Setting Child Care Subsidy Reimbursement Rates

Nebraska's market rate survey and other methodologies

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I. Overview

Section 658E(c)(4) of the Child Care and Development Block Grant (CCDBG) Act, 42 U.S.C. § 9858c(c)(4), requires Lead Agencies—states, territories and tribes—to certify that their provider reimbursement rates are sufficient to ensure that children eligible for Child Care Development Fund (CCDF) subsidies will have equal access to the child care market when compared to children whose families do not qualify for subsidies and therefore pay for child care privately. The objective of this requirement is to ensure provider reimbursement rates are high enough that recipients who are eligible for subsidies aren't priced out of the child care market; that is, subsidy-eligible families can access comparable care as families who are paying directly (private pay), without any additional public support.

To set provider reimbursement rates, Lead Agencies must use findings from a "statistically valid and reliable" market rate survey or alternative methodology, such as a cost-estimation model. Additionally, Lead Agencies must conduct a narrow cost analysis as part of the rate-setting process. Lead Agencies have broad latitude over the design of the methodologies they use. The methodology can also change over time: Every three years, Lead Agencies must submit a CCDF plan for the Administration for Children and Families to approve, which outlines, among other things, the Lead Agency's rate-setting approach. Each of these methodologies is discussed below.

State statute requires the Nebraska Department of Health and Human Services to set subsidy reimbursements between the 60th and 75th percentiles of the current market rate.

Historically, NDHHS has set that rate at the 60th percentile. With passage of LB1011 in 2022, the reimbursement rate was temporarily raised to the 75th percentile.

Market rate survey (MRS)

Most states, including Nebraska, elect to use a market rate survey (MRS) as their primary methodology to determine reimbursement rates. The market rate survey is used to estimate the distribution of prices child care providers charge for their services.

Each provider sets the price for their program's services. The Lead Agency, or a contracted partner, collects price data from providers through surveys and administrative sources. The MRS analysis only includes data for providers in the priced market: Providers who don't directly charge families are excluded (e.g., Head Start, state-funded pre-K, certain family, friend and neighbor care providers).

Findings from the MRS are reflected in percentiles. To calculate market rate percentiles, prices are ranked from lowest to highest along with the number of providers who charge the same price. For example, if 24 providers responded to the MRS and each provider had the same number of child care subsidy slots, the 75th percentile would be the price at or below which 18 of the providers (75% of 24 providers = 18 providers) charge for care. The MRS prioritizes creating an "apples-to-apples" comparison so price data are disaggregated by location, setting type, age group and pricing mode (daily or hourly).

As mentioned, Lead Agencies that use the MRS as their methodology must consider the findings from the MRS to set provider reimbursement rates. Lead agencies select the percentile at which they will set their reimbursement rates based on the distribution of the MRS. The percentile corresponds to a specific price and the amount providers receive for reimbursement is based on that price. In theory, the percentile they select reflects the proportion of providers that subsidy families can access. Using the same example, if a state sets the reimbursement rate at the 75th percentile, subsidy families will have access to 75% of the providers.

