



Child Care Market Rate Study

Prepared for

Michigan Department of Education, Office of Great Start

Prepared by

Public Policy Associates, Incorporated



Public Policy Associates, Incorporated is a public policy research, development, and evaluation firm headquartered in Lansing, Michigan. We serve clients in the public, private, and nonprofit sectors at the national, state, and local levels by conducting research, analysis, and evaluation that supports informed strategic decision-making.

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Child Care Market Rate Study

Executive Summary

The Child Care and Development Fund (CCDF) was established in the 1990s to help working families access child care. The program was reauthorized in 2014. New regulations require that states conduct a statistically valid and reliable child care market rate survey within two years of the submission of their Child Care Development Fund plan to the federal government. Market rate surveys are used to determine a payment rate that is sufficient to enable families using the subsidy to enter the child care market in a competitive position to find and afford care across the full range of child care services. The new regulations also encourage states to study costs in addition to the market rates, understanding that many providers cannot charge enough to recover the full costs of quality care.

The Michigan Department of Education (MDE) is the lead agency responsible for administering the federal child care subsidy funds, which are disbursed through the Office of Great Start (OGS) Child Development and Care (CDC) program. MDE contracted with Public Policy Associates, Incorporated (PPA) to conduct the 2017 Market Rate Survey (MRS) and analysis of the cost of providing high-quality child care.

Overview of Study

PPA designed the study to answer the following questions:

- What are the hourly, half-day, full-day, and weekly prices for licensed/registered child care across provider types, and how do prices vary across geographic regions within Michigan?
- To what extent is there equal access to child care across Michigan? Are there gaps between the CDC subsidy rate and the 75th percentile by age group, Great Start to Quality (GSQ) star rating, and provider type? If so, what strategies could be used to address these gaps?
- To what extent are there gaps between the cost of high-quality care and the amount providers are collecting from parents and/or the CDC subsidy? What are strategies Michigan could use to reduce these gaps?
- Do CCDF child care providers charge families more than the required family co-payment? If so, what proportion of facilities charge families a higher amount and how much do they charge beyond the required co-payment?

- How many providers do not accept or limit admissions of children who receive the CDC subsidy and why? What barriers exist (payment rates, practices, etc.) that prevent providers from serving CDC children? How could the subsidy reimbursement process be improved to increase provider participation?

The market rate survey was conducted online and by telephone in late 2017 and early 2018, striving for a 25% response rate among child care centers, family homes, and group homes. The final participation rate was 29%. The participation rate among group homes was somewhat higher (35%) than among child care centers (28%) or family homes (29%).

Key Findings

Child care centers provide most of the licensed child care in Michigan.

Out of the 95,389 total child care slots filled across all age groups among the survey sample, child care centers are caring for 88.7% of those children, with group homes and family homes caring for 5.8% and 5.4%, respectively.

Family and group homes provide a larger share of infant and toddler care than of preschool and school-aged care, accounting for 19.4% of the infant care and 18.9% of toddler care, but only 8.9% of care for preschoolers and school-aged children.

Most facilities charge by the week or the day.

Ninety-four percent of all respondents with a full-time rate shared a weekly rate. Forty-seven percent have a daily rate, and 26% shared an hourly rate. Daily rates were the most common rates shared for part-time care.

The current CDC reimbursement rate is well below the 75th percentile market rate for most child care situations.

Rates currently paid by the CDC range from \$2.65 per hour for a 1-star or empty-star family or group home caring for a school-aged child to \$5.50 per hour for a 5-star center caring for an infant or toddler. Market rates at the 75th percentile range from \$3.75 per hour for preschool and school-aged children in family or group homes to \$6.00 per hour for infants and toddlers in centers.

Rates charged are influenced by facility type, GSQ star rating, and region in which a facility is located.

The market rate survey found that rates charged by child care centers are as much as 50% higher than rates charged by homes for infants and toddlers (\$6.00/hour for infant care in a center versus \$4.00/hour in a home). Differentials also exist for older children but are less pronounced (\$4.75/hour for centers versus \$3.75 for

homes, a 27% markup at centers). Rates charged by 4-star and 5-star providers exceed those charged by 1-star and 2-star providers by 20% to more than 50%. Market rates in the Wayne/Oakland/Macomb County region are higher than in other GSO regions, a finding which appears to be independent of the number of centers versus homes and the mix of quality ratings among the region's providers.

Many providers charge parents additional fees including registration fees, annual fees, supply fees, and field trip or activity fees.

About 50% of surveyed providers, including nearly 90% of child care centers, charge a registration fee. Initial registration fees average between \$50 and \$60, with lower fees tending to be charged by homes. Among those charging a registration fee, about 30% also charge a periodic renewal fee (annual, semiannual, etc.). Additionally, 40% of centers and 11-14% of homes charge activity or field trip fees, and 12% of centers and 2-3% of homes charge supply fees. Although many providers offer discounts on the fees for families, the fees can still be substantial.

When subsidies are inadequate to pay the full cost of child care, many parents are billed for the balance.

Three-quarters of survey respondents who accept subsidies charge parents the full amount of the bill not covered by CDC subsidies. Only 12.3% charge parents nothing beyond what they receive in subsidies, while the remaining respondents do something in between (e.g., charging a portion, address the issue on a case-by-case basis). Because many providers find that rates per hour paid by CDC are below their rates, that billable hours allowed by CDC are below actual hours of care provided, or both, many parents are left with a substantial financial liability after subsidies have been paid.

After-hours care is difficult to come by and family and group homes are substantially more likely to offer it.

Parents who work in the evening, overnight, and during the weekend will likely have a hard time finding a licensed provider that offers care when they need it. Only 16.1% of providers indicated that they provide care after 6:00 p.m., 8.6% provide care during the weekend, and 7.3% provide care overnight. Homes are significantly more likely to offer care outside of traditional hours than centers.

Key Observations

- To address the gaps between market and subsidy rates, Michigan would be justified in increasing the base subsidy rates across all age groups and provider types.

- As the vast majority of providers charge for child care on a daily or weekly basis, it would benefit providers to be reimbursed on the same basis by the State. This may also help to eliminate the challenge of approved hours not matching the true need. The implications of this conversion would require further analysis of the subsidy data and discussion about how best to translate hourly payments and approvals into daily or weekly approaches.
- As providers struggle to invest in upgrades and other improvements that would help them to achieve higher star ratings—and therefore qualify for higher rates—the State could seek out additional appropriations or partner with philanthropy to design and implement mini grants or scholarships for providers, particularly family and group homes that have reduced resources.
- To offset the costs of registrations to low-income families, the CDC program should consider the feasibility of paying this fee to providers on their behalf, up to an annual maximum amount, regardless of provider type. On average statewide, the cost of the registration fees was \$60.

Introduction

Background

The federal government began a significant investment in improving access to child care among low-income working families with the passage of the Child Care and Development Block Grant Act (CCDBG) of 1990 (42 U.S.C. 9858 et seq). The program was expanded as part of welfare reform legislation that passed in 1996. At that time, child care funding became known as the Child Care and Development Fund (CCDF).

With the reauthorization of the CCDBG in 2014, Congress reaffirmed the core principle that families receiving CCDF-funded child care should have equal access to child care comparable to child care available to non-CCDF families. In addition, the reauthorization expanded the focus on protecting the health and safety of children in care through more consistent standards and improving access to high-quality child care.

Following reauthorization, the federal Administration for Children and Families updated the regulatory framework for the CCDF. The final rule was made public in the Federal Register in November 2016 (45 CFR 98). As part of this rule, states are required to conduct a statistically valid and reliable child care market rate survey within two years prior to the submission of their CCDF plan. Through a market rate survey, states establish the maximum child care payment rates high enough to enable families using the subsidy to enter the child care market in a competitive position to find and afford care across the full range of child care services.

Up until the 2014 reauthorization, states were directed to study prices rather than costs. However, the financial constraints of families prevent many child care providers from setting prices to cover their full cost of delivering high-quality child care. In other words, the costs to the facility or provider to provide that care are often greater than the prices charged to parents. Therefore, states are now encouraged to identify strategies to study costs in addition to the market rates.

The Michigan Department of Education (MDE) is the lead agency responsible for administering the federal child care subsidy funds, which are disbursed through the Office of Great Start (OGS) Child Development and Care (CDC) program. MDE contracted with Public Policy Associates, Incorporated (PPA) to conduct the 2017 Market Rate Survey (MRS) and analysis of the cost of providing high-quality child care.

In addition to complying with Federal rules and guidance, the study and examination of costs will aid the OGS and CDC program staff in determining if policy changes or pursuit of subsidy increases are warranted. Input from child care

providers through the survey and other formats also helps to shape decisions about the responsiveness of State activities and supports for providers. Changes to the rates or payment structure would require action by the state Legislature, as occurred in July 2017 as a result of the 2015 market rate survey findings.

Research Questions

PPA designed the study to answer the following questions:

- What are the hourly, half-day, full-day, and weekly prices for licensed/registered child care across provider types, and how do prices vary across geographic regions within Michigan?
- To what extent is there equal access to child care across Michigan? Are there gaps between the CDC subsidy rate and the 75th percentile by age group, Great Start to Quality star rating, and provider type? If so, what strategies could be used to address these gaps?
- To what extent are there gaps between the cost of high-quality care and the amount providers are collecting from parents and/or the CDC subsidy? What are strategies Michigan could use to reduce these gaps?
- Do CCDF child care providers charge families more than the required family co-payment? If so, what proportion of facilities charge families a higher amount and how much do they charge beyond the required co-payment?
- How many providers do not accept or limit admissions of children who receive the CDC subsidy and why? What barriers exist (payment rates, practices, etc.) that prevent providers from serving CDC children? How could the subsidy reimbursement process be improved to increase provider participation?

Methodology

PPA used multiple methods to study child care rates and the cost of quality care in Michigan. A survey of providers was used to answer questions regarding the price of care, access to child care, amount charged to families, and provider participation in the CDC program. To assess the cost of providing quality care to meet the health and safety standards in Michigan, PPA drew information from analysis of secondary data and input collected through provider interviews to model common provider cost scenarios using the Provider Cost of Quality Calculator (PCQC).¹ A detailed description of the study's data-collection and analysis methodology is included in Appendix A. Copies of the data-collection instruments are included in Appendix B.

¹ Anne Mitchell, Andrew Brodsky, and Simon Workman, *Provider Cost of Quality Calculator*, <https://www.ecequalitycalculator.com/Login.aspx>.

Profile of Michigan's Licensed Child Care Providers

The 2017 Market Rate Survey was a census survey, meaning all licensed child care providers were invited to participate.² Although not licensed by the State, tribal providers were also invited and responded to the survey.³ As of February 2018, the Michigan Department of Licensing and Regulatory Affairs database of licensed child care providers included a total of 9,223 licensed providers; 2,705 of those providers responded to the market rate survey. Overall, the sample includes a representative mix of child care centers, group homes, and family homes from throughout the state. The participation rate among group homes was somewhat higher (35%) than among child care centers (28%) or family homes (29%).⁴ To further strengthen the alignment between the sample and the universe of child care providers in Michigan,⁵ the data were weighted on the basis of the facility type (center, family home, or group home) and the county.⁶ Before proceeding into the Market Rate Study and cost findings, this profile summarizes key characteristics of the survey respondents.

Child care centers account for the majority of Michigan's child care capacity.

Among the survey sample, nearly half of all responses (48.5%) were from child care centers. Approximately one-third (32.9%) were from family homes, and the

² Unlicensed child care providers were not included in the survey's target population. These providers typically do not have an established price that they charge the public for services, and, therefore, are not generally considered part of the priced child care market.

³ As with the broader population of licensed providers in Michigan, Tribal providers include a combination of centers and home-based providers. Three of the survey responses came from tribal child care centers. To protect confidentiality, those responses were not separated from other child care centers for the analysis presented throughout the report.

⁴ Although these participation rates are substantially lower than the federally recommended rates of 65%, there are other measures of total survey quality to consider when considering the reliability and validity of a survey. PPA conducted numerous analyses comparing respondents to non-respondents on characteristics known for the full population of licensed child care providers, and was not able to detect any bias introduced by nonresponse. Further discussion of the survey's statistical reliability and validity, as that term is defined by the federal Administration for Children and Families, is provided in Appendix A.

⁵ Throughout the report, the term universe is used to refer to the entire population of 9,223 licensed child care providers in Michigan, whereas sample describes the proportion of the overall population that responded to the survey.

⁶ A detailed description of how weights were determined and applied to the analysis is provided in Appendix A.

remaining 18.6% were from group homes. As reflected in Figure 1, this breakdown of provider types in the survey sample closely matches the distribution among the broader universe of Michigan providers.

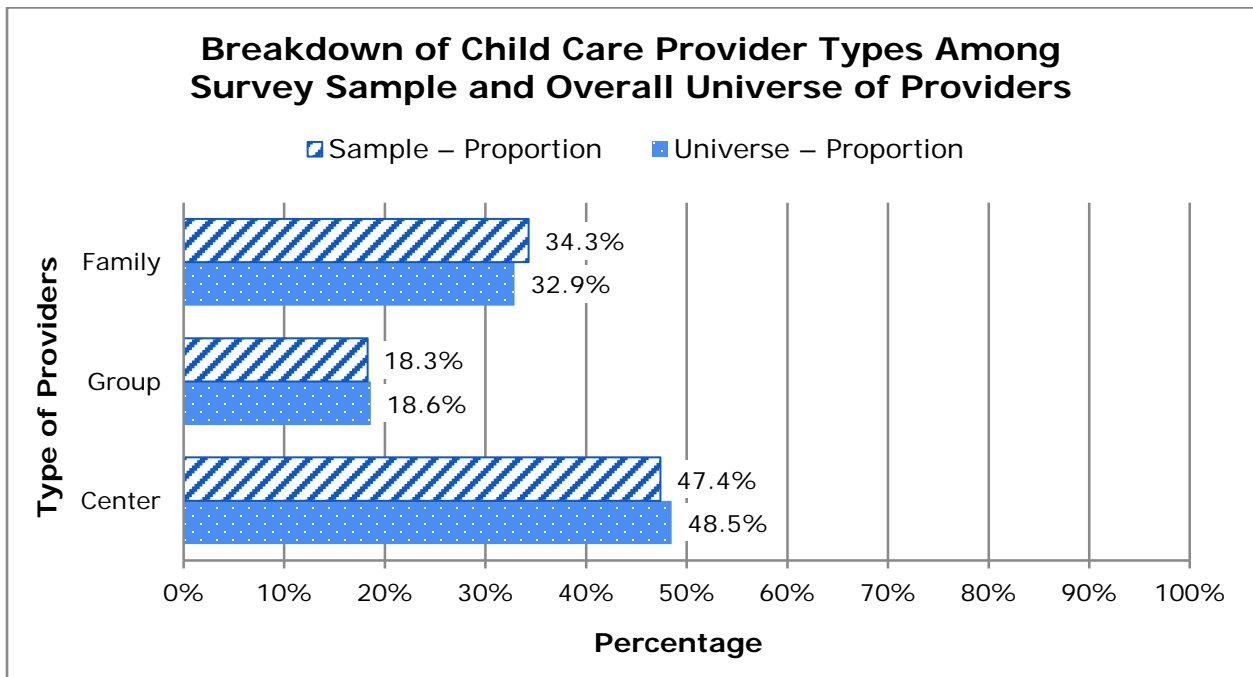


Figure 1

Out of the 95,389 total slots filled across all age groups among the survey sample, child care centers are caring for 88.7% of those children, with group homes and family homes caring for 5.8% and 5.4%, respectively. Figure 2 shows the breakdown by age group. Family and group homes provide a larger share of infant and toddler care than of preschool and school-aged care, accounting for 19.4% of the infant care and 18.9% of toddler care, but only 8.9% of care for preschoolers and school-aged children.

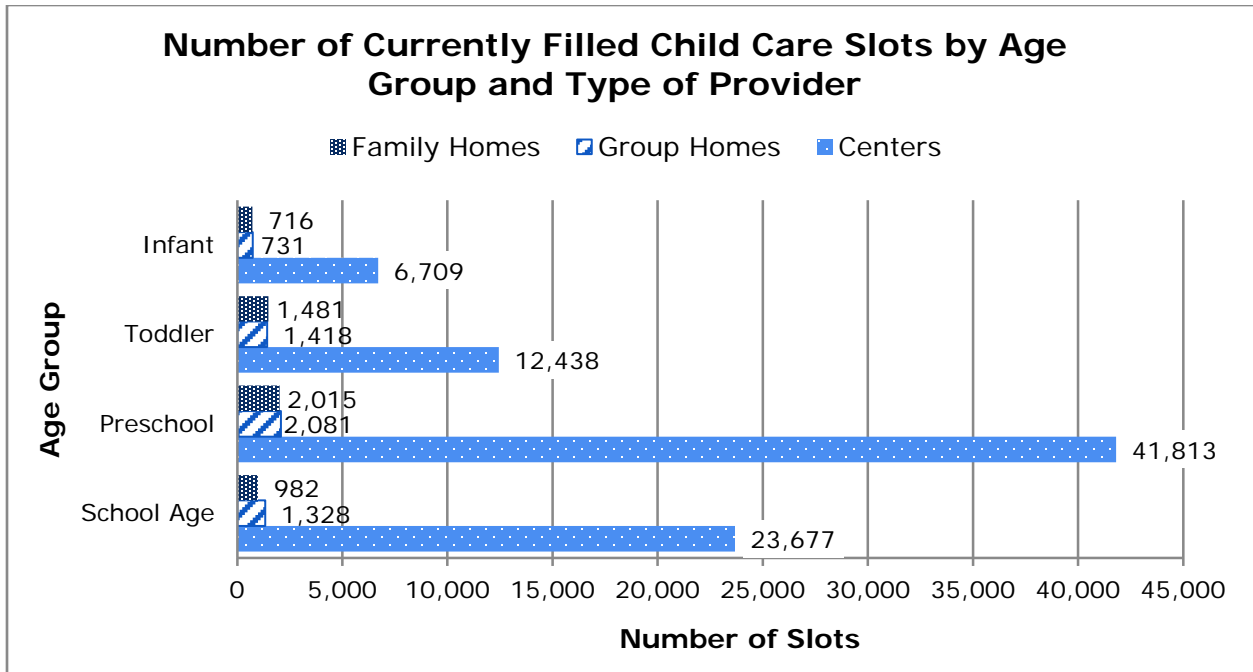


Figure 2

Just over one-quarter of child care providers offer some form of grant-funded school-readiness programming.

Approximately 26% of survey respondents indicated that they offer one or more grant-funded programs aimed at promoting school readiness among children from low-income families. Among the various programs, Great Start Readiness Program (GSRP) is the most common, with 22% of providers indicating that they offer GSRP. Early Head Start and Head Start are each offered by 6% of respondents. Figure 3 shows the proportion of the survey sample, by provider type, that indicated that they offer each of the grant-funded programs.

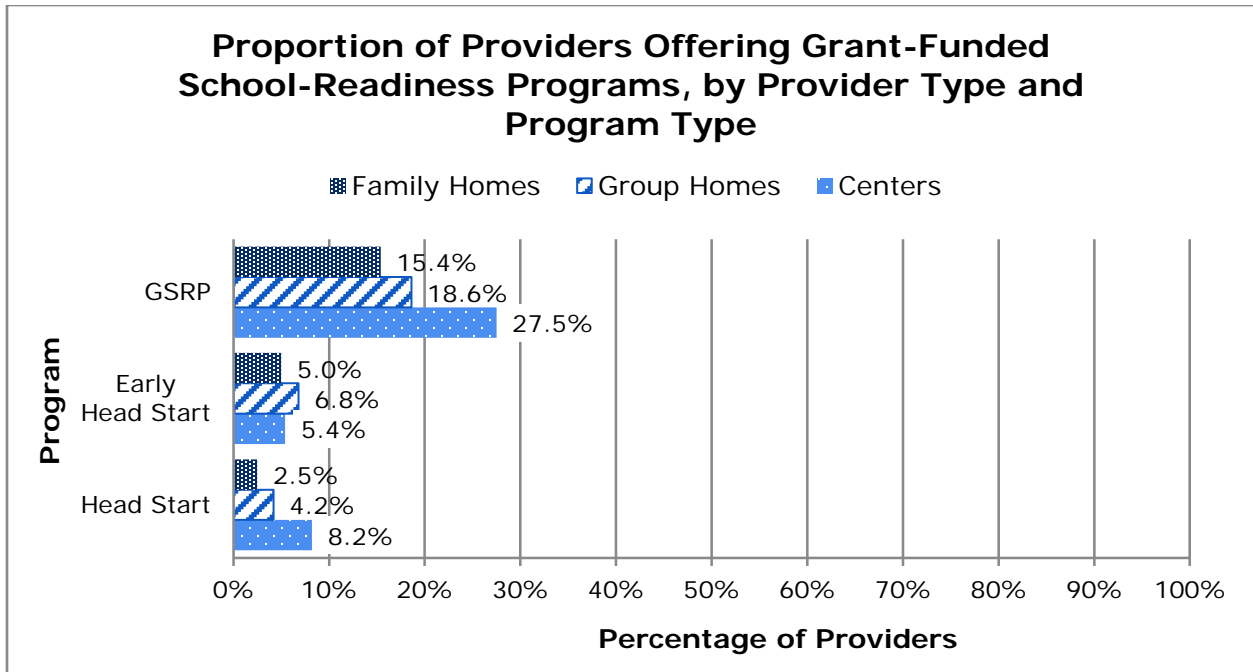


Figure 3

Approximately half of Michigan’s licensed providers participate in Great Start to Quality.

Great Start to Quality (GSQ) is Michigan's quality rating and improvement system. GSQ uses over 40 program quality indicators to measure the quality of early childhood programs across the following five categories:

- Staff qualifications and professional development
- Family and community partnerships
- Administration and management
- Environment
- Curriculum and instruction

All licensed providers in Michigan have a GSQ profile. Providers that choose not to participate in the rating process receive an empty star. Providers that do participate in the GSQ rating process are rated on a scale of one to five stars, with each star rating representing a different level of quality, as follows:

- **1 star** – Program meets licensing requirements and is *participating* in GSQ.
- **2 stars** – Program demonstrates quality across *some* categories.
- **3 stars** – Program demonstrates quality across *several* categories.
- **4 stars** – Program demonstrates quality across *almost all* categories.
- **5 stars** – Program demonstrates quality in *all* categories.

As shown in Figure 4, compared to the universe of providers, survey respondents are more likely to have participated in the rating process. However, the overall distribution of providers among the various star levels is fairly similar between the two groups. In both groups, among providers participating in GSQ, the three-star rating is most common, followed by the four-star rating.

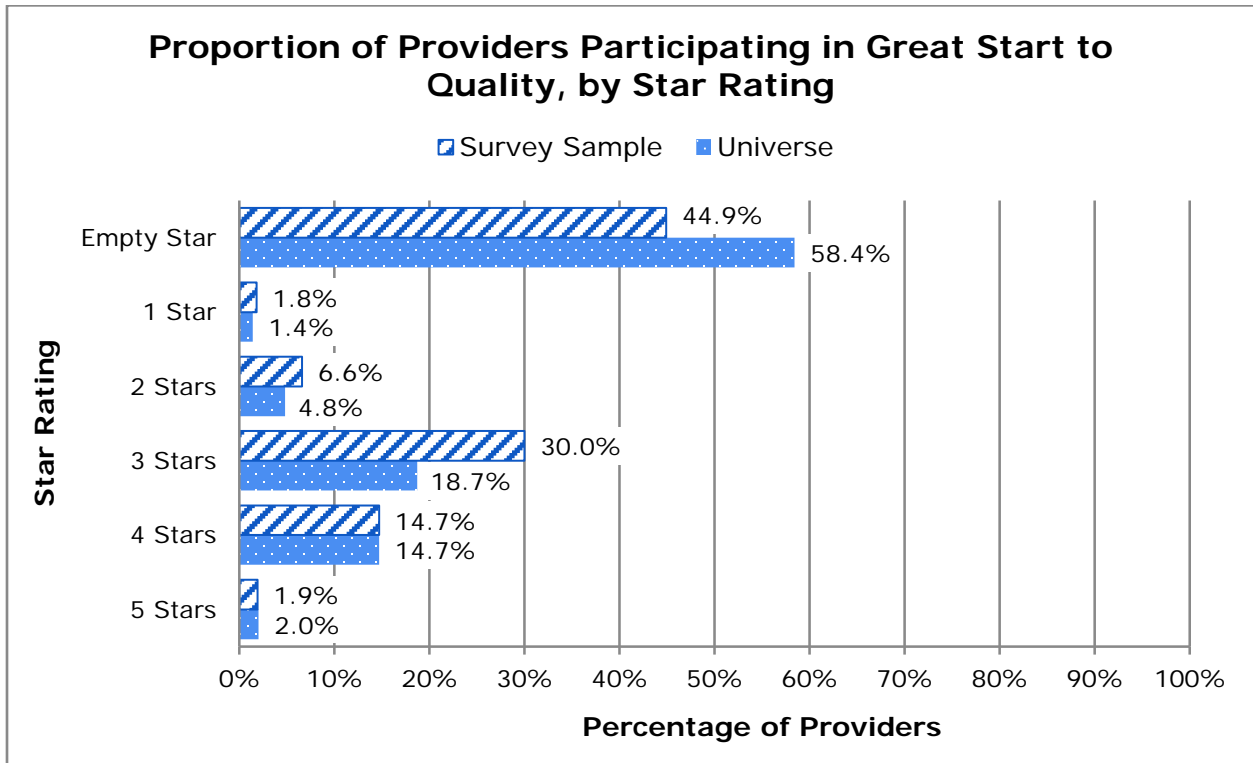


Figure 4

As illustrated in Figure 5, generally, both the GSQ participation rate and star levels increase as the program size increases from family home to group home to center.⁷ Fewer than half of family home providers are participating in GSQ, and, among family homes participating, 90% are rated at three stars or lower. Conversely, 60% of centers are participating in GSQ, and 50% of those centers are rated above three stars. In addition to improving the overall quality of the child care options available to families, providers' willingness to participate in GSQ and their ability to improve their quality ratings have important implications for the reimbursement

⁷ As defined in state law (P.A. 116 of 1973, as amended 2017), family homes may have one to six children in care and group homes may have seven to 12 children in care. While child care centers may have fewer than 12 children in care, most serve more than 12. Among centers in the survey sample, the average number of slots filled was approximately 75.

rates they are able to receive for serving families receiving child-care subsidies.⁸ Therefore, additional research to explore the causes of and potential solutions for this apparent imbalance in star ratings between centers and home-based providers may be valuable.

