Report to
The Vermont Legislature

Report on Adjustment of Child Care Financial Assistance Program Rates

In Accordance with Act 76 of 2023

Submitted to:	**House Committee on Appropriations** **House Committee of Human Services** **Senate Committee on Appropriations** **Senate Committee on Health and Welfare**
Submitted by:	**Chris Winters, Commissioner** **Department for Children and Families**
Prepared by:	**Janet McLaughlin, Deputy Commissioner, Child Development Division**
Report Date:	**January 15, 2024**

Per Section 9b of Act 76 of 2023, the Child Development Division (CDD) of the Department for Children and Families is submitting this report regarding:

(1) the appropriate mechanism for adjusting future reimbursement rates for child care providers participating in the Child Care Financial Assistance Program

(2) the appropriate reimbursement rate in fiscal years 2025 and 2026 for child care providers participating in the Child Care Financial Assistance Program

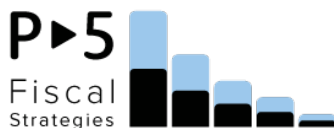
(3) the appropriate family contribution in fiscal years 2025 and 2026 for families participating in the Child Care Financial Assistance Program

To prepare this report, the CDD consulted with the Joint Fiscal Committee to identify the factors to be considered and the information that would be needed. As a result, CDD commissioned a report to outline the options for setting reimbursement rates allowable by the federal Child Care Development Fund, the policy and fiscal implications of those options, and examples from other states; the report also addresses options for addressing family contributions.

Please find the attached report prepared by Prenatal-to-Five Fiscal Strategies.

CDD's recommendation regarding the Child Care Financial Assistance Program (CCFAP) rates for fiscal year 2025 will be included in the Governor's budget.

CDD does not recommend changing the family contribution rates for fiscal year 2025. Maintaining weekly family share tiers at $25 increments provides clarity and simplicity that is especially important given the changes to CCFAP rates and income eligibility already planned for fiscal year 2025 via Act 76. In future years, analysis of the weekly family share tiers updated for the most current Federal Poverty Level calculations that assess the percentage of household income spent on child care against state and federal guidance for affordability for child care would provide direction for this decision.



Report to the State of Vermont Child Development Division

Options for Implementing Structured Changes to the Vermont Child Care Financial Assistance Program

Submitted by
Prenatal to Five Fiscal Strategies
December 2023

Executive Summary

Paying for child care is often one of the largest expenses in a family's budget. The Child Care Development Fund (CCDF) is a federal and state funded program that supports families with this expense, subsidizing child care tuition so families can work or attend school. In Vermont, this subsidy program is called the Child Care Financial Assistance Program (CCFAP) and is administered by the Vermont Department for Children and Families, Child Development Division. The Department is responsible for collecting data to inform the reimbursement rates that providers serving eligible families receive. This has historically taken the form of collecting data on current market prices within the child care sector, and then rates are set at a percentile of those market rates. However, the nature of the child care market is such that this approach often leaves providers with insufficient resources to provide high-quality care and pay compensation that enables them to recruit and retain a stable workforce.

Recognizing the gap between what most families can afford to pay and the true cost of providing high-quality child care, in recent years Vermont has made significant public investments to support the child care sector. Alongside these investments, the state is implementing structural changes to how the program operates to ensure it works as intended for children, families, and providers. This report discusses changes related to how subsidy reimbursement levels are determined. Specifically, the report reviews (1) how Vermont currently determines subsidy reimbursement levels, (2) alternative approaches allowed under federal CCDF rules, (3) the impacts of these different approaches, and (4) the programmatic and financial implications of the approaches. The report also discusses approaches to determining the family co-payment, or family share, that many eligible families are required to contribute in addition to the subsidy. Finally, the report provides examples of how alternative approaches have been implemented in Washington, DC, New Mexico, and Virginia.

Table of Contents

EXECUTIVE SUMMARY **1**

INTRODUCTION **3**

VERMONT'S CURRENT APPROACH TO CCFAP RATE SETTING **3**

COMPARING APPROACHES TO CHILD CARE SUBSIDY RATE SETTING **5**

MARKET RATE STUDY 5
COST OF CARE 7
APPROACHES TO INTEGRATE RATE AND COST DATA 9
INDEXING RATES TO REFLECT CHANGES 10

IMPACT OF DIFFERENT METHODOLOGIES **10**

PROGRAMMATIC AND FINANCIAL IMPLICATIONS **12**

FAMILY CONTRIBUTIONS 13

EXAMPLES OF COST-BASED APPROACH TO RATE SETTING **14**

DISTRICT OF COLUMBIA 15
NEW MEXICO 15
VIRGINIA 16

APPENDIX **17**

A. UNDERSTANDING HOW A COST ESTIMATION MODEL CAN BE USED FOR ALTERNATIVE METHODOLOGY 17
B. ADDITIONAL BACKGROUND RESOURCES 19

CITATIONS **21**

Introduction

The cost of child care can be an overwhelming burden, particularly for families on low-incomes.[i] To help support access to child care, families meeting certain criteria may be eligible for assistance through the Child Care Development Fund (CCDF). This federal-state program helps cover some, or all, of price of child care tuition, up to a maximum level as set by the CCDF Lead agency in each state or territory.[ii] In Vermont, the Department for Children and Families administers CCDF funding through the Child Care Financial Assistance Program (CCFAP).

Each state or territory sets the payment rates that child care programs receive when serving a child who is eligible for subsidies under CCDF. In general, states have broad authority to set these reimbursement rates.[iii] Historically, states were required to conduct a market rate survey, collecting data on tuition prices in the child care market, and then setting rates at a percentile of the market rate. However, since the 2014 reauthorization of CCDF, Lead Agencies have had options for the approach they use for rate setting. Lead agencies can either use the market survey-based approach, or they can use an alternative methodology, such as a cost estimation model, in which rates are informed by the costs incurred by providers in offering quality care. Vermont uses a market rate survey to inform the CCFAP rates that are set by the legislature. The market rate survey approach is the prevalent method across the country, also currently used by all but three CCDF Lead Agencies. This report will detail the current methodology used by Vermont and discuss alternatives to this approach, the programmatic and financial implications, and examples of how they have been employed in other states.

Vermont's Current Approach to CCFAP Rate Setting

Vermont's child care subsidy system, the Child Care Financial Assistance Program (CCFAP), provides financial assistance to eligible families to help cover the cost of child care. In most circumstances, eligible families must be employed, seeking employment, or participating in training or education programs *and* have a monthly gross income at or below the levels established in the Vermont Child Care Financial Assistance Schedule.[iv] As of 2021 with the passing of Act 45, income eligibility extended to serve families earning at or below 350 percent of the federal poverty level (FPL).[v] Providers serving eligible families receive reimbursement from the state for the care they provide, up to a maximum amount determined by the state, known as the subsidy rate. Currently, families with incomes above 175 percent of FPL are required to pay a weekly family share, based on a sliding fee scale, with the amount the provider receives from the state reduced accordingly. As of April 1, 2024, the level at which families are required to pay the family share will increase to 185 percent of FPL.

Historically, Vermont has used a Market Rate Survey (MRS) methodology to establish CCFAP provider reimbursement rates. Under this approach, the state analyzes data on provider's tuition rates, and determines a base rate at a percentile of those market rates.[1] In this way, the state CCFAP payment is intended to cover the cost of child care up to a set percentile of the rates in the private child care market. Before July 2023 and the passing of Act 76, regulated programs in Vermont received a tiered payment rate based on the *STep Ahead Recognition System* (STARS), Vermont's Quality Rating Improvement System.[vi] This tiered rate ranges from a five to 40 percent increase over the base rate, according to the programs STARS rating. Child care programs achieving four stars were reimbursed at the 75th percentile of the market rate for each age group and provider type. Family contributions in the form

[1] The market rate is reported by child care programs to the Vermont Department for Children and Families, Child Development Division and collected in the Bright Futures Information System (BFIS). For more see: https://outside.vermont.gov/dept/DCF/Shared%20Documents/CDD/Reports/CC-MRS/CC-MRS-Report-2019.pdf

of a weekly family share ranged from $0 for families making 150 percent or less of the federal poverty level to $200 per week for families making 350 percent of FPL.[vii]

Act 45 of 2021 called for further exploration of options for expanding access to Vermont CCFAP subsidies, with progressively increasing income eligibility increases and a cap on the family share payment of no more than 10 percent of family income.[viii] The Vermont Joint Fiscal Office commissioned a financing study that provided recommendations and cost estimates.[ix] The study, conducted by RAND, estimated that the CACFP subsidy rates, as of 2021, were far below the true cost of providing quality child care with a well-compensated workforce, with the gaps largest for licensed centers serving infants and toddlers, and for registered homes.

