

Maryland Child Care Scholarship Program Reimbursement Rate Adjustments

Prepared for
The Maryland State Department of Education

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1.0 Executive Summary

The Maryland State Department of Education (MSDE) contracted with the Regional Economic Studies Institute (RESI) of Towson University to conduct an analysis on MSDE's Child Care Scholarship (CCS) Program and formulate reimbursement rates for MSDE's review.

The key findings of this analysis are detailed below:

- MSDE contracted with RESI to conduct an analysis on the new market rate survey data collected by the Maryland Family Network (MFN) to compare changes in cost.
- RESI completed this analysis originally in 2021, following the completion of the survey. As of the date of this report, the 2023 market rate survey remains in development. An additional report detailing the results of the new market rate survey will be created following the completion of the survey.
- MSDE adjusted reimbursement rates in May of 2022 to the 70th percentile of the rates providers reported they charged in 2021 market rate survey. Henceforth, the rates obtained from the market rate survey will be referred to as the "market rates".
- In addition to adjusting reimbursement rates, MSDE increased program eligibility and substantially reduced copays in May of 2022.
- This transition led to an increase in scholarship costs to the State due to a combination of the increased percentile and an overall increase in the market rate.
- The transition to the new scholarship amounts reduced some families' child care costs and allowed them to consider pursuing higher quality child care.
- Providers may have been encouraged to accept more CCS Program clients because of the stability of income paid by the State.

2.0 Introduction

The bill text for House Bill 418, subsequently referred to in this report as the Act, was introduced and read for the first time in January of 2017. The Act, concerning reimbursement rate adjustments for the CCS Program, was adopted by the Maryland General Assembly and took effect July 1, 2017. The bill states "The Act mandated that MSDE consult with appropriate agencies and then conduct an analysis for the purpose of determining provider reimbursement rates for the CCS Program. The first of this analysis would be conducted on or before September 1, 2017, and by September 1st every two years thereafter."¹

In May of 2022, MSDE adjusted the reimbursement rates for the CCS Program to the 70th percentile calculated from the 2021 market rates, moving from the previous rates calculated at the 60th percentile of the 2019 market rates. As of the date of this report, the 2023 market rate survey remains in development. This report contains the analysis of the results of the 2021 market rate survey and describes the subsequent adjustments to the CCS program made in May

¹ Maryland General Assembly, "House Bill 418," 1-3, accessed July 31, 2023, <https://mgaleg.maryland.gov/2017RS/bills/hb/hb0418t.pdf>.

of 2022. A report containing new reimbursement rates will be provided following the conclusion of the 2023 market rate survey.

Each year, the MFN compiles child care costs from licensed and registered child care providers for use in this analysis. RESI’s analysis uses data gathered by the MFN to create reimbursement rate tables by region or county, provider type, income level group, child age, and child unit count. This process is further detailed in the Methodology section of this report below.

3.0 Methodology

For this report, MSDE has used the currently approved market rate survey methodology for setting the CCS Program reimbursement rates.

MFN, under an agreement with MSDE, collects and maintains information on all regulated child care facilities in Maryland. For each market rate survey, MFN provides rate information that was collected within the previous 24 months. The rate information entered into the provider database is collected primarily through an annual questionnaire sent to all licensed and registered child care providers. Providers may also update their rate information on the MFN website or over the phone with MFN staff. Updating rate information is an ongoing, continuous process. The goal is to prepare accurate, reasonably current rate information.

The market rate survey examines the range of the fees charged by providers in each market region by type of care and age group. There are seven market regions made up of the 23 Maryland counties and Baltimore City. The regions are defined in Figure 1 below.

Figure 1: MSDE CCS Market Regions

Region Label	Counties/City Included
Region U	Cecil, Queen Anne’s, St. Mary’s, Talbot, and Washington counties
Region V	Caroline, Dorchester, Kent, Somerset, and Wicomico counties
Region W	Anne Arundel, Calvert, Carroll, Charles, and Prince George’s counties
Region X	Howard and Montgomery counties
Region Y	Baltimore, Frederick, and Harford counties
Region Z	Allegany, Garrett, and Worcester counties
Region B	Baltimore City

Source: MSDE (Division of Early Childhood)

These regions’ rates are then further broken up by type of care, which includes family-based and center-based providers, and age group, which includes infant, two to four, and five plus.