Table A: 2022 Nebraska Child Care Subsidy Rates

	Infant		Toddler		Preschool		School Age	
	Hour Rate	Day Rate	Hour Rate	Day Rate	Hour Rate	Day Rate	Hour Rate	Day Rate
Lancaster, Dakota, Douglas, Sarpy Counties								
Licensed Family Child Care Homes I and II	$5.50	$35.00	$5.00	$34.00	$5.00	$33.00	$5.50	$32.00
Accredited/Step 3	$5.80	$36.75	$5.25	$35.70	$5.25	$34.65	$5.80	$33.60
Step 4	$6.10	$38.60	$5.55	$37.50	$5.55	$36.40	$6.10	$35.30
Step 5	$6.40	$40.55	$5.80	$39.40	$5.80	$38.20	$6.40	$37.05
Licensed Child Care Centers	$8.00	$55.00	$7.65	$50.00	$7.00	$45.00	$6.50	$40.00
Accredited/Step 3	$8.40	$57.75	$8.05	$52.50	$7.35	$47.25	$6.85	$42.00
Step 4	$8.85	$60.65	$8.45	$55.15	$7.75	$49.65	$7.20	$44.10
Step 5	$9.30	$63.70	$8.90	$57.90	$8.10	$52.10	$7.55	$46.35
License-Exempt Family Child Care Homes								
Lancaster/Dakota Counties	$2.25	$13.50	$2.25	$13.50	$2.25	$13.50	$2.25	$13.50
Douglas/Sarpy Counties	$2.25	$15.00	$2.25	$15.00	$2.25	$15.00	$2.25	$15.00
All Other Counties								
Licensed Family Child Care Homes I and II	$3.45	$30.00	$3.25	$28.00	$3.25	$27.00	$3.45	$26.25
Accredited/Step 3	$3.65	$31.50	$3.45	$29.40	$3.45	$28.35	$3.65	$27.60
Step 4	$3.80	$33.10	$3.60	$30.90	$3.60	$29.80	$3.80	$28.95
Step 5	$4.00	$34.75	$3.80	$32.45	$3.80	$31.30	$4.00	$30.40
Licensed Child Care Centers	$5.00	$36.30	$5.00	$35.00	$5.00	$32.25	$4.75	$32.00
Accredited/Step 3	$5.25	$38.15	$5.25	$36.75	$5.25	$33.90	$5.00	$33.60
Step 4	$5.55	$40.05	$5.55	$38.60	$5.55	$35.60	$5.25	$35.30
Step 5	$5.80	$42.05	$5.80	$40.55	$5.80	$37.35	$5.50	$37.05
License-Exempt Family Child Care Homes	$2.00	$13.00	$2.00	$13.00	$2.00	$13.00	$2.00	$13.00
All Counties								
License-Exempt Family In-Home Provider	The basic in-home rate is $9.00 an hour							

The Administration for Children and Families (ACF) does not require that Lead Agencies use a specific percentile threshold to set their rates, so there is a wide range of reimbursement rate percentiles across states, territories and tribes. ACF recommends, however, that Lead Agencies set their reimbursement rates at the 75th percentile; ACF considers this as providing equal access. Lead Agencies must re-evaluate their reimbursement rates every three years, no more than two years prior to submitting their CCDF plan.

Nebraska's use of the market rate survey

Nebraska uses the MRS to set reimbursement rates and conducts the MRS every odd-numbered year. The most recent rates are based on the 2021 MRS. The 2023 MRS is currently under review by the Nebraska Department of Health and Human Services (NDHHS). Nebraska Revised Statute §43-536 requires NDHHS to conduct a market rate survey and to set reimbursement rates between the 60th and 75th percentiles. NDHHS has historically set rates at the 60th percentile. Legislation passed in April 2022, however, raised reimbursement rates to the 75th percentile, which is set to remain in effect through June 2023.

Using funding from the Preschool Development Grant B-5, Nebraska is currently in the initial stages of conducting a cost-estimation model to better understand the cost of providing quality care. However, these findings cannot be used to inform reimbursement rates as state statute dictates that the MRS is the only method that can be used to establish rates. Nebraska offers tiered reimbursement rates to accredited providers and providers rated Step 3, 4 or 5 in Step Up to Quality. For each additional step level, providers receive a 5% increase in their base pay.

Additionally, Nebraska Revised Statute §68-1206 states that the "department shall not pay a rate higher than that charged by an individual provider to that provider's private clients." If the private rate is higher than the reimbursement rate, NDHHS will pay the reimbursement maximum. If the private rate is lower than the reimbursement rate, NDHHS will pay a reimbursement amount that does not exceed the provider's private rate. However, if a provider is accredited or rated Step 3, 4 or 5 in Step Up to Quality, the reimbursement rate can exceed their private pay rate. See Table A for a breakdown of Nebraska's rates.

II. Nebraska subsidy funding and payments

Child care providers who enroll children eligible for CCDF subsidies anticipate a certain reimbursement amount for each eligible child. Several factors, however, affect whether providers receive the allotted amount. Quantifying the difference between the amount of subsidy billing available to providers, compared to the amounts paid, is a critical piece of information to better understand if and how Nebraska should adjust its approach to subsidy rates. This information was also part of the requested analysis in LR378. However, NDHHS does not have the data necessary to run this type of analysis.

An analysis conducted by Pie for Providers, an organization that helps child care providers manage subsidy billing, provides useful insights that illustrate the challenges providers face when the anticipated subsidy amount does not match up with the amount received. In this analysis, Pie for Providers looked specifically at the financial implications of one factor that affects the reimbursement payments subsidy providers receive: child attendance.