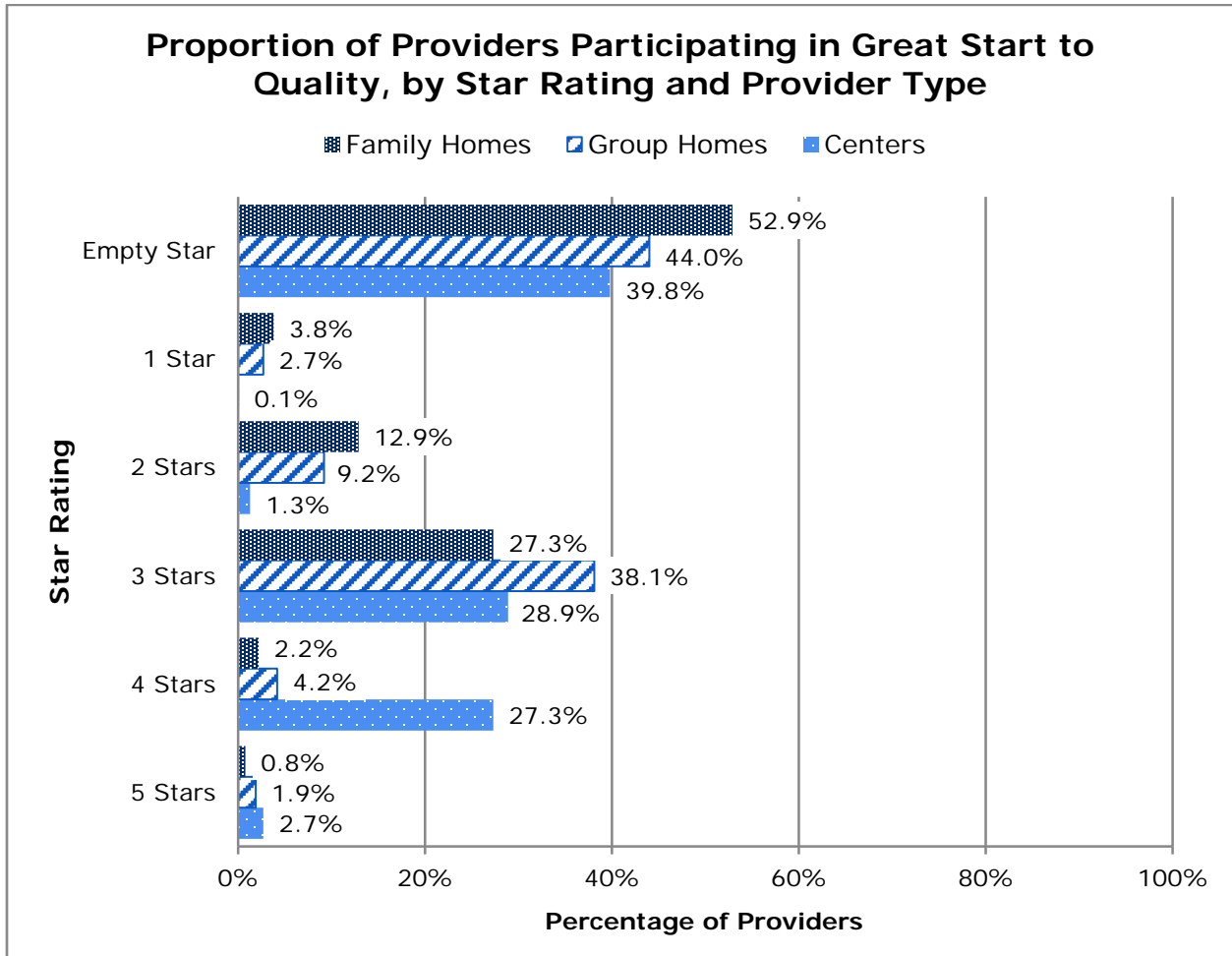


Figure 5

⁸ See the tables included on page 25 for additional details on CDC reimbursement rates by star rating.

Child Care Prices

To determine the pricing approaches used by providers, the survey included questions about providers' rate structures (i.e., hourly, daily, weekly, etc.) and amounts charged by age group, as well as additional fees and discounts.

Most providers charge daily and/or weekly rates.

Nearly 95% of providers charge on a weekly basis, although nearly half also offer a daily payment option. Some of the variation in rate schedules depends on whether children are in care full or part time. Providers were asked in the survey to indicate how they charge both their full-time and part-time rates for families that do not receive any state and/or federal tuition assistance. Providers who charge tuition using multiple rate structures were asked to indicate the two most common ways they charge.⁹ These data are summarized in Figure 6.

⁹ Eighteen percent of providers indicated multiple fee structures for full-time rates, and 24% indicated multiple fee structures for part-time rates.

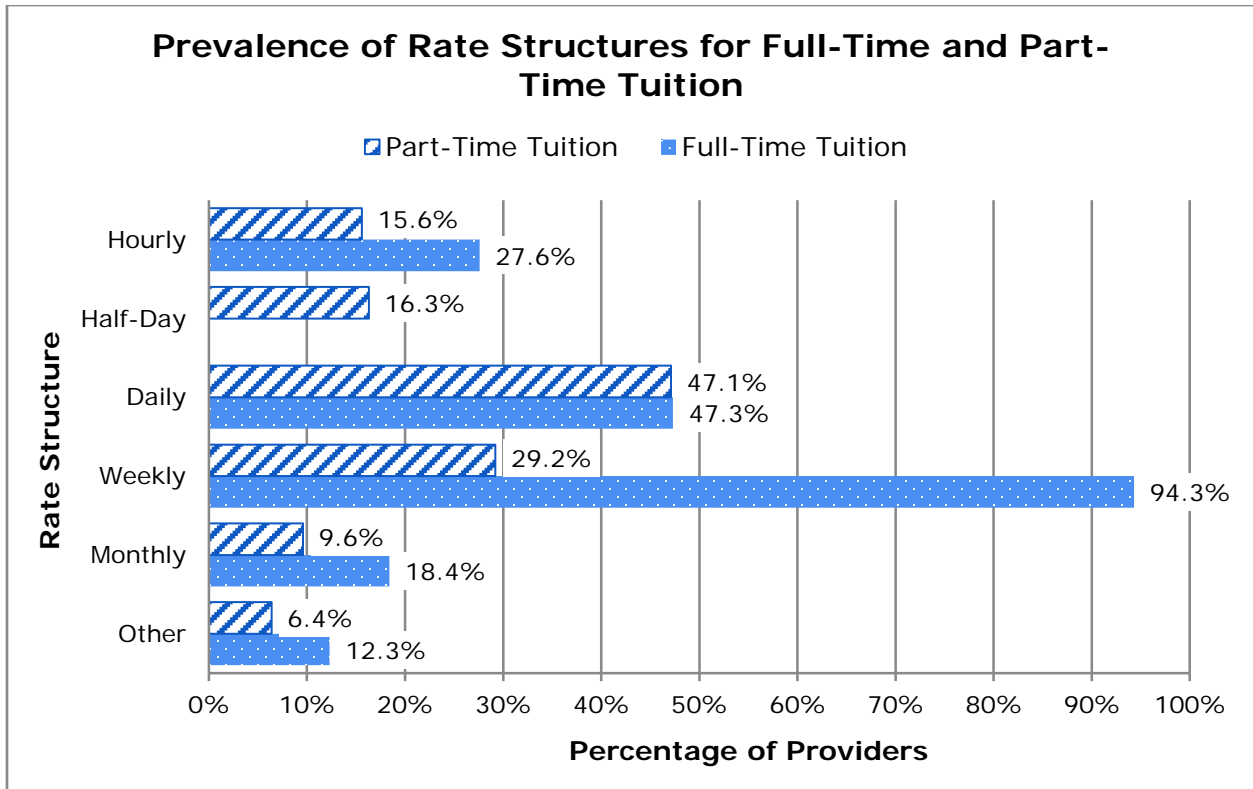


Figure 6

Daily fee structures were most common for part-time tuition. Although relatively few providers selected the “Other” option for either full-time or part-time rates, the most commonly identified alternative fee structures for both full-time and part-time charges were annual and bi-weekly fees.

Providers commonly charge families for the time a child is not in care due to illness, vacation, or holidays.

As reflected in Figure 7, 41.2% charge full price for vacation days, just over half of providers charge parents full price for sick days, and 63.3% charge full price for holidays. An additional 30% of providers indicated that they either charge a lower rate for days when a child is out due to illness or vacation and/or allow families to use a certain number of free days before charging. Many survey respondents commented that their costs do not necessarily decrease just because a child is not in care for the day. Others explained that they view child care rates the same as renting an apartment or leasing a car. Parents are not only paying for the actual time their child is in care. They are also paying to guarantee access to child care when they need it. Undoubtedly, a policy such as this also helps to ensure some income stability for providers.

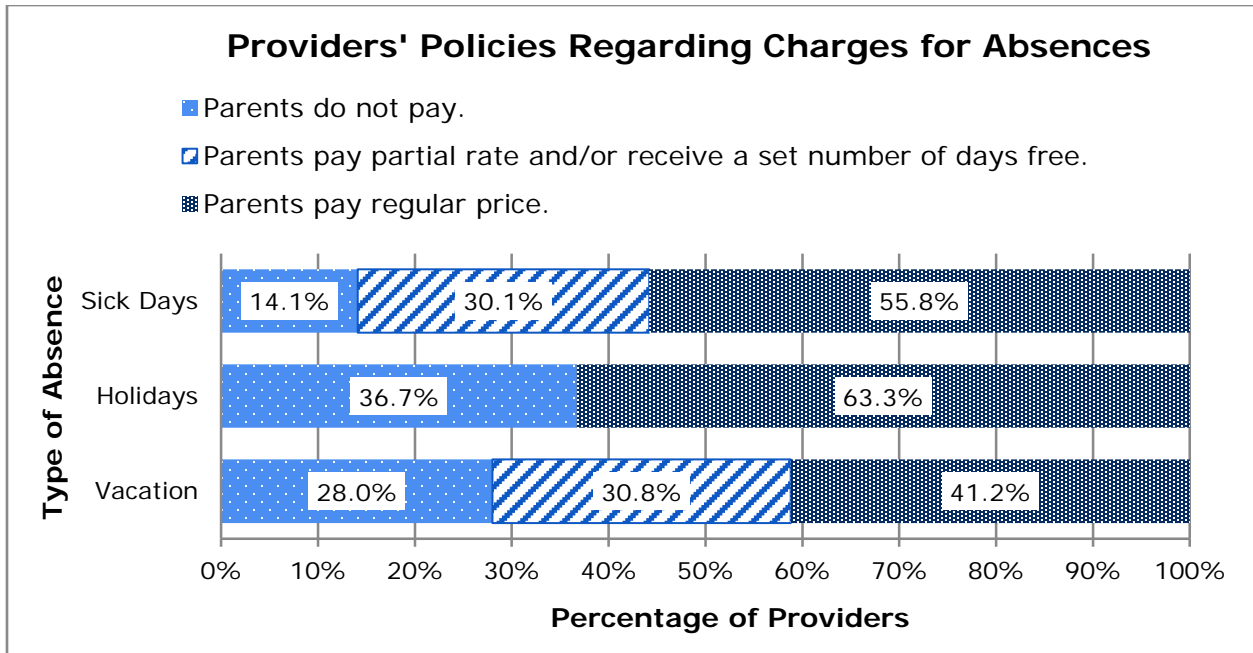


Figure 7

Tuition rates vary based on provider type, quality rating, and location.

Figure 8 shows hourly tuition rates,¹⁰ at the 75th percentile,¹¹ for each age group and provider type. In all four age groups, the prices are highest among centers. The price differences are greatest for the infant and toddler groups, with centers charging approximately \$2.00 per hour more than home-based providers. The difference drops to less than \$1.00 per hour for the school age group.

¹⁰ The hourly rates indicated throughout the report represent a blend of full-time and part-time rates quoted by providers. In most cases, including those where full-time and part-time rates were provided, the full-time rate was used. Part-time rates were used in cases where only part-time rates were provided. See Appendix A for a detailed description of the methodology used to convert daily, weekly, and/or monthly rates quoted by providers to an hourly rate.

¹¹ The 75th percentile of hourly rates is the level at which 75% of child care slots may be purchased. For example, the 75th percentile of home-based infant care hourly rates is \$4.00. That means that 75% of home-based providers charge \$4.00 per hour or less for infant care.

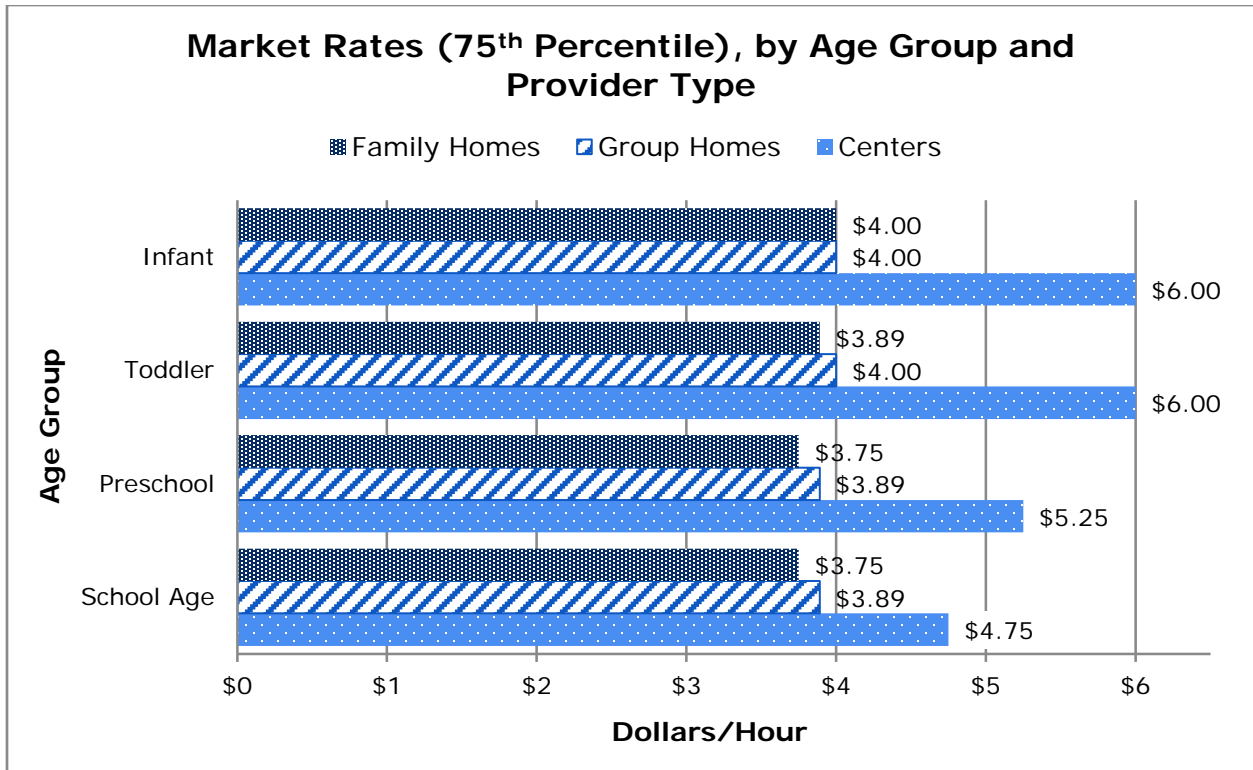


Figure 8

Child care prices also tend to increase as providers' quality ratings increase. Figure 9 shows the differences in hourly tuition rates based on the providers' GSQ star rating. Among providers participating in the GSQ rating system, prices for all age groups tend to increase as the star level increases.

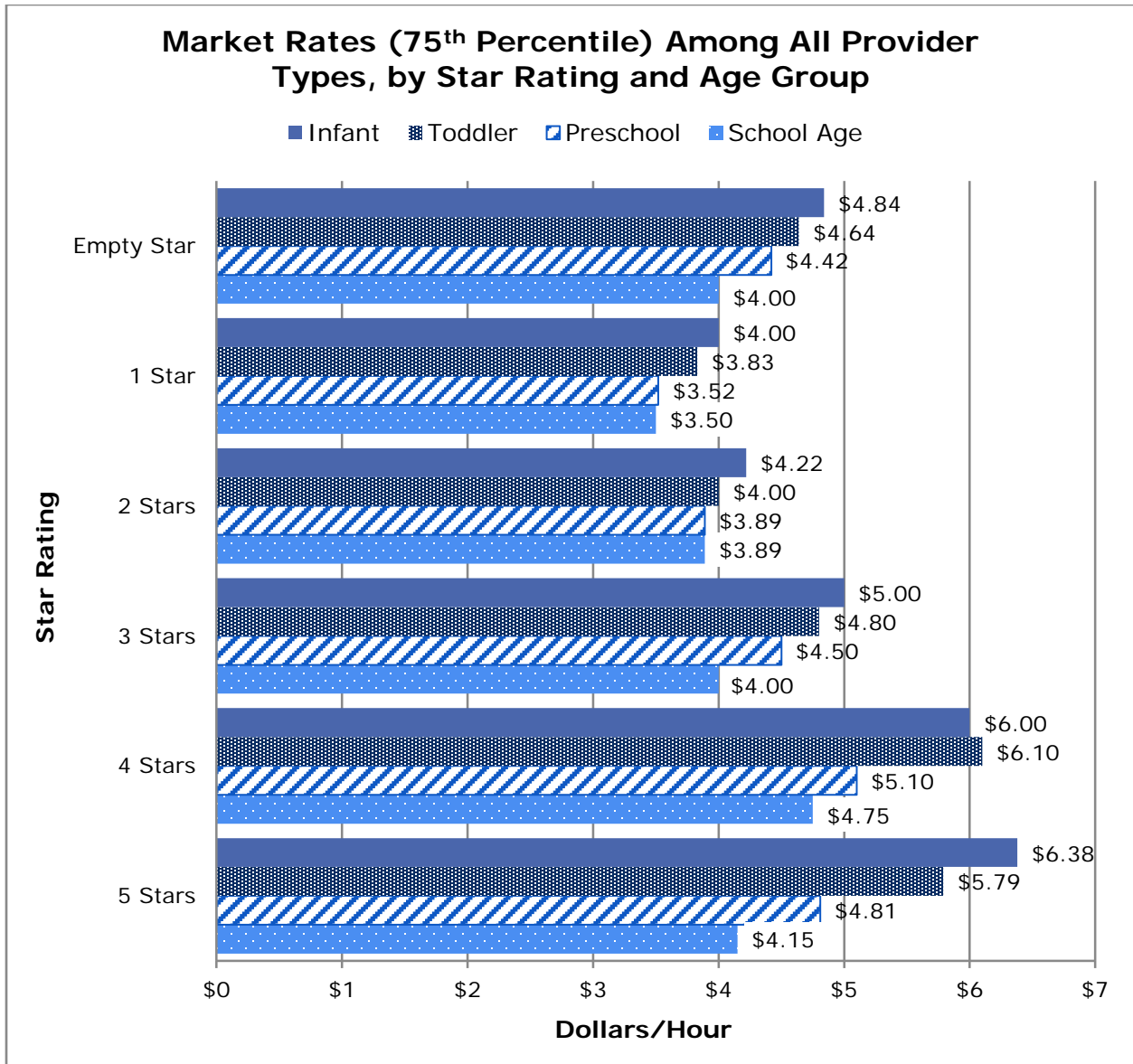


Figure 9

Figure 10 shows market rates, by age group, for each region of the state.¹² Although the rates are fairly consistent throughout much of Michigan, they are noticeably higher in the two regions in the southeast part of the state.

¹² A map showing regional boundaries and the counties included in each region is included in Appendix C.

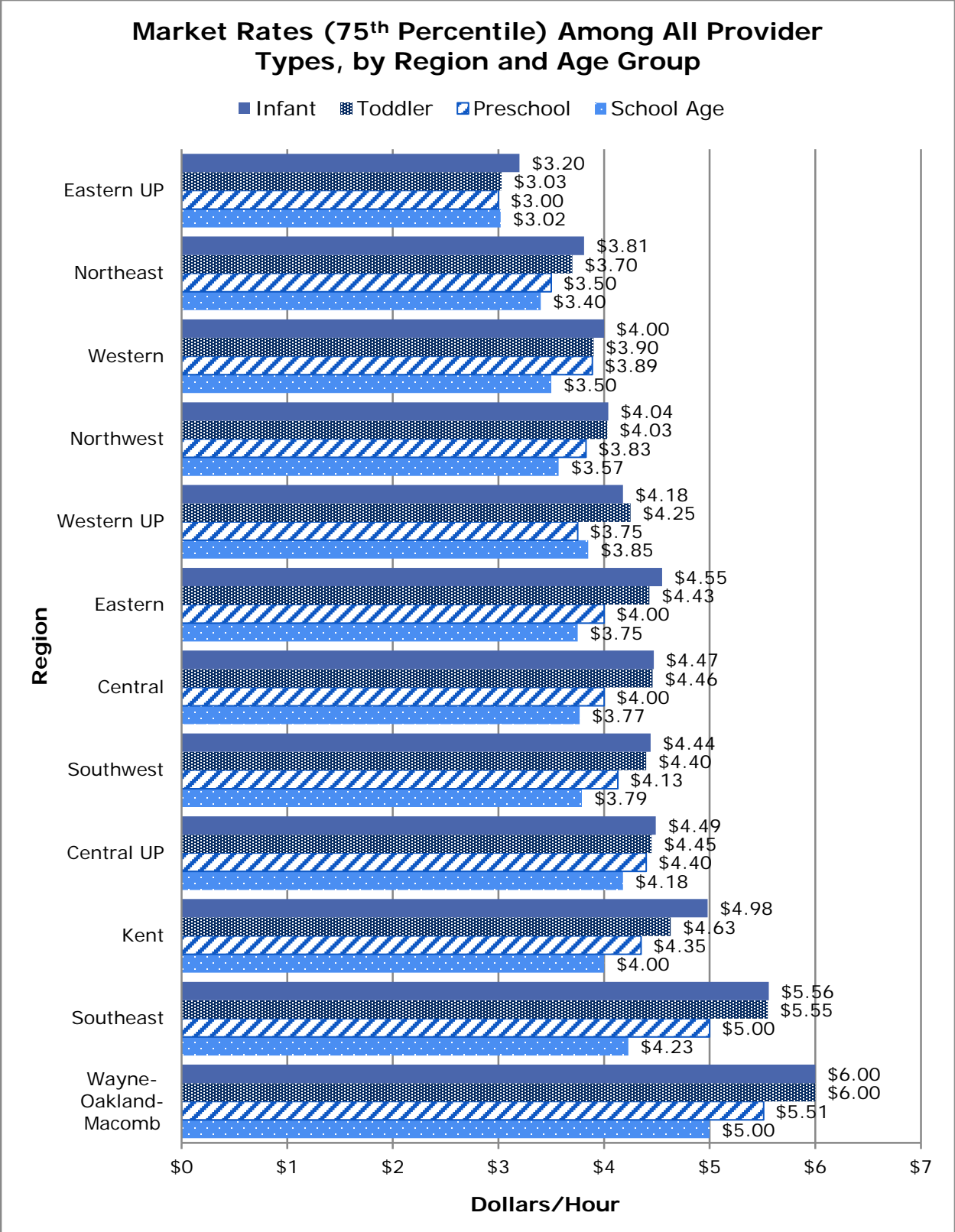


Figure 10

The majority of providers charge registration fees and/or other types of fees that add to the overall price of child care.

More than half of the respondents (57.6%) indicated that they charge one or more fees in addition to what they charge for tuition. Among these additional fees, registration fees are the most common, especially among center-based providers. Nearly 90% of centers charge some form of registration fee. Other fees included charges for field trips, supplies, transportation, security deposits, and fundraisers. Late pick-up, bounced checks, late payment, and other penalty fees were excluded from the analysis. The proportions of providers who charge each type of fee are provided in Figure 11.

