



# ***Child Care Subsidy Programs: Equity Issues***

**Testimony to the House Committee on Early Childhood and  
Family Supports**

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# Overview

- Child Care System and Types of Public Investment
- Child Care and Development Fund
  - History and rules
  - Rate setting
- Employment Related Day Care
  - Funding
  - Study findings
- Challenges of Using ERDC Rates to Improve Provider Income
- Strategies for Improving Child Care in Low-Wage Communities

# Market Child Care System: Parents Pay almost Three Fourths of Child Care Expenditures



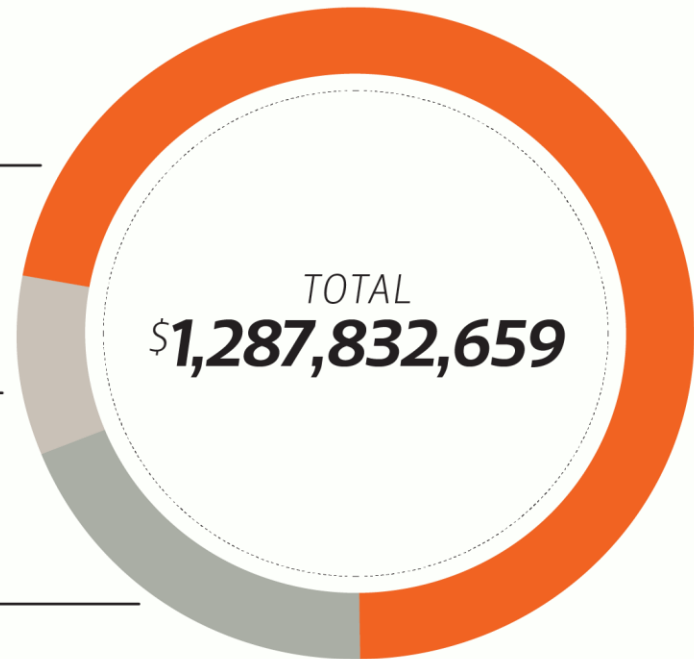
\$919,509,590 (72%)  
paid by families



\$119,771,366 (9%)  
paid by the state



\$248,551,703 (19%)  
paid by the federal government



# **Public Child Care Programs: Demand-Based & Supply-Based**

## **Demand-Based: Child Care Subsidy Program, Tax Credits**

- **Payments based on provider prices made by State on behalf of parents**
- **Parent selects provider**
- Staff are employees of program in which employed
- State pays portion of fee—parents pay a copay.

## **Supply-Based: Preschool Promise, Oregon Head Start, Early HS**

- **Payments based on provider costs delivered through a contract with State agency**
- **State selects provider**
- Staff are employees of program in which employed
- No fee to parents.

# Child Care and Development Fund (CCDF)

- Federal child care assistance programs began 1980s
- Federal child care programs combined into CCDF 1996
- Demand-based approach to assistance:
  - Primary goal is to provide eligible families access to market child care of their choice in their own community
  - Price is major barrier to accessing child care
  - States encouraged to pay a high enough payment rate to ensure access to 75% of the child care slots in a community
- Percent of fund set aside to support quality

# State Rate Setting

- Federal rule requires states to complete a study that differentiates by age, type of care, and geography and to use the findings in setting rates:
  - Market price studies are named and the only reliable and cost efficient method for meeting Rule requirements.
  - States are encouraged to include consideration of cost of quality.
- Payment rates set maximum provider can charge
  - Federal Principle: Providers can only charge State what they charge private pay parents
- Oregon State University conducted national study on validity of market price studies
  - Study guidance used by national Office of Child Care and other states
  - Study findings referenced in 2016 CCDF rule

# Employment Related Day Care (ERDC)

- Funding:
  - 57% Federal (primarily Child Care and Development Fund (CCDF))
    - Majority of funds for subsidy but set aside for quality investments
  - 43% State funds
- Children served:
  - 18% of eligible children
  - 8% of children in paid care supported by subsidy program
- Providers:
  - All legally operating providers eligible
  - Selected by parents
  - With exception of large home-based providers, the majority do not care for a child on a subsidy