In 2023, the state legislature mandated several policy changes related to Vermont's child care subsidy system via Act 76. Specifically, these changes included phased increases to the state reimbursement rates for child care programs participating in Vermont's CCFAP. The first phase, effective July 2, 2023, created a simplified rate schedule that is intended to better reflect the cost of providing child care and also delinked payment rates from a program's STARS rating, a change that could provide lower-rated programs with more resources to improve quality. The CCFAP reimbursement rate for 5-STARS programs in June 2023 became the base rate for all programs in July 2023. Base rates in licensed centers increased between $109 and $146 per week per child, ranging from $275 for full-time school-age care to $349 for infant full-time. Base rates for registered family child care homes increased between $70 and $81 per week per child, with rates ranging from $200 for school-age care to $225 for infant care. In the second phase, beginning December 17, 2023, these rates increased by 35 percent and the state started paying the state rate regardless of the providers' published private pay tuition rate. Additionally, in July 2024, registered home providers will receive a further increase of between $51 and $83 per week per child.

Table 1 below details the rates before Act 76 and the subsequent increases. Overall, the rates as of December 17, 2023, represent an increase of between 102 percent and 145 percent from the rates before Act 76, providing significant additional resources to providers who serve subsidy-eligible children.

Table 1: Vermont CCFAP Payment Rates

Age Group	Licensed Center			Registered Home			
	Base Payment Rate[x] (prior to Act 76)	State Capped Rate[xi] 7/2/23	State Rate 12/17/23	Base Payment Rate (prior to Act 76)	State Capped Rate 7/2/2023	State Rate 12/17/23	State Rate 7/1/2024
Infant	$210	$349 +$139	$471 +$122	$145.38	$225 +$79.62	$304 +$79	$387 +83
Toddler	$201.92	$328 +$126.08	$443 +$115	$141.35	$211 +$69.65	$285 +$74	$364 +79
Preschool	$179.21	$325 +$145.79	$439 +$114	$129.23	$210 +$80.77	$284 +$74	$361 +77
School-age	$166.33	$275 +$108.67	$371 +$96	$121.15	$200 +$78.85	$270 +$70	$321 +51

Note: rates are weekly, for full-time care. For full rate details see https://outside.vermont.gov/dept/DCF/Shared%20Documents/CDD/Act76/CCFAP-Rate-Increase-Per-Act-76.pdf

Additional policies enacted through Act 76 include increasing eligibility to 400 percent FPL in April 2024 and then 575 percent of FPL in October 2024, disallowing application and waitlist fees for Vermont CCFAP-eligible children and paying CCFAP based on enrollment. Previously, programs were reimbursed based on attendance – if a child did exceed the number of allowed absences, the program did not receive payment or received a reduced payment, while holding a space for that child.

Comparing approaches to child care subsidy rate setting

Since the 2014 reauthorization of CCDF, states have options for how they set rates. Federal guidance requires states to develop and conduct a "statistically valid and reliable survey of the market rates for child care services *or* an alternative methodology."[xii] This section of the report details these options and discusses the implications of each approach.

Market Rate Study

The market rate study approach relies on collecting market prices for child care through a market rate survey.[xiii] Data from this survey are then used to set maximum reimbursement rates for subsidized child care with variations for the age of care, provider type, geographic location, and other variables that are identified through the market survey.[xiv] A statistically valid and reliable market rate survey can provide insight into the current prices families are paying in the private child care market. When states set reimbursement rates at the federally recommended 75th percentile of this rate, they can provide "equal access for eligible children…comparable to child care services provided to children whose parents are not eligible for CCDF."[xv] In essence, this means that subsidy payment rates should provide eligible families equal access to a majority of the child care options in their community. To fully represent the child care market, states must ensure a high response rate from providers, or develop an automated process for collecting tuition data, ensuring that data from all parts of the child care market are represented in the analysis.

In addition to the market rate study, states must also complete a *narrow cost analysis* which estimates the cost to implement the required health safety, quality, and staffing requirements under CCDF regulations and the cost of meeting higher-quality standards as defined by the state.[xvi] States have flexibility on how they respond to this requirement and a review of the most recent CCDF state plans found states either developed a child care cost estimation model, used an existing cost calculator, such as the federal Provider Cost of Quality Calculator, or they conducted a limited cost study.[xvii] States can use the results from a narrow cost analysis to compare current subsidy rates, or reported market rates, to the estimated cost of care, and how this varies by provider type, child are, and location.[xviii] States are able to use the results of their narrow cost analysis to inform rate setting, but they have the discretion to determine how much weight to give to the results, based on the rigor with which the narrow cost analysis was completed.

There are two primary drawbacks of the market survey-based approach to subsidy rate setting. First, many states do not set rates at the 75th percentile of the most recent market rate survey and therefore families relying on subsidy find that their voucher does not have the value to purchase the care that they need.[xix] In Vermont, only programs at the highest level of STARS were reimbursed at the 75th percentile until the February 2022 increases required by Act 45. With the move to higher rates the state now pays at the 90th percentile of the market rate.[xx]

Most child care providers are small independent businesses, operating on tight margins, and therefore must maximize revenue wherever possible. If private pay families can pay more than the subsidy voucher will cover, providers will limit the number of subsidy-eligible families they are willing to serve. Second, the market rate reflects the prices that providers charge families, which in turn reflects what families can afford. Programs must set tuition at a level that families in their community can afford, rather than what the service costs. In a functioning market where parents can afford the true cost of care, setting rates based on price would allow subsidy-eligible families equal access to child care as those able to pay tuition. Unfortunately, this is not how the child care market works. Instead, the market rate reflects the prices that providers charge families, which are based on what families in that community can afford. While families are struggling to afford child care tuition, these

tuition levels still leave providers struggling to cope.[xxi] And even fewer families can afford the full cost of quality child care, especially when it includes paying sufficient compensation to recruit and retain child care educators.[xxii]

Not surprisingly, the current child care market has created an inequitable system and one that disincentivizes providers from serving subsidy-eligible families and investing in quality.[xxiii] Insufficient funding levels, from both private pay tuition and public subsidies, results in low compensation and high turnover in the child care sector, For example, in Vermont, the median wage for child care workers is $15.43 per hour, and most have no access to discretionary benefits such as health insurance, a retirement plan, or paid leave.[xxiv]

This market failure also disproportionately affects families of infants and toddlers, low-income communities, minority groups, and communities of color.[xxv] Since most families cannot afford the cost of child care, programs face a disincentive to serve children for whom the gap between what families can afford and what it costs to provide care is greatest, such as infants and toddlers. For example, a provider might be able to achieve financial stability when serving preschool-age children, or in a program meeting the minimum state licensing standards. But if that same program serves infants and toddlers or meets higher quality standards (such as those set by the state Quality Rating and Improvement System or national accreditation), this will likely leave them operating at a deficit. The cost of providing infant and toddler child care is higher than for preschool-age children because of the required lower staff-child ratios for younger children.[xxvi] This is often not fully reflected in tuition prices because families of infants are unable to afford this cost, but under the market rate survey approach to rate setting this higher cost is also not fully reflected in subsidy rates. As a result, providers lose more money serving infants and toddlers on subsidy than they do serving preschool-age children, leading to a disincentive to serve this population, which has contributed to the higher incidences of child care deserts for children under three.[xxvii]

Defining terms

PRICE OF CARE means the tuition prices that programs set, which are usually based on local market conditions and what families can afford, ensuring that programs are competitive within their local market and can operate at as close to full enrollment as possible.

COST OF CARE means the actual expenses providers incur to operate their program, including any in-kind contributions such as reduced rent, and allocating expenses across classrooms and enrolled children based on the cost of providing service and not on what parents can afford.

TRUE COST OF CARE refers to the cost of operating a program with the staff and materials needed to meet regulations quality standards and provide a developmentally appropriate learning environment for all children. Cost of quality is another term often used to refer to the true cost of care. The true cost includes adequate compensation and an approach to staffing to recruit and retain a professional and stable workforce.