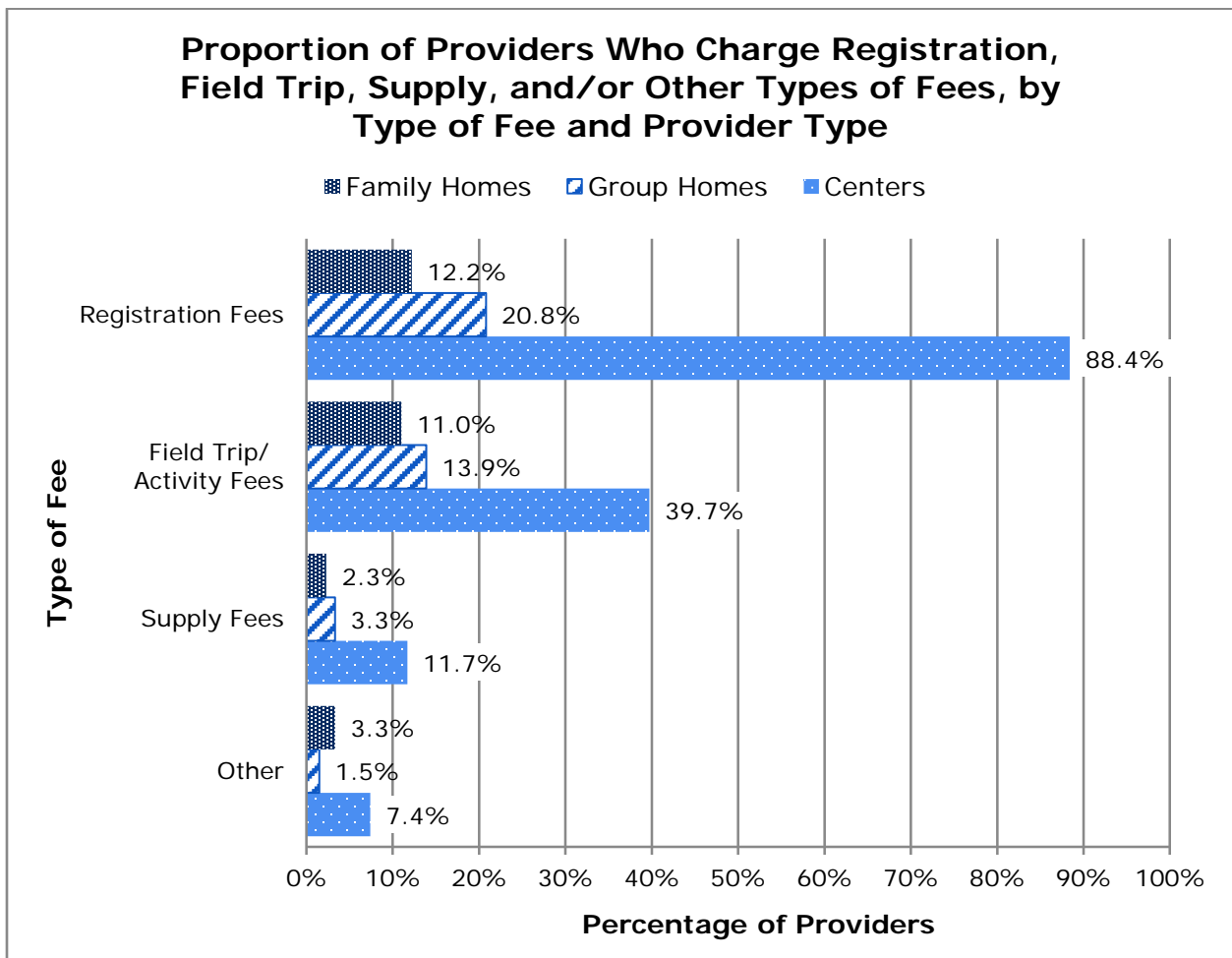


Figure 11

Overall, 50.6% of providers reported that they charge some form of registration fee. Of those providers who charge any registration or application fees, 61% charge per child and 37.7% charge per family. Most (68.2%) reported only charging an initial fee to register. The other 31.7% indicated that they collect an

initial registration or application fee plus an annual, semi-annual, or other registration fee.

Figure 12 shows the average price charged for initial and annual registration fees by type of provider, combining data from providers who indicated a per-child fee and providers who indicated a per-family fee. It is important to note that 24.5% of providers who charge per child indicated that they offer discounted rates for families enrolling more than one child. In addition, a small number of providers indicated that the price of the registration fee varies based on the age of the child and/or other circumstances, including the ability of parents to afford the fee, families who have been referred by current or past clients, families who register early, etc. Due to the complexity and variability among the ways providers apply these various discounts, the values presented in the chart below do not factor in those discounts. Therefore, in presenting the registration fees for the first child only, the chart reflects the higher end of the registration cost-per-child scale.

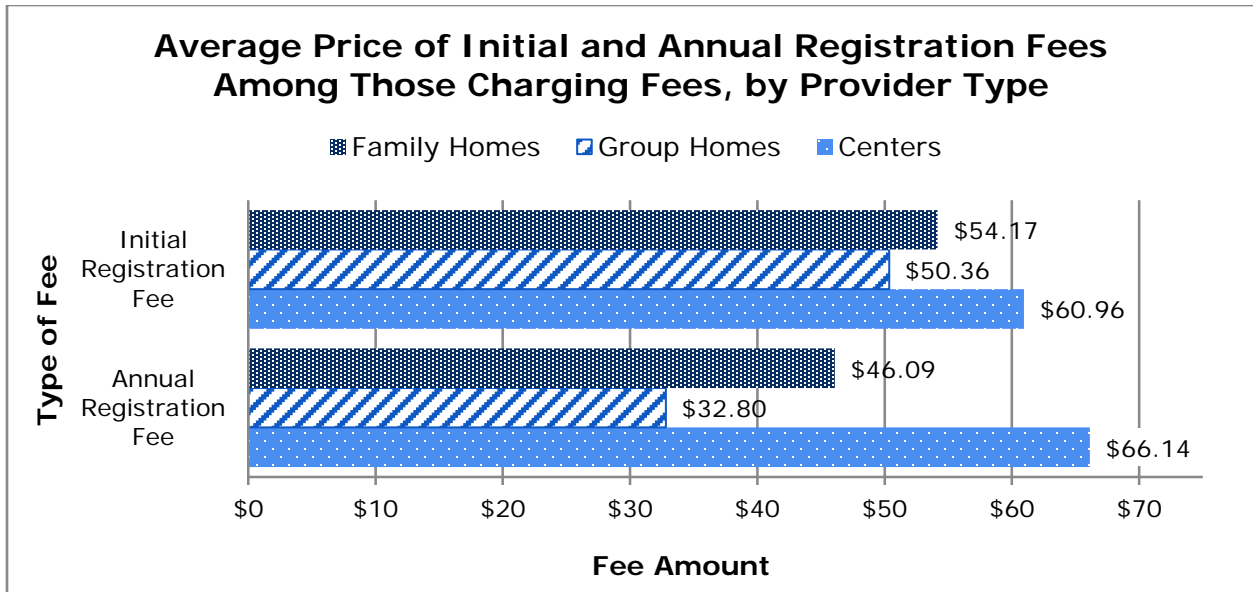


Figure 12

Nearly two-thirds of providers offer discounted rates to families with more than one child enrolled.

Overall, 64.8% of providers offer a discount on tuition for families enrolling more than one child at the same time. As illustrated in Figure 13 centers are somewhat more likely than group homes and family homes to offer such discounts. Although the survey asked providers to describe the discounts offered, the complexity and variability in how providers described those discounts made it impossible to calculate an average value of the discounts across providers.

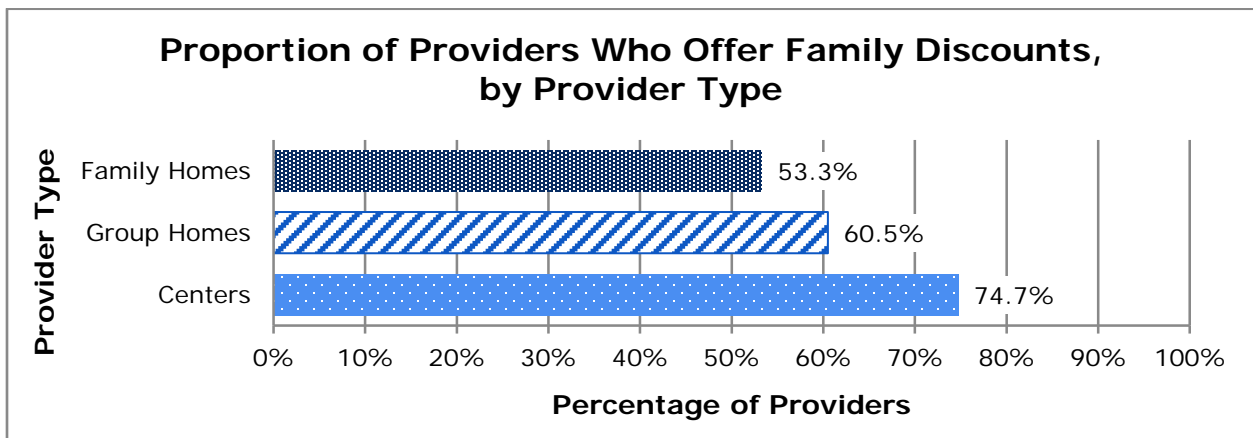


Figure 13

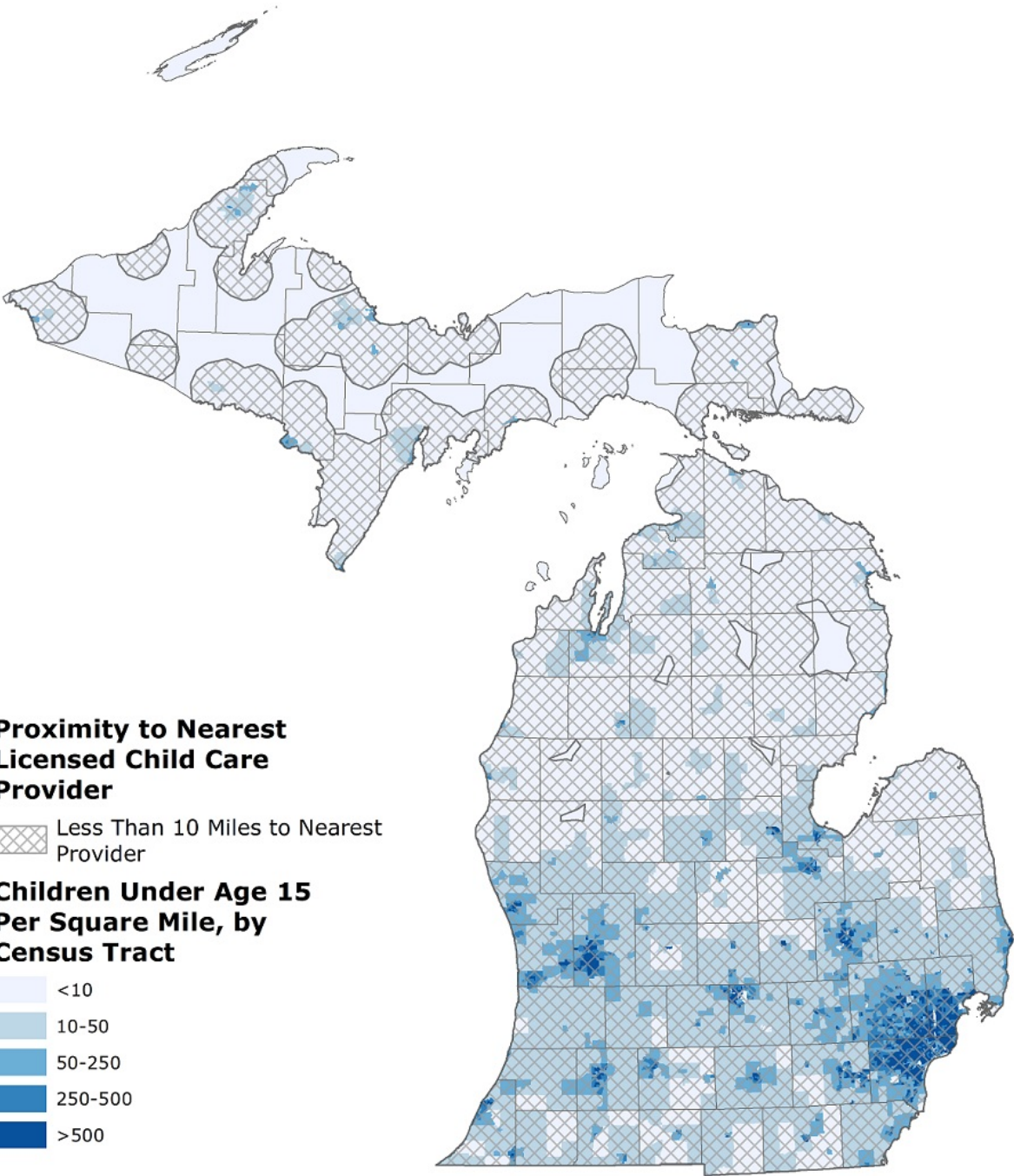
Equal Access to Quality Care

A principal aim of the study was to examine the extent to which there is equal access to care across Michigan. Factors influencing access include geographic proximity to care, access to care that is responsive to the individual needs of children and families, and affordability.

Most Michigan families live within 10 miles of a licensed child care provider.

The map below shows a 10-mile radius around the location of each licensed child care provider in the current universe of providers. Provider density is predictably higher in parts of the state where the population is larger. Although there are large areas of the Upper Peninsula and northern Lower Peninsula where the distance to the nearest licensed providers is more than 10 miles, the size of the population residing in those areas is likely too low to support additional child care programs.

Population Density and Proximity to Licensed Child Care Providers



Source: U.S. Census Bureau, American Community Survey 5-Year Estimates, 2016

Figure 14

The majority of providers are currently caring for at least one child with exceptional child care needs.

The survey asked providers to indicate whether or not any of the children currently in their care have any of the following characteristics:

- Special needs (learning disabilities, food allergies, asthma, etc.)
- Homeless
- Migrant
- Speaks a language other than English at home

Overall, 65.1% of providers indicated that they are currently serving children with special needs, 6.5% are serving children who are homeless, 2.3% are serving children from migrant families, and 28.1% are serving children who speak a language other than English at home. As shown in Figure 15, across all four needs categories, the proportion of centers that are currently serving these children is highest among centers, followed by group homes and family homes.

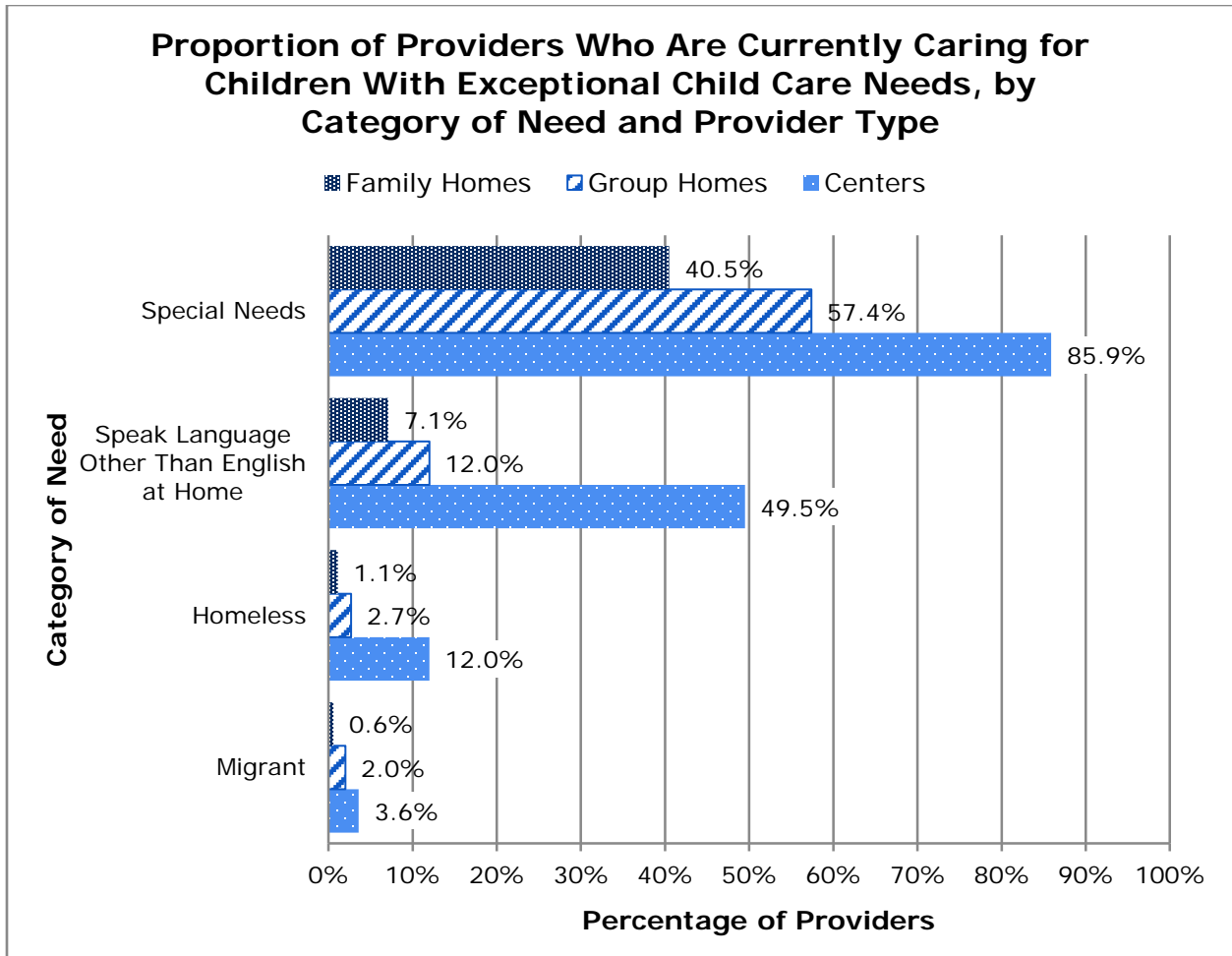


Figure 15

The vast majority of providers are willing to serve families receiving child care subsidies.

For low-income families that qualify for CDC benefits, providers must exist who are willing and approved to care for children receiving subsidies. Fortunately, as illustrated in Figure 16, close to 90% of providers indicated that they are either caring for children receiving subsidies or are willing to care for subsidized children in the future.

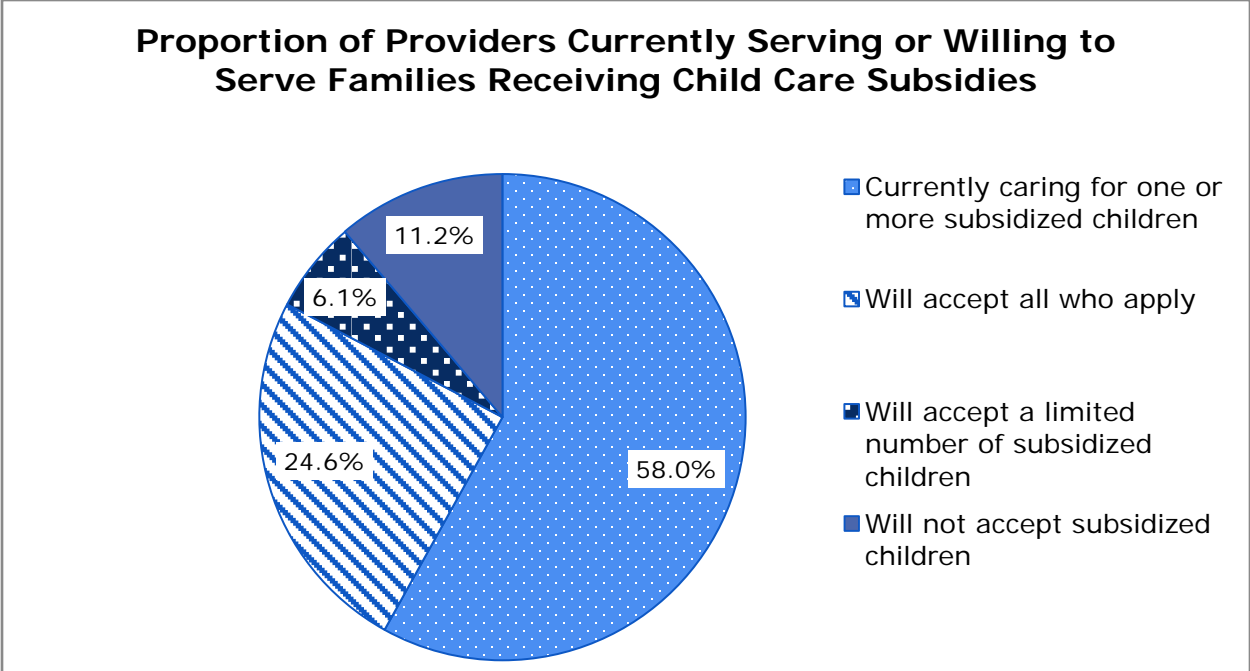


Figure 16

Figure 17 shows a more detailed breakdown by provider type. Although similarly low proportions of all three provider groups indicated that they will not accept any subsidized children in the future, family home providers are much less likely than centers or group homes to indicate that they currently have children enrolled who are receiving subsidies.

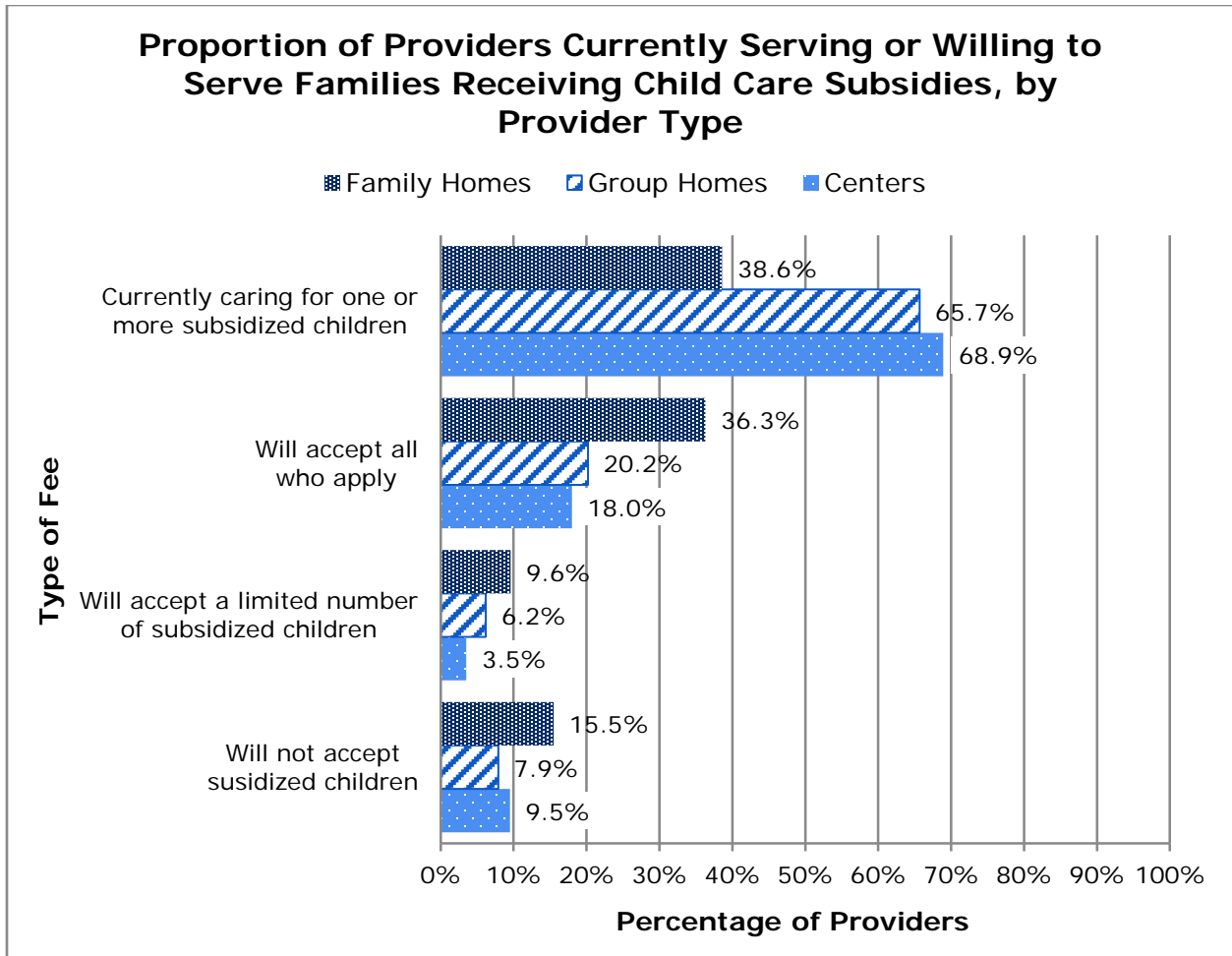


Figure 17

Analysis of these data by star rating suggests that providers with higher ratings are, in fact, more likely to serve families who are receiving subsidies. Although there are likely a variety of factors involved, this pattern may indicate that Michigan’s policy to pay higher subsidy rates to facilities with higher star ratings has encouraged higher-rated facilities to serve more subsidized families. As a result, families receiving subsidies have increased access to high-quality child care.

