

**Agency:** 357 Department of Early Learning  
**Decision Package Code/Title:** MR Market Rate Research

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**Budget Period:** 2015-17  
**Budget Level:** M2 - Inflation and Other Rate Changes

**Recommendation Summary Text:**

Section 658E(c)(4)(B) of the Child Care Development Block Grant Act Reauthorization requires states to conduct a market rate survey, or use an alternative methodology, to describe how subsidy payment rates will be established, taking into account the cost of providing higher quality services. Given the presumption that the state's own subsidy rates unduly influence the market, the department is requesting 1 FTE and \$140,465 in fiscal year 2017 to evaluate both the traditional market rate analysis and an alternative "cost of quality" methodology for setting subsidy rates.

**Fiscal Detail**

<b>Operating Expenditures</b>	<b><u>FY 2016</u></b>	<b><u>FY 2017</u></b>	<b><u>Total</u></b>
001-1 General Fund - Basic Account-State		140,465	140,465
<b>Total Cost</b>		<b>140,465</b>	<b>140,465</b>
<b>Staffing</b>	<b><u>FY 2016</u></b>	<b><u>FY 2017</u></b>	<b><u>Annual Average</u></b>
FTEs	.0	1.0	.5

**Package Description:**

Reauthorization of the Child Care and Development Fund Block Grant requires states to conduct a market rate survey, or use an alternative methodology, to describe how subsidy payment rates will be established, taking into account the cost of providing higher quality services. Additionally, the recent Collective Bargaining Agreement agreed to with the Service Employees International Union Local 925, the representative union of licensed family home child care providers, states that DEL will evaluate the current subsidy rate structure. Given shortcomings from previous market rate surveys, the department plans to conduct the market rate study alongside a "cost of quality" analysis to determine the most effective way to set subsidy rates. To accomplish this, the department is requesting 1 FTE and \$140,465 in Fiscal Year 2017 to manage the market rate survey and lead an in-depth cost of quality analysis of the actual budgets for a sample of both centers and family homes at varying levels of quality. In the short term, the FTE will determine which data collection and analysis system is more reliable, and over time will continue to lead and/or conduct ongoing subsidy rate analysis and review.

The requested FTE will use a new tool, the Provider Cost of Quality Calculator (PCQC) to create and regularly update a model of actual and ideal subsidy rates. The information that goes into this model will be updated on a continuous basis with the latest subsidy rates, workforce data, child care and small business data, and information gained from interviewing providers and other stakeholders. This position will also meet with the child care provider union SEIU 925 and participate in reviews of the existing rate schedules, and will manage any contracts entered into by the department to study rates, including possible actuary services.

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**Narrative Justification and Impact Statement**

*What specific performance outcomes does the agency expect?*

We expect that this research will result in providers being paid at an equitable rate, which will have the effect of drawing more high-quality providers into the subsidy system.

**Performance Measure Detail**

**Activity:**

**Incremental Changes**

No measures submitted for package

*Is this decision package essential to implement a strategy identified in the agency's strategic plan?*

Ensuring that DEL is paying an appropriate subsidy rate, backed by thorough research and free from the influence of the state's own subsidy payments, supports the agency's goal of providing high quality early learning opportunities for Washington children .

*Does this DP provide essential support to one or more of the Governor's Results Washington priorities?*

Paying providers at an equitable rate will help to entice high quality providers to join or continue in the subsidy system and supports Governor Inslee's Goal #1 of providing a world class education to children in Washington state .

*What are the other important connections or impacts related to this proposal?*

The state has entered into an agreement with SEIU 925 (the Family Home Child Care providers union) to look at the subsidy rate structure. This proposal will assist the department in fulfilling that obligation.

The Early Start Act requires providers to participate in the Early Achievers program. Our current subsidy rates are not based on the cost of providing high quality care, and funding a position to do this analysis will help the department identify the subsidy rate structure necessary to support high quality child care.

*What alternatives were explored by the agency, and why was this alternative chosen?*

Past experience with the market rate survey shows that the survey method is not adequate for rate setting for higher-quality care at Early Achievers Levels 3 through 5. The PCQC tool is designed to help the department better analyze and understand the actual cost of operating centers and family child care homes at different levels of quality in the Early Achievers program. This alternative was chosen because it is supported by the federal grantor and it meets our obligation under the recently negotiated Collective Bargaining Agreement.