> When providers participating in the subsidy exceed the number of hours or days per child authorized by the state for reimbursement, they must either attempt to charge parents for the extra time, decline to serve children for the additional hours—or provide care without reimbursement from the subsidy.

In Nebraska, subsidy reimbursement amounts are based on children's monthly attendance (i.e., providers are reimbursed based on the number of days or hours children attend). Anticipated reimbursements are calculated with the assumption that children will attend for the amount of time they are allotted by the state. In reality, however, children's attendance can vary from week to week, and they might attend below or above the allotted time.

The state reimburses providers for up to five absences each month; any additional absences are not reimbursed. Alternatively, if subsidy children exceed the hours they are authorized for, providers must either serve them without getting reimbursed, refuse to serve them additional hours or stop serving subsidy children entirely. Providers may also charge families for extra care, however it is unlikely that parents will be able to pay. When children are absent, providers lose money because they still have to pay for the resources (e.g., staff, materials, facility space) that were dedicated to serving the child. An attendance-based reimbursement method creates financial uncertainty and instability for providers, especially for small child care providers who rely on every child's payment to sustain their business.

Providers are unlikely to encounter these issues with private pay families or families who do not use CCDF subsidies for child care. Private pay families typically pay the entire monthly rate, regardless of the number of days a child is absent; private pay families also pay upfront, before services are rendered, rather than after the month end, as with CCDF providers. The Pie for Providers analysis examined 10 scenarios, each based on a different child's circumstances—their age, the number of hours they were authorized, the amount of time they attended and the program tuition—that reflect a range of circumstances of children providers might enroll. The analysis found that, for the majority of these scenarios, child care providers receive less funding when they enroll children who are eligible for subsidies compared to children from private pay families, in part, because of the uncertainty related to attendance, creating a disincentive for providers to serve children who are eligible for subsidies.

III. Alternative methodologies

Lead Agencies have the option to use an alternative methodology in lieu of a market rate survey to set their reimbursement rates. Lead Agencies that opt for an alternative methodology must gain approval from ACF to replace the MRS with their proposed methodology. The specific requirements for approval depend on the type of methodology. The baseline requirements to secure approval are that the methodology must address different ages of children served, types of providers and geographies; meet benchmarks for statistical validity and reliability; incorporate input from required stakeholders; and use relevant data to set rates. ACF approval is only necessary if the Lead Agency is replacing the MRS with an alternative methodology. Approval is not necessary if the Lead Agency is conducting both an MRS and alternative methodology.

The two most commonly referenced alternative methodologies are *cost-estimation models* and *cost studies*, both of which are explicitly mentioned in CCDF regulatory guidance. Unlike the MRS approach, cost-estimation models and cost studies focus on the cost of providing care rather than prices for calculating reimbursement rates. Lead Agencies may also elect to use a hybrid approach.

Cost-estimation models

A cost-estimation model incorporates cost data and assumptions to estimate the expected costs that would be incurred by providers under different scenarios, referred to as the "cost of care" or the "cost of quality." This type of model can help Lead Agencies estimate the cost of operating a program that is representative of most providers within specific categories; better understand variations in the cost of care based on program size, ages of children served, program setting, geographic location, licensing standards, quality requirements, program business practices and compensation practices; and identify gaps between provider revenue and expenses.

With a cost-estimation model, the Lead Agency can quantify a scenario that shows the cost of a fully funded program operating on a stable budget and recruiting and retaining high-quality educators in the current market. The cost-estimation model also allows Lead Agencies to map out or predict the implications of changes in policy or the market (e.g., increases in educator salaries) might have on providers' costs.

Cost-estimation models require building a tool that reflects the various expenses of providing high-quality child care services, informed by several different data sources. The data include both stakeholder input, collected through surveys and interviews with providers, and state-specific administrative data (e.g., educator credential

Cost Estimations

Discussions about cost estimations use several different terms to relay information about cost. 'Cost of care' reflects the total expenditures providers make to deliver services. 'Cost of quality' or 'true cost of care' refers to the cost of operating a high-quality program with staff and resources to meet quality standards.

requirements). To define the assumptions, Lead Agencies generally create two baseline models—one for centers and one for family child care homes. Assumptions must reflect local licensing requirements (e.g., group sizes and ratios), structure of specific provider type, price structure for local conditions and other regulatory requirements. The models are then modified to integrate different assumptions, such as a range of quality standards, staff compensation amounts, location, business size and ages of children served.