Proportion of Providers Currently Serving or Willing to Serve Families Receiving Child Care Subsidies, by Star Rating

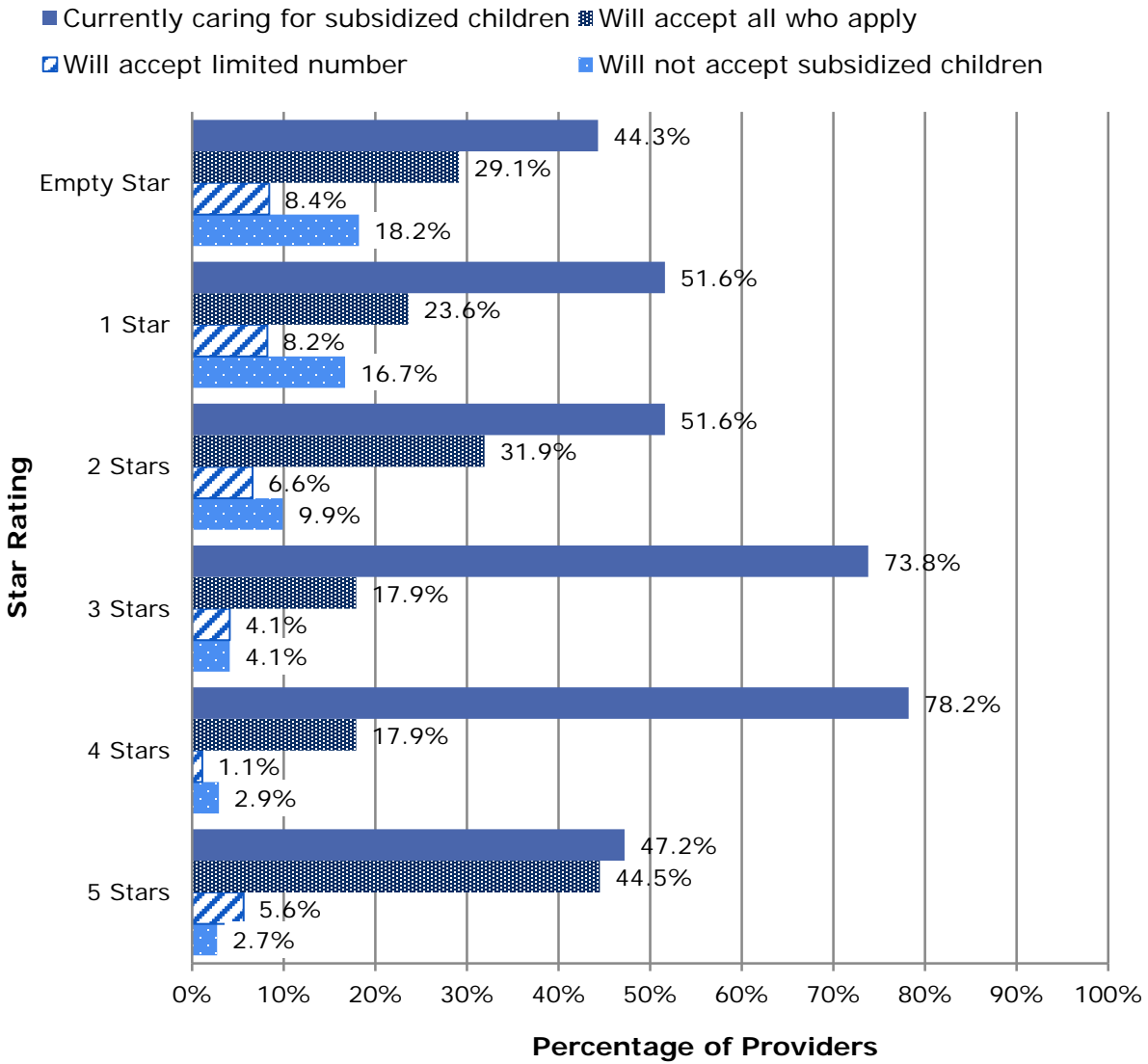


Figure 18

Providers identified reimbursement rates, approved hours, and communication as challenges with serving families with subsidies.

Table 1 shows the prevalence of the most common issues identified among providers in response to survey questions about the challenges faced when serving families receiving subsidies. Providers most frequently cited communication challenges with the State and current reimbursement rates. In open-ended comments, the types of communication challenges described included not receiving timely updates and notifications of policy changes from the State, as well as difficulty getting in touch with someone who can help when providers have questions about specific cases.

Table 1. Providers' Perceptions of Challenges With Serving CDC Families

Challenges	Proportion of Providers
Communication from the State is poor.	47.6%
Reimbursement rates are too low.	47.0%
There is a limit on the number of hours that can be reimbursed.	46.8%
Subsidies pay for care after service is provided rather than before.	41.0%
Too much paperwork and extra time spent tracking attendance.	32.3%
Takes too long to receive eligibility determination on the front end and notice of benefits ending on the back end.	26.5%
Very difficult to collect co-pay from families.	26.5%
CDC billing does not match my billing policy.	23.9%
There are not many families in my area who qualify for subsidies.	17.8%
I don't have a computer and/or Internet to access the online system.	3.9%

Providers recommend greater efficiency and increased rates from CDC.

Table 2 summarizes the most common responses among providers when asked to suggest ways to improve the CDC process. As shown in the table, providers

focused on steps to increase efficiency. Specifically, they wanted the enrollment and eligibility communication quicker and the billing process easier and better aligned with their schedules. They also asked for increases in the reimbursement rates.

Table 2. Providers' Recommendations for Improving CDC

Recommendations	Proportion of Providers
Improve efficiency and communication related to enrollment and eligibility determinations.	20.0%
Improve time-entry/billing process.	10.5%
Increase the reimbursement rates.	9.8%
Adjust the payment schedule to better match provider practice (i.e., pay in advance).	9.4%
Establish more open lines of communication between providers and state.	6.7%
Process payments more quickly.	3.9%
Increase number of hours families are approved for care.	2.4%
Communicate family co-pay requirements more clearly.	2.2%
Expand number of paid absence hours.	1.9%
Provide more information and training opportunities when policies and processes are changed.	1.4%

Access to care during non-traditional hours is limited.

Parents who work in the evening, overnight, and during the weekend will likely have a hard time finding a licensed provider that offers care when they need it. Only 16.1% of providers indicated that they provide care after 6:00 p.m., 8.6% provide care during the weekend, and 7.3% provide care overnight. As illustrated in Figure 19, those who do need care during non-traditional hours are more likely to find it among home-based providers than centers.

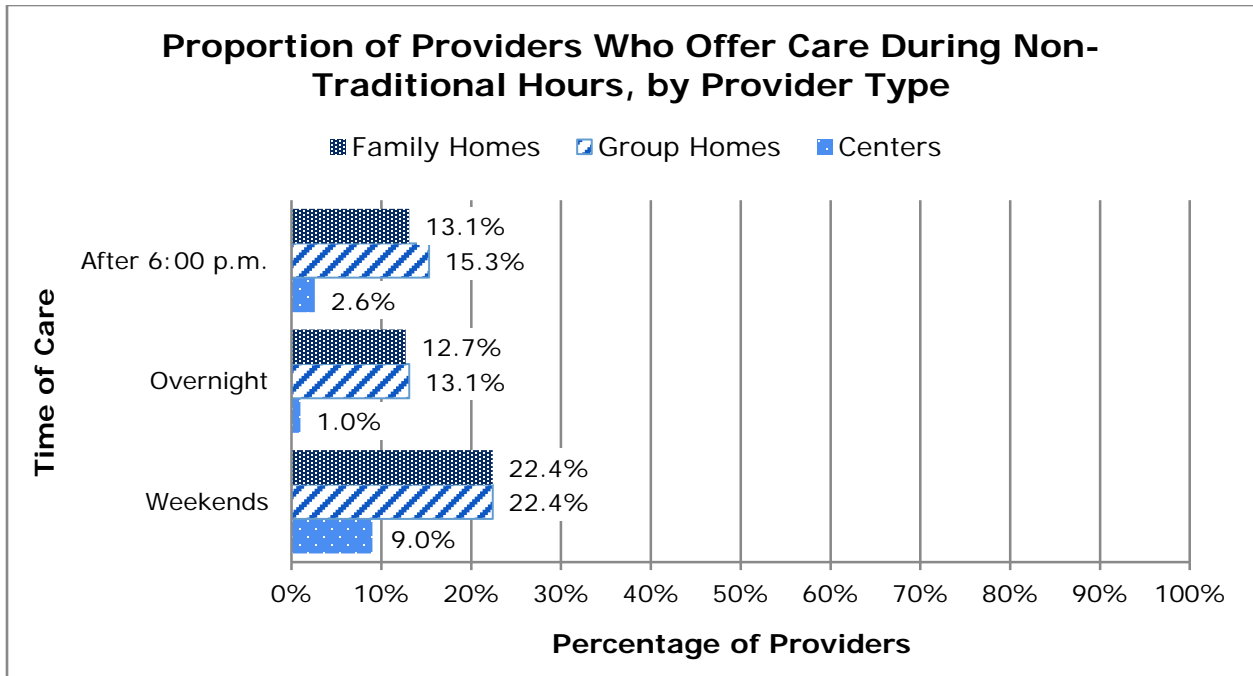


Figure 19

Comparing Subsidy Rates to Market Rates

Current CDC subsidy rates tend to fall below market rates at the 75th percentile.

For families that qualify for CDC assistance, the State reimburses approved providers for the hours that a child is in care, up to a maximum number of hours approved for each child. The hourly rate for reimbursements is determined based on the age of the child, the type of provider, and the provider's GSQ star rating. The current reimbursement rates for centers and home-based providers, as set by the state legislature in July 2017, are provided in Table 3 and Table 4.

Table 3. CDC Hourly Reimbursement Rates for Child Care Centers

Star Rating	Birth to Age 2½	Over Age 2½
Base Rate (Empty Star)	\$4.00	\$2.75
1 Star	\$4.00	\$2.75
2 Stars	\$4.25	\$3.00
3 Stars	\$4.75	\$3.50
4 Stars	\$5.00	\$3.75
5 Stars	\$5.50	\$4.25

Table 4. CDC Hourly Reimbursement Rates for Group and Family Homes

Star Rating	Birth to Age 2½	Over Age 2½
Base Rate (Empty Star)	\$3.15	\$2.65
1 Star	\$3.15	\$2.65
2 Stars	\$3.40	\$2.90
3 Stars	\$3.90	\$3.40
4 Stars	\$4.15	\$3.65
5 Stars	\$4.65	\$4.15

The following series of charts show how these reimbursement rates compare to statewide market rates by provider type and age group. Each chart includes two markers showing the range of market rates based on provider star ratings. The base market rate, indicated by the dark red line in each chart, reflects the 75th percentile of rates charged among providers with empty star ratings. The high-star

market rate, indicated by the light red line in each chart, reflects the 75th percentile of rates charged among providers with four- or five-star ratings.¹³

Comparison of Subsidy Rates to Market Rates for Centers

For centers, the subsidy rates at all star levels are below the 75th percentile of the base market rates for all age groups. The gaps are largest among the preschool age group, where the base reimbursement rate is 51.1% below the base market rate.¹⁴ The gaps are smallest among the toddler age group, although a large range still exists. For toddlers, the base reimbursement rate is 33.9% below the base market rate.

¹³ More detailed breakdowns of market rates by county, as well as by age group and quality rating are included in the tables in Appendix D.

¹⁴ Unlike the market rates for other age groups, the base market rate for the preschool age group reflected in Figure 22 is higher than the high-star market rate. It is likely that, at least in part, the reversal is related to the way the survey questions were designed regarding the Great Start Readiness Program (GSRP), Head Start, and other grant-funded preschool programs. The survey specifically directed providers of grant-funded preschool programs to enter prices only for any wraparound care provided apart from the grant-funded programming. The survey did not include the same instructions related to preschool programming that is not grant funded. Therefore, because these types of grant-funded preschool programs are more prevalent among centers with four- and five-star ratings compared to those with empty star ratings, the price data from four- and five-star centers are more likely to reflect only lower-cost wraparound care, whereas the prices indicated by unrated (i.e., empty star) centers may often also include the higher costs of preschool programming.

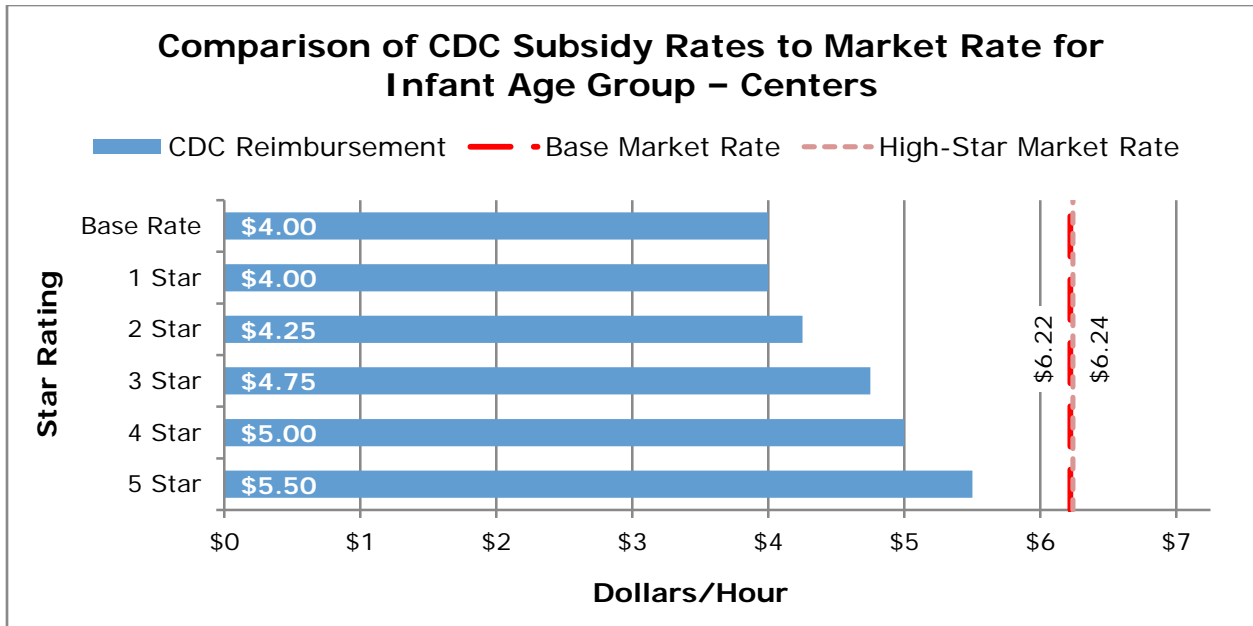


Figure 20

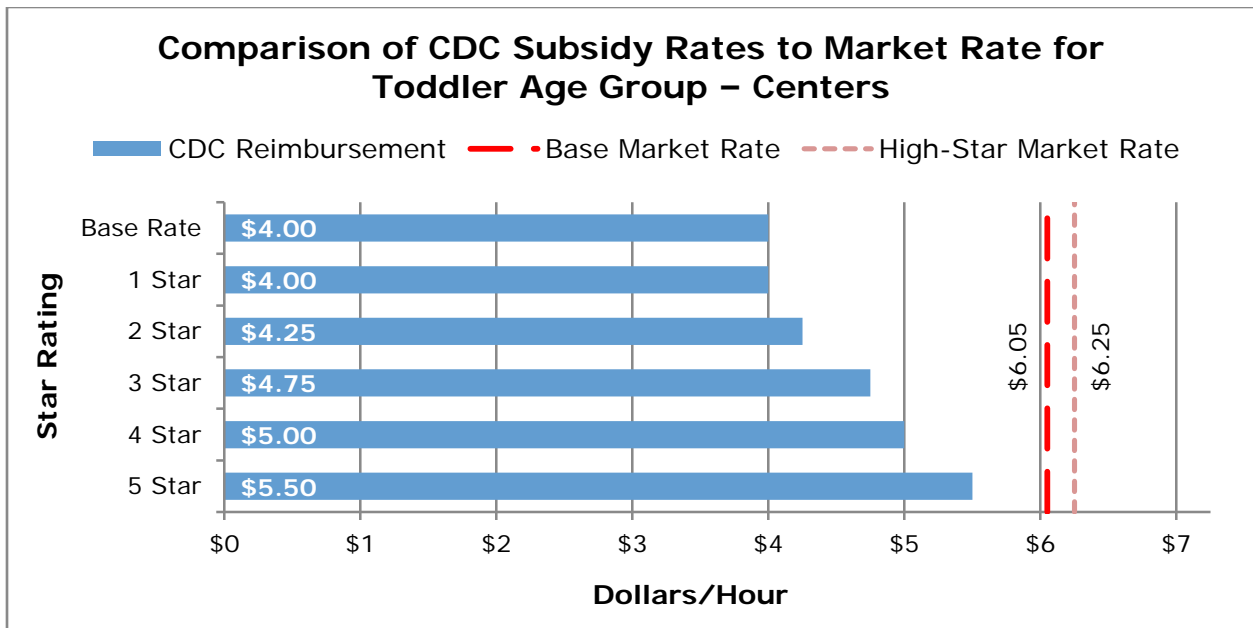


Figure 21

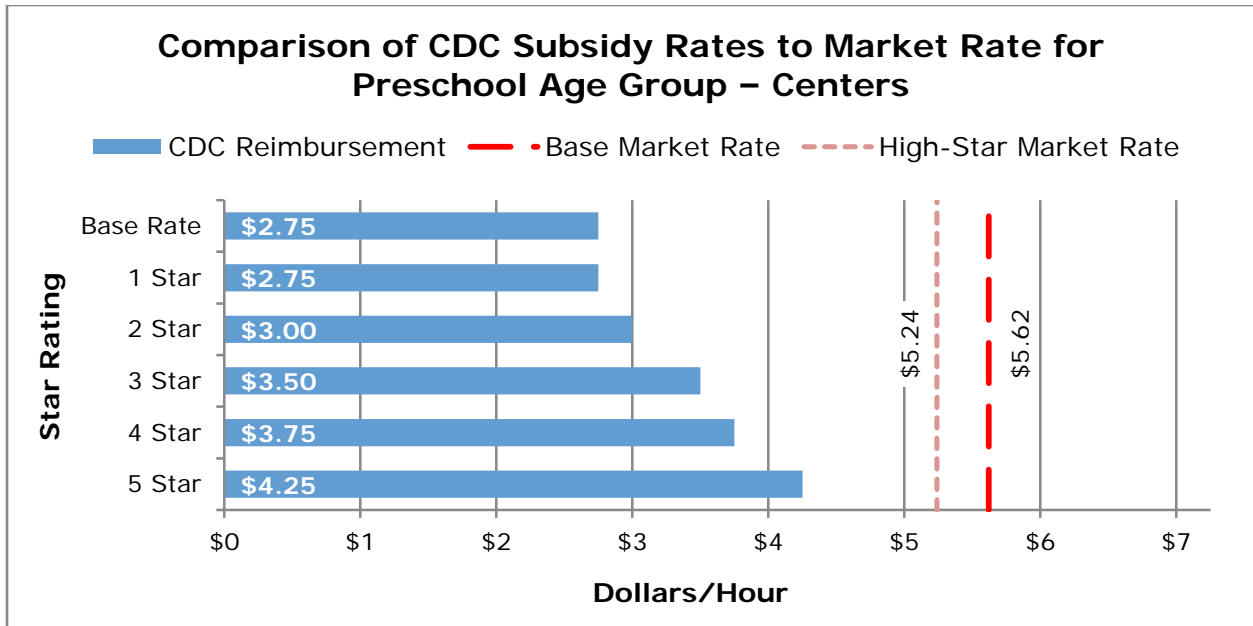


Figure 22

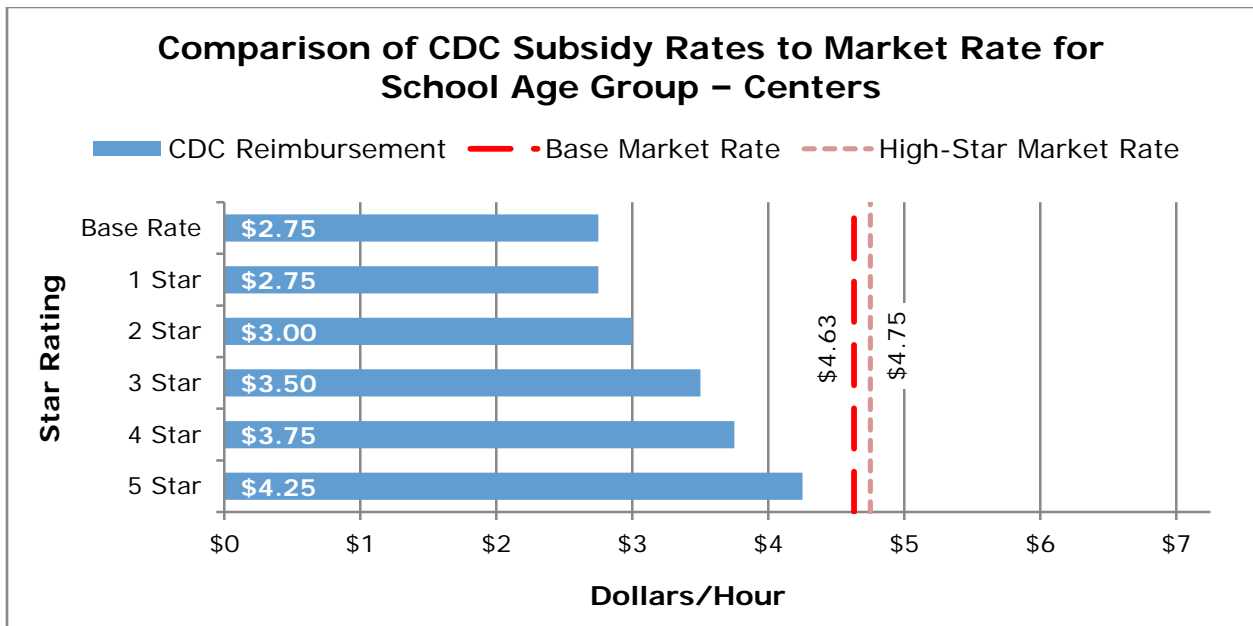


Figure 23

Comparison of Subsidy Rates to Market Rates for Home-Based Providers

Compared to centers, the reimbursement rates across all age groups and star ratings for home-based providers are closer to the base market rates. Similar to centers, the largest gaps are among the preschool age group and the smallest gaps are among the toddler age group. Whereas the base reimbursement rates for centers are 51.1% less than the base market rate for the preschool age group and 33.9% less than the base market rate for the toddler age group, for home-based

providers, the gaps are only 31.9% and 19.0% for the two age groups, respectively. At higher star levels, the reimbursement rates for home-based providers surpass base market rates. As noted above, though, less than 3% of family homes and less than 6% of group homes are currently rated above the 3-star level.

