Department of Legislative Services

Maryland General Assembly
2017 Session

FISCAL AND POLICY NOTE
Third Reader

House Bill 418 (Delegate Kelly, *et al.*)
Appropriations Budget and Taxation

Child Care Subsidy Program - Reimbursement Rate Adjustments

This bill requires the Maryland State Department of Education (MSDE), beginning in 2017 and every two years thereafter, to conduct a market rate survey or an alternative method allowable under federal law in order to formulate appropriate reimbursement rates for the Child Care Subsidy (CCS) program. By September 1, 2017, and every two years thereafter, MSDE must report specified information to the Joint Committee on Children, Youth, and Families, and the Senate Budget and Taxation and House Appropriations committees.

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: Prior to conducting the analysis, MSDE must consult with specified entities, including child care worker organizations.

The required report must include:

- the methodology of the required analysis (market rate survey or an alternative method);
- cost estimates for raising reimbursement rates to the forty-fifth, fifty-fifth, sixty-fifth, and seventy-fifth percentile of child care providers in each of the State's market regions;
- the minimum base payment rate that is required for child care providers to meet health, safety, quality, and staffing requirements in accordance with federal law and the factors used to determine that rate;
- the rate adjustment that MSDE will implement based on the analysis;
- any adjustments to program eligibility or family co-payment amount that will be implemented; and
- any potential impacts on families and providers due to any adjustments made to the program.

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.

Income Eligibility and Co-payments

States are also required to establish and periodically revise a sliding fee scale that provides for cost sharing for families who receive subsidies. Thus, families receiving a subsidy are assigned a co-payment amount based on their gross income. As is done with subsidy rates, Maryland employs a sliding fee schedule based on region, number of hours in care, and the number of children in care per family. Families eligible for temporary cash assistance and Supplemental Security Income do not have a co-payment. Co-payments are calculated as a percentage of the average cost of care. The new federal benchmark is for co-payments not to exceed 7% of family income; the prior benchmark was 10%. In its most recent CCDF plan, MSDE indicated that total co-payments per family are capped at 12% of income.

States must set their initial income eligibility level below the federal threshold of 85% of the State Median Income (SMI). Maryland's established maximum eligibility level for a family of three is 41% of SMI, although, due to current enrollment freezes, the maximum eligibility level is 35%. Pursuant to the reauthorization, states must also have two-tiered (or continuing) eligibility that consists of an initial, entry-level income threshold and a higher exit-level income threshold for families already receiving assistance. This is intended to support long-term family economic stability by allowing families to have a tapered transition from the subsidy program. States may establish a second tier of eligibility that is lower than 85% of SMI as long as that level is above the initial eligibility threshold and takes into account the typical household budget of a low-income family. As of 2014, only 16 states nationwide (including the District of Columbia and West Virginia) use higher eligibility thresholds for families already receiving services (continuing eligibility). States must be in compliance with the new federal requirements by the end of the fiscal 2016 to 2018 plan period.

Additional Information

Prior Introductions: None.

Cross File: SB 294 (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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