Cost studies must account for both direct and indirect costs. These include payroll, classroom materials, utlities, rent, professional development, telecommunications, administrative services such as accounting and other expenses associated with delivering child care services.

- **Cost Studies**: Through a cost study, Lead Agencies collect data at the facility or program level to measure costs to deliver services across all inputs. A cost study is similar to a cost-estimation model, in that Lead Agencies use this method to gather and analyze data on the cost of care or cost of quality. In some cases, Lead Agencies can use a cost study to collect data to inform a cost-estimation model. Cost studies include extensive and nuanced data pulled from a representative sample of providers at a given point in time. Cost data involves direct and indirect costs. Direct costs include items like salaries, rent, utilities, supplies and professional development while indirect costs involve centralized costs that may not be directly related to one type of care or one classroom, such as costs associated with management or administration.

- **Hybrid Methodology**: Lead Agencies may choose to use a hybrid approach, wherein they combine multiple methods to inform their rate-setting process. In a hybrid approach, a Lead Agency might want to include both cost and price data in their methodology in such a way that doesn't require a full market rate survey, cost study, or cost-estimation model. They might include cost data on specific inputs that play a larger role in driving up the cost of care (e.g., salaries, ages of children served, business size). Alternatively, a Lead Agency might still conduct a MRS, but rather than connect rates to a specific percentile, they might increase the amount to account for the cost of providing higher-quality care.

Narrow cost analysis

In addition to the primary methodology—whether MRS or an alternative—Lead Agencies must conduct a narrow cost analysis. Through a narrow cost analysis, Lead Agencies measure the estimated cost of providing care in two areas: cost to implement health, safety, quality and staffing requirements, and the cost of higher-quality care as defined by the Lead Agency's Quality Rating and Improvement System (QRIS) or other quality standards. The purpose of the narrow cost analysis is to evaluate the gap between the reimbursement rates providers receive and the costs of these expenses.

Lead Agencies can determine the method for a narrow cost analysis and how much weight these findings will have in the rate-setting process. To conduct a narrow cost analysis, Lead Agencies can use a cost-estimation model, data from existing cost studies or the MRS, or conduct a limited cost study. A narrow cost analysis is calculated by estimating the average operating costs for each age group and running scenarios for each of the quality levels. Lead Agencies have the option to request waivers from conducting narrow cost analyses. Environmental factors outside of Lead Agencies' control—such as the COVID-19 pandemic—led more than two dozen Lead Agencies, including Nebraska, to request a waiver for this requirement in the 2022-24 CCDF plan.

IV. Analysis of the methodologies

Each of the rate-setting approaches provides useful data and information on the child care market for Lead Agencies going through the rate-setting process. However, using the market rate survey to inform reimbursement rates limits families' access to high-quality care and exacerbates the fragility of the child care market.

The key issue with using the market rate survey to set reimbursement rates is with the price data that drive the analysis. Specifically, the prices that providers charge do not necessarily cover the full cost of care or cost of quality. As a result, providers who participate in child care subsidy programs often operate at a financial loss.

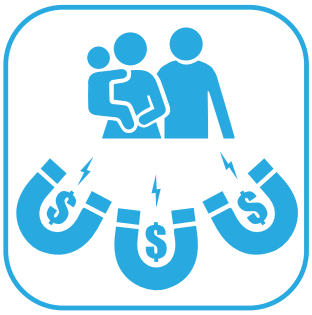
Further, depending on the characteristics of the provider (e.g., region, ages of children served, program size), the cost of care might be substantially higher than the prices providers charge. Research suggests that family child care providers and providers in rural areas face some of the largest gaps between their revenue and costs.

Theoretically, providers could make up that revenue gap by charging more for services. The new prices would inform the next market rate survey and, in the long term, could translate to higher provider reimbursement rates. But providers don't have that flexibility. To maintain program enrollment, providers can only set prices at a level that allows them to fill program slots under current local market conditions, and market conditions rarely support prices that would cover the full cost of care.

Two market conditions drive providers' prices: affordability for families and competition with other providers.

Affordability for Families

To recruit families and enroll children, providers must charge a rate that families in their neighborhood can afford. As a result, the income level of a neighborhood often drives the price that providers can charge. Providers in low-income neighborhoods must charge less than providers in high-income neighborhoods, even though they face comparable costs.