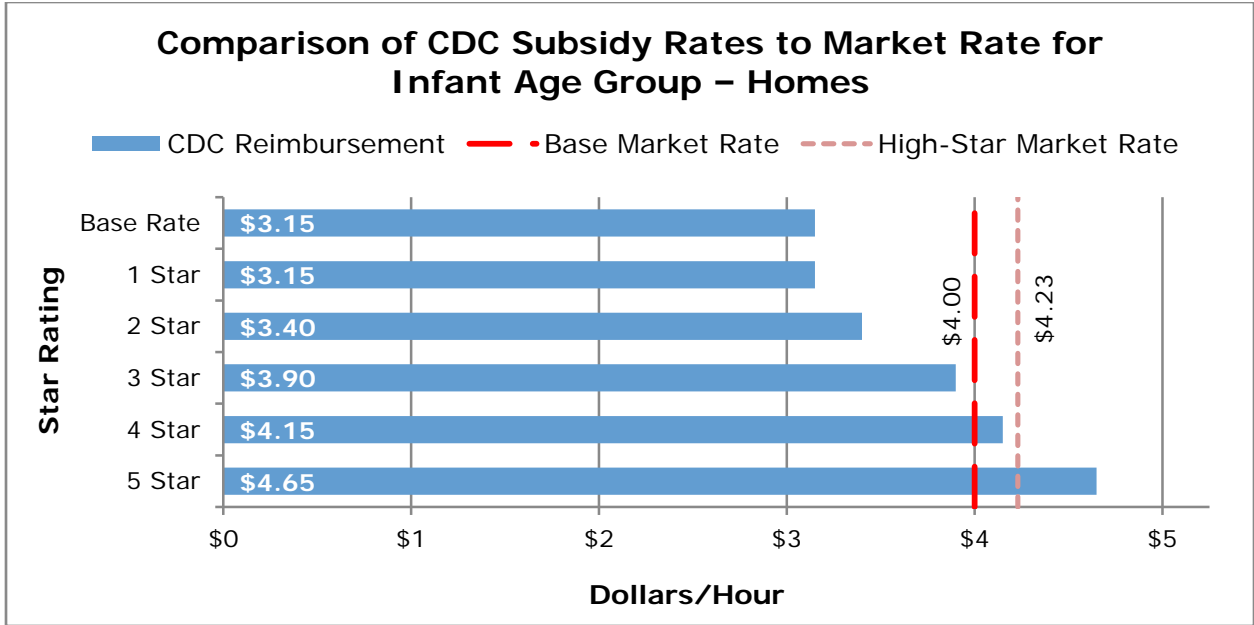


Figure 24

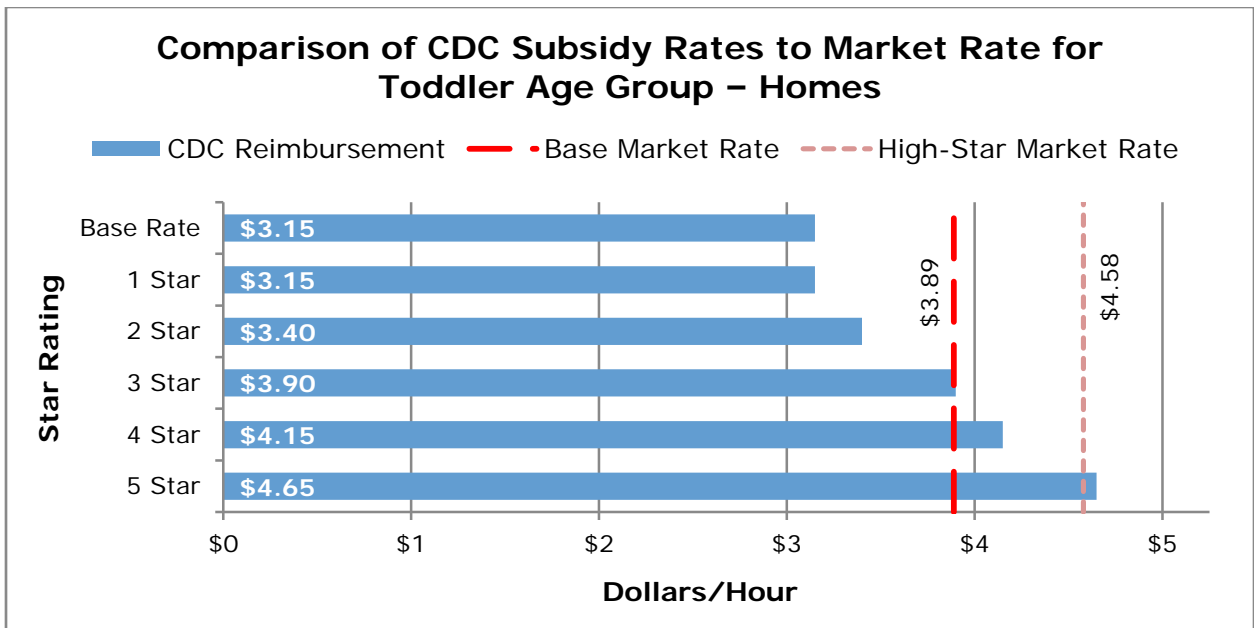


Figure 25

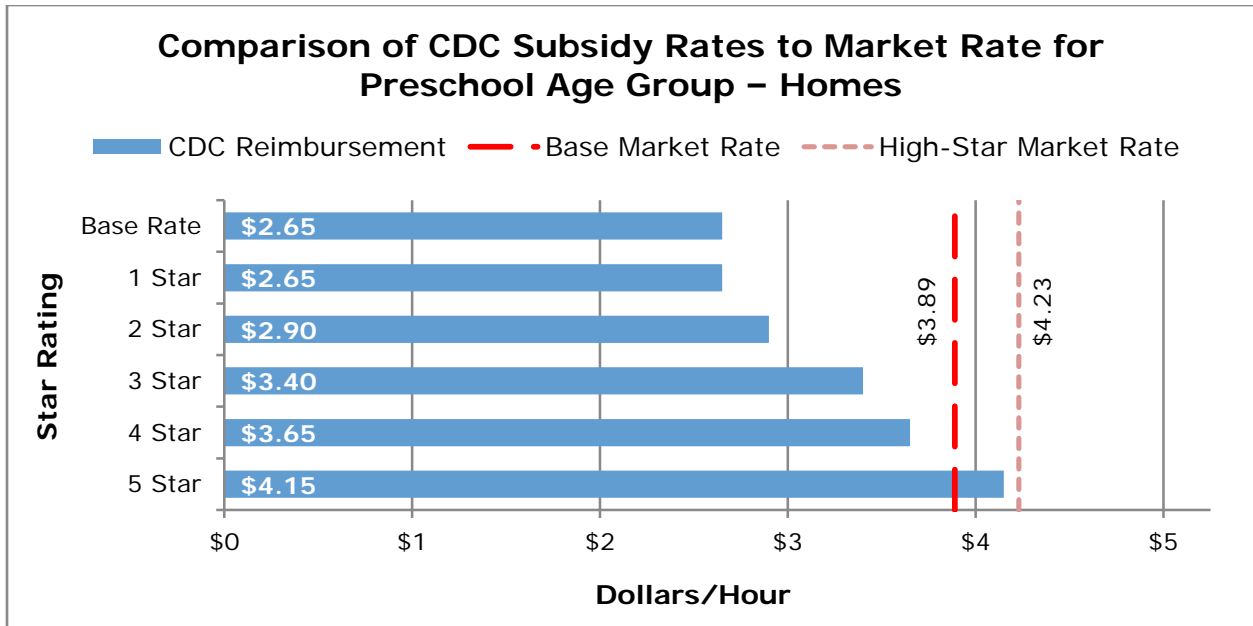


Figure 26

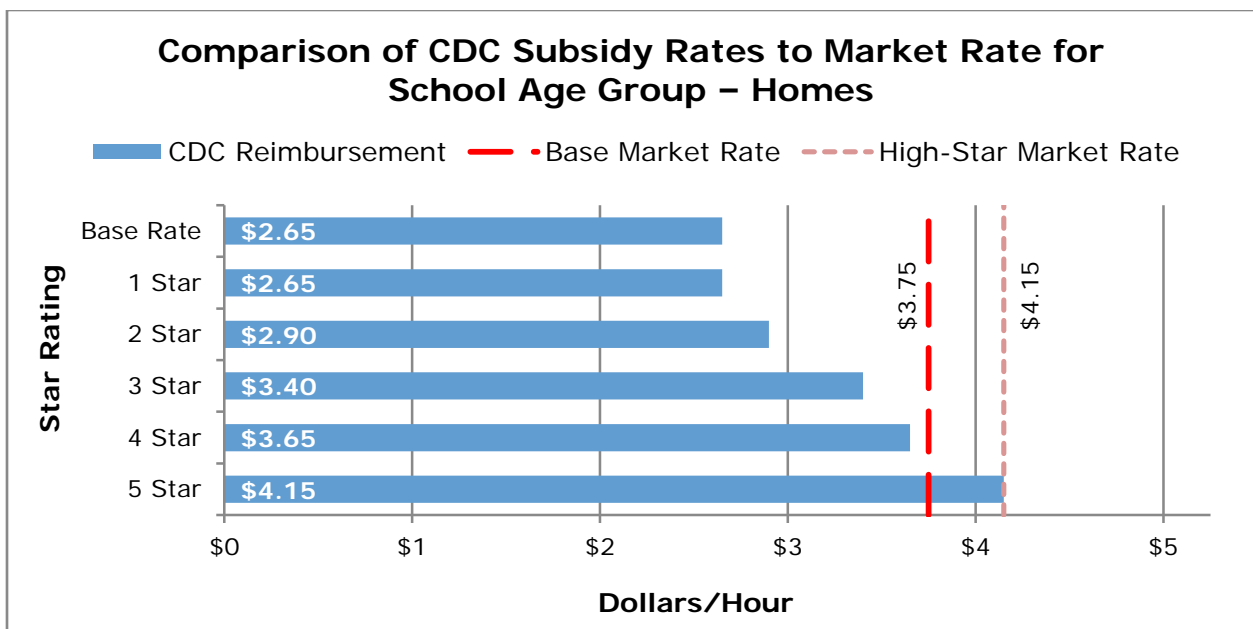


Figure 27

Comparison of Subsidy Rates to Market Rates by Region

The series of maps below shows the percentage of the market rate covered by the CDC base rate by region for each age group and provider type. While there is some variation by age group, subsidy rates tend to come closest to market rates in the northern and more rural regions. In the southeastern part of the state, the base subsidy rates typically fall below 60% of market rates.