The non-zero fees for each category are rank ordered in a spreadsheet from lowest to highest. The appropriate counts and percentiles are then calculated, and MFN sends the entire sheet to MSDE for analysis and reporting every odd-numbered year. The most recent market rate survey was received by MSDE in April of 2021.

MSDE provided the most recent market rate survey to RESI for further analysis. Using the market rate survey and copayment amounts provided by MSDE, RESI calculated scholarship amounts by region, provider type, and child age for various percentiles of the market rate survey. These results were used to adjust reimbursement rates in May of 2022.

4.0 Results

RESI applied this methodology to the findings from the market rate survey to create the results detailed in this section.

4.1 Cost Estimates for Raising the Reimbursement Rate

Each of the figures below were calculated using percentiles of monthly charge rates reported by providers in Maryland in the April 2021 market rate survey as compared to the previous rates used which were based on the 60th percentile of the market rates from the survey conducted in 2019. Each table is broken down by region, provider type, age group, and percentile.

4.1.1 Monthly Charge for Family Child Care Homes

Using the rates provided by MFN, created using the 2021 market rate survey data, RESI calculated the percent change in cost from the previous (60th percentile of the 2019 market rates) to the latest market rates at various percentiles for family child care homes. Family child care homes are defined as a registered “residence, other than the home of the child for whom CCS is requested, in which family child care is provided.”²

On May of 2022, MSDE adjusted the CCS program reimbursement rates to the 70th percentile of the 2021 market rates. In addition to the 70th percentile, RESI’s original analysis included a calculation of higher rates at the 75th, 85th, and 100th percentiles. Figure 2 below shows the percent change in the monthly charge for family child care homes by region of care, age group, and rate percentile, with the base being the corresponding previous rate setting (60th percentile of the 2019 market rates).

Figure 2: Percent Change (Over 60th Percentile of 2019 Market Rate) in Monthly Charges for Family Child Care Homes

Region	Percentile Values of 2021 Market Rate			
	70th	75th	85th	100th
Family Infant % Change				
Region U	21.3%	21.3%	30.4%	127.4%
Region V	10.4%	16.7%	25.3%	66.8%
Region W	8.8%	17.5%	26.2%	76.2%

² Maryland State Department of Education, “Policies and Procedures Manual,” 2-3, accessed July 31, 2023, https://earlychildhood.marylandpublicschools.org/system/files/filedepot/12/13a.14.06_comar_online_eff_032015.pdf.

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Region X	8.4%	8.4%	16.8%	93.5%
Region Y	19.1%	19.1%	28.7%	138.3%
Region Z	13.7%	27.0%	32.7%	127.4%
Region B	11.2%	16.7%	33.4%	111.3%
Family 2-4 % Change				
Region U	22.2%	23.1%	33.2%	207.2%
Region V	21.8%	23.3%	34.0%	88.6%
Region W	20.6%	23.1%	34.0%	244.9%
Region X	18.1%	20.1%	30.1%	100.2%
Region Y	16.2%	22.3%	33.4%	122.4%
Region Z	13.2%	23.0%	23.0%	84.6%
Region B	17.9%	21.2%	30.1%	130.2%
Family Five Plus % Change				
Region U	20.1%	20.1%	38.7%	100.2%
Region V	33.8%	33.8%	48.6%	147.7%
Region W	20.1%	23.2%	35.9%	244.9%
Region X	20.2%	22.4%	31.1%	118.5%
Region Y	25.1%	25.1%	40.7%	212.7%
Region Z	18.1%	19.9%	31.7%	97.5%
Region B	21.3%	25.1%	32.7%	161.6%

Sources: MSDE (Division of Early Childhood), MFN, RESI

The difference in cost between the previous rates and the rates based on the 2021 market rate survey vary at different percentiles and between the percentiles; these variances are not uniform across percentiles. This is most represented in the movement from the 85th to the 100th percentile, which shows a dramatic increase across all regions and age groups. However, in a small number of cases there is no difference between percentiles, as seen when comparing the 70th and 75th percentiles for family five plus care in Regions V and Y.