*What are the consequences of adopting or not adopting this package?*

If this package is not adopted, the state will not have a complete understanding of the full costs of running a child care facility and risks having its subsidy rates based upon incomplete data as it sets rates and negotiates with SEIU 925 .

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*What is the relationship, if any, to the state's capital budget?*

None.

*What changes would be required to existing statutes, rules, or contracts, in order to implement the change?*

None.

**Expenditure and revenue calculations and assumptions**

Total cost in fiscal year 2017 is \$140,465 assuming:

FTE, Salary and Benefits: 1.0 FTE Management Analyst 5 (MA5) costing \$95,954 in fiscal year 2017.

Goods and Services: \$1,250 in fiscal year 2017, comprised for direct program goods and services for 1.0 FTE for computer leases, communications, supplies, employee development and training, assuming \$1,250 per FTE per fiscal year (\$1,250 x 1.0 FTE = \$1,250).

Equipment: \$6,000 in FY2017 for one time expenditure for necessary office furniture and equipment for the 1.0 new FTE assuming \$6,000 per FTE (\$6,000 x 1.0 FTE = \$6,000).

Travel: \$5,500 in FY2017 for the 1.0 new FTE assuming \$5,500 per FTE (\$5,500 x 1.0 FTE = \$5,500).

Intra-agency Reimbursements: \$31,761 in fiscal year 2017 for indirect costs for agency administration and central services, calculated at 33.10 percent of direct salaries and benefits (\$95,954 X 33.10% = \$31,761). This is for administration and management of the department including governance, executive management, fiscal operations, human resources, communications and outreach, government relations and agency information technology services. It is also for agency central services including space and utilities, data processing fees and computer leases, communications, attorney general and audit services and other mandatory charges for services from the Department of Enterprise Services.

Duties for the FTE are as follows:

--MA5 to manage data entry into the PCQC system and calculate costs for providers to operate a child care center or home, keep track of data sources, analyze and decide which sources to use and why, analyze and decide any adaptations to make, and develop data reports.

*Which costs and functions are one-time? Which are ongoing? What are the budget impacts in future biennia?*

These costs are ongoing beginning in fiscal year 2017.

<u>Object Detail</u>	<u>FY 2016</u>	<u>FY 2017</u>	<u>Total</u>
A Salaries And Wages		71,317	71,317
B Employee Benefits		24,637	24,637
E Goods\Other Services		1,250	1,250
G Travel		5,500	5,500
J Capital Outlays		6,000	6,000
T Intra-Agency Reimbursements		31,761	31,761

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Total Objects	140,465	140,465
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## **Market Rate Research**

### **Citations from the CCDBG Reauthorization Act of 2014**

#### **Section 658E(c)(4)(B)**

*Survey.—The State plan shall—*

*(i) demonstrate that the State has, after consulting with the State Advisory Council on Early Childhood Education and Care designated or established in section 642B(b)(1)(A)(i) of the Head Start Act (42 U.S.C. 9837b(b)(1)(A)(i)), local child care program administrators, local child care resource and referral agencies, and other appropriate entities, developed and conducted (not earlier than 2 years before the date of the submission of the application containing the State plan) a statistically valid and reliable survey of the market rates for child care services in the State (that reflects variations in the cost of child care services by geographic area, type of provider, and age of child) or an alternative methodology, such as a cost estimation model, that has been developed by the State lead agency;*

*(ii) demonstrate that the State prepared a detailed report containing the results of the State market rates survey or alternative methodology conducted pursuant to clause (i), and made the results of the survey or alternative methodology widely available (not later than 30 days after the completion of such survey or alternative methodology) through periodic means, including posting the results on the Internet;*

*(iii) describe how the State will set payment rates for child care services, for which assistance is provided in accordance with this subchapter— (I) in accordance with the results of the market rates survey or alternative methodology conducted pursuant to clause (i); (II) taking into consideration the cost of providing higher quality child care services than were provided under this subchapter before the date of enactment of the Child Care and Development Block Grant Act of 2014; and (III) without, to the extent practicable, reducing the number of families in the State receiving such assistance to carry out this subchapter, relative to the number of such families on the date of enactment of that Act; and*

*(iv) describe how the State will provide for timely payment for child care services provided under this subchapter.*

Source: <https://www.congress.gov/bill/113th-congress/senate-bill/1086>