Provider Type: Center
Age Group: Infant/Toddler

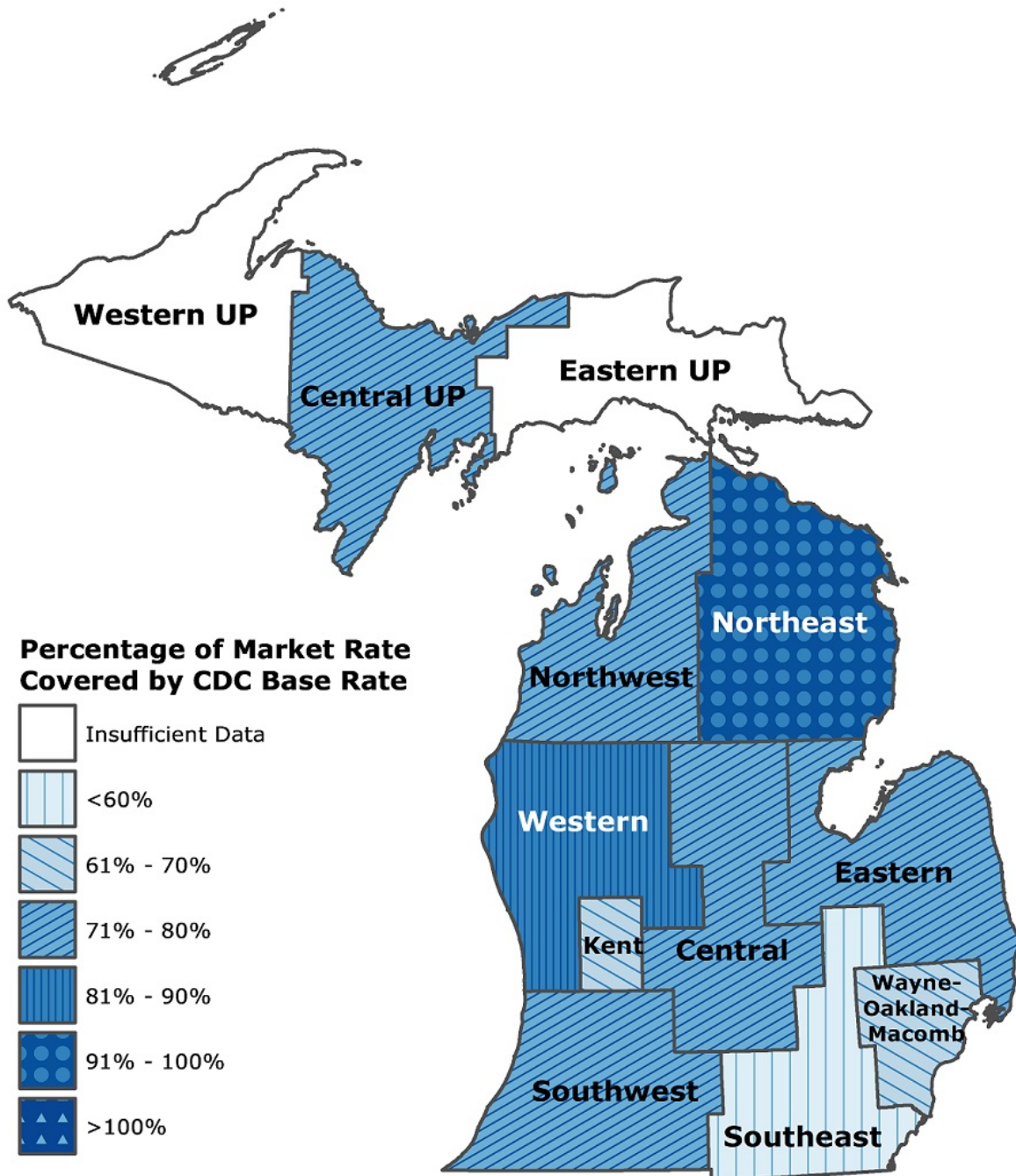


Figure 28

Provider Type: Center
Age Group: Preschool

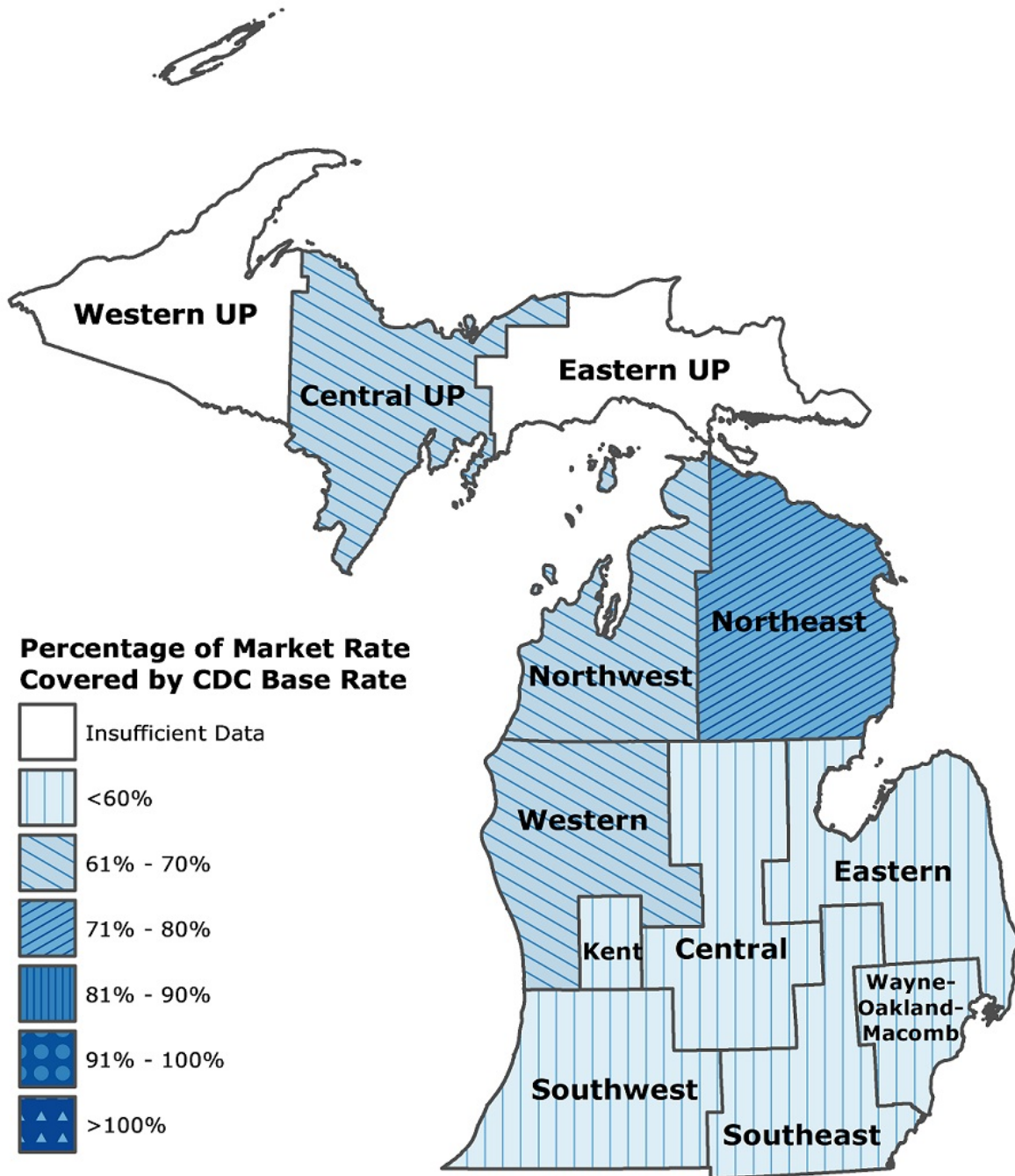


Figure 29

Provider Type: Center
Age Group: School Age

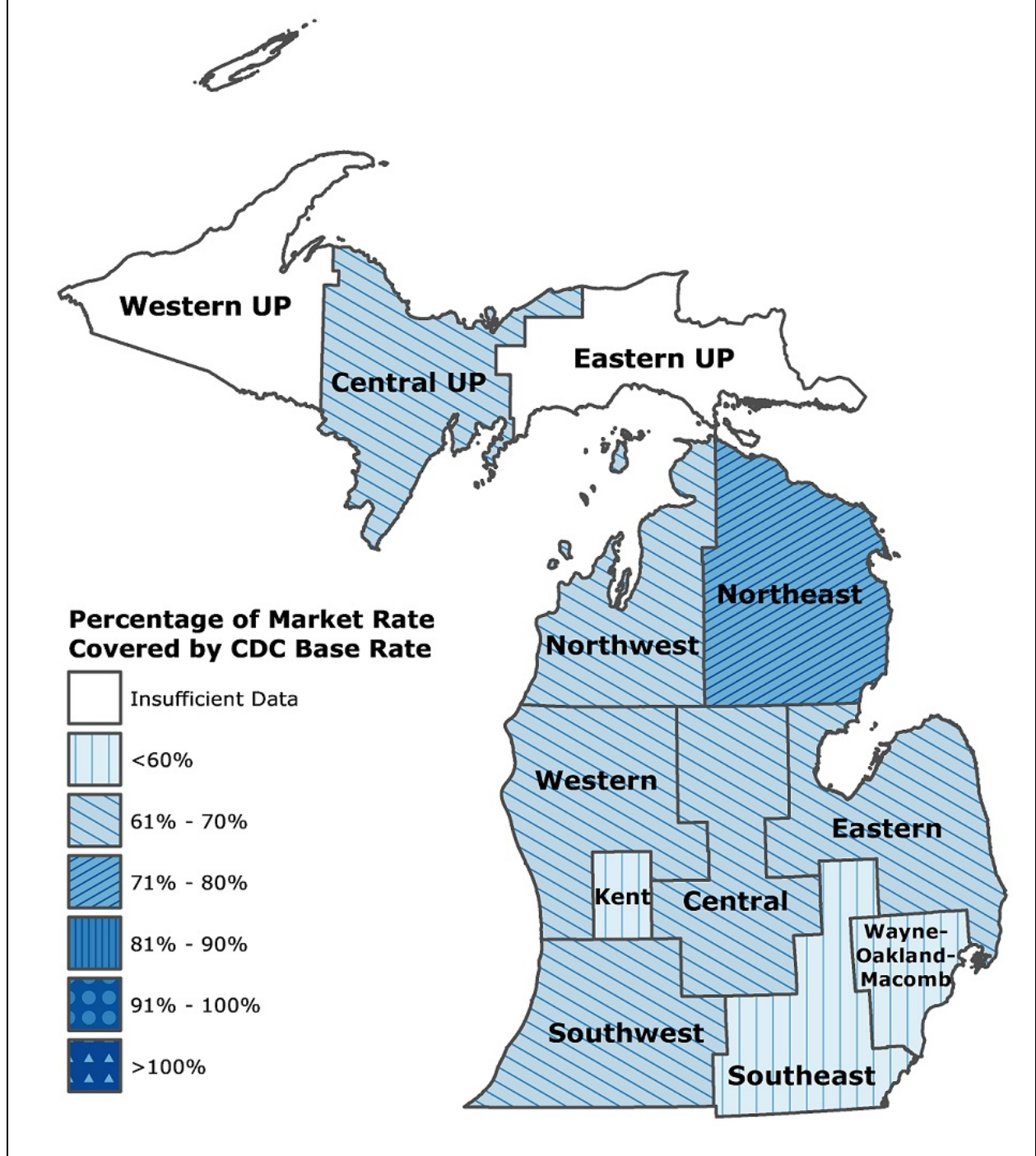


Figure 30

Provider Type: Home Based
Age Group: Infant

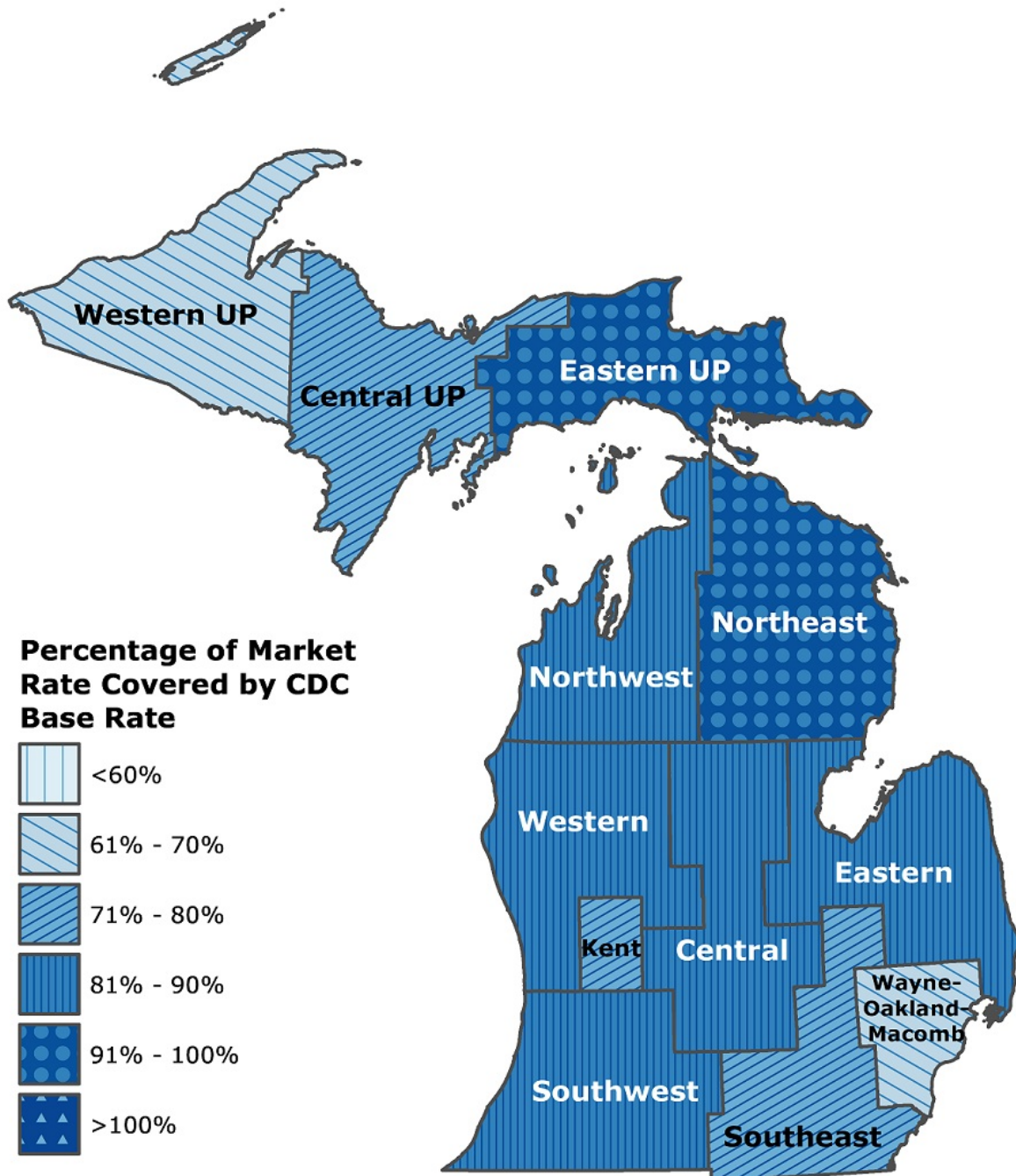


Figure 31

Provider Type: Home Based
Age Group: Toddler

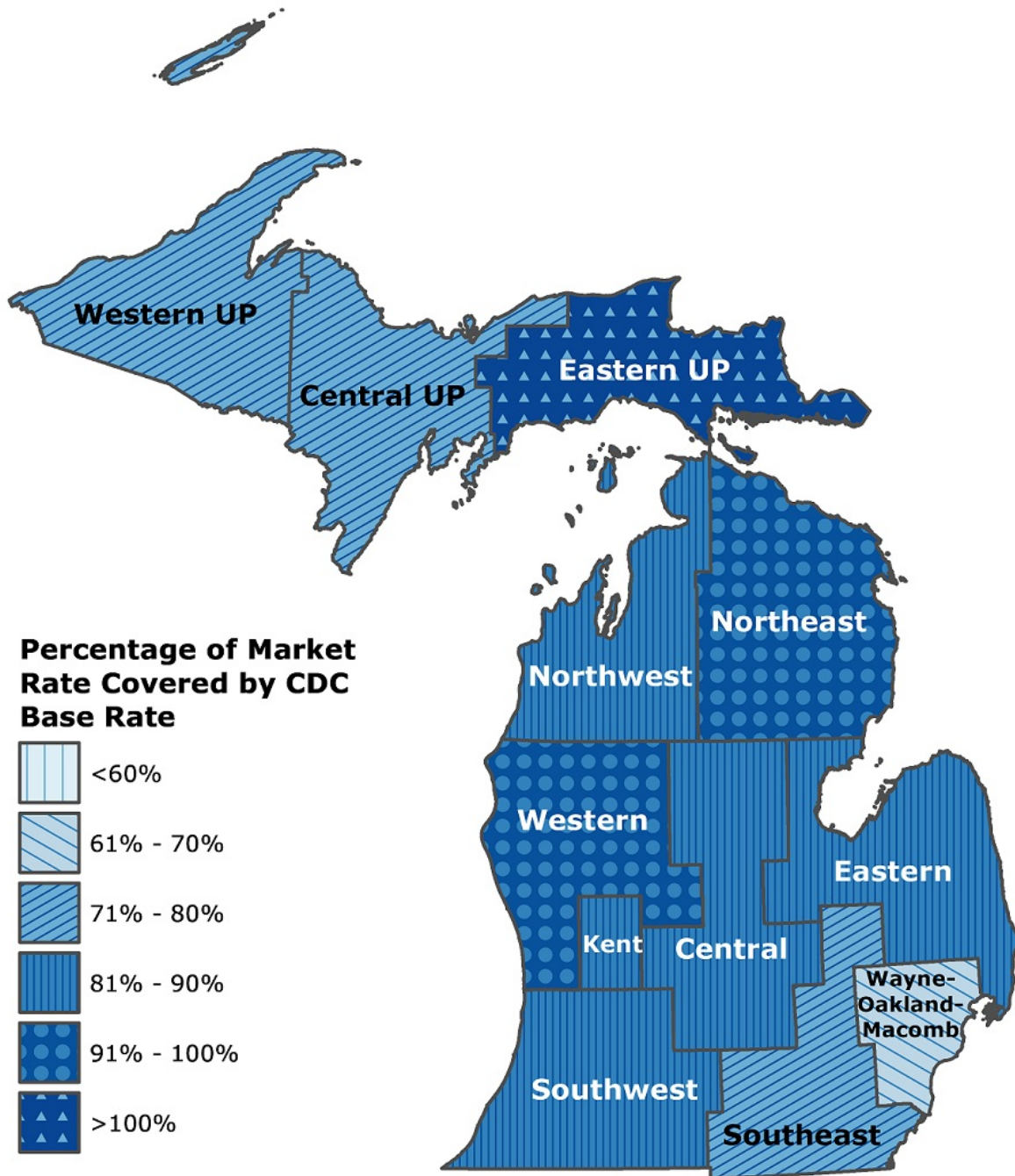


Figure 32

Provider Type: Home Based
Age Group: Preschool

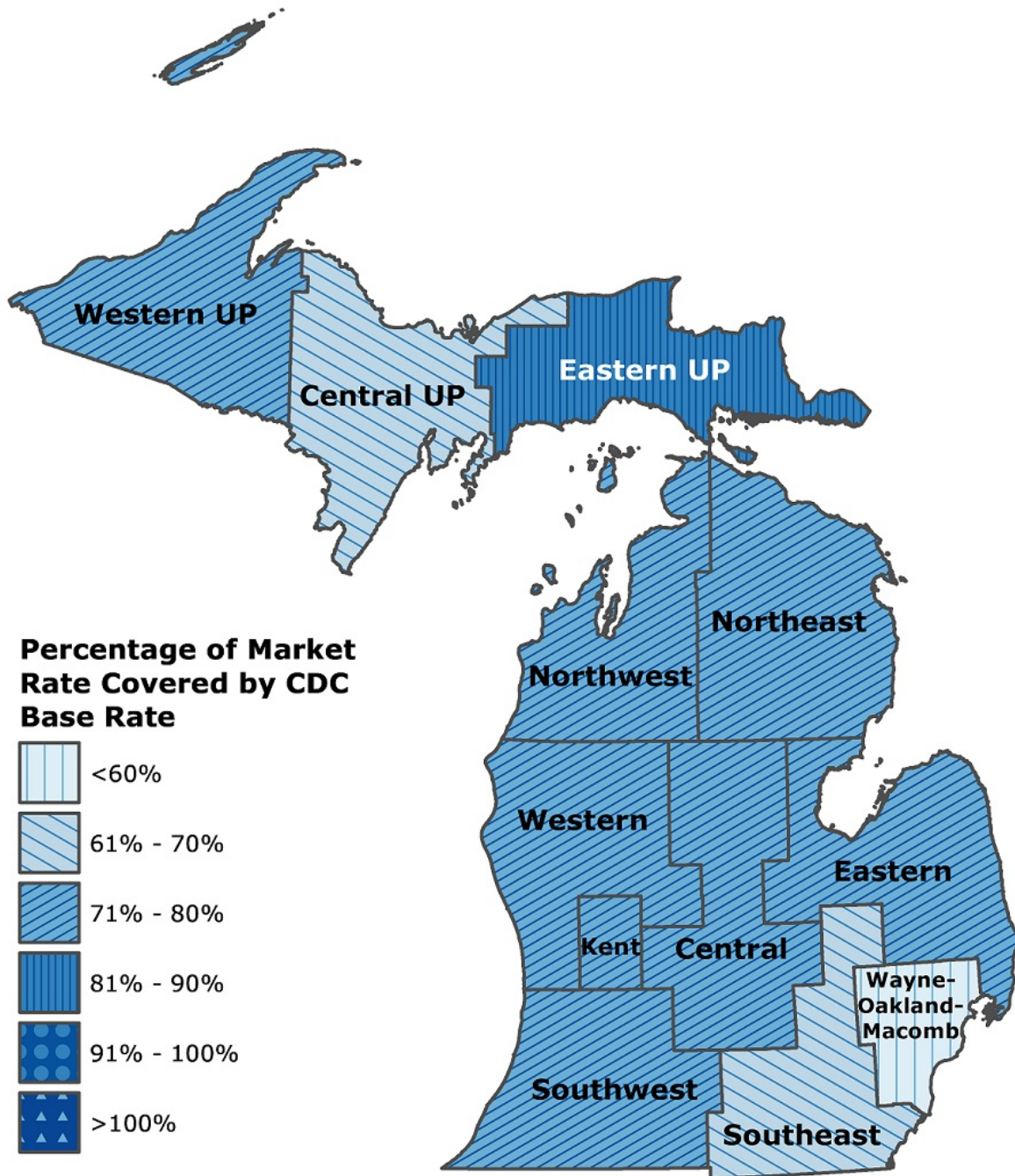


Figure 33

Provider Type: Home Based
Age Group: School Age

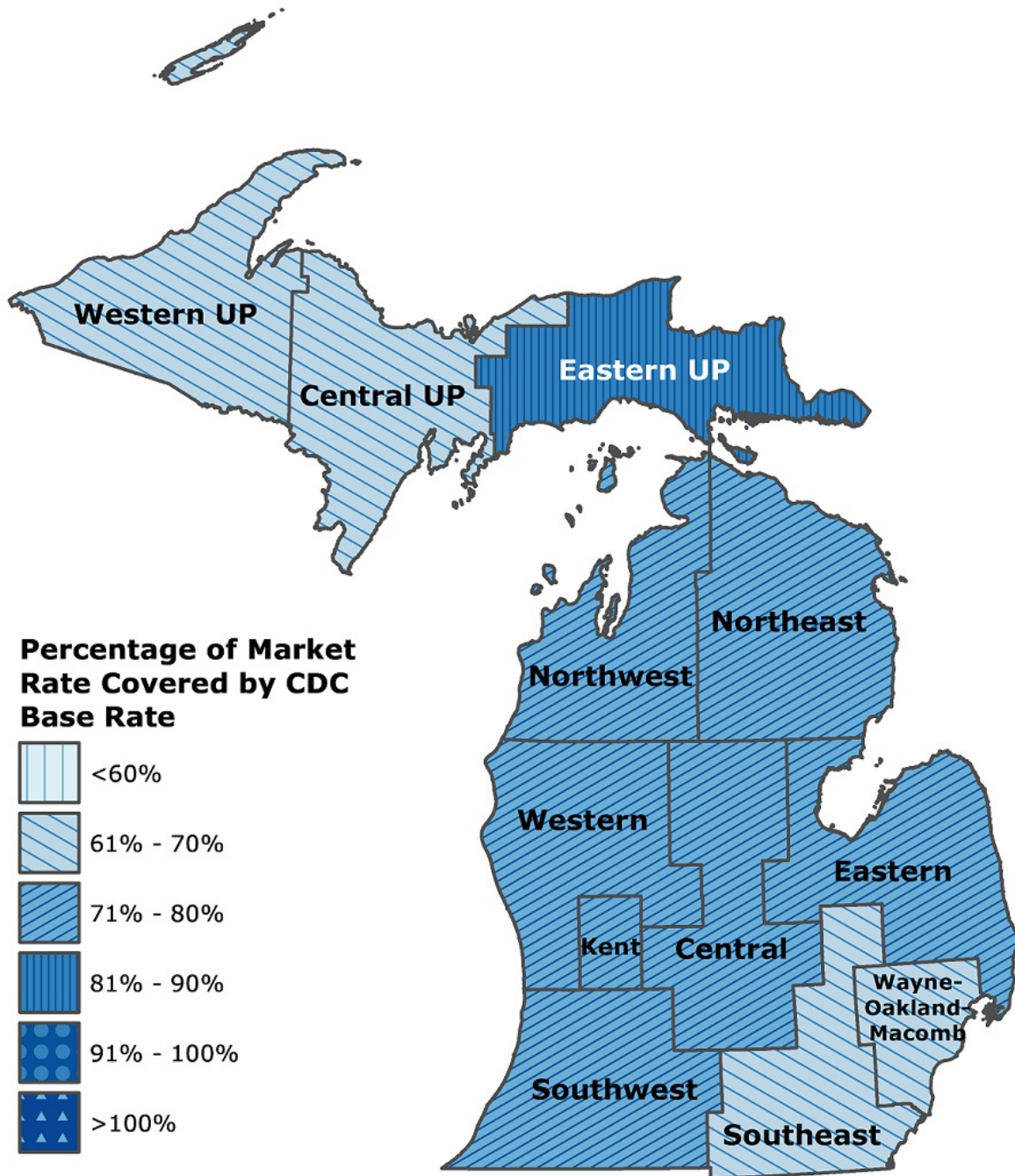


Figure 34

Covering the Difference Between Subsidy Rates and Prices Charged

When the CDC reimbursement rate does not cover the full price of a child's care, a provider may charge parents the remaining balance or a portion of the balance.¹⁵ Among providers currently delivering care for families receiving subsidies, three-quarters (75.8%), indicated that they charge families the full difference between the subsidy rate and the actual price. An additional 8.2% charge those families a co-pay amount that covers a portion of the difference, and 3.7% indicated that decisions about whether or not to charge a co-pay and/or the amount of the co-pay are made on a case-by-case basis. Only 12.3% of providers indicated that they do not charge families receiving subsidies anything beyond the amount covered by the subsidy.

Depending on the size of the gap, many families relying on subsidies may still be required to pay a significant amount out of pocket. For instance, suppose a single parent with a gross income of about \$1,700 per month is approved to receive CDC assistance to enroll her 3-year-old in child care at a center with a GSQ 3-star rating for 40 hours per week. At the market rate of \$5.25 per hour, after two weeks, the total bill comes to \$420. At the subsidy rate of \$3.50 per hour, the total CDC reimbursement for those two weeks comes to \$280, leaving a \$140 balance charged directly to the parent. For a parent earning \$1,700 per month, paying at least \$280 per month for child care is still 16% of her income.

¹⁵ Michigan Department of Education, *State of Michigan Child Development and Care (CDC) Handbook*, Revised 1-2-18, http://www.michigan.gov/documents/mde/CDC_Handbook_7-2013_428431_7.pdf?20150219123130.

The Cost of Providing Quality Child Care

Market rate data alone do not provide much insight into the cost to providers to provide that care. Exploring how providers' costs relate to market rates is important for understanding whether or not providers are collecting the revenue necessary to sustain Michigan's child-care system.

To assess the cost of quality care to meet the health and safety standards in Michigan, PPA used a pre-programmed model: the Provider Cost of Quality Calculator.¹⁶ The PCQC allowed PPA to alter inputs systematically to determine what impact various factors could have on a provider's bottom line. Data used to inform PCQC inputs were drawn from the market rate survey results, as well as multiple secondary sources, including:

- The Bureau of Labor Statistics (BLS)
- The Michigan Department of Licensing and Regulatory Affairs, Child Care Licensing Division
- The Michigan Department of Education, Office of Great Start
- The Center for Educational Performance and Information (CEPI)
- The Early Childhood Investment Corporation (ECIC)

In addition, PPA conducted interviews with 11 providers, representing a mix of centers and home-based programs. Information provided by the interviewees helped to refine cost estimates and provided additional context related to the costs of providing care.

Staffing is the biggest driver of provider costs.

For child care providers, personnel costs account for the largest share of overall operating expenses. For centers, about 75% to 85% of their operating costs are in staffing. Depending on enrollment numbers, paying wages for a large enough staff to meet required caregiver-to-child ratios can be quite expensive. With Michigan's minimum wage increasing to \$9.25 in January 2018, those costs are climbing. Although it is difficult to estimate average personnel costs among home-based

¹⁶ Anne Mitchell et al., *Provider Cost of Quality Calculator*.

providers,¹⁷ factoring in the true value of the labor, personnel expenses are likely on par with those of centers.

Personnel costs extend beyond staff compensation, though. Because child care providers often cannot afford to pay workers at rates much higher than minimum wage, it can be difficult to attract and retain qualified staff. To maintain required staffing levels, then, providers may hire individuals who do not have any background in early childhood education and pay for these staff to get their credentials, such as the Child Development Associate® (CDA) credential. This requires an application fee of \$425 and 120 clock hours of professional education.

Furthermore, new laws regulating health and safety standards for licensed child care providers in Michigan¹⁸ are set to take effect in March 2018. Although the exact impact is not yet known, the new standards are likely to increase personnel costs to some extent. Under the new rules, criminal background checks are required for the vast majority of staff.¹⁹ The checks must be completed before hire and updated every five years after hire. In addition, the laws allow MDE to set annual health and safety training²⁰ requirements for child care providers. Providers interviewed say their expenditures in health and safety training has gone up over time. One provider specifically cited that she had been able to get CPR/First Aid training at \$40 per person, but it is now \$100 per person.

¹⁷ Due to the diversity of tax statuses, benefits costs, and other individual characteristics of households, the PCQC does not include personnel expenses in the cost calculations for home-based providers. Instead, the model assumes that the provider's income is the net revenue after subtracting non-personnel expenses. However, considering that many home providers work well beyond 40 hours a week delivering care and maintaining their business, the net revenue may amount to an earned income well below minimum wage. For instance, a 2009 study of Michigan's early childhood care and education workforce found that, on average, home-based providers spent 61 hours per week working, and the median annual income among home-based providers was \$25,000, with 25% reporting annual incomes of \$15,000 or less (Public Sector Consultants, *Early Childhood Care and Education Workforce Study* (Lansing, MI: Early Childhood Investment Corporation, 2009)). Thus, a home-based provider working the average number of hours and earning the median income would have been earning an hourly wage of approximately \$7.88, which was only \$0.40 higher than the \$7.40 minimum wage in 2009 (United States Department of Labor, Wage and Hour Division, "Changes in Basic Minimum Wages in Non-Farm Employment Under State Law: Selected Years 1968 to 2017" (2017. <https://www.dol.gov/whd/state/stateMinWageHis.htm>)). If that same provider was among the 25% of providers with annual incomes of \$15,000 or less, his or her hourly wage would have dropped below \$5.00.

¹⁸ Public Acts 256, 257, and 258 of 2017.

¹⁹ MDE has received federal grant funding to help pay for the costs of background checks for all current staff when the law takes effect.

²⁰ Training topics include CPR, first aid, mandatory reporting of suspected abuse or neglect, and fire safety.

Among non-personnel costs, for programs that provide meals and snacks, food is an expensive part of operating costs. In particular, buying food that meets high-quality meal recommendations—more whole grains, no canned food, more fresh produce—is often more expensive than the less healthy alternatives. Although providers are able to access federal funding through the Child and Adult Food Care Program (CACFP) to help cover some of their food costs, food can still be a considerable expense.

For home providers, homeowners insurance can be extremely expensive. One of the providers interviewed noted that the cost of her homeowners insurance quadrupled when she started providing child care in her home. Another home provider said she was able to get reasonable rates through National Association for the Education of Young Children (NAEYC), but believes that many other providers do not know about this resource.

The Cost Impact of Achieving Higher Quality Standards

The GSQ star rating system is based on a point structure. The individual indicators within each quality category are connected with defined point values. For each star rating, providers must earn a certain number of points across the five quality categories, but the specific combination of indicators used to achieve that score is somewhat flexible.²¹ Therefore, it can be quite difficult to determine clear cost drivers at any particular star rating. However, based on the hypothetical PCQC models populated for this study, there does appear to be an increase in cost associated with higher ratings. For instance, among the models based on centers, there was an increase in total operating expenses of up to 40%. While higher tuition and subsidy rates appeared to offset some of the increased costs, overall profit margins still decreased as star ratings increased in most of the hypothetical scenarios constructed for the study.

Despite the costs incurred to train and better compensate highly qualified staff, the providers interviewed feel they cannot charge parents more. One provider recognized she could raise tuition based on the center's reputation of excellence, but expected that she would lose families because many are already at their limits in their ability to pay.

The greatest impact on the bottom line seen in the PCQC models for centers and homes resulted from reducing the number of children they served. This included both having fewer kids enrolled than their capacity allowed and having smaller teacher/caregiver-to-child ratios. As the number of children went down, the margin for net revenue also significantly decreased. This issue was even more pronounced

²¹ Great Start to Quality Standards and Points, January 2013.

with the home provider models since they have capacity for fewer children. However, it was also seen in the 4-star and 5-star centers, because the model assumes smaller preschool ratios at those levels. As quality standards push for smaller ratios, it may become more difficult for providers to be profitable.

The input gathered through provider interviews also suggests that cost models may not fully account for the added costs of redundancy across various quality systems. Specifically, licensing requirements, GSQ, and various national accreditations require separate paperwork and costs, often to demonstrate the same criteria. For example, some of the providers interviewed pointed out that many states automatically recognize accreditation from NAEYC as a 4- or even 5-star rating without additional work. However, GSQ requires a separate observation beyond accreditation—adding time and cost burden. Additionally, providers interviewed felt they were repeating professional development training at a cost to them because the requirements completed for national accreditation were not accepted by GSQ, and vice versa.

Providers recommended multiple strategies for containing costs.

The main issue for all providers is trying to collect sufficient revenue to cover operating costs while not setting the cost of child care “out of reach” for their families. While all providers interviewed felt their current revenue covered the cost of providing quality child care, it did so “just barely” and was “stressful” to achieve.

A common theme within the interviews was that if a provider is pursuing quality standards, then the State should provide free or low-cost training to help them achieve those standards. Although free or low-cost training opportunities, as well as scholarships to support professional development, are available in Michigan,²² many of the individuals interviewed were not aware that such opportunities existed. Others thought the existing training resources were a good start but would like to see them expanded. Grants were also desired for making one-time purchases of materials and equipment. For example, most home providers had lower operating costs and reported either already having materials or using mom-to-mom sales and

²² For instance, the Great Start to Quality Resource Centers offer free and low-cost trainings for child care providers throughout the state on a range of child care topics (<https://www.greatstarttoquality.org/professional-development-training>). In addition, since 2001, the State has funded the T.E.A.C.H. Early Childhood® scholarship program to help early childhood professionals at all levels pay for additional training and education. In 2017, the program awarded \$1.8 million to help 594 early childhood professionals advance their professional development goals (Michigan Department of Education, *Michigan's Race to the Top—Early Learning Challenge Year 4 Highlights*, obtained online March 22, 2018 from http://www.michigan.gov/documents/mde/APR_2017_Highlights_Final_617969_7.pdf).

garage sales to obtain cheaper equipment; however, one home provider reported spending a substantial amount of money on educational materials and equipment in the past year.

Additional suggestions for assisting providers in managing costs for quality child care included: (1) creating a shared resource for identifying and contacting qualified substitutes, and (2) creating a shared resource to provide in-home enrichment opportunities.

Conclusions

In setting rates, providers must carefully weigh how much families can reasonably afford against their increasing expenses for staff, facility, food, and other costs. The field currently faces a fundamental tension. On the one hand, there is increased interest in improving the overall quality of care through highly trained staff and enriched environments. On the other hand, the economy has seen only generally sluggish wage increases. To achieve higher standards means added costs to providers, but families cannot always cover the difference. Sometimes this means providers themselves are poorly compensated after working long hours.

In the child care marketplace, the hourly rates vary by geographic location and GSQ rating, as well as by the age of the child in care. Given the market rates for care in Michigan collected through this study, families of infants or toddlers attending a 5-star center provider in the southeastern region will pay the highest cost per hour, whereas those with a school-aged child attending a 1-star family home provider in the northeast will pay the least per hour. For center-based care, other fees are often added to the tuition costs, such as for registration and supplies. One consolation is that the majority of providers do offer families with multiple children in care discounted rates.

For families who qualify, providers are willing to accept child care subsidies, and nearly 60% of survey respondents were already participating in the CDC program, although participation was most common among group homes and centers.

Most providers charge on a daily and/or weekly basis, whereas the CDC program reimburses on an hourly basis, within the cap of hours set when the family is approved for a subsidy.

The CDC subsidy rates paid are less than the market rate for centers for all age groups. The gap between subsidy and market rates is largest for preschoolers at centers. For home-based care, the subsidy rates are closer to the market rates, and where the provider is rated 4 or 5 stars, the subsidy actually exceeds the market rate for most age levels. However, very few family and group home providers are rated at 4 or 5 stars, so the subsidy is still lower than most providers charge.

When the subsidy and rate charged by a provider do not align—beyond the required family co-payment—three-quarters of providers ask parents to make up the difference, although a small portion of providers simply forgo this amount, anticipating that parents could not pay it.

Beyond the rate differential, the majority of providers did not have many concerns about the CDC program. The most common challenges in accepting subsidies were

with families needing more hours of care, inadequate communication from the State, and reimbursement itself, as some providers operate with limited cash resources.

Implications and Recommendations

- To address the gaps between market and subsidy rates, Michigan would be justified in increasing the base subsidy rates across all age groups and provider types.
- As the vast majority of providers ask families to pay for child care on a daily or weekly basis, it would benefit providers to be reimbursed on the same basis by the State. This may also help to eliminate the challenge of approved hours not matching the true need. The implications of this conversion would require further analysis of the subsidy data and discussion about how best to translate hourly payments and approvals into daily or weekly approaches.
- The OGS, ECIC, and other organizations involved in provider licensing, ratings, and accreditation should work to reduce duplication of processes, such as recognizing mutually acceptable evidence of quality and coordinating training.
- In addition, providers were frustrated by the time it generally takes to get a new family approved for a subsidy, resulting in complications for both provider and parents. In response to prior concerns raised about this issue, in 2016 the Michigan Department of Health and Human Services revised administrative policy to reduce the allowable timeline for eligibility determinations from 45 to 30 days following the date of application.²³ Although there are practical limits to how quickly the eligibility determination process can be completed, the State should continue to work with providers and families familiar with the current system to explore opportunities to further streamline this process.
- The OGS should continue efforts to increase access to training and technical assistance for providers needing to construct a stronger business model.²⁴ A cohort approach might give providers added support in this effort.
- As providers struggle to invest in upgrades and other improvements that would help them to achieve higher star ratings—and therefore qualify for higher rates—the State could seek out additional appropriations or partner

²³ Michigan Department of Health and Human Services, *Bridges Policy Bulletin 2016-015*, issued September 1, 2016, effective October 1, 2016.

²⁴ In 2016, as part of implementing Michigan's Race to the Top Early Learning Challenge Grant, MDE contracted with Public Consulting Group (PCG) to develop a business training model for child care providers. The curriculum was piloted in six regions of the state during 2017, and plans are in place to expand the curriculum statewide during 2018.

with philanthropy to design and implement mini grants or scholarships for providers, particularly family and group homes that have reduced resources.

- To offset the costs of registrations to low-income families, the CDC program should consider the feasibility of paying this fee to providers on their behalf, up to an annual maximum amount, regardless of provider type. On average statewide, the cost of the initial registration fees was \$60.
- As providers participating in the CDC program had concerns about communication with the State, consideration of how to improve the outreach and follow-up is needed. The OGS could gather further input from providers via focus groups or other means to identify key targets of opportunity.

Acknowledgments

The process of conducting this study involved multiple organizations and thousands of providers. The Office of Child Development and Care and the Early Childhood Investment Corporation provided connections to data sets, convened staff to inform the survey, and otherwise contributed to the achievement of this report. Our thanks also goes out to those who aided in distributing the survey invitation. In addition, we greatly appreciate the many providers who took the time to answer the survey and those who shared their cost information with the research team through interviews.

