provider of their choice. The State pays the subsidy to providers, while the parent pays the required co-payment and any remaining balance between the actual rate charged by the provider and the voucher amount. CCS provider rates are a weekly rate determined by the region, type of provider, and age of the child. For purposes of the program, the State is divided into seven geographical regions. Within each region, rates are also set according to the type of provider and the age of the child. CCS rates range from a low of $41.53 for a child older than age two receiving informal care to a high of $261.38 for care provided to a child younger than age two in a child care center or large family child care home.

CCDF regulations require a market rate survey or alternative methodology at least every three years and for rates to be set based on the results. Maryland's CCS rates have historically been set after consideration of actual rates charged by child care centers and family child care homes in each jurisdiction, as reported from market rate surveys. CCDF regulations recommend, but do not require, that the rates be set at the seventy-fifth percentile of current market rates (meaning that only 25% of providers charge rates greater than the subsidy rates). In 2001, 22 states, including Maryland, met this benchmark; as of 2015, only South Dakota met the recommended benchmark. According to the State's fiscal 2016-2018 CCDF plan, CCS rates are set at the ninth percentile, meaning that over 90% of child care providers charge more than the subsidy rate. Two key provisions of the CCDF are providing equal access to child care for children and ensuring parental choice. The U.S. Department of Health and Human Services' Administration for

Children and Families (ACF) expressed concern to states that low provider payment rates undermine these principles.

Furthermore, although market rate surveys are required to determine how payment rates compare to the federal benchmark of 75%, ACF notes that providers have indicated that they do not charge prices that reflect the full cost of providing quality services, because parents would be unable to pay them. As a result, the published prices reflected in market rate surveys are not always adequate to cover a provider's full costs, particularly when accounting for high-quality care, leading providers to assert that they are partially subsidizing the cost of child care. Accordingly, the reauthorization also allows states to use an alternative methodology, such as a cost estimation model, instead of a market rate survey. While the reauthorization does not require the use of an alternative methodology, such models would better illustrate the full cost to providers of delivering a higher quality of care, by accounting for factors such as staff salaries and benefits, training and professional development, facility costs, and curricula and supplies.

Additional Information

Prior Introductions: None.

Cross File: SB 293 (Senator King, *et al.*) - Budget and Taxation.

Information Source(s): Maryland State Department of Education; U.S. Department of Health and Human Services; Department of Legislative Services

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