While the federal Administration for Children and Families (ACF) which sets CCDF regulations, encourages but does not require CCDF Lead Agencies to set their payment rates at the 75th percentile of the market rate survey, the shift to this requirement alone would not resolve the broken nature of the child care market. Continuing to use the price of child care or the amount the market of parent consumers can bear, will not cover the actual cost of the child care services. Even in instances where Lead Agencies set their child care subsidy payment rates above the 75th percentile, they are not necessarily paying for the cost of services, and instead replicating the issues of child care tuition limited to what families can afford in given communities, not the cost of the service delivered by the program. For example, the 2021 Financing Study commissioned by the Vermont Joint Fiscal Office estimated the cost of infant care in a center-based

setting at between $34,000 and $39,000 annually. Meanwhile the most recent market rate study found the 75th percentile to just over $15,000 annually.[xxviii]

Cost of Care

As an alternative to the market rate study, states can conduct what is called an *alternative methodology*, a cost-based approach to subsidy rate setting that can better capture what it actually costs providers to deliver child care that meets state standards. Two options for this alternative methodology are:

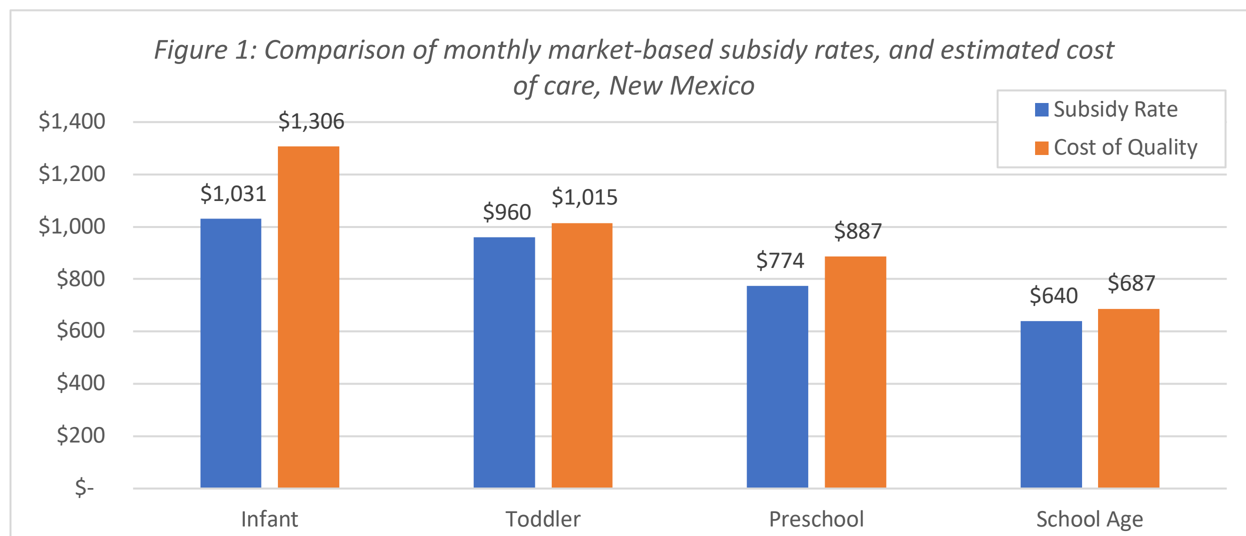
- A *cost study* involves collecting data from providers about their current costs of operating a program that meets licensing standards and other quality standards, reflecting point-in-time data about provider costs.
- A *cost estimation model* involves building a tool that is informed by provider data and that can run multiple scenarios to estimate the impact of several variables on cost, such as program characteristics (e.g., size and age mix), child populations served, program quality, and location in the state.

A cost study can provide accurate data on the costs providers are incurring. However, these costs are constrained by providers' current resources. If providers access in-kind support, such as volunteers or free or reduced rent, this can be captured in a cost study, but for most provides, their current expenditure is limited by the revenue they can generate so the study does not capture the resources they actually need to meet licensing or quality standards. In addition, a cost study generates 'point-in-time' answers, which limits its use in driving policy. By capturing only the current costs, a cost study cannot demonstrate the impact of future policy or programmatic changes, such as increased compensation.

Developing a cost estimation model can provide a state with a dynamic tool to understand both the current costs and the true cost of care, with increased compensation for the workforce.[xxix] Further, such a model can provide estimates of the impact on the cost of care of different program characteristics, such as program size, age of the child, geographic location, and state standards, including licensing and any quality-related standards. Whichever approach is used, an alternative methodology should engage a diverse body of child care constituents in all elements of the process. This engagement is essential to ensure the assumptions in the cost model are informed by those providing the service and those making policy decisions that have a fiscal impact. Critically, the engagement process is not a one-time effort – engagement is needed in the collection of data, the interpretation of that data, the development of the model, and the scenarios that are used to produce results in the model. In the case of using a cost estimation model, the overall process is informed by data but not constrained by the data alone due to the goal of building a model that represents what it actually costs providers to meet state standards, rather than simply the expenses providers are incurring.

An alternative methodology can address many of the inequities in the current child care market, including those related to child age, geographic location, or provider type. A cost estimation model can provide transparency into what it costs to provide care for each age group, in different regions of the state, and in different settings, aligned with the standards providers are required to meet, and based on the compensation levels necessary to recruit and retain staff. Not only can this ensure providers are adequately compensated for serving children eligible for child care subsidies, but it can also impact the capacity of child care across a state, especially for populations or in geographies where the gap between the cost of care and what families can afford is greatest, changing the economic picture for providers when making decisions about their program. Figure 1 provides an example from the cost

estimation model developed for New Mexico's alternative methodology process in 2021. As shown, the average gap between the subsidy rate, based on market prices, and the cost of care as estimated by the cost estimation model is significantly higher for infants than it is for any other age group.



Source: Capito, J. Rodriguez-Duggan, J. and S. Workman, Understanding the cost of quality child care in New Mexico: A cost estimation model to inform subsidy rate setting. (Prenatal to Five Fiscal Strategies, 2021). Available at: https://www.nmececd.org/wp-content/uploads/2021/08/P5FS_NMReport_v.3d_forWeb.pdf

Any state considering using an alternative methodology, instead of a market rate survey, is required to submit a description of its proposed approach to its ACF Regional Child Care Program Office for pre-approval.[xxx] This request must provide an overview of the proposed approach (e.g., cost estimation model, cost study/survey, etc.), and describe how data will be collected and used and the metrics the state will use to set rates based on the alternative methodology. The Lead Agency also must describe the estimated reporting burden and cost to conduct the alternative approach and detail how it will engage the community, including the State Advisory Council, or a similar body. As with the market rate approach, Lead Agencies must submit a report with their CCDF state plan detailing the alternative methodology process and how the results were used to inform rates.[xxxi] In general, developing a cost estimation model for the first time is a 6-12 month process, depending on the number of child care providers in the state, the approach to, and level of, provider engagement in the development of the cost model and in data collection, and what level of modeling and data collection has already been completed. The cost of developing a cost estimation model is also highly varied, dependent on several of the same factors. However, it is often not significantly more expensive than conducting a market rate survey. More information about the steps involved in building a cost estimation model are available in the appendix.

Considerations for Cost Modeling for Family Child Care Homes

By its nature, family child care is a different business model to a child care center. Family child care (FCC) providers are small businesses, typically female-led sole proprietors, operating out of their homes. While an FCC provider is held to licensing regulations and quality standards, just as other care settings are, the way they operate their program and the way expenses are incurred, is different from school or center-based settings and requires an accurate cost model to guide decision-making specific to the family child care modality.

One core element of cost modeling for FCC is acknowledging the compensation of the provider/owner. In line with most small businesses, FCC providers/owners typically see a salary based on what is left at the end of the

day between the available revenue and expenses to run their child care home. The fluctuation can greatly affect income: Providers have reported annual net income that when factored out for working full time is equivalent to less than $10 per hour.[xxxii] This is reflected in the prices FCC providers charge which are typically much lower than in child care centers, but at the cost of a livable salary for the provider/owner.

To understand the true cost of delivering care in FCC settings, it is recommended that compensation (salary and associated mandatory and discretionary benefits) for the provider/owner is built into the model, as well as for assistants or other staff they use to run their business. With this approach, the cost model more accurately captures the cost of operating an FCC, ensuring home-based providers are compensated in a way that allows them to operate as a core part of the early care and education system.

Approaches to Integrate Rate and Cost Data

There is potential for states to take a hybrid approach to rate setting, combining cost data and market data to inform subsidy rates. All states must conduct some form of cost analysis and consider the results when setting subsidy rates. This 'narrow cost analysis' can take many forms, and ACF provides flexibility in how much weight states put on the results when setting subsidy payment rates.[xxxiii] An analysis of the FY22-24 CCDF state plans by Prenatal to Five Fiscal Strategies found many states that use the market rate study approach to rate setting also used a cost model for their narrow cost analysis and made changes to rates based on the results of that model.[xxxiv] States can incorporate cost-related questions into their market rate survey to inform their narrow cost analysis, focusing on the primary cost drivers. Gathering data related to salaries, staffing patterns, and enrollment can provide inputs into a cost model that can highlight the largest gaps between market rates and the cost of care. This in turn can be used to inform how rates are set, such as paying a higher percentile of the market rate for certain populations. States using the market rate approach always have the option of setting rates higher than what the survey results demonstrate, and cost information supports this decision-making in rate setting.

Moving to a cost-of-care approach to rate setting, under the alternative methodology approval, does not mean a state cannot still gather data to understand the prices charged by providers in the private child care market. States that opt for an alternative methodology and develop a cost estimation model rather than conduct a market rate survey can also gather data on market prices. Alongside collecting data to inform the cost model, states can ask questions about current market prices, or analyze data submitted through state data systems, as Vermont currently does through its Bright Futures Information System (BFIS). With this market data, states can ensure that the results of their cost estimation model are at or above the current market rates so that providers are not being reimbursed at a level below market prices. If states build a cost model with robust compensation included it is unlikely that the results of the model would be below market rates, but if the model is using current salary data this could be possible, especially for older children groups.[2] As states go through multiple cycles of rate setting using a cost model, periodically gathering market data can provide a useful data point to ensure that rates are continuing to meet or exceed the market. For example, the District of Columbia, which was the first jurisdiction to set rates based on cost in 2016, included a market rate analysis in its 2023 alternative methodology.[xxxv]

[2] For example, New Mexico's first cost model estimated the cost of care for school-age children in a center-based setting to be higher than the subsidy rates for providers at all but the highest levels of the QRIS.