4.1.2 Monthly Charge for Child Care Centers

Using the rates provided by MFN, created using the 2021 market rate survey data, RESI calculated the percent change in cost from the previous rate settings (60th percentile of the 2019 market rates) to the latest market rates at various percentiles for child care centers. A child care center is defined as, “a facility providing child care,” that is licensed and operated under a letter of compliance.³

On May of 2022, MSDE adjusted the CCS program reimbursement rates to 70th percentile of the 2021 market rates. In addition to the 70th percentile, RESI’s original analysis included a

³ Maryland State Department of Education, “Policies and Procedures Manual,” 2, accessed July 31, 2023, https://earlychildhood.marylandpublicschools.org/system/files/filedepot/12/13a.14.06_comar_online_eff_032015.pdf.

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calculation of higher rates at the 75th, 85th, and 100th percentiles. Figure 3 below shows the percent change in the monthly cost of care for child care centers by region of care, age group, and rate percentile with the base being the corresponding previous rate setting (60th percentile of the 2019 market rates).

Figure 3: Percent Change (Over 60th Percentile of 2019 Market Rate) in Monthly Charges for Child Care Centers

Region	Percentile Values of 2021 Market Rate			
	70th	75th	85th	100th
Center Infant % Change				
Region U	18.9%	19.3%	22.4%	85.1%
Region V	13.0%	16.5%	20.2%	68.2%
Region W	18.4%	23.4%	37.8%	66.5%
Region X	12.7%	14.3%	23.6%	49.5%
Region Y	9.9%	14.5%	21.5%	52.5%
Region Z	11.0%	14.6%	21.9%	80.7%
Region B	17.5%	18.5%	36.1%	107.8%
Center 2-4% Change				
Region U	11.8%	15.8%	30.8%	79.8%
Region V	10.2%	12.6%	16.6%	103.2%
Region W	18.2%	21.1%	36.1%	189.3%
Region X	10.1%	13.5%	23.5%	129.6%
Region Y	17.9%	23.1%	33.1%	249.3%
Region Z	12.6%	14.6%	23.8%	40.4%
Region B	36.0%	45.7%	67.7%	177.1%
Center Five Plus % Change				
Region U	20.1%	26.0%	43.4%	100.2%
Region V	4.5%	6.6%	13.7%	68.5%
Region W	27.7%	31.7%	41.9%	229.2%
Region X	12.9%	18.6%	30.7%	163.9%
Region Y	19.0%	20.3%	30.8%	252.1%
Region Z	19.0%	22.5%	22.5%	53.2%
Region B	33.4%	46.8%	66.8%	146.9%

Sources: MSDE (Division of Early Childhood), MFN, RESI

The percent changes in charges for child care centers do not vary much in trend from the family child care homes. However, the percent changes associated with child care centers are generally less than the percent changes associated with family child care homes.

4.2 Minimum Required Reimbursement Rate

This analysis requires a calculation of the base payment rate required for a provider to meet certain federal health, safety, quality, and staffing requirements. This is necessary because:

- All child care providers are required to meet minimum requirements for health and safety set in the Code of Maryland Regulations for child care licensing and registration.
- Child care providers set their payment rates based on the market they serve. The region within the state, the type of program offered, staffing costs, and the ages of the children served influence these rates.
- Maryland has defined quality as providers meeting the requirements of Maryland EXCELS. Maryland EXCELS is based on five levels of quality - Level One being the entry level, based on licensing regulations, through Level Five, based on provider accreditation, higher staff credentials and greater program requirements. As a provider progresses through the levels additional costs are associated, but they vary depending on the type and capacity of the provider.

MSDE intends to complete a Narrow Cost Analysis alongside the 2023 market rate survey. This analysis looks at the cost of care and should provide information as to the minimum required reimbursement rate for child care providers in Maryland, based on the above factors.