Appendix A: Methodology

Market Rate Survey

Sampling Frame

The sampling frame for the market rate survey was developed from CDC licensing records, Early Childhood Investment Corporation/Great Start to Quality data (ECIC data), and billing records from the Child Development and Care program. Data from these sources were combined to generate as many methods of contacting each provider as possible. The initial file of CDC licensing records was downloaded from the LARA Web site on October 25, 2017 and had 9,249 records. ECIC data (8,142 records and 9,180 records in two separate files) and CDC billing data (2,954 records) were supplied by the MDE in late October 2017.

ECIC e-mail addresses were established as the preferred address for outbound survey invitations, and, where a separate e-mail address existed in billing records, that address was established as the secondary e-mail address. Similarly, ECIC telephone numbers were the preferred telephone number, while the facility telephone listed in CDC licensing data was second in priority, and the licensee telephone number was used when no other phone number was available. All but 4 of the 9,310 records had a phone number; 80.7% (7,515) of the records had at least one e-mail address.

Sixty-one provider records were appended to the master file after the survey had entered the field. These providers were licensed between November 13, 2017 and December 13, 2017.

Several telephone numbers and several e-mail addresses were associated with multiple child care facilities. Three-hundred-seventy-two sites (4%) were not entered into the primary survey lists, but were instead reserved to PPA for outreach: at these sites, either the e-mail address or the telephone number was associated with 10 or more sites, creating the potential for one individual to be contacted an unacceptable number of times. The remaining records were flagged to indicate whether the contact was associated with multiple sites or only one.

Online Survey

The online survey included both an anonymous version distributed through child care listservs in Michigan and a targeted version using the contact information from the sampling frame. The survey vendor, Survey Sampling International (SSI), began the process by distributing e-mail invitations to all providers with a valid e-mail address. At the same time, representatives of MDE distributed the anonymous survey link through various listservs.

Respondents completing the survey through the anonymous link were asked to key in their license number, and the survey software conducted a search of the data for the matching business. Where located, business information (street address, name, county, etc.) was placed on the screen for respondents to confirm and/or update. Where respondents did not have their license number (or mis-keyed it), respondents were asked to supply the business name, address, county, and type of facility—group home, family home, or child care center.

Online options remained open even after telephone follow-up began.

Telephone Follow-up

Telephone follow-up began in mid-December. For named respondents associated with multiple child care facilities, interviewers asked if the multiple sites all charge the same prices and offer similar experiences, and if the respondent was able to provide the total number of enrollees and slots available for all locations combined. If all these questions were answered with “yes,” the interviewer completed the survey once for all locations. If prices or programs differed or the respondent could not access system-wide information on enrollment, the interviewer selected one location and directed the respondent to focus on that location only.

SSI and PPA worked together to monitor completion rates by facility type, region of Michigan, and star rating.

Data Cleaning

Inaccurate License Numbers

PPA received 2,856 completed surveys from SSI and completed surveys for 46 providers in-house. As the surveys were being collected, SSI sent them to PPA periodically, allowing for some data cleaning while the survey remained in the field. These efforts focused on ensuring each survey had an appropriate license number. Problems with license numbers emerged from the anonymous survey distributed via listserv, for which providers keyed in their license number when available. Several completed surveys had no license number, and several had an improperly keyed license number. Nineteen surveys ultimately could not be used because no provider matching the respondent’s reported business name and street address could be identified.

Duplicate Surveys

Several facilities completed more than one survey, resulting in 175 duplicates. In all cases duplication was tied to the anonymous, listserv-distributed e-mails. When this occurred, we looked at each set of responses to determine whether one response was more complete than the other(s). Where a pair or trio of surveys included one that was more complete, we retained it; otherwise, we retained the most recent among the set for a given license number.

In many cases where duplicate surveys emerged, the survey was taken in November or early December, then again in January, suggesting that the recipient of the listserv e-mail did not remember if they had taken the survey (or was not sure if a second survey was being requested). Another set of duplicate responses featured multiple surveys completed near in time to one another yet with different data and an overall pattern suggesting that different people from the same organization responded to the survey.

Out-of-Range Data

Several fields in the survey captured quantitative data expressing a price for child care (by the hour, by the day, by the week, etc.) and a related number of hours for the price—average hours per day (week, month, etc.) and maximum hours per day (week, month, etc.).

For each type of rate and related quantity of hours, in several instances the data supplied by respondents was extreme or impossible. For example, we saw prices quoted of \$1.80 for a week of child care or \$2,400 per day, and average hours per week of care set at 220, or 2. We excluded impossible responses first (e.g., hours per day exceeding 24). Then, we examined the remaining extreme values. In some cases, we found that prices that were out of range for one type of period had been repeated in a second set of columns—for example, prices of \$1.80 entered under hourly rates and weekly rates. In those cases, we simply eliminated the rates that were inappropriate.

After those steps had been taken we looked at the remaining extreme values. Several problematic patterns were observed where a reasonable hypothesis about the source of error could be made:

- Weekly rates of \$1.10 to \$3.60 were converted by multiplying by \$100 to equal \$110 to \$360 per week (10 cases). *Note:* The instance of a \$3.60/week rate was confirmed to be appropriately changed to \$360 through an online search of the provider's rate structure.
- Hourly rates of \$250 to \$360 were converted by dividing by \$100 to equal between \$2.50 and \$3.60 per hour (8 cases for full-time rates, 4 cases for part-time rates).
- Weekly rates were entered into daily columns and vice versa; hourly rates were entered into daily columns; daily rates were entered into monthly columns, etc. (16 cases).
- Weekly maximum hours were better understood to be daily maximum hours, as evidenced by a weekly average hours entry of 35 to 60 paired with weekly maximum hours of 7 to 13 (numerous cases).
- Weekly average hours were better understood to be daily average hours, as evidenced by weekly maximum hours of 40-50 paired with weekly average hours of 8 or 9 (numerous cases).

- Hours of care associated with “other” price structures (e.g., annual, biweekly, semester) were very often out of range, typically entered as maximum or average hours per day; when reasonable assumptions could be made, the appropriate number of hours for the stated time period for the price was entered, and when no basis for assumptions existed, such data were treated as missing.

After these steps had been taken, we examined box plots²⁵ for each variable in the question series on prices charged and average and maximum hours afforded by those prices, looking for outliers exceeding three times the interquartile range (a standard measure of extreme outliers). Table 5 shows the count of outliers by rate type and full-time/part-time status.

Table 5. Outliers in Rate Data

Fee Schedule	Full Time	Part Time	Combined
Hourly	23	14	37
Half Day	N/A	57	57
Daily	26	42	68
Weekly	4	0	4
Monthly	0	0	0

As shown in the table, a substantial number of outliers remained. We used SPSS missing values settings to set outliers exceeding three times the interquartile range to “missing” for purposes of analyzing rates. Because SPSS only allows one array to be set to missing for each variable, when missing values occurred at both the high and low ends of the range we occasionally had to overwrite submitted data with “0” to ensure its exclusion from the calculations.

Participation Rate

The final data set included 2,706 surveys, and the sampling frame included 9,310 providers, resulting in a participation rate of 29%. The participation rate among

²⁵ A box plot is a graphical depiction of a variable that shows its distribution and outliers. The “box” encloses the distance between the first and third quartiles (the interquartile range), while lines extend to show the minimum and maximum. Outliers are plotted as individual points.

group homes was somewhat higher (35%) than among child care centers (28%) or family homes (29%).

Table 6 shows the final disposition codes (expressed as percentages in each category) for the full sampling frame, and for each type of facility. All data have been adjusted to account for listserv-completed surveys, which were often classified as “answering machine,” “no answer,” or other nonresponse codes, because SSI did not always know the providers had completed the survey and continued to contact them while the survey remained in the field.

Table 6. Final Disposition Codes

Final Disposition	All	Centers	Group Homes	Family Homes
Complete	29.3%	28.3%	34.7%	29.3%
Answering Machine	22.4%	22.8%	18.3%	24.3%
Respondent Not Available	16.1%	17.2%	16.0%	14.5%
No Answer	10.0%	6.0%	11.7%	14.9%
Not Dialed	6.3%	8.2%	5.5%	4.1%
Respondent Callback	6.0%	3.9%	9.6%	6.8%
Not in SSI Frame	5.5%	9.5%	0.6%	0.7%
Disconnect	2.7%	2.5%	2.4%	3.2%
Busy Signal	0.5%	0.6%	0.1%	0.7%
Technical Phone Problems	0.4%	0.4%	0.1%	0.5%
Put on Do Not Call List	0.3%	0.1%	0.5%	0.4%
Language Barrier	0.2%	0.0%	0.5%	0.4%
Residence	0.1%	0.2%	34.7%	0.1%
Q3 Terminate (ineligible)	0.0%	0.0%	0.0%	0.0%
Q8 Terminate (ineligible)	0.0%	0.1%	0.0%	0.0%
Refusal	0.0%	0.0%	0.0%	0.0%
Interviewer Terminate	0.0%	0.0%	0.1%	0.0%

Final Disposition	All	Centers	Group Homes	Family Homes
Respondent Terminate	0.0%	0.0%	0.0%	0.0%
Totals	100%	100%	0.0%	100%

As shown in the table, most of those not completing a survey had final disposition codes of “answering machine,” “respondent not available,” or “no answer.” A total of 3,464 of the providers in these categories (37.2% of the sampling frame) had received three calls by the time the survey was completed, and 1,097 (11.8%) had received four calls or more.

About 5.5% of the total sampling frame was not part of the data with contact information sent to the survey vendor, SSI. Most of these providers were child care centers with multiple locations (more than nine) that were reserved for PPA to contact. Other providers not shared with SSI were licensed after the survey process had begun and were added to the list because some providers were completing the survey through the listserv distributions.

About 6% of providers were not called. However, these providers cannot be eliminated from consideration, because they may have received an e-mail invitation to complete the survey.

Weighting

The survey data were weighted on the basis of county and on the basis of facility type. Weights represented the percentage of cases in the sample frame in the given category divided by the percentage of cases in the sample in the given category. For example, if 28% of cases in the sample were group homes and 25% of cases in the sampling frame were group homes, the facility weight would be $0.25/0.28$, or 0.893. Case weights were developed by multiplying the facility weight by the county weight. Final weights ranged from 0.34 to 3.17, with an interquartile range of 0.84 to 1.16, indicating a well-distributed data set.

Imputing Hourly Rates from Other Reported Rate Structures

The market rate survey methodology requires that, when providers use price structures that are other than hourly, those other rates be converted to an hourly rate. The survey allowed each provider to describe up to two rate structures for full-time enrollees and up to two rate structures for part-time enrollees. The rate structures could be hourly, half-day (part time only), daily, weekly, monthly, or some other structure described by the provider. For every rate structure other than hourly, providers were asked to describe the maximum and average hours of care they offered for that price.

For each full-time rate structure other than hourly, we calculated an imputed hourly rate based on the maximum possible hours and a second imputed hourly rate based on the average possible hours; the same calculations were done for part-time rates. No imputed rate was calculated when average hours exceeded maximum hours; instead, we assumed that in such cases that the inputs were suspect. All resulting, imputed hourly rates in excess of \$20 per hour were defined “missing.”

For each provider, we selected the maximum hourly rate from among the provided hourly rate or the imputed half-day, daily, weekly, monthly, or other rates for full-time infant, toddler, preschool, and school-aged care, and for the same age groups for part-time care. The process was carried out twice: once using the imputed rates based on “maximum” hours of care, and once using the imputed rates based on “average” hours of care. To calculate the final blended market rate, we selected full-time market rates for each age group, and supplemented with part-time market rates for those providers that only operate on a part-time basis. The resulting rates were calculated with weights for county and facility type.

Imputing Weekly Rates for the Cost Analysis

The cost analysis required that weekly rates be imputed where the provider had not reported them. Fortunately, most providers did report weekly rates. For those that did not, we calculated a low value based on an 8-hour day and 40-hour week and a higher value based on a 9-hour day and 45-hour week. The imputed weekly rate for infants, toddlers, preschoolers, and school-aged children was set as the weekly rate where one was reported, and as the mean of other rates reported (converted to a weekly equivalent) when no weekly rate was reported. No part-time rates were considered in these calculations. The rates were calculated with weights for county and facility type.

Statistical Reliability and Validity

The U.S. Department of Health and Human Services, Administration for Children and Families has established a set of standards for assessing the statistical reliability and validity of child care market-rate surveys. As noted in the regulatory language, these standards were derived predominately from the 2008 *Study of Market Prices: Validating Child Care Market Rate Surveys* from the Oregon Child Care Research Partnership.²⁶ The standards are paraphrased below, and for each,

²⁶ Deana Grobe, Roberta B. Weber, Elizabeth E Davis, J. Lee Kreader, and Clara C. Pratt, *Study of Market Prices: Validating Child Care Market Rate Surveys* (Corvallis, OR: Oregon State University, Oregon Child Care Research Partnership, 2008), <https://health.oregonstate.edu/sites/health.oregonstate.edu/files/sbhs/pdf/Validity-Study-FINAL-1-27-09.pdf>.

we assess the 2017 Michigan Market Rate Survey process and results relative to the standard:

1. Includes the priced child care market. The survey includes providers that charge a price established through an arm's length transaction, i.e., not relatives or friends.

The 2017 Michigan survey targeted the priced child care market as recommended.

2. Provides complete and current data. The survey is based on a comprehensive sampling frame that fully captures providers in the priced market. The survey reflects up-to-date information for a specific time period.

The 2017 Michigan survey was based on a complete sampling frame of all licensed child care providers in the priced market. The survey was conducted over a three-month period with results promptly reported.

3. Represents geographic variation. The survey includes providers from all geographic parts of the state and reports price data by substate regions.

The 2017 Michigan survey included providers from every county and price data are reported by county and by Great Start to Quality region.

4. Uses rigorous data-collection procedures. The survey uses quality procedures, regardless of the method (mail, telephone, or web survey), or administrative data. The data includes a response from a high percentage of providers (65% or higher is desirable and below 50% is suspect). Understanding that response rate is only one aspect of survey reliability and validity, the sample design should be strong and the impact of nonresponse bias should be carefully examined to ensure the full universe of providers is reflected in the findings. Surveys should be conducted in languages other than English, and other steps taken to reach key subgroups.

While every effort was made to ensure quality data-collection processes within the scope of time and resources available to the team, the overall participation rate for the 2017 Michigan survey was 29%—well below the target response rate, although substantially increased relative to the prior Michigan survey.

When response rates are less than what best practices recommend, analysts should examine the respondents in comparison to non-respondents to try to identify any systematic differences between the groups. As represented in Table 7, survey respondents were substantially more likely to be represented in IBilling data, indicating they have billed the State of Michigan for subsidy reimbursements over the course of the last two years. Centers responding to the survey had greater average capacity (80) than non-respondents (68), and

were approximately two years “older” based on their original license dates, which averaged 2004.66 for respondents and 2006.25 for non-respondents.

Table 7. Comparison of Selected Characteristics of Responding and Non-Responding Providers

Survey Status	Facility Type	Mean Capacity	Number	Average Year Licensed	Percentage Having Recently Billed the CDC Program
Respondent	Center	80.0	1,213	2004.7	48%
Non-Respondent	Center	68.2	3,253	2006.3	23%
Respondent	Group Home	11.9	910	2007.0	54%
Non-Respondent	Group Home	12.0	2,194	2006.6	34%
Respondent	Family Home	6.0	603	2008.6	38%
Non-Respondent	Family Home	6.0	1,137	2007.7	23%

Although there were clear and meaningful differences between those responding to the survey and those not responding in terms of past participation with the CDC program (as evidenced by having a record in the IBilling system), no differences in rates could be discerned. The research team conducted an analysis of variance (ANOVA) using the presence of an IBilling record as the grouping variable and final hourly blended rate for infants, toddlers, preschool, and school-aged children as the dependent variable, and conducted the analysis separately for family homes, group homes, and centers. While differences in mean rates did emerge, they were not statistically significant and not consistent in terms of which rate was higher (i.e., among the providers with or without IBilling records).

Similarly, no clear of impact of year first licensed on rate data could be discerned. The researchers examined scatterplots for the final hourly rates for all age groups and the initial licensing dates. While a handful of the oldest providers (licensed in the 1970s and 1980s) did show modestly higher rates, there were too few of these licensees—and too modest a difference in the average “age” of centers participating versus centers not participating—to conclude any impact on the rate data.

PPA chose to not weight data based on IBilling records or facility age based on these findings that no bias (related to prices) was introduced by differences in the characteristics of responding providers versus nonresponding providers.

5. Analyze data in a manner that captures market differences. The survey should examine price per child care slot as larger providers serve more families. Samples should be weighted, and price data should be collected and analyzed separately for different age groups and categories of care.

The examination of price per slot was complicated for the 2017 Michigan survey. Ultimately the research team opted not to weight the data based on center capacity, even though some tendencies for larger centers to have higher prices were apparent. The team made that decision due to challenges interpreting the capacity data. Licensing records have one data point for capacity—total permitted capacity at any single time. While survey questions asked providers to identify the number of slots for children in each of the four age groups, we found that reported slots, in aggregate, were substantially greater than known capacity. For example, a provider might have a state-reported capacity of 100 and report 30 slots for infants, 45 slots for toddlers, 45 slots for preschool, and 30 slots for school-aged children, totaling 150. While we believe the discrepancies are a function of part-time attendance and specialty programs (100 half-time preschoolers is compatible with a capacity of 50), the data are inadequate to fully disentangle which children are being served full time and which are being served part time, which is the data needed to allocate total capacity to the varied age groups.

If we were to weight reported rates for infants, toddlers, preschoolers, and school-aged children alike by the single capacity in licensing records, we would have been assigning the full capacity of any facility to each age group—a real distortion if one considers the differences between three centers with capacity of 100, the first of which serves children across the age ranges, the second of which specializes in preschool, and the third of which specializes in part-time service and cannot accommodate families with parents working full time.

These data quality considerations outweighed the marginal improvement in calculated rates that could have been afforded by introducing a slot-based weight. We also note that since larger centers are modestly overrepresented in the data, and tended to report modestly higher rates, the impact of a slot-based weight would have been dampened.

As described elsewhere in this appendix, survey data were weighted on the basis of county and facility type and rate analyses were conducted separately for four age groups and three facility types.

Methods-Related Recommendations for Future Surveys

1. Help providers distinguish between a billing cycle and a price structure. When asked to describe how they charge, many providers inadvertently mixed their thoughts about how they charge with when they bill. For example, a provider who charges hourly but bills weekly or monthly might have reported that they charge weekly and the rate is \$3.75.
2. Collect fewer rates per provider. The distinction between full-time rates and part-time rates was not particularly useful in the survey insofar as providers seemed to define “full time” and “part time” in their own terms.
3. Ask providers to confirm an imputed hourly rate as a means of getting corrections made. Online surveys and operator-assisted programming is adequate today to share the math with providers taking the survey and enlist them in making corrections. If providers enter bad data it should be immediately apparent to them if an imputed rate can be fed back for confirmation.
4. Add governors to fields capturing rate and hours data to reduce the amount of erroneous data entry. For example, hourly rates for infants are highly unlikely to be less than \$2 or more than \$20, and hours-in-care for a provider charging weekly should be at least 10 and less than 100.
5. Train interviewers. When providers reported a rate of “one sixty” for weekly care, interviewers sometimes entered this as \$1.60 and sometimes as \$160.
6. Capture the average and/or maximum hours of care for the price by age group, not just overall. In several instances the PPA analyst found reasonable rates for infants, toddlers, and preschoolers combined with unreasonable rates for school-aged children. Given that the survey was administered while school was in session, providers may have been serving school-aged children for far fewer hours per week but could not tell us so as only one field for specifying hours covered by the weekly fee was offered. In addition to differences for school-aged children, formal preschools may operate on a different schedule than routine day care.
7. Capture data on preschool programming. Another source of tension for the analyst was high-priced preschool programming. It would be helpful for interpretation of rate data to understand whether a rate associated with preschool-aged children is also associated with a preschool experience.
8. If the survey is distributed via listserv, make effort to clarify for recipients what other outreach has occurred. If those receiving an e-mail know that someone else in their building may already have completed the survey, it may reduce the amount of duplication.

Provider Cost Analysis Methods

To assess the cost of quality care to meet the health and safety standards in Michigan, PPA used a pre-programmed model: the Provider Cost of Quality Calculator (PCQC) developed for the U.S. Administration for Children and Families’

Office of Child Care by Andrew Brodsky and Simon Workman at Augenblick, Palaich and Associates and Anne Mitchell at the Alliance for Early Childhood Finance.²⁷ The PCQC is a dynamic web-based tool that calculates the estimated cost of the inputs used by providers to deliver services at various levels of quality. The PCQC model considers hypothetical expenditures and revenues for child care centers and home settings separately.

To determine what impact various factors thought to be cost drivers could have on the bottom line for operating costs, the model was used to create multiple scenarios by systematically altering several of these factors. This is a sensitivity analysis. Cost drivers that were manipulated for assessment include:

- Level of star rating
- Quality activities such as additional professional development time and conducting screenings
- Teacher/caregiver-to-child ratios
- Enrollment as a percentage of capacity
- Percentage of families receiving the CDC subsidy
- CACFP participation and mix of eligible children

Data Sources

While the PCQC provides default values for center and home expenditures, the user guide provides direction to refine those data with more accurate values to better reflect the current costs in Michigan. To accomplish the task of gathering more accurate data to use in populating the PCQC scenarios, PPA first determined what model questions could be answered using secondary data sources. The secondary data sources used for the study are summarized in Table 8.

²⁷ Anne Mitchell et al., *Provider Cost of Quality Calculator*.

Table 8. Summary of Secondary Data Sources and Their Use in the PCQC Model

Source	Type of Data Accessed	Use in PCQC Model
Bureau of Labor Statistics (BLS)	2015 salary estimates for child care workers in Michigan	Estimate personnel costs
Early Childhood Investment Corporation (ECIC)	Great Start to Quality standards and ratings data	Adjust model inputs, including salary levels, teacher-to-child ratios, staff time for quality-related activities, and assessment costs, based on common differences among providers at different star ratings
Michigan Department of Education (MDE)	Current CDC subsidy rates, by age group in care, provider type, and star rating	Estimate revenue from subsidies
Center for Educational Performance and Information (CEPI)	Base rates for free and reduced lunches for pre-K	Estimate revenue from Child and Adult Care Food Program (CACFP) participation
2017 Michigan Child Care Market Rate Survey	Full-time weekly tuition rates and enrollment data	Estimate revenue from tuition and average enrollment as a percentage of overall capacity

As a means of testing and further refining the PCQC input values, PPA conducted interviews with six home-based providers and five child care centers. Separate interview tools were developed for centers and home-based providers, which are included in Appendix C. The questions in both instruments focused on each provider's estimates of annual operating costs, including both personnel and non-personnel costs. Cost components were grouped in a manner that would allow PPA to ask providers fewer questions about the cost items, while still being able to enter accurate estimates into the PCQC tool. The interviews also provided the opportunity to collect provider input on the factors that most influence tuition rates, the impact of current regulations on costs, and the costs associated with providing quality child care and in meeting health and safety requirements. To facilitate the process of recruiting providers to participate in interviews, the Office of Great Start

provided PPA with a list of providers who had been responsive to previous requests for input. In addition, interviewees received \$50 for their participation.

Model Inputs and Assumptions

Base scenarios for the average 1-star center, 1-star family home, and 1-star group home were constructed in the PCQC tool.

Overall Assumptions

All scenarios used the following State of Michigan definitions for age groups:

- Infant – birth to 1 year
- Toddler – 1 year to 30 months
- Preschool – 30 months until eligible to attend kindergarten
- School-age – kindergarten or 5 years old but less than 13 years

School-age children were found to be problematic in the scenarios because the PCQC assumed they would be attending care full-time, rather than after-school care and care during breaks.

Maximum group size for centers and homes were set using State of Michigan definitions. Where maximum group size was undefined for center preschool and school-aged children, the number of children in the ratio was doubled.

To fit the PCQC model, hourly subsidy reimbursement rates needed to be converted to full-time weekly rates. According to the Market Rate Survey, full-time children are in care for both centers and homes at an average of just over 9 hours a day. Therefore, hourly subsidy rates were multiplied by 45 hours to get a full-time weekly rate for the PCQC model.

The previous market rate survey indicated that, apart from Head Start providers, very few centers received other revenue besides tuition.²⁸ Therefore, the other revenue category was left as zero in the basic scenario.

Michigan's minimum wage was set to the new 2018 level of \$9.25. Minimum wage was used in the PCQC model to estimate pay for substitutes at centers and assistants for homes.

²⁸ Public Consulting Group, *Child Care Market Rate Study*, May 2015, https://www.michigan.gov/documents/mde/MI_2015_MRS_Final_Report_493236_7.pdf.

Assumptions for Center-Based Scenarios

Personnel. Personnel-related cost drivers included staff salary and benefits and staff size. There was a basic assumption that as a center's star rating increases, staff salaries will go up. Since a majority of centers were rated as 4-star or 5-star, the default average salaries determined by BLS were applied to centers at these rating levels, and the salary ranges used for centers with lower ratings were based on searching salary levels for jobs posted on recruitment Web sites requiring qualifications consistent with typical staff qualifications at each star.