Indexing Rates to Reflect Changes

Under CCDF regulations, states must update either their market rate survey or their cost estimation model at least every three years. The survey must also be aligned with their CCDF plan submission. However, states may update their rates at any time and can analyze data annually to assess any necessary changes to ensure rates continue to meet the states' goals. Conducting a market rate survey can be a burden for providers, so states do not usually conduct this survey on an annual basis, although states like Vermont who collect data through a data system have access to more current data which they could use to updated rates annually, rather than on the three-year cycle.

Under the cost-based approach to rate setting, often the first time a cost model is developed significant input is sought from providers to ensure the model reflects the realities of providing high-quality child care, including sharing data related to program finances and giving insight into program operations. It is not necessary to repeat this full provider engagement on an annual basis, but rather this can be repeated if changes are made to state regulations or quality standards that may have a fiscal impact.

Understanding the need to update the model on an annual basis could be informed by indexing increases against markers such as inflation or changes in living wage values for the communities. One of the simplest ways to understand a potential increase in child care costs that could inform subsidy rate increases is to annually assess regional and state-level inflation values. These values can be applied to the subsidy rates, whether a market rate survey or a cost model is used to inform rate setting.

When rate setting is informed by a cost model, there is the opportunity for a more nuanced application of inflation amounts. For instance, a state could use information on the cost-of-living increases that have occurred from one year to the next, or the percentage increase in the minimum wage floor, if applicable, and apply these only to the salary variables in the cost model. After this change in the cost model, new cost outputs compared to those from the previous year use of the cost model would then demonstrate the percentage increase to the subsidy rates. Increases in the cost of discretionary benefits, such as health insurance costs to the employer, could be applied to the cost model. Additionally, all non-personnel values used in the cost model can be increased for inflation. With a cost model tool used to inform subsidy rate settings, there are more options to approach the increases to rates with annual cost increases experienced in states, rather than a simple percentage increase to a market rate.

Impact of Different Methodologies

Regardless of whether the market rate survey is used, or a cost estimation model is developed, CCDF Lead Agencies must make decisions about how the results of each approach are used to inform subsidy rate setting. Under the market-based approach decisions include:

- At what percentile of the market rate each rate will be set
- Any variations in that percentile based on child age, program type, geographic location, hours of care (e.g. part-time, or extended day).
- How to account for any gaps in data, such as insufficient market data from rural locations or for part-time care

When determining rates informed by a cost-of-care model, the state can use the cost model to generate results that better represent the variations in costs that exist across the system. There is no single answer to the question of what the cost of care is. It will depend on many different factors. The power of a cost estimation model used for alternative methodology is that it can provide answers based on these different factors. Therefore, the first step in using the model to inform rate setting is to run different

scenarios to understand the impact of varying characteristics on the cost of care. For example, scenarios can demonstrate the difference in cost of care based on

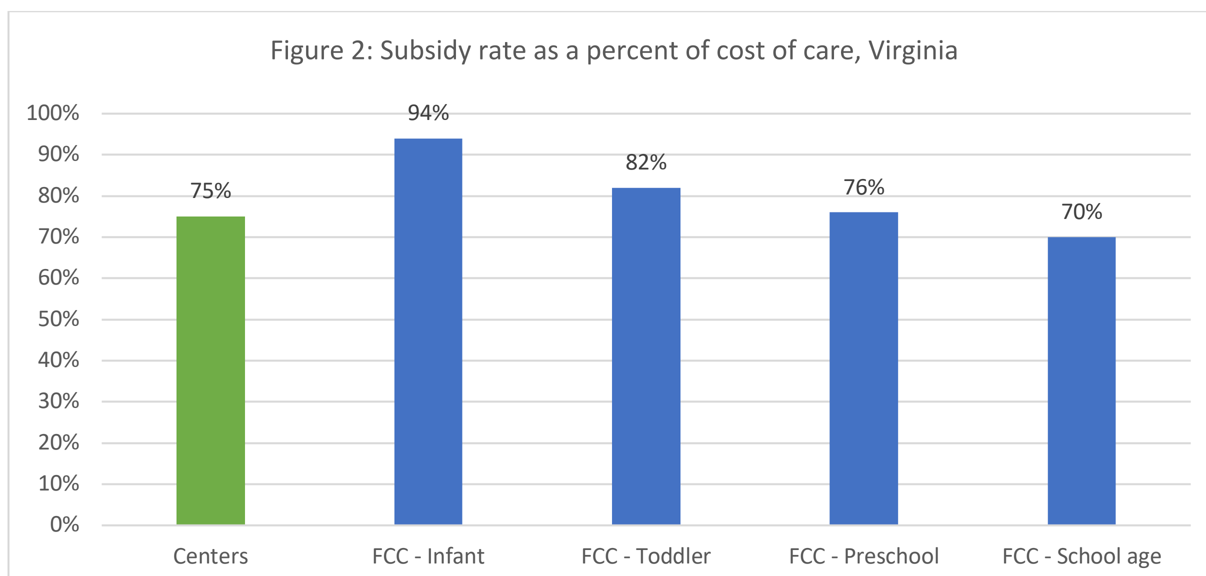
- Size of program (number of children served)
- Ages of children served
- Demographics of children and families served
- Type of care (full day, full year, school day, part-year, and so on; may relate to funding source and regulations associated with the funding source)
- Hours of operation (nontraditional hours in particular)
- Facility type (center, home, or school-based)
- Geographic location
- The compensation level selected in the model.

In this way, the model can demonstrate the variations in cost of care which can help inform policy decisions when setting subsidy rates for different program types. Outputs from these scenarios in the cost model represent the actual cost of care, which leaders can then compare to the current subsidy rates, to understand the difference between the market-driven rates and the actual cost of care that programs experience. Oftentimes this exercise highlights disparities in the current system, with certain provider types, or care for certain age groups, having the largest gap between current subsidy rates and the true cost of care.

Using these results to inform rate setting requires aligning scenarios in the model with the policy objectives for subsidy rate setting. For example, states may consider changing the geographic boundaries used in their subsidy system, based on the results of the cost analysis as opposed to the current market analysis. The model could run multiple scenarios to show the options for grouping counties into regions, informed by the cost data, or could decide to have one statewide rate if the cost model demonstrated limited variability in costs across the state.

Depending on the model inputs, states may or may not be able to set rates at 100 percent of the cost of the care, depending on budget limitations. Therefore, decisions must be made regarding what portion of the true cost of care subsidy rates will cover and how that may vary across program types. For example, a state may recognize a decline in family child care homes and want to help reverse this decline by reimbursing home-based providers at a higher percentage of the cost of care, in comparison to center-based providers. As a result, a state may cover 100 percent of the cost of care for family child care homes, where the gap between market price and true cost is often greatest, but only 85 percent for other programs. The data produced by the cost model can help states make these decisions and provide transparency into how those decisions are made. For instance, during the process in 2021, New Mexico's Lead Agency found that family child care settings were faring far worse than centers when comparing subsidy rates to cost of care. In setting rates informed by cost of care, the rates for family child care achieved 100 percent of the program cost of care, and rates for center-based settings were set at an average of 94 percent of the cost of care.

Similarly, Virginia's cost estimation model showed that the gap between the cost of care and the current subsidy rates varied significantly by age of child and provider type. Therefore, when setting rates informed by cost, the Virginia Department of Education decided to use their limited resources to cover a larger share of the cost of care for those programs for whom the gap between subsidy rates based on what families can afford to pay, and the true cost, were greatest. Figure 2 illustrates what percentage of the estimated cost of care cost the new cost-informed rates cover for centers, and for each age group within a family child care home.



Source: Virginia Department of Education, Virginia's Early Childhood Advisory Committee (ECAC) [presentation]. September 29, 2022. Available at: https://www.doe.virginia.gov/home/showpublisheddocument/26948/638045698894600000

Programmatic and financial implications

Moving to a cost-based approach to rate setting can represent a significant change for state systems, with both programmatic and financial implications. It is necessary to fully analyze these implications and address them alongside rate changes to ensure the changes have their intended impact. For example, in some instances, states are finding policies or regulations that may prohibit their implementation of rates informed by cost of care, when this cost-based payment rate is higher than the tuition rate, a provider is charging to families. Many states report a form of limitation on payment rates going above tuition charged; in these states, the limitation may be found in statute, regulation, or policy. In Vermont, Act 76 removed this limitation and providers can receive the statewide-determined rate even if published tuition is lower.[xxxvi] For others, making a change to rate categories – such as going from county-level rates to regional rates or a statewide rate – may require significant administrative or technology changes that must be accounted for in both timelines and budgets.