The agreement to provide child care service is between the parent and the child care provider. The child care scholarship reimbursement rate paid to providers is meant to assist families in paying for the cost of child care. Families at lower income levels receive higher levels of State assistance. As the family income increases the level of State reimbursement decreases. The intent of this methodology is to gradually move the family from dependence to self-sufficiency.

4.3 Adjustments Implemented by MSDE in May of 2022

4.3.1 Reimbursement Rate Adjustment

In May of 2022, MSDE adjusted the reimbursement rates for the CCS Program to reflect the results of the 2021 market rate survey. The rates were adjusted to the 70th percentile of the 2021 market rates, increased from the previous rates set at the 60th percentile of the 2019 market rates. Although the 2023 market rate survey has not yet been completed, MSDE expects that an adjustment to rates based on the new survey will likely result in higher rates than are currently paid, based on inflation and historical patterns.

4.3.2 Program Eligibility and Family Copay Adjustments

In May of 2022, MSDE expanded eligibility for the CCS Program to 75 percent of State Median Income, up from the previous level of 65 percent of State Median Income. At the same time, MSDE reduced family copays such that most families have no copayment, and the remainder are assigned a nominal payment of \$1.00 to \$3.00 per week based on the units of care authorized for each scholarship.

4.4 Potential Impacts on Families and Providers Due to Program Adjustments

Average provider rates found in the market rate survey increase each year. Following that trend, the 2021 market rate survey found higher average provider rates than the survey before it. Between the adoption of the new market rates and the shift to the 70th percentile, MSDE is providing substantially higher reimbursement amounts. This increase in scholarship amount impacts the cost that falls to participating families and the income stability of some participating providers. The reduction in copays further impacts the cost to participating families.

It should be noted that many child care providers require families to pay the difference between the state reimbursement rate and the rate providers charge. For example, if the provider charges the general public \$400 per week for child care, and the State reimburses \$200, while the copay is \$50, there is a \$150 difference between what is paid and what is owed. Many child care providers require the family to pay that difference, for a total cost to the family of \$200 (\$50 copay plus \$150 difference), to bring the amount paid to the provider up to the amount charged.

Based on this system, as the reimbursement rate increases, MSDE pays a larger portion of the total cost. Therefore, the cost passed to the family decreases. For this reason, an increase in the reimbursement rate could enable families to choose a higher-level of quality child care, which typically has a greater cost. The same effect is seen when copays are eliminated or reduced, as the total cost passed to the family decreases. From the perspective of a participating family, both an increase in the reimbursement rate and a decrease in the copay result in a lower overall cost and additional flexibility to select a child care provider.

Providers also benefit from an increase in reimbursement amounts. When the State pays a larger amount (reimbursement) on behalf of families, the child care provider has a more predictable income and does not have to collect a large difference from families. Furthermore, given this stability, providers might be incentivized to accept more children using child care vouchers as payment into their care.

Overall, adopting the new market rates with an increase in the reimbursement rate percentile results in an increase in cost to the State. This increase in cost lessens the financial responsibility on participating families and might incentivize more providers to accept more CCS Program participants. These impacts are increased by the substantial reduction in copays, which moves additional costs to the state and away from participating families. However, this increase in cost to the State might also eventually decrease the total number of families they are able to serve in a given period if additional federal or state funding is not allocated to the CCS Program.

5.0 References

Maryland General Assembly. "House Bill 418." Accessed July 31, 2023.
<https://mgaleg.maryland.gov/2017RS/bills/hb/hb0418t.pdf>.

Maryland State Department of Education. "Policies and Procedures Manual." Accessed July 31, 2023.
https://earlychildhood.marylandpublicschools.org/system/files/filedepot/12/13a.14.06_comar_online_eff_032015.pdf.