# Provider Participation in Subsidy Program by Type of Community

Type of Care	Percent with At Least One Child on Subsidy		
	Rural	Micropolitan	Metro
Center	33%	40%	39%
Small Home-Based	26%	28%	25%
Large Home-Based	12%	62%	44%
	Percent of Desired Capacity filled with Children on Subsidy		
Center	11%	25%	19%
Small Home-Based	24%	28%	25%
Large Home-Based	18%	57%	39%

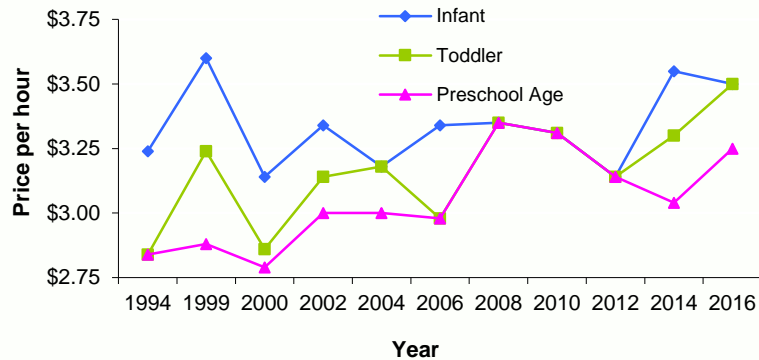


# Oregon Market Price Study

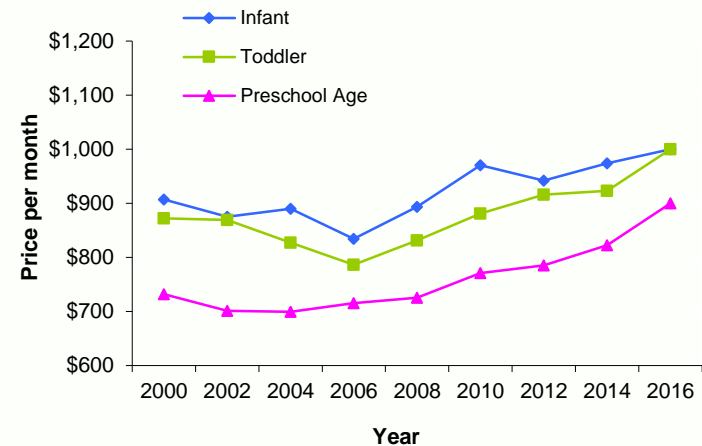
- Market price studies have been conducted every 2 years since 1990
- Child care prices vary by:
  - Age of child—infant care most expensive
  - Type of care—center care most expensive
  - Geography—metropolitan areas are more expensive
- Child care prices have increased over time
  - Exceed inflation