Using a cost-based approach to rate setting can provide a significant increase in transparency around rate setting and can help states better plan future budgets. Under the market rate survey approach, states have little insight into how costs will increase in the future because it is market-dependent. With a cost-based approach, states can use the cost model to estimate the fiscal impact of various future scenarios. For example, a state may use the model to estimate how much rates would increase if compensation levels increased by an estimated future inflation number, or by a different percentage, including one aligned with a planned increase in minimum wage or living wage values for their communities. Each cost driver in the model can be adjusted individually so states can model the impact on rates of increased costs across all expenses, or for individual expense items such as utility costs, occupancy, or compensation.

In addition, the fiscal impact of any future changes to state requirements for licensed child care programs can also be estimated using the model. For example, if a state were to change ratio and/or group size regulations or require programs to offer paid planning time or additional family engagement

activities, the fiscal impact of these could be estimated using the cost model. Many states are currently updating their Quality Rating and Improvement Systems. With a cost model tool in place, they could estimate the cost per child impact of changes to the quality standards. These cost model outputs would then be available to inform the overall cost increase that a state would face based on its QRIS revisions. This information is useful in planning for the rollout of changes in quality standards and understanding the additional resourcing that may be necessary to maintain the child care system.

Family Contributions

Under CCDF rules, states are required to establish a sliding-fee scale to determine the contributions made by eligible families towards the cost of care. These contributions are intended to be set at a level that does not create a barrier for families to receive support under this program, with federal guidelines recommending an upper benchmark of seven percent of a family's income.[xxxvii] States are able to waive co-payment requirements under certain circumstances, including for those at or below the poverty level. Across the country, states have taken different approaches to determining co-payment rates which has led to significant variations in how much subsidy-eligible families are expected to contribute to cover the cost of child care.[xxxviii] Although around half of states set family co-payments at or below the seven percent benchmark, significant variation exists across the country, ranging from 0 percent in New Jersey and New Mexico to 27 percent in Ohio.[xxxix]

In Vermont, co-payments under CCFAP are waived for families below 150 percent of federal poverty, with those above this income level making a contribution based on family income and family size. This family share ranges from $25 per week for families between 150 and 175 percent of federal poverty, up to $200 per week for families at 350 percent of the federal poverty level.[xl] The family share covers all children in the family, rather than being calculated on a per-child basis. This approach provides certainty for families, with their contribution not linked to the number of children enrolled or the private pay rates charged by providers or the CCFAP reimbursement rate.

At the federal level, President Biden's Build Back Better proposal and the Child Care for Working Families Act both called for family co-payments capped at seven percent of family income, with a graduated decrease below that.[xli] These proposals use state median income (SMI) as the family income calculation, rather than the federal poverty level (FPL) to ensure affordability benchmarks reflect the significant variation in median incomes between states.[xlii] CCDF sets maximum income eligibility at 85 percent of SMI, which is equivalent to annual income of $94,062 for a family of four in Vermont, which aligns with around 314 percent of FPL[xliii]

Under the approach proposed by Build Back Better and the Child Care for Working Families Act, families earning under 75 percent of SMI would pay no co-pay, and those earning between 150 and 250 percent of SMI would pay 7 percent of their income as their co-payments with graduated steps in between. This approach focuses on families contributing what they can afford, with affordability aligned with federal recommendations for what portion of their income families should expend on child care. With private tuition rates often requiring families to pay 20 percent or more of their income on child care, a 7 percent cap represents a significant decrease in out-of-pocket costs for many families.[xliv] To maintain affordability, this cap does not change with family size, so families never pay more than 7 percent of their income regardless of the number of children they have. In this way, the approach can be challenging for states to make budget forecasts. Because the family contribution will vary depending on the family size of the eligible child, the resulting state payment will also vary, requiring states to project not only the income level of eligible families but also the family size.

An alternate approach is to set a specific dollar amount for the co-payment. British Columbia ran a successful campaign to increase public funding for child care with a promise that families would pay not more than $10 per day for child care.[xlv] This approach offered appeal for its simplicity and was a powerful communications tool. For budgeting purposes, this approach makes it simple to determine what the family contribution will be and therefore how much money the state will need to contribute to support access to child care. However, the co-payment does not vary based on family income, so all eligible families pay the same $10 a day, regardless of their income.

Vermont's current approach, using the $200 maximum weekly co-payment at the highest income eligibility level, represents between 7.5 percent and 12 percent of family income, depending on family size. In this way, the co-payment is only slightly higher than the federally recommended 7 percent of income. Using a specific dollar amount rather than a percentage of income makes the family share easy to calculate and understand. However, family size has an impact on the equivalent percentage of income the family share represents, with larger families paying a smaller share of their income on child care when compared with smaller families, as shown in Table 2 below.

Table 2: Family Share as Percentage of Income, at 350 percent of FPL

Family Size	Gross Monthly Income (350% FPL)	Weekly Family Share	Percentage of income
Family of 3	$7,251	$200	11.95%
Family of 4	$8,750	$200	9.90%
Family of 5	$10,249	$200	8.46%
Family of 6	$11,748	$200	7.38%

Source: Vermont Department for Children and Families, Child Development Division, *Child Care Financial Assistance Income Guidelines*. Available at: https://outside.vermont.gov/dept/DCF/Shared%20Documents/Benefits/CCFAP-Income-Guidelines.pdf

To ensure the amount that families contribute to the cost of care is updated over time Vermont could calculate the family share as a percentage of income rather than a set dollar amount. In this way, as incomes change, so too would the amount of the family contribution. For example, the state could cap family share at 10 percent of income, as recommended by the legislature through Act 45, with the associated dollar amount changing as income increases (or decreases). Changes could be implemented at the same time subsidy rates change, either annually or every three years aligned with the CCDF plan cycle. Graduated percentages could be assigned on a sliding scale for those below the income eligibility cap so that families on lower incomes would contribute a lower percentage of their income, as modeled in the Vermont Financing Study, and proposed under the federal Child Care for Working Families Act.[xlvi]

It is important to consider the implementation burden and complexity of any approach to family payment calculation, to ensure that additional barriers to participation in the subsidy system are not unintentionally created for families or providers. Families need to readily understand what their co-payment will be and to ensure that small changes in income do not negatively impact their ability to afford child care, and the system needs an efficient way to track and monitor family income to ensure the correct co-payment amount is set.

Examples of Cost-based Approach to Rate Setting

As of December 2023, three CCDF lead agencies use an alternative methodology, the cost-based approach, for rate setting, as opposed to a market rate survey. These are described in detail below.

District of Columbia

The District of Columbia was the first Lead Agency to seek and receive approval to move to alternative methodology for rate setting. The District developed a cost estimation model and used it to inform rate setting starting in 2016 and has continued to use the cost model for rate setting under alternative methodology, updating the model in 2018 and 2021 and is in the process of a third update.[xlvii] In moving to a cost-based approach to rate setting, the District retained higher payment rates for programs meeting higher quality standards (using their quality rating and improvement system) and serving children with special needs.

Six years of rate setting under alternative methodology has had several impacts on the District:

1. The payment rates reflect the full cost of care at each quality level, and have since the 2018 rate setting.
2. The 2021 cost model included a salary for family child care provider owners and the subsequent rate set in 2021 included the full cost of operating with this salary in place.
3. D.C. has seen increases in the child care worker wage reporting through the Bureau of Labor Statistics, ranging between an 8-10 percent increase. With the high turnover of the child care industry, the child care worker position in the BLS database generally stays flat year over year or goes down. A 10 percent increase in a region, when no previous increase has been reported, is significant and while causality is not confirmed, the main change to the child care industry in the District has been payment rate increases based on cost of care, instead of the market rate.

In 2022, D.C conducted a provider survey to gather data on tuition prices and cost of care, to ensure that the results of the cost estimation model continue to reflect the reality faced by providers in the District. Family co-payments are set based on a sliding scale.[xlviii] If a family is assessed a co-payment, families below 100 percent of FPL are not charged a co-payment, the amount is based on the adjusted gross income and family size. The co-pay applies to the two oldest children receiving subsidized child care.

New Mexico

New Mexico moved to using an alternative methodology for CCDF rate setting in 2021. The alternative methodology process and development of the cost estimation model included deep intentional constituent engagement to ensure the model was informed by the diversity of child care providers across the state. The model embedded higher salaries than currently paid to the ECE workforce, including a salary floor aligned with the highest regional minimum wage, as well as benefits and a robust staffing pattern, to ensure the results reflected the resources needed to operate a quality and sustainable child care program. [xlix] The cost estimation model included sufficient resources for family child care providers to pay themselves a salary equivalent to lead teachers in a child care center setting. These elements begin to reflect the true cost of care as opposed to the price of care that families can afford.