Competition with Other Providers

Providers set prices comparable to what other providers in the community charge to fill their slots. All providers in a community face the same economic conditions and challenges with affordability for families, so to recruit families and fill slots, providers effectively race to the bottom by continuing to decrease prices to remain competitive.

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 seats and families would be unable to access care.

Lead Agencies that use an MRS to set reimbursement rates replicate these issues across all subsidy providers, with clear cascading effects. Operating at a loss creates an unstable business model, something that small business providers, such as many of Nebraska's family child care providers, are particularly at risk of encountering. Financial vulnerability can limit the degree to which providers can grow their program size and disincentivize providers from investing in program quality, including staff compensation.

Setting reimbursement rates using an MRS can also precipitate child care shortages. This consequence is especially critical to consider in Nebraska, where there is currently no region where supply meets the demand for care. A 2020 report commissioned by First Five Nebraska found that insufficient child care options resulted in significant losses to household income, business revenue and Nebraska tax revenues, altogether totaling pre-pandemic direct losses of nearly $745 million.

Cost-based methodologies address several of the issues reflected in market rate surveys. To build a strong and robust child care sector, Lead Agencies can set reimbursement rates based on cost data, which represents a more accurate picture of what providers need to run fully funded programs, serve subsidy families, achieve high-quality standards and recruit and retain effective staff. In quantifying the gap between revenue and cost, Lead Agencies can use cost-based approaches to make strategic decisions in policy and practice.

At the same time, cost-based methodologies can be imperfect. Specifically, the strength of a cost-estimation model hinges on the quality of the data and assumptions that feed into it. For example, to inform reimbursement rates using cost estimates, the model must include an assumption about the number of hours that the child spends in care and during which hours (e.g., before or after school care). In reality, actual attendance varies widely from child to child. Any accuracy issues with the data or the assumptions will skew the accuracy of the model.

Appendix I: Rate-setting processes in Nebraska and five other states

Rate-setting processes differ across states and demonstrate a variety of ways states are supporting children, providers and families. The comparison states profiled below are Arkansas, Iowa, New Mexico, South Dakota and Virginia. These states offer a balanced portfolio of approaches to rate setting, illustrating similarities to Nebraska's process, methodologies that are discussed in this study and examples of how Nebraska's approach might evolve moving forward.

Arkansas

- **Primary methodology**: Hybrid approach. Arkansas conducts the MRS and cost model. By using a hybrid approach, the state does not need to go through an approval process with ACF. Arkansas is in the process of working on the next MRS and cost model.

- **Process for setting reimbursement rates**: Reimbursement rates are set by the Arkansas Division of Child Care and Early Childhood Education. For the MRS, the state uses price data that providers update—when requested—in the licensing system.

- **Reimbursement percentiles**: Rates are set at the 75th percentile. Rates are differentiated by geographic area (rural and urban), age of child and quality level. Two urban counties, Benton and Washington, have higher tuition rates than all other urban counties. To provide equal access, the state created a separate rate that meets the 75th percentile of the market rates in Benton and Washington. Providers who offer nontraditional hours receive hourly rates up to $5.00 higher for night/weekend care. Providers serving children with special needs receive reimbursement rates that are up to 50% higher than the existing rate, depending on the needs of the child. Rates also increase as quality levels increase. Providers at Level 3, the highest quality rating level, are paid the same rate regardless of geographic area. If private tuition rates exceed the reimbursement rate, providers can charge subsidy families up to 15% above the reimbursement rate as the co-payment.

- **Narrow cost analysis**: Arkansas used a cost model for the narrow cost analysis. The model was used to ensure equitable access to early learning programs, provide sufficient financial support to providers increasing quality levels and estimate the impact of minimum wage increases in 2019-2021. The findings showed the then-current reimbursement rates were sufficient for the urban centers and family child care homes, but insufficient for rural centers and family child care homes to absorb the costs of minimum wage increases. The cost model findings were taken into consideration when setting reimbursement rates. To minimize gaps between cost and reimbursement rates, Arkansas increased rates by up to 27% at quality Level 1, 29% for quality Level 2 and 67% for quality Level 3.

- **Subsidy participation**: Approximately 52% of licensed providers participate in the child care subsidy program.

