



October 7, 2022

Senator John Arch, Chair
Members of the Health and Human Services Committee
Nebraska Legislature

RE: LR378

Chairperson Arch and Members of the Health and Human Services Committee,

My name is Dr. Katie Bass, and I am the Data and Policy Research Advisor representing First Five Nebraska. First Five Nebraska is a statewide public policy organization focused on supporting policies that promote quality early care and learning experiences for young children in Nebraska. I would like to thank Senator Day for introducing LR378 to examine the Market Rate Survey (MRS) and how it relates to child care subsidy reimbursement rate setting in Nebraska.

We have already heard today about the importance of accepting subsidy for families and for providers from Mr. Brown. And we've learned from Dr. Daro about how the market rate survey is conducted and what the percentiles mean. From here, I would like to articulate the practical reasons and statutory framework for using a Market Rate Survey for setting child care subsidy rates, and some concerns with this methodology for setting rates.

The child care subsidy program is designed to provide equal access to the child care market for families enrolled in the program compared to families who access the child care market through private pay. While states have broad discretion in setting their subsidy reimbursement rates, the Administration for Children and Families (ACF) requires use of a market rate survey or alternative methodology for determining child care subsidy rates. The ACF does not require a specific benchmark for setting rates based on the market rate survey but recommends the 75th percentile based on the principle that if rates are at the 75th percentile, the rate will be sufficient to cover the private pay rates of three out of four providers, therefore allowing for equal access.

Nebraska has two statutes that dictate how child care subsidy reimbursement rates are set. The first, Neb. Rev. Statute §43-536, requires the state to conduct a market rate survey and set base reimbursements between the 60th and the 75th percentile.

The second, Neb. Rev. Statute §68-1206, mandates that providers cannot receive a higher reimbursement rate than what is charged to their private pay families. This second component is important because when Nebraska recently raised reimbursement rates from the 60th to the 75th percentile, this did not equate to an increase in reimbursements for all providers. Based on data provided from DHHS, more than half of the providers who accepted subsidy in FY 2021 and 2022 were reimbursed at a rate lower than the 60th percentile. Those providers did not see any change to their reimbursements when the base rate increase to the 75th percentile went into effect.

Using price data from a market rate survey to determine subsidy rates assumes a healthy early childhood market. Unfortunately, research has shown that the actual cost of providing care has less influence on the market price. Instead, providers are setting their prices based on what families in their market can afford to pay. As it is, many families struggle to afford child care. If providers charged prices that reflected the true cost of care, they would be unable to fill slots and families would be unable to access care.

By basing subsidy reimbursement rates on the price of child care, we inadvertently embed a broken market into our subsidy system. This is especially true for child care providers in low-income neighborhoods, family child care providers and providers in rural areas, whose prices, and therefore subsidy reimbursements, are more likely to fall below the cost of providing care.

Awareness of this broken market system is exactly why the Administration for Children and Families has moved from requiring all states to conduct a market rate survey to requiring a market rate survey *or alternative methodology*. The attached report and brief outline the two most common alternative methodologies, but the central theme is that they rely on the cost of providing care as their basis for analysis. More states are introducing these cost analyses, as either a standalone or in conjunction with a market rate survey.

Utilizing funds from the Preschool Development Grant, Nebraska is working to implement a cost-estimation model. This will provide our state valuable information regarding the costs to provide care and how those costs compare to the market rates. But it is important to mention that, even if the cost-estimation model shows significant gaps between the market rates and the cost of providing care, statute currently dictates that only findings from the market rate survey can be used to set rates.

We know early childhood educators are the workforce behind the workforce. Ensuring we have a healthy child care market is vital to Nebraska's economy, and subsidy reimbursements are an important part of a healthy child care market.

Sincerely,

A handwritten signature in black ink, appearing to read 'Katie Bass'.

Katie Bass, Ph.D.
Data & Policy Research Advisor
First Five Nebraska