New Mexico used its cost estimation model to inform subsidy rate setting with their CCDF state plan in 2021. Rates were set at 100 percent of the cost of care for family child care homes and an average of 94 percent for child care centers.[l] In addition to the rate increases, New Mexico increased subsidy eligibility significantly to ensure that families who would struggle to afford the cost of tuition at the cost of care rates, if providers elected to raise tuition, could also access assistance to cover the cost of child care.[li] New Mexico also used recovery funding to waive parent co-pays and has retained this hiatus of co-pays into FY24. A new approach to assessing co-payments is under development and will be employed at the time of reinstating co-payments. This approach acknowledges that other market forces exist within the

child care system, including the provider autonomy in the tuition setting. In 2023, New Mexico increased rates based on an update to the cost model that incorporated a new salary floor of $15 per hour, and the state is planning to update the model in 2024 as part of its CCDF plan submission for FFY25-27.

Virginia

Virginia developed a cost estimation model and received approval from ACF in 2022 to use this model to inform subsidy rate setting. Virginia's cost model focuses primarily on compensation for the ECE workforce as the primary cost driver and uses kindergarten salaries as a benchmark.[lii] The model aligns lead teacher salaries at 85 percent of the average kindergarten teacher salary. The model includes costs for nine geographic regions, and while rates are still published by county, they are grouped into these nine regions, which align with the Commonwealth's Ready Region early learning coordinating hubs.

In October 2022, the Virginia Department of Education began paying new rates informed by the cost model, with reimbursement rates set at 75 percent of the estimated cost of care for centers and up to 94 percent of the cost of care for family child care homes. In most localities and age groups, this led to an increase in rates. In some localities, rates stayed the same if the estimated cost was at or below the market rate. Center-based rates for infants and toddlers increased for over 97 percent of localities and in family child care homes infant, toddler, and preschool rates increased in 99 percent of counties.[liii]

The move to cost-based rates was part of several policy changes and investments made to increase affordability for families and support the overall ECE system in Virginia. Virginia made it allowable for providers to receive the maximum reimbursement rate even if their tuition prices were lower, recognizing the limited impact increased rates would have if providers continued to be constrained by what families could afford to pay.[liv] The Commonwealth also significantly decreased co-pays for families in the subsidy system as of January 2023. Participating families pay up to $180 per month per child as a co-payment, with a sliding fee scale for families at incomes below that level, with those at or below 100 percent of the federal poverty level not required to make a family contribution.[lv] Virginia also increased the number of days they would pay subsidy providers for planned closures such as holidays, vacation, professional development or planning time, and increased the number of child absences days paid by subsidy.[lvi] Capacity to serve publicly-funded children in private settings has increased by 12 percent between 2021 and 2023. [lvii]

Appendix

A. Understanding how a cost estimation model can be used for alternative methodology

The process of developing a cost estimation model for alternative methodology is more complex than conducting a market rate survey and represents a significant change for many states that have been using the market rate survey approach for decades. Through work with multiple states and communities over several years, Prenatal to Five Fiscal Strategies has identified a four-stage approach to developing a cost estimation model. This approach was utilized in the three jurisdictions that have implemented alternative methodology to date, and in each case has resulted in a cost estimation model that is validated and understood by the community, informed by authentic stakeholder engagement, and flexible to the changing needs of policymakers and the child care field. These four phases are illustrated in the graphic below and discussed in more detail following the graphic.

Constituent Engagement

Engaging multiple constituents in the alternative methodology process and the development of a cost estimation model can ensure that the model fully reflects the experience of child care providers and encompasses the many variations that may exist across the state. This engagement can also provide transparency into the process and help validate the results that are produced by the model. Unlike the market rate survey which requires reaching as much of the child care market as possible, the alternative methodology is focused on hearing from the diversity of provider types that exist, so that the model and subsequent rate setting can be inclusive of this diversity. By its very nature of being a model, it does not intend to capture every individual provider circumstance but rather capture the breadth of provider types that exist and reflect these experiences in the model.

It is important to engage a diversity of constituents who have an interest in the results of the cost modeling process. In addition to child care providers, those who support providers should also be included, such as Child Care Resource and Referral Agencies (CCR&Rs), licensing specialists, and quality support coaches or mentors. Offering opportunities to learn more at the beginning of the process is a key way to engage the community, providing education about the cost model process and sharing details on the opportunities for program input and deeper engagement throughout the process. Often states will form a technical or advisory workgroup that will guide the work of the project. This workgroup is comprised of representatives of child care providers, from relevant state agencies, and other bodies with expertise to offer, and meets regularly throughout the process to review data, inform model assumptions, and react to initial model results.

Data Collection

The cost model requires data from child care providers related to both their expenses and revenues (in order to understand how programs are covering their current expenses) and their staffing patterns. This data is often collected through an online survey, which should be available in multiple languages, and distributed through multiple avenues, including trusted partners, such as provider associations or advocacy groups. An online survey can be paired with input sessions or focus groups which allow for small group conversations to probe deeper into the main cost drivers and to discuss the challenges and barriers to providing child care and the resources needed to meet the needs of children and families. Across these activities it is necessary to track participation by provider type, geography, ages of children

served, and funding streams accessed, to ensure that engagement is reaching the full child care population.

In addition to primary data collection with child care providers, the alternative methodology process also utilizes extant data. This can include data on the workforce, from workforce registries or workforce surveys, data related to program type and capacity from licensing databases, and data related to costs such as average rent/lease/mortgage and utility costs, or the costs of other nonpersonnel items. Additional extant sources on salary, such as Bureau of Labor Statistics or data from living wage or sufficiency calculators may also be integrated into cost models, to address necessary compensation levels.

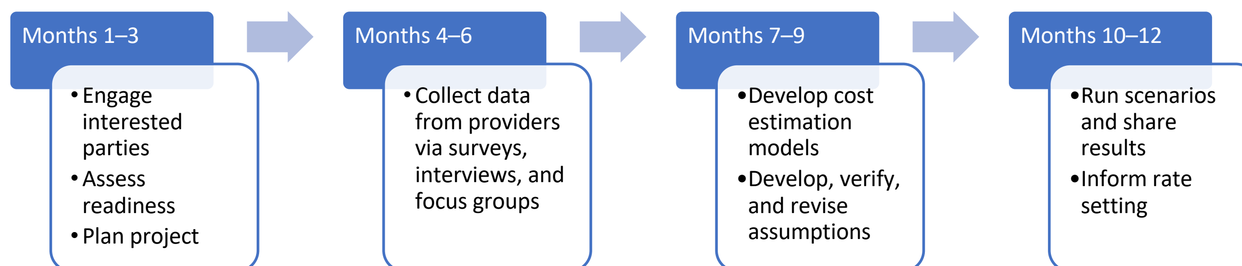
Model Building and Scenario Development

Developing a cost estimation model requires two primary inputs. First, expense and revenue data from providers, as discussed above. Second, a quality frame, identifies the key cost drivers within the standards programs are required to meet. Developing this quality frame requires a close reading of state licensing standards and any quality requirements such as are required under a Quality Rating and Improvement System. The requirements that come with a cost must be identified, and then a value assigned, which may vary based on the level of the quality requirement. This work should be done before program interviews or focus groups so that the team can ask probing questions about programs to understand the costs associated with their requirements. For example, if a program is required to conduct two family engagement activities each year, it is important to understand the costs, such as providing child care or food during the activity, paying teachers overtime, or hiring substitutes.

This quality frame, along with state licensing standards, forms the baseline of the cost estimation model. Program data can be used to inform the default assumptions for the primary cost drivers such as salaries and benefits, occupancy costs, and other non-personnel expenses. States can use the federal Provider Cost of Quality Calculator (PCQC) to fill gaps in data on salary and non-personnel expenses.[lviii] The PCQC uses Bureau of Labor Statistics data for salary data and national default assumptions on average costs for non-personnel expenses. Usually, states will develop a single baseline model for centers and one for family child care homes, and then this model can be modified to integrate different assumptions, such as the cost of meeting different quality standards in a QRIS, meeting aspirational quality standards, paying higher staff compensation, and variations based on region.

Timeline and Cost

To develop a cost estimation model that meets the requirements for subsidy rate setting usually takes between 6 to 12 months, depending on the number of providers in the state and the level of education needed with the community before the data collection begins. The graphic below details the key steps across this timeline.



The cost of developing a cost estimation model is also variable. The largest expense is usually related to data collection, which is similar for the market rate study. A state like Vermont that collects market rate data via an information system could update this system to collect cost data as well, which would reduce the burden on providers, and cost to the state, of compiling a separate survey. However, to develop a cost model that fully reflects the true costs of care, it is highly advisable that providers are also engaged through focus groups or interviews, where they can share more about the costs they would incur if they were able to fully staff their programs, offer compensation at a level sufficient to recruit and retain educators, or make the necessary investments in their program. That engagement requires an intentional plan that relies on relationships, and also often requires resources to compensate providers for the time they spend engaging with the study. Beyond data collection, if the state has previously engaged in cost modeling efforts previously, often that model can be modified to meet the needs of subsidy rate setting, which would reduce the cost of the overall project.