Appendix A—Monthly Charge for Care Based on the 2021 Market Rate Survey

Figure 4: 100th Percentile of Monthly Charges for Family Child Care

Region	Family Infant	Family 2-4	Family Five Plus
Region U	\$1,625	\$1,907	\$1,083
Region V	\$1,083	\$939	\$1,083
Region W	\$1,755	\$2,788	\$2,427
Region X	\$2,513	\$2,167	\$2,167
Region Y	\$2,167	\$1,733	\$2,167
Region Z	\$1,300	\$975	\$975
Region B	\$1,647	\$1,495	\$1,495

Sources: MSDE (Division of Early Childhood), MFN, RESI

Figure 5: 100th Percentile of Monthly Charges for Center Child Care

Region	Center Infant	Center 2-4	Center Five Plus
Region U	\$1,991	\$1,379	\$1,300
Region V	\$1,517	\$1,372	\$1,083
Region W	\$2,162	\$2,708	\$2,708
Region X	\$2,725	\$3,337	\$3,337
Region Y	\$2,180	\$3,423	\$3,207
Region Z	\$1,792	\$971	\$949
Region B	\$2,299	\$2,060	\$1,603

Sources: MSDE (Division of Early Childhood), MFN, RESI

Figure 6: 85th Percentile of Monthly Charges for Family Child Care

Region	Family Infant	Family 2-4	Family Five Plus
Region U	\$932	\$827	\$751
Region V	\$814	\$667	\$650
Region W	\$1,257	\$1,083	\$957
Region X	\$1,517	\$1,408	\$1,300
Region Y	\$1,170	\$1,040	\$975
Region Z	\$758	\$650	\$650
Region B	\$1,040	\$845	\$758

Sources: MSDE (Division of Early Childhood), MFN, RESI

Figure 7: 85th Percentile of Monthly Charges for Center Child Care

Region	Center Infant	Center 2-4	Center Five Plus
Region U	\$1,316	\$1,004	\$932
Region V	\$1,083	\$787	\$731
Region W	\$1,790	\$1,274	\$1,167
Region X	\$2,252	\$1,795	\$1,652
Region Y	\$1,737	\$1,305	\$1,192
Region Z	\$1,209	\$856	\$758
Region B	\$1,506	\$1,247	\$1,083

Sources: MSDE (Division of Early Childhood), MFN, RESI

Figure 8: 75th Percentile of Monthly Charges for Family Child Care

Region	Family Infant	Family 2-4	Family Five Plus
Region U	\$867	\$764	\$650
Region V	\$758	\$614	\$585
Region W	\$1,170	\$995	\$867
Region X	\$1,408	\$1,300	\$1,213
Region Y	\$1,083	\$953	\$867
Region Z	\$726	\$650	\$592
Region B	\$910	\$787	\$715

Sources: MSDE (Division of Early Childhood), MFN, RESI

Figure 9: 75th Percentile of Monthly Charges for Center Child Care

Region	Center Infant	Center 2-4	Center Five Plus
Region U	\$1,283	\$888	\$818
Region V	\$1,050	\$760	\$685
Region W	\$1,603	\$1,134	\$1,083
Region X	\$2,083	\$1,650	\$1,500
Region Y	\$1,636	\$1,206	\$1,096
Region Z	\$1,136	\$793	\$758
Region B	\$1,311	\$1,083	\$953

Sources: MSDE (Division of Early Childhood), MFN, RESI

Figure 10: 70th Percentile of Monthly Charges for Family Child Care

Region	Family Infant	Family 2-4	Family Five Plus
Region U	\$867	\$758	\$650
Region V	\$717	\$607	\$585
Region W	\$1,083	\$975	\$845
Region X	\$1,408	\$1,278	\$1,192
Region Y	\$1,083	\$906	\$867
Region Z	\$650	\$650	\$583
Region B	\$867	\$766	\$693

Sources: MSDE (Division of Early Childhood), MFN, RESI

Figure 11: 70th Percentile of Monthly Charges for Center Child Care

Region	Center Infant	Center 2-4	Center Five Plus
Region U	\$1,279	\$858	\$780
Region V	\$1,018	\$744	\$672
Region W	\$1,538	\$1,107	\$1,051
Region X	\$2,054	\$1,601	\$1,427
Region Y	\$1,571	\$1,156	\$1,083
Region Z	\$1,101	\$779	\$737
Region B	\$1,300	\$1,011	\$867

Sources: MSDE (Division of Early Childhood), MFN, RESI

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