Iowa

- **Primary methodology**: Market rate survey. Iowa's statewide Child Care Resource and Referral (CCR&R) annually collects price data to inform the MRS. The most recent MRS and narrow cost analysis were completed in 2020 and planning for the 2023 MRS and narrow cost analysis is currently in progress.

- **Process for setting reimbursement rates**: The Iowa Department of Human Services prepares data, shares information and answers questions about the market rates and percentiles from the state legislature. Reimbursement rates are then set by the legislature.

- **Reimbursement percentiles**: Legislation passed in 2021 increased reimbursement rates to at least the 50th percentile of the 2020 MRS. Currently, base reimbursement rates range from the 50th percentile to the 60th percentile. Iowa offers tiered rates to some providers. Providers serving children with special needs have a maximum rate that is 1.5 times the rate they are eligible for based on their quality rating and providers in the quality rating

system are eligible for higher rates as their quality level increases.

- **Narrow cost analysis**: Iowa used a cost survey for its narrow cost analysis in 2020 to collect data on how much providers were spending on cost drivers. However, the narrow cost analysis findings were not released early enough to be incorporated into the reimbursement rates. Currently, the maximum subsidy reimbursement for base rates exceeds the average per-child, per-day cost of meeting regulatory requirements.

- **Subsidy participation**: As of April 2021, 82.5% of providers (licensed and licensed-exempt) in Iowa participated in the child care subsidy program.

Nebraska

- **Primary methodology**: Market rate survey. The MRS is conducted every odd-numbered year. Current rates are based on the 2021 MRS. The 2023 MRS is currently under review by NDHHS.

- **Process for setting reimbursement rates**: Under the guidance of the state legislature, NDHHS adjusts the reimbursement rates every other odd-numbered year.

- **Reimbursement percentiles**: Nebraska Revised Statute §43-536 requires NDHHS to set reimbursement rates between the 60th and 75th percentiles. Legislation passed in April 2022, however, raised reimbursement rates to the 75th percentile, which is set to remain in effect through June 2023.

- **Narrow cost analysis**: Extenuating environmental circumstances led Nebraska to request a waiver for completing a narrow cost analysis for the 2019-2021 and 2022-2024 CCDF plans.

- **Subsidy participation**: Currently, 36% of family child care homes and 77% of child care centers in Nebraska participate in the child care subsidy program. Altogether, approximately 48% of all licensed homes and centers participate in the program.

New Mexico

- **Primary methodology**: Alternative methodology. Historically, New Mexico used the MRS to set reimbursement rates. For the first time, New Mexico conducted a cost-of-quality study in 2021, which included a cost model and cost study. The cost model allowed the state to run multiple scenarios to understand the impact different factors have on providers and to compare previous reimbursement rates with the cost of care.

- **Process for setting reimbursement rates**: New Mexico Early Childhood Education and Care Department (ECECD) has the authority to set the rates based on the ACF-approved alternative methodology, through the state's official regulatory adoption process. As part of this process, ECECD publishes the proposed rates for public consideration and the rates are then adopted and/or amended after consideration of the public comments. ECECD obtained approval by the governor prior to proposing the rates through the official regulatory process. The new rates went into effect July 1, 2021.

- **Reimbursement rates**: New Mexico sets its rates based on the estimated cost of care. For center-based care, the base rate covers 82%-110% of the estimated cost of care. For family child care, the base rate covers 82%-102% of the estimated cost of care. The rates also vary by age group and QRIS level. Providers participating in the quality rating system receive higher rates as their quality level increases and providers who offer care during nontraditional hours (NTHs) receive a 5% increase for one to 10 NTHs per week, 10% for 11-20 NTHs per week and 15% for 21 or more NTHs per week.

- **Narrow cost analysis**: New Mexico conducted a cost study and the data from the study are built into the cost-estimation tool, allowing the state to understand the cost of services for different ages of children across provider types and at different levels of quality, compared to current and proposed subsidy rates and to better understand the fiscal impact of policy decisions. Using the cost model, the Lead Agency ran scenarios to estimate the costs of health, safety, quality and staffing requirements, as well as the cost of quality care at each quality level on its QRIS. The study

found that then-current reimbursement rates, which were based on the MRS, did not cover the cost of care for any age group from birth to age 5 at any quality level or type of setting. The reimbursement rates were only sufficient for school-aged care in center-based settings at all quality levels except Five Star. Across all levels of quality, the gap between reimbursement rates and cost of care was largest for infants. Additionally, the model demonstrated that tiered rates for higher levels of quality did not reflect the increased costs associated with higher quality care. As a result, the reimbursement rates served as a disincentive to achieving higher levels of quality.