B. Additional Background Resources

Capito, J. Rodriguez-Duggan, J. and Workman, S., *Understanding the cost of quality child care in New Mexico: A cost estimation model to inform subsidy rate setting.* (Prenatal to Five Fiscal Strategies, 2021). Available at: https://www.nmececd.org/wp-content/uploads/2021/08/P5FS_NMReport_v.3d_forWeb.pdf

Capito, J. and Workman, S., *Using cost estimation to inform child care policy.* (Prenatal to Five Fiscal Strategies, 2021). Available at: https://www.prenatal5fiscal.org/_files/ugd/8fd549_62d3a75d3ede423abebc6b1841e8c328.pdf

Capito, J., Fallin Kenyon, K., and Workman, S., *Understanding the True Cost of Child Care in California: Building a cost model to inform policy change*. (Prenatal to Five Fiscal Strategies, 2022). Available at: https://www.prenatal5fiscal.org/_files/ugd/8fd549_831af20bfb4142b59fda11194bb908fd.pdf

Capito, J., Fallin Kenyon, K., and Workman, S. Understanding the True Cost of Child Care in Washington State: A cost estimation model to inform policy change. (Prenatal to Five Fiscal Strategies, 2022). Available at: https://8fd54934-afdf-4222-bf73-b95e3b6260ee.usrfiles.com/ugd/8fd549_461355ef9a814c2094dcdea81fad1693.pdf

District of Columbia, Office of the State Superintendent of Education, *Modeling the Cost of Child Care in the District of Columbia* [webpage]. Available at: https://osse.dc.gov/page/modeling-cost-child-care-district-columbia

U.S. Department of Health and Human Services, Administration for Children and Families, *Guidance on alternative methodologies and cost analyses for purposes of establishing subsidy payment rates.* Program Instruction CCDF-ACF-PI-2018-04. (2018). Available at: https://www.acf.hhs.gov/occ/policy-guidance/ccdf-acf-pi-2018-01

Virginia Department of Education, *Estimating the cost of high-quality early childhood care and education: Virginia's child care cost estimation model.* (2023). Available at: https://www.childcare.virginia.gov/home/showpublisheddocument/49756/638313107042070000

Workman, S. and Capito, J., *Using the Provider Cost of Quality Calculator to estimate the cost of quality*. (National Center on Early Childhood Quality Assurance, 2022). Available at:

https://childcareta.acf.hhs.gov/sites/default/files/new-occ/resource/files/using_the_pcqc_to_estimate_cost_of_quality_210927_final_updatedec2022_508.pdf

Workman, S. and Jessen-Howard, S., *Conducting a child care cost of quality study: A toolkit for states and communities.* (Center for American Progress, 2019). Available at: https://www.prenatal5fiscal.org/_files/ugd/8fd549_a15e0cfd575c4b42b09a61c3067a6dfc.pdf

Citations

[i] National Survey on Early Childhood Education, *2019 NSECE Snapshot: Child Care Cost Burden for U.S. Households with Children Under Age 5.* OPRE Report #2022-05, January 2022. Available at: https://www.acf.hhs.gov/opre/report/2019-nsece-snapshot-child-care-cost-burden-us-households-children-under-age-5

[ii] Administration for Children & Families, Office of Child Care, Child Care Technical Assistance Network, *Overview of CCDF.* (U.S. Department of Health & Human Services, n.d.). Available at: https://childcareta.acf.hhs.gov/ccdf-fundamentals/overview-ccdf

[iii] Administration for Children & Families, Office of Child Care, *FFY2022-2024 CCDF Plan Preprint for States and Territories* (U.S. Department of Health & Human Services, 2021). https://www.acf.hhs.gov/occ/policy-guidance/ffy2022-2024-ccdf-plan-preprint-states-and-territories

[iv] Vermont Department for Children and Families, *Child Care Financial Assistance Resource Manual: Income Eligibility Standards,* July 2022. Available at: https://outside.vermont.gov/dept/DCF/Shared%20Documents/CDD/CCFAP/CCFAP-ELIGIBILITY-INCOME.pdf

[v] Vt. Stat. Ann. 33 § 3512. Available at: https://legislature.vermont.gov/statutes/fullchapter/33/035

[vi] Vermont Department for Children and Families, Child Development Division, *Act 76 (H.217)* [webpage]. Available at: *https://dcf.vermont.gov/cdd/laws-rules/h.217*; Vermont Department for Children and Families, Child Development Division, *STARS: STep Ahead Recognition System* [webpage]. Available at: https://dcf.vermont.gov/cdd/providers/care/STARS

[vii] Vermont Department for Children and Families, Child Development Division, *Child Care Financial Assistance Income Guidelines*. Available at: https://outside.vermont.gov/dept/DCF/Shared Documents/Benefits/CCFAP-Income-Guidelines.pdf

[viii] Vermont General Assembly, *No. 45. An act relating to child care systems and financing* (2021). Available at: https://legislature.vermont.gov/Documents/2022/Docs/ACTS/ACT045/ACT045%20As%20Enacted.pdf

[ix] Karoly, L.A., Strong, A., and C.J. Doss, *Vermont Early Care and Education Financing Study.* Rand Corporation, 2023. Available at: https://www.rand.org/pubs/research_reports/RRA2213-1.html

[x] Vermont Department for Children and Families, Child Development Division, *Child Care and Development Fund (CCDF) Plan for Vermont FFY 2022-2024.* Available at: https://outside.vermont.gov/dept/DCF/Shared Documents/CDD/Reports/CCDF-Plans/CCDF-Plan-2022-2024.pdf

[xi] Vermont Department for Children and Families, Child Development Division, *Child Care Financial Assistance State's Capped Rates*. Available at: https://outside.vermont.gov/dept/DCF/Shared%20Documents/CDD/CCFAP/CCFAP-Capped-Rates.pdf

[xii] Federal Register Vol. 81, No. 190, *45 CFR Part 98 Child Care and Development Fund (CCDF) Program*. Available at: https://www.govinfo.gov/content/pkg/FR-2016-09-30/pdf/2016-22986.pdf

[xiii] National Center on Subsidy Innovation and Accountability, *Market Rate Surveys*. U.S. Department of Health & Human Services, Administration for Children & Families, March 2018. Available at: https://childcareta.acf.hhs.gov/sites/default/files/planning_market_rate_surveys_brief_1.pdf

[xiv] The Bipartisan Policy Center, *The Limitations of Using Market Rates for Setting Child Care Subsidy Rates*. (2020). Available at: https://bipartisanpolicy.org/download/?file=/wp-content/uploads/2020/06/Limitations_of_Market_Rate_Surveys_for_Child_Care_Brief_FINAL1.pdf

[xv] Administration for Children and Families, *Guidance on alternative methodologies and cost analyses for purposes of establishing subsidy payment rates*. Program Instruction CCDF-ACF-PI-2018-04. (U.S. Department of Health and Human Services, 2018). Available at: https://www.acf.hhs.gov/occ/policy-guidance/ccdf-acf-pi-2018-01

[xvi] Administration for Children and Families, *Guidance on alternative methodologies and cost analyses for purposes of establishing subsidy payment rates*. Program Instruction CCDF-ACF-PI-2018-04.

[xvii] Workman, S. and Capito, J., *A review of the CCDF Narrow Cost Analyses.* Prenatal to Five Fiscal Strategies, 2023). Available at: https://www.prenatal5fiscal.org/_files/ugd/8fd549_c8cfe7c34d754874921cc815bbdbf8eb.pdf

[xviii] Caronongan, P., Gonzalez, K., Karoly, L.A., Isaacs, J., and Willenborg, P., "*Using a Narrow Cost Analysis to Inform Payment Rates.* OPRE Report #2022-279. (Urban Institute, 2022). Available at: https://www.acf.hhs.gov/sites/default/files/documents/opre/using_narrow_cost_analysis_to_inform_payment_rates_jan2023.pdf

[xix] Schulman, K., *Precarious Progress: State Child Care Assistance Policies 2022.* (National Women's Law Center, 2023). Available at: https://nwlc.org/wp-content/uploads/2023/06/State-of-Child-Care-2023-FINAL.pdf

[xx] Vermont Department for Children and Families, Child Development Division, *Child Care and Development Fund (CCDF) Plan for Vermont FFY 2022-2024.*

[xxi] U.S. Department of Labor, Women's Bureau, *News Release: Child Care Remains Out of Financial Reach for Many Families, U.S. Department of Labor Data Shows*. (2023). Available at: https://www.dol.gov/newsroom/releases/wb/wb20230124

[xxii] Workman, S., *The True Cost of High-quality Child Care Across the United States*. (Center for American Progress, 2021). Available at: https://www.americanprogress.org/article/true-cost-high-quality-child-care-across-united-states

[xxiii] Workman, S., *Promoting Equitable Access to Quality Child Care*. (Center for American Progress, 2021). Available at https://www.americanprogress.org/article/promoting-equitable-access-to-quality-child-care