# Change in Child Care Prices Adjusted for Inflation

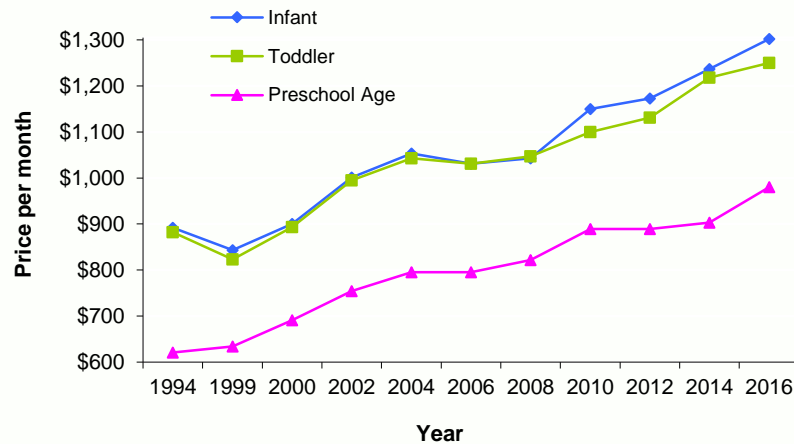
## Small Home-Based



## Large Home-Based



## Centers

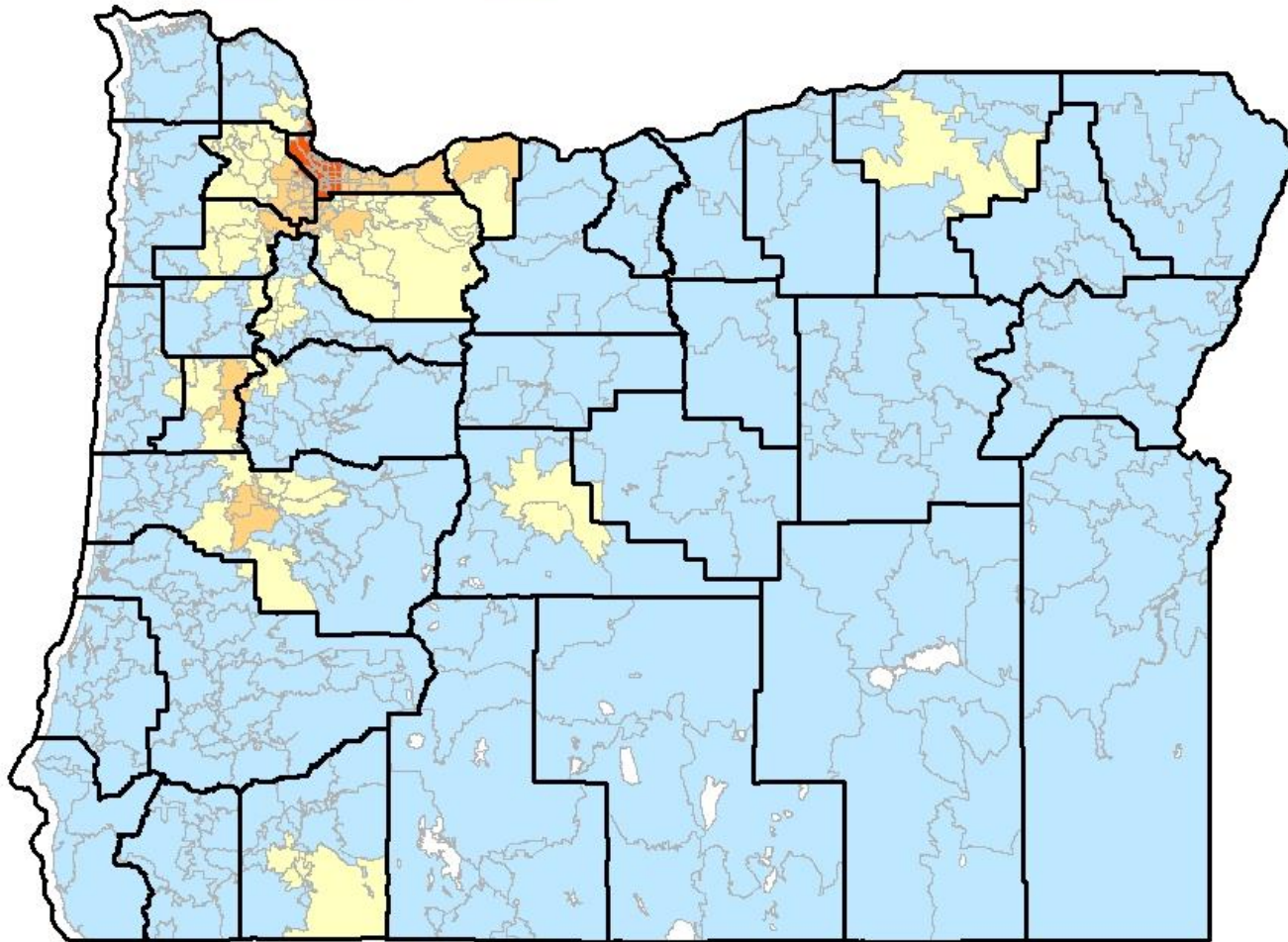


# Findings from 2016 Market Price Study

- **Community child care prices created geographic clusters**
- **Prices consistently differed by clusters for all types of care and age of child served.**
  - Higher numbered clusters are consistently the highest prices in the state
- ***The greatest differences in prices by clusters were found for center care and large home-based care.***
  - For example, in Cluster 4 the 75<sup>th</sup> percentile center care for infant care is \$1,466 per month while in Cluster 1 this percentile price is \$715 per month, a difference of \$751 per month.
- ***Small home-based care prices showed only small differences in prices, by geographic areas.***
  - Small home-based care monthly prices ranged from \$750 in Cluster 3 to \$500 in Cluster 1 for infant care.