- **Subsidy participation**: Currently, 71% of centers, 83% of family child care homes and 91% of group homes participate in the child care subsidy program.

South Dakota

- **Primary methodology**: Market rate survey. The most recent MRS was conducted in 2022.

- **Process for setting reimbursement rates**: Reimbursement rates are set after internal analysis within the South Dakota Department of Social Services.

- **Reimbursement percentiles**: Provider reimbursement rates are set at the 75th percentile. South Dakota offers tiered rates to some providers. Providers caring for children with special needs can be reimbursed up to $5.80 per hour. Family child care providers who care for six or fewer children under age 3 can be reimbursed up to a maximum of 25% above the established rate. However, providers cannot receive reimbursement rates that exceed the provider's private pay rate.

- **Narrow cost analysis**: South Dakota used a cost study to conduct its narrow cost analysis. A select advisory panel of providers offered review and feedback on the proposed process and tools prior to implementation of the survey. A sample of various providers participated in the survey. Findings were analyzed based on provider type, age of child, geographic area, tax status and quality enhancement indicators. Reimbursement rates were evaluated against the cost of care data by age group and provider type and results were used to inform the current percentile. The narrow cost analysis is completed, but is currently going through an internal review process.

- **Subsidy participation**: Currently, 49% of regulated providers participate in the child care subsidy program.

Virginia

- **Primary methodology**: Alternative methodology. Historically, Virginia used the MRS to set reimbursement rates. In 2022, Virginia conducted a cost-of-quality study for the first time. The cost model allowed the state to run multiple scenarios to understand the impact different factors have on providers.

- **Process for setting reimbursement rates**: The Virginia Department of Education worked closely with the Finance Committee and regulatory coordinators to set reimbursement rates.

- **Reimbursement percentiles**: The proposed cost-based rates went into effect October 1, 2022. Rates are set regionally based on the percentage of estimated costs. For centers, reimbursement rates are set at approximately 75% of the estimated cost of care. For family child care, rates are, on average, at 80% of the estimated cost of care. Rates vary by age group across both settings.

- **Narrow cost analysis**: The cost model was used to conduct the narrow cost analysis and accounts for the cost of meeting basic health and safety standards and quality care.

- **Subsidy participation**: Currently, 40% of providers participate in the child care subsidy program. More than half of all licensed centers, one-third of licensed family child care homes, one-quarter of voluntarily registered family child care homes and 14% of religious-exempt centers participate in the child care subsidy program.

Appendix II: Expenditures on the child care subsidy program in Nebraska

Total expenditures on the Nebraska child care subsidy program involve a range of state and federal funds. Below are expenditures by source of funds for state fiscal year (SFY) 2020-2021 and 2021-2022. The sources are varied due to increases in COVID-19 federal relief funding.

Table B: Total expenditures on the child care subsidy program for SFY2021

Funding Source	Amount	
General Funds	$	45,658,519.97
Federal CCDF Discretionary Aid	$	380,460.58
TANF Child Care Aid	$	16,280,435.46
CCDF Mandatory Aid (Federal)	$	7,040,541.04
CCDF Federal Fund Matching Aid	$	7,205,028.83
CCDF General Fund Matching Aid	$	5,516,402.41
State Only - FFY2021 Maintenance of Effort	$	6,214,153.86
State Only - FFY2020 Maintenance of Effort	$	6,047,709.06
Grand Total	**$**	**94,343,251.21**

Table C: Total expenditures on the child care subsidy program for SFY2022

Funding Source	Amount	
General Funds	$	44,523,917.32
Initial Application COVID Funding	$	2,037,756.94
CCDF Mandatory Aid (Federal)	$	12,184,954.80
CCDF Federal Fund Matching Aid	$	18,756,986.60
CCDF General Fund Matching Aid	$	13,965,477.17
Transitional Child Care COVID Funding	$	194,428.59
State Only - FFY2022 Maintenance of Effort	$	Not yet available *
Grand Total	**$**	**91,663,521.42**

* State fiscal year is July 1 to June 30 and federal fiscal year is October 1 to September 30, which affects the expenditure information available.

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