[xxiv] U.S. Department of Labor Statistics, Occupational Employment and Wage Statistics, *May 2022 State Occupational Employment and Wage Estimates, Vermont.* Available at: https://www.bls.gov/oes/current/oes_vt.htm; Rodriguez, K., Hawkinson, L., Pittman, A.F., Strueby, S., *Vermont early childhood wage and fringe benefit comparability study final report.* (School Readiness Consulting, 2021). Available at: https://outside.vermont.gov/dept/DCF/Shared%20Documents/CDD/Reports/VT-EC-Wage-and-Fringe-Report.pdf

[xxv] Workman, S., *Promoting Equitable Access to Quality Child Care*. (Center for American Progress, 2021). Available at https://www.americanprogress.org/article/promoting-equitable-access-to-quality-child-care

[xxvi] Workman, S. *Understanding the True Cost of Child Care for Infants and Toddlers.* (Center for American Progress, 2018). Available at: https://www.americanprogress.org/article/understanding-true-cost-child-care-infants-toddlers

[xxvii] Jessen-Howard, S., Mailk, R. and Workman, S. *Understanding Infant and Toddler Child Care Deserts.* (Center for American Progress, 2018). Available at: https://www.americanprogress.org/article/understanding-infant-toddler-child-care-deserts

[xxviii] Karoly, L.A., Strong, A., and C.J. Doss, *Vermont Early Care and Education Financing Study;* Vermont Department for Children and Families Child Development Division, *2019 Vermont Child Care Market Rate Survey and Cost of Care Report.* Available at: https://outside.vermont.gov/dept/DCF/Shared%20Documents/CDD/Reports/CC-MRS/CC-MRS-Report-2019.pdf

[xxix] Capito, J., and Workman, S. *Using cost estimation to inform child care policy*. (Prenatal to Five Fiscal Strategies, 2021). Available at: https://www.prenatal5fiscal.org/_files/ugd/8fd549_62d3a75d3ede423abebc6b1841e8c328.pdf

[xxx] Administration for Children and Families, Office of Child Care, *Timeline and Requirements for Market Rate Survey and Alternative Methodology*. Program Instruction CCDF-ACF-PI-2016-08. Available at: https://www.acf.hhs.gov/occ/resource/ccdf-acf-pi-2016-08

[xxxi] *45 CFR § 98.45 Equal Access*. Available at: https://www.law.cornell.edu/cfr/text/45/98.45

[xxxii] National Survey of Early Care and Education Project Team. *Characteristics of Home-based Early Care and Education Providers: Initial Findings from the National Survey of Early Care and Education.* OPRE Report #2016-13 (Office of Planning, Research and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services, 2016). Available at: https://www.acf.hhs.gov/sites/default/files/documents/opre/characteristics_of_home_based_early_care_and_education_toopre_032416.pdf

[xxxiii] Isaacs, J., Karoly, L.A., Caronongan, P., Gonzalez, K., Willennborg, P., and Predergast, S., "*Defining Narrow Cost Analysis: A Brief for CCDF Lead Agencies.* OPRE Report #2022-172. (Urban Institute, 2022). Available at: https://www.urban.org/sites/default/files/2022-11/Defining%20Narrow%20Cost%20Analysis.pdf

[xxxiv] Workman, S. and Capito, J., *A review of the CCDF Narrow Cost Analyses.*

[xxxv] District of Columbia Office of the State Superintendent of Education, *Modeling the Cost of Child Care in the District of Columbia, 2023.* Available at: https://osse.dc.gov/sites/default/files/dc/sites/osse/page_content/attachments/Modeling%20the%20Cost%20of%20Care%20in%20the%20District%20of%20Columbia%202023.pdf

[xxxvi] Vermont Department for Children and Families, Child Development Division. *Act 76 (H.217) Frequently Asked Questions (FAQs).* Available at: https://outside.vermont.gov/dept/DCF/Shared%20Documents/CDD/Act76/ACT-76-FAQs.pdf

[xxxvii] Administration for Children and Families, Office of Child Care. *Fundamentals of CCDF Administration. Family Copayment Contribution*. (U.S. Department of Health and Human Services, n.d.). Available at: https://childcareta.acf.hhs.gov/ccdf-fundamentals/family-copayment-contribution

[xxxviii] Londono Gomez, A., Hardy, A., *Capping the Co-pay: A State-by-State Analysis*. (The Center for Law and Social Policy, 2021). Available at: https://www.clasp.org/wp-content/uploads/2022/01/2021_cappingcopaysstate_updated_0.pdf

[xxxix] Prenatal-to-3 Policy Impact Center, *Prenatal-to-3 State Policy Roadmap 2023, Child Care Subsidies. Available at:* https://pn3policy.org/pn-3-state-policy-roadmap-2023/us/child-care-subsidies

[xl] Vermont Department for Children and Families, Child Development Division, *Child Care Financial Assistance Income Guidelines*.

[xli] 118th Congress (2023-2024), *S.1354 – Child Care for Working Families Act.* Available at: https://www.congress.gov/bill/118th-congress/senate-bill/1354/text; The White House, *Build Back Better Framework*, October 28, 2021. Available at: https://www.whitehouse.gov/briefing-room/statements-releases/2021/10/28/build-back-better-framework/

[xlii] U.S. Department of Health and Human Services, Administration for Children & Families, Office of Community Services, LIHEAP IM 2023-02 *State Median Income Estimates for Optional Use in FFY 2023 Mandatory Use FFY 2204*. Available at: https://www.acf.hhs.gov/sites/default/files/documents/ocs/COMM_LIHEAP_Att1SMITable_FY2024.pdf

[xliii] U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, *HHS Poverty Guidelines for 2023.* Available at: https://aspe.hhs.gov/topics/poverty-economic-mobility/poverty-guidelines

[xliv] Schulz, M. *U.S. Workers Spending Up to 29% of Their Income , on Average, on Child Care for Kids Younger than 5*. Lending Tree (2022). Available at: https://www.lendingtree.com/debt-consolidation/child-care-costs-study/

[xlv] For more on the '$10 a Day' initiative, see: https://www.10aday.ca

[xlvi] Karoly, L.A., Strong, A., and C.J. Doss, *Vermont Early Care and Education Financing Study;* 118th Congress (2023-2024), *S.1354 – Child Care for Working Families Act*

[xlvii] District of Columbia, Office of the State Superintendent of Education, *Modeling the Cost of Child Care in the District of Columbia [webpage]*. Available at: https://osse.dc.gov/page/modeling-cost-child-care-district-columbia

[xlviii] District of Columbia, Office of the State Superintendent of Education, *FY23 Sliding Fee Scale.* Available at: https://osse.dc.gov/sites/default/files/dc/sites/osse/publication/attachments/FY23%20Sliding%20Fee%20Scale.pdf

[xlix] Capito, J. Rodriguez-Duggan, J. and S. Workman, *Understanding the cost of quality child care in New Mexico: A cost estimation model to inform subsidy rate setting*. (Prenatal to Five Fiscal Strategies, 2021). Available at: https://www.nmececd.org/wp-content/uploads/2021/08/P5FS_NMReport_v.3d_forWeb.pdf

[l] Workman, S., *Promoting Equitable Access to Quality Child Care.*

[li] Osborne, C., Whipps, M., and Huffman, J., *Transforming the Child Care Landscape: A Case Study of New Mexico.* (Prenatal-to-3 Policy Impact Center, 2023). Available at: https://pn3policy.org/transforming-the-child-care-landscape

[lii] Virginia Department of Education, *Estimating the cost of high-quality early childhood care and education: Virginia's child care cost estimation model*. (2023). Available at: https://www.childcare.virginia.gov/home/showpublisheddocument/49756/638313107042070000

[liii] Virginia Department of Education, *Virginia's Early Childhood Advisory Committee (ECAC)* [presentation]. September 29, 2022. Available at: https://www.doe.virginia.gov/home/showpublisheddocument/26948/638045698894600000

[liv] Osborne, C., Kresse, A., Skatter, N., Xu, N., Huffman, J., and Craig, S. *Early Investment, a Lifetime of Returns: Articulating the Value of Early Childhood Investments in Virginia*. (Prenatal-to-3 Policy Impact Center, 2023).

Available at: https://pn3policy.org/wp-content/uploads/2023/09/PN3PIC_ArticulatingtheValueofECEInvestmentsinVA_FullReport.pdf

[lv] Virginia Department of Education, *New Rates and Family Copayments for the Child Care Subsidy Program*, October 2022. Available at: https://www.childcare.virginia.gov/home/showpublisheddocument/51352/638374497339870000

[lvi] Virginia Department of Education, *Notice of Child Care Subsidy Revised Provider Payment Rates* [newsletter]. September 29, 2023. Available at: https://content.govdelivery.com/accounts/VADOE/bulletins/32f6dc8

[lvii] Virginia Department of Education, *Virginia's Early Childhood Care and Education System*, Virginia Commission on Early Childhood Care and Education. July 20, 2023. Available at: https://vecf.org/wp-content/uploads/2023/07/VA-ECCE-System-Jenna-Conway-Commission-presentation-7-20-1.pdf

[lviii] Available at https://pcqc.acf.hhs.gov