## 2016 Geographic Clusters of Child Care Prices - Center and Large Home-based Care

Clusters 1 2 3 4 unpopulated areas / no data County Boundaries



Higher number clusters represent zipcodes with higher prices and vice versa for lower cluster numbers.

# Oregon Minimum Wage Map



**Region 1:** Malheur, Lake, Harney, Wheeler, Sherman, Gilliam, Wallowa, Grant, Jefferson, Baker, Union, Crook, Klamath, Douglas, Coos, Curry, Umatilla, Morrow

**Region 2:** Benton, Clackamas, Clatsop, Columbia, Deschutes, Hood River, Jackson, Josephine, Lane, Lincoln, Linn, Marion, Multnomah, Polk, Tillamook, Wasco, Washington, Yamhill

**Region 3:** Metro Area UGB

# Comparison of Market Price and Minimum Wage Maps

- Difference: market price map done at smaller geographic level
  - Goal for child care program is access for parents to child care in their community—smaller than a county
- Similarity: 31 of 36 counties clustered similarly in both maps:
- Five counties differed:
  - Counties with parts in lowest child care price cluster but standard minimum wage: Clatsop, Josephine, Wasco
  - Counties with part in second lowest child care cluster but lowest (nonurban) minimum wage: Crook, Umatilla

# Revenue Problems Faced by Providers in Low-Wage Counties

- The United States has a market-based child care system:
  - Providers charge what parents are willing and able to pay,
  - Parents in metropolitan areas are willing to pay almost double what rural parents are willing to pay.
- Costs of providing care in rural and urban communities differ somewhat:
  - Many costs in rural areas are lower than in metropolitan areas (e.g., wages and housing),
  - Result is not that costs are half of costs in metropolitan areas, although prices are.
- Limited revenue challenges rural providers attempts to provide high quality care.

# Challenges with Attempts to Increase Provider Funding with ERDC Payment Rates

- Goal of rate setting is to provide parents access to child care in their community:
  - Parents in metro area have to pay up to twice as much as those in rural areas.
- Increased ERDC rates will have limited impact on overall provider revenue:
  - Majority of providers do not participate in ERDC.
  - Minority of children in care are supported by subsidy--8% of children in paid care affected by ERDC payment rates.
- Federal Principle: State can pay rates higher than those the provider charges private pay parents
  - CCDF rule allows if service is of documented higher quality.



# **Strategies to Support Quality of Rural Providers: Use Demand-Based Mechanism(payment on behalf of parent)**

- Make use of ERDC enhanced rates for SPARK-rated programs
  - Authorized in HB 2105 in 2015
- Help providers qualify for enhanced rates:
  - Focused Child Care Networks:
    - Providers join a network of providers in their community
    - Trainer supports their professional development and other quality improvements
  - Early Learning Professional Development Consortia:
    - Partnerships involving community colleges to create early childhood stackable and portable certificates, credentials, and degree programs.
    - Make AA degree programs to be flexible in meeting the needs of the existing early learning workforce

# Strategies to Support Quality Rural Providers : Supply Based Mechanisms (contract with provider)

- Use Contracted slots to support high quality care in targeted communities:
  - Use CCDF to contract with providers that meet quality standards.
  - Payment based on cost of providing quality service.
- Expand supply of free early care and education in rural areas:
  - Preschool Promise can be provided in any type of care.
  - Preschool Promise allows for mix of publicly funded slots and private-pay slots:
    - Supply-based model so funding based on documented cost rather than prevailing price.
  - Head Start Child Care Partnerships:
    - Partnering child care providers supported to meet Head Start standards
    - Slots free to parents and providers are paid based on cost

# References

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# Thank You

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Oregon Child Care Research Partnership  
<http://health.oregonstate.edu/sbhs/family-policy-program/occrp>