Table 9. Annual Salary Estimates Used to Populate the PCQC Model Scenarios, by Position and Star Rating

Position	1 Star	2 Stars	3 Stars	4 Stars	5 Stars
Director	\$41,600	\$41,600	\$45,760	\$49,640	\$49,640
Teacher	\$22,880	\$29,120	\$29,120	\$31,010	\$31,010
Assistant	\$18,720	\$20,800	\$20,800	\$22,510	\$22,510
Administrative Assistant	\$24,000	\$24,960	\$27,040	\$31,000	\$31,000

Most centers in Michigan lack an educational coordinator, as administrative activities are typically done by a single director. So education coordinators were left out of the scenarios. Health consultants were also left out of the scenarios, as school nurses do not typically exist outside of a school district.

The PCQC model assumes that requirements to have full-time staff are based on the number of children enrolled. However, the State of Michigan licensing regulations set full-time staff requirements by the number of hours the center is open in a day. As such, all of the center-based scenarios assumed the presence of a full-time director. An administrative assistant was added for scenarios where there were 40 or more students enrolled.

Additional personnel costs were related to mandatory benefits. Worker's compensation was set to \$0.93, which was the average employer cost per \$100 of covered wage for the State of Michigan in 2015.²⁹ The unemployment insurance tax rate was set to 2.7, which is the liability rate for new employers in the State of Michigan. This rate can range between 0.06% and 10.3%, depending on aspects such as years in business and type of industry. The maximum dollar amount taxed per employee for unemployment insurance was set to \$9,000.³⁰ The State of Michigan does not require employers to provide disability insurance, so this was set to zero.³¹ It was assumed there were no additional benefits to staff.

Non-Personnel. The PCQC model divides non-personnel cost drivers into per-child costs, per-classroom costs, per-staff costs, and per-site costs. The types of costs included in each category are as follows:

- Per-child costs
 - Food and food prep
 - Kitchen supplies
 - Educational supplies and equipment
 - Office supplies
 - Office equipment
 - Insurance, such as liability and accident
 - Postage
 - Advertising
- Per-classroom costs
 - Rent/lease
 - Utilities
 - Building insurance
 - Maintenance, repairs, and cleaning
- Per-staff costs
 - Professional development
 - Consultants
 - Per-site costs
 - Telephone and internet
 - Audits
 - Franchise fees

²⁹ Worker's Compensation: Benefits, Coverage, and Costs. Table 14. National Academy of Social Insurance, Washington, DC. October 2017. https://www.nasi.org/sites/default/files/research/NASI_Workers%20Comp%20Report%202017_web.pdf.

³⁰ ADP. 2017 Fast Wage and Tax Facts. <https://www.adp.com/-/media/Compliance/2017%20Fast%20Wage%20and%20Tax%20Facts/2017FastFactsMI.ashx>

³¹ "Michigan Disability Insurance: What you need to know," BLR, <https://www.blr.com/HR-Employment/Benefits-Leave/Disability-Insurance-in-Michigan>.

- Credit card processing fees
- Permits
- Transportation
- Payroll costs

To estimate non-personnel costs, the annual costs in each category were calculated for each interviewee and averaged. Overall, the estimated average annual non-personnel expenditures totaled \$91,131.

The full-time weekly tuition rates, by star rating, for centers were based on the Market Rate Survey conducted by PPA. When tuition rates were reported by providers for a time period other than weekly, weekly rates were calculated. The rates at the 4-star level were applied to the 5-star level, because there were too few centers at the 5-star level to produce a stable estimate.

Table 10. Weekly Tuition Rate Estimates for Centers, by Star Rating

Age Group	1 Star	2 Stars	3 Stars	4 Stars	5 Stars
Infant	\$242	\$198	\$223	\$246	\$246
Toddler	\$236	\$197	\$216	\$242	\$242
Preschool	\$196	\$181	\$186	\$199	\$199
School-age	\$153	\$149	\$149	\$163	\$163

Cost drivers that were manipulated based on the star level across the PCQC scenarios constructed included:

- Teacher-child ratios
- Use of student assessments
- Additional staff time spent on quality activities
- Participation in CACFP

ECIC data were used to determine at which star rating level to apply which changes. For instance, based on detailed Great Start to Quality scoring data, centers tended to start reducing teacher-to-child ratios at the 4-star level. However, the providers interviewed indicated that ratios were often only smaller for preschool and school-age classes, while ratios for infants and toddlers stayed at the levels required by licensing rules. In addition, centers tended to start conducting student assessments at the 4-star level, and tended to participate in CACFP starting at the 3-star level. The percentage of additional staff time used for unpaid quality

activities was set at the PCQC recommended base of 20%, and additional time was factored in starting at the 3-star level.

Table 11. PCQC Variable Inputs Based on Star Rating for Centers

Input	1 Star	2 Stars	3 Stars	4 Stars	5 Stars
Teacher-Child Ratios	Licensing rules	Licensing rules	Licensing rules	Preschool 1:8, School-age 1:12	Preschool 1:8, School-age 1:12
Assessments	None	None	None	\$20	\$20
Additional Staff Time	20%	20%	22%	26%	28%
CACFP	No	No	Yes	Yes	Yes

Cost drivers for centers that were not tied to star levels in the PCQC scenarios included:

- Number and type of classrooms
- The mix of children eligible for free and reduced lunch in the CACFP program
- Percentage of enrolled children receiving the CDC subsidy
- The enrollment efficiency (percentage of children enrolled per capacity)
- The percentage of bad debt

Scenarios constructed to examine the impact of changes in these factors were run based on centers at a 4-star level. Classrooms were set to 1 infant room, 1 toddler room, 2 preschool rooms, and 1 school-age room based on data from the Market Rate Survey. Poverty levels in the PCQC correspond to the levels for free and reduced school lunches. Based on data from CEPI,³² the base was set at 45% for free (<130% poverty) and 4% for reduced (130%-185% poverty). The PCQC assumes a bad debt of 3%. The default was kept as the base, but percentage of bad debt was increased in scenarios where there was a higher percentage of children using the CDC subsidy. Percentage of children using CDC subsidies and

³² Free and Reduced-Price Lunch Counts State Summary, Fall 2016 (Michigan), PreK level only, Center for Educational Performance and Information.

the percentage of enrollment efficiency were both estimated from the Market Rate Survey. The base subsidy level was set at the average of 15%. The base enrollment efficiency was set at the average of 88%. Various scenarios were modeled in the PCQC by adjusting each of the above factors. Additionally, scenarios also varied the assumption that providers were able to collect the financial gap between subsidies and tuition rates.

Assumptions for Home-Based Scenarios

Home providers tend to draw their salary from their profits—this was true for all home providers interviewed—so it was not considered part of their operating costs, and it was not considered in the PCQC model expenditures. Rather, the net revenue calculated in the model should be expected to include the home provider salary and purchase of their benefits. Models were created for both family homes and group homes. The scenarios were set to assume no assistants in family. In group homes, the margin of net profits would also need to consider some minimal payments to an assistant. Additionally, it was assumed in all scenarios there were no benefits for assistants.

Home provider expenses are divided into 100% business use (those costs directly attributed to the child care business) and shared business use of the home (the expenses that are shared with the residential use of the home). The 100% business use expenses include:

- Advertising
- Vehicle expenses
- Equipment depreciation liability and other insurances
- Interest on business debt
- Legal and other professional fees
- Office supplies
- Repairs and maintenance for the business
- Educational supplies
- Food
- Telephone and internet
- Training and professional development
- Professional membership fees
- Licensing and permits

The shared business use of the home expenses include:

- Mortgage/rent
- Property taxes
- Homeowners or renters insurance
- Repairs and maintenance to the overall house
- Utilities
- General household supplies

The expenditures related to the business use of the home were divided by the assumed time-space percentage to get the correct cost level for the child care business. Family home scenarios included \$13,992 as the estimate for total annual expenses, and \$37,017 was used as the estimate for group home scenarios.

The full-time weekly tuition rates for homes were based on the Market Rate Survey conducted by PPA. The rates for family and group homes were grouped together, because their reported tuition rates were similar. As with centers, the rates at the 4-star level were applied to the 5-star level, because there were too few homes at the 5-star level to produce a stable estimate.

Table 12. Weekly Tuition Rate Estimates for Home-Based Providers, by Star Rating

Age Group	1 Star	2 Stars	3 Stars	4 Stars	5 Stars
Infant	\$170	\$178	\$171	\$172	\$172
Toddler	\$165	\$166	\$164	\$167	\$167
Preschool	\$163	\$163	\$162	\$160	\$160
School-age	\$154	\$155	\$151	\$154	\$154

ECIC data was used to determine when to apply changes to star levels. Homes tended to start student assessments at the 4-star level. The lower end of the assessment cost spectrum per student was applied. The additional hours used for unpaid quality activities began at the 3-star level. Homes tended to participate in CACFP starting at the 2-star level.

Cost drivers that were manipulated based on the star level across the home-based PCQC scenarios constructed included:

- Use of student assessments
- Additional staff time spent on quality activities
- Participation in CACFP

Again, ECIC data were used to determine at which star rating level to apply which changes. Homes tended to start conducting student assessments at the 4-star level and tended to participate in CACFP starting at the 2-star level. The use of additional hours for unpaid quality activities tended to start at the 3-star level.

Table 13. PCQC Variable Inputs Based on Star Rating for Home-Based Providers

Input	1 Star	2 Stars	3 Stars	4 Stars	5 Stars
Assessments	None	None	None	\$20	\$20
Additional Hours/Week	0 hours	0 hours	4 hours	6 hours	6 hours
CACFP	No	Yes	Yes	Yes	Yes

Cost drivers for home-based providers that were not tied to star levels in the PCQC scenarios included:

- Number of children enrolled
- The mix of children eligible for free and reduced lunch in the CACFP program
- Percentage of enrolled children receiving the CDC subsidy
- Enrollment efficiency (percentage of children enrolled per capacity)
- Percentage of bad debt

Scenarios constructed to examine the impact of changes in these factors were run based on homes at a 3-star level. Enrollment levels were set for a family home to 1 infant, 1 toddler, 3 preschoolers, and 0 school-age children based on data from the Market Rate Survey. Enrollment levels were set for a group home to 1 infant, 3 toddlers, 6 preschoolers, and 2 school-age children. Preschool and/or school-age numbers were reduced at the 4-star and 5-star levels to see how smaller ratios that come with quality level impact net profits. Inputs related to poverty levels and bad debt for home-based providers were handled the same way as those inputs for centers. The proportion of families receiving subsidies was set at the average of 20% for family homes and doubled to 40% to see how the number of subsidized children impacted net revenue. For group homes, the proportions used were 26% and 52%. Additionally, scenarios also varied the assumption that providers were able to collect the financial gap between subsidies and tuition rates. The enrollment efficiency was set at the average of 88% and increased to 98% in both family and group homes to see how enrollment in context of capacity impacted the model.

Appendix B: Data-Collection Instruments

Michigan Child Development and Care (CDC) Market Rate Survey 2017

Introduction

Thank you for taking the Child Development and Care (CDC) market rate survey.

This survey should take less than 15 minutes to complete.

Information you share about the prices you charge for child care will help guide the state in setting future child care subsidy payment rates. Your individual answers will remain confidential. Public reporting of results will only include information combined from all providers who respond (i.e., "50% of providers charge daily rates.").

If you have questions or need assistance with completing the survey, the survey team can be reached at 1-800-665-8449 or ppa@publicpolicy.com.

Section 1 – Program Information

1. Please enter the following information about your child care business.

License number: _____

(Please note: Your license number begins with the letters DC, DF, or DG.)

Business name: _____

Facility type: Center Group Home Family Home

Address: _____

County: _____

2. Is this child care facility still open and providing care?

Yes → **Please skip ahead to question 4.**

No

3. Please describe why you are no longer providing care: _____

→ **Please proceed to the end of the survey on page 92.**

4. Do you provide any of the following? *Check all that apply.*

- Great Start Readiness Program
- Early Head Start
- Head Start
- 21st Century Community Learning Center
- None → **Please skip ahead to question 6.**

5. In addition to the program(s) you marked in question 4, do you also provide wraparound child care or other child care services that are not grant funded? *(Note: "Wraparound" means child care before and after a program like Head Start.)*

- Yes → **Please read the statement below before proceeding.**
- No → **Please proceed to the end of the survey on page 92.**

IMPORTANT NOTICE: In the rest of this survey, we will be asking about your child care program – the rates you charge, your waiting list, any registration fees you charge, and more.

When answering these questions, **please do not include time spent in Early Head Start, Great Start Readiness Program, Head Start, or 21st Century Community Learning Center as part of your child care program.**

For example, if you charge a weekly fee for child care that takes place before and after Head Start, and we ask how many hours a child attends for that fee, you would NOT include the Head Start hours. You would only include the before-and-after child care hours for which parents pay a fee.

Section 2 – Capacity and Enrollment

6. What is the total number of children you are able to serve at any one time (regardless of their age)? _____

7. Please enter the number of slots currently filled in each age group:

Infant (0 to about 1 year): _____

Toddler (about 1 to about 2 ½ years): _____

Preschool age (about 2 ½ to about 5 years): _____

School age (kindergarten or 5 years to about 12 years): _____

8. How many total slots do you currently have open? _____

9. If any of the open slots are assigned to specific age groups, please enter the number of open slots assigned to each age group. Leave blank if openings are not limited for specific age groups.

→ **If you do not have any slots open, please skip ahead to question 10.**

Infant (0 to about 1 year): _____

Toddler (about 1 to about 2 ½ years): _____

Preschool age (about 2 ½ to about 5 years): _____

School age (kindergarten or 5 years to about 12 years): _____

10. Do you currently have a waiting list?

Yes

No → **Please skip ahead to question 12.**

11. Please enter the number children on your current waiting list in each age group:

Infant (0 to about 1 year): _____

Toddler (about 1 to about 2 ½ years): _____

Preschool age (about 2 ½ to about 5 years): _____

School age (kindergarten or 5 years to about 12 years): _____

Age is unknown: _____

12. Do any of the children currently in your care have these characteristics? *Select all that apply.*

Special needs (learning disabilities, food allergies, asthma, etc.)

Homeless

Migrant

Speaks a language other than English at home

None

Section 3 – Tuition Rates and Other Fees

13. Do you charge a registration or application fee?

Yes

No → **Please skip ahead to question 15.**

14. When do you charge a registration fee? Select all that apply. For each instance selected, please also provide the amount charged.

At initial registration

Amount: _____ per child family

Twice per year

Amount: _____ per child family

Once per year

Amount: _____ per child family

Other – specify: _____

Amount: _____ per child family

If registration fees vary by child's age or other circumstances, please explain:

15. Do you charge any of the following fees? Mark all that apply. For each type of fee selected, please also provide the additional detail requested.

Do not charge any additional fees

Supply fee

Amount: _____ charged: Weekly Monthly Annually Other

Field trip fee

Charged: Flat fee for the year Individually by trip

Other type of fee (but NOT late fees, check bounce fees, etc.);

Describe: _____

Amount: _____ charged: Weekly Monthly Annually Other

Other type of fee (but NOT late fees, check bounce fees, etc.);

Describe: _____

Amount: _____ charged: Weekly Monthly Annually Other

If fees vary by child's age or other circumstances, please explain:

16. Do you currently care for one or more children *full time*?

Yes

No → **Please skip ahead to question 25.**

For the next set of questions, please think about the children you care for full time.

17. How do you charge your full-time rates for families that pay for child care out of their own funds (meaning, they do not receive any state and/or federal tuition assistance)? *Please check no more than TWO, focusing on the most common ways you charge.*

- Hourly
- Daily
- Weekly
- Monthly
- Something else, please specify: _____

18. For the first option selected in question 17 (i.e., hourly, daily, weekly, etc.), what is your standard, full-time rate per child for the following ages? If you do not serve a child of the stated age, please enter "none" for that age group.

Infant (for example, 9 months old): _____

Toddler (for example, 20 months old): _____

Preschool age (for example, 3 ½ years old): _____

School age (for example, six years old): _____

19. How many hours does a child spend in care AT MOST for the charge listed in question 18 (before parents are charged additional money such as overtime fees or late pickup fees)?

If the charge provided in question 18 is *hourly* or *daily*, please provide the maximum hours *per day*.

If the charge provided in question 18 is *weekly*, please provide the maximum hours *per week*.

If the charge provided in question 18 is *monthly*, please provide the maximum hours *per month*.

_____ hours, maximum

20. For the charge listed in question 18, how many hours does a FULL-TIME child spend in care on average?

If the charge provided in question 18 is *hourly* or *daily*, please provide the average hours *per day*.

If the charge provided in question 18 is *weekly*, please provide the average hours *per week*.

If the charge provided in question 18 is *monthly*, please provide the average hours *per month*.

_____ hours, on average

If you selected more than one option for question 17, please answer questions 21 - 23. Otherwise, please skip ahead to question 24.

21. For the second option selected in question 17 (i.e., hourly, daily, weekly, etc.), what is your standard, full-time rate per child for the following ages? If you do not serve a child of the stated age, please enter "none" for that age group.

Infant (for example, 9 months old): _____

Toddler (for example, 20 months old): _____

Preschool age (for example, 3 ½ years old): _____

School age (for example, six years old): _____

22. How many hours does a child spend in care AT MOST for the charge listed in question 21 (before parents are charged additional money such as overtime fees or late pickup fees)?

If the charge provided in question 21 is *hourly* or *daily*, please provide the maximum hours *per day*.

If the charge provided in question 21 is *weekly*, please provide the maximum hours *per week*.

If the charge provided in question 21 is *monthly*, please provide the maximum hours *per month*.

_____ hours, maximum

23. For the charge listed in question 21, how many hours does a FULL-TIME child spend in care on average?

If the charge provided in question 21 is *hourly* or *daily*, please provide the average hours *per day*.

If the charge provided in question 21 is *weekly*, please provide the average hours *per week*.

If the charge provided in question 21 is *monthly*, please provide the average hours *per month*.

_____ hours, on average

24. Sometimes children miss days because they are sick, the family is on vacation, or there is a holiday. How do you usually handle fees in those situations for FULL-TIME children? *Select one response on each line.*

Sick child:

- Parent still pays for the day(s) Parent does not pay for the day(s)

Vacation:

- Parent still pays for the day(s) Parent does not pay for the day(s)

Holidays:

- Parent still pays for the day(s) Parent does not pay for the day(s)

If you would like to share any more information about how you charge in these situations, please do so here:

25. Do you currently care for one or more children *part time*?

- Yes
 No → **Please skip ahead to question 35.**

For the next set of questions, please consider only those children in your program *part time*.

26. Do you charge parents of children in care *part time* a different rate than you charge parents of children in care full time?

- Yes
 No → **Please skip ahead to question 35.**

27. How do you charge your part-time rates for families who pay you directly (meaning, they do not receive any state and/or federal tuition assistance)? *Please check no more than TWO, focusing on the most common ways you charge.*

- Hourly
 Daily
 Weekly
 Monthly
 Something else, please specify: _____

28. For the first option selected in question 27 (i.e., hourly, daily, weekly, etc.), what is your standard, part-time rate per child for the following ages? If you do not serve a child of the stated age, please enter "none" for that age group.

Infant (for example, 9 months old): _____

Toddler (for example, 20 months old): _____

Preschool age (for example, 3 ½ years old): _____

School age (for example, six years old): _____

29. How many hours does a child spend in care AT MOST for the charge listed in question 28 (before parents are charged additional money such as overtime fees or late pickup fees)?

If the charge provided in question 28 is *hourly* or *daily*, please provide the maximum hours *per day*.

If the charge provided in question 28 is *weekly*, please provide the maximum hours *per week*.

If the charge provided in question 28 is *monthly*, please provide the maximum hours *per month*.

_____ hours, maximum

30. For that same charge listed in question 28, how many hours does a PART-TIME child spend in care on average?

If the charge provided in question 28 is *hourly* or *daily*, please provide the average hours *per day*.

If the charge provided in question 28 is *weekly*, please provide the average hours *per week*.

If the charge provided in question 28 is *monthly*, please provide the average hours *per month*.

_____ hours, on average

If you selected more than one option for question 27, please answer questions 31 - 33. Otherwise, please skip ahead to question 34.

31. For the second option selected in question 27 (i.e., hourly, daily, weekly, etc.), what is your standard, part-time rate per child for the following ages? If you do not serve a child of the stated age, please enter "none" for that age group.

Infant (for example, 9 months old): _____

Toddler (for example, 20 months old): _____

Preschool age (for example, 3 ½ years old): _____

School age (for example, six years old): _____

32. How many hours does a child spend in care AT MOST for the charge listed in question 31 (before parents are charged additional money such as overtime fees or late pickup fees)?

If the charge provided in question 31 is *hourly* or *daily*, please provide the maximum hours *per day*.

If the charge provided in question 31 is *weekly*, please provide the maximum hours *per week*.

If the charge provided in question 31 is *monthly*, please provide the maximum hours *per month*.

_____ hours, maximum

33. For that same charge listed in question 31, how many hours does a PART-TIME child spend in care on average?

If the charge provided in question 31 is *hourly* or *daily*, please provide the average hours *per day*.

If the charge provided in question 31 is *weekly*, please provide the average hours *per week*.

If the charge provided in question 31 is *monthly*, please provide the average hours *per month*.

_____ hours, on average

34. Sometimes children miss days because they are sick, the family is on vacation, or there is a holiday. How do you usually handle fees in those situations for PART-TIME children? *Select one response on each line.*

Sick child:

Parent still pays for the day(s) Parent does not pay for the day(s)

Vacation:

Parent still pays for the day(s) Parent does not pay for the day(s)

Holidays:

Parent still pays for the day(s) Parent does not pay for the day(s)

If you would like to share any more information about how you charge in these situations, please do so here:

35. Do you offer a discount on your rates to families who enroll more than one child in your program?

Yes, please describe:

No

36. Do you offer "after-hours" care? *Select all that apply. NOTE: We do not mean after-hours care when parents are late picking up their child; we do mean intentional child care offered in the evenings, overnight, or on the weekends.*

Evening (after 6:00 pm)

Overnight

Weekend

No after-hours care → **Please skip ahead to question 38.**

37. Do you charge different rates for evenings, overnight, or weekends?

Yes, please describe:

No

Section 4 – Subsidies

The Child Development and Care (CDC) program and other programs offer funding or subsidies to help qualified parents pay for child care. If you accept subsidy payments, you get paid by sending an invoice to the State of Michigan's CDC program.

38. How many children with subsidies do you have enrolled currently in the following age groups?

Infant (0 to about 1 year): _____

Toddler (about 1 to about 2 ½ years): _____

Preschool age (about 2 ½ to about 5 years): _____

School age (kindergarten or 5 years to about 12 years): _____

We do not currently have any children with subsidies enrolled. → **Please skip ahead to question 40.**

39. Sometimes, providers who accept payments from the state find that the state payments do not cover the full bill. Imagine the following:

John and Mary have their daughter Natalie enrolled in your child care full time. They receive state funding for care. Your standard weekly rate is \$275, but the state payment only amounts to \$225, leaving a balance of \$50. What do you do about the \$50?

- John and Mary pay the full \$50
- John and Mary pay some portion of the \$50
- John and Mary do not pay any fee at all
- We handle this situation differently. Please describe:

→ **Please skip ahead to question 41.**

40. Will you accept families receiving state child-care funding in your program in the future?

- Yes, we will accept everyone who applies
- Yes, we will accept these families, but we will limit the number accepted
- No, we will not accept these families

41. In your experience, are any of the following challenges with accepting families with subsidies? *Select all that apply.*

- The reimbursement rates are too low.
- There is a limit on the number of hours that can be reimbursed.
- The additional attendance tracking requirements are too much work.
- Subsidies pay for care after service is provided rather than before.
- Communication from the State is poor (i.e. don't know when families are dropped).
- I do not have a computer and/or internet to access the online system.
- There are not many families in my area who qualify for subsidies.
- The subsidies billing does not match my center's billing policy.
- Other, please specify: _____

42. What are the most important things the State of Michigan could do to improve the billing and payment process for child care providers like you?

43. What are the most important things the State of Michigan could do, overall, to improve this program for child care providers like you?

44. Do you have any additional comments about the rates you charge for child care or about the Child Development and Care (CDC) subsidy program?

Thank You!

Please return your completed survey using the postage-paid return envelope provided with the survey.

If you would like to be entered into the drawing for a \$100 Visa gift card, please provide your name and a phone number where you can be reached if you are selected.

Name: _____

Phone #: _____

Thank you for taking the time to complete this survey. We truly value the information you have provided. Your responses will help guide the state in setting future child care subsidy payment rates.

Many thanks,

Office of Child Development and Care

Interview Instrument for Child Care Centers

Center Name:

Person to be Interviewed:

Contact Info:

QRIS Rating:

Date of Interview:

PPA staff conducting IW:

Introduction

Hi, this is [Name] from Public Policy Associates.

First off, I want to thank you for your time today. We set up this time to talk today in order to help the Michigan Department of Education better understand what factors are driving the costs for you to deliver quality child care.

The questions we have for you today will help identify where you are spending the most time and money to operate, and how licensing regulations may influence your expenditures. If we do not cover an area that you think is an important aspect of your operating cost, we want to know that too.

The interview today should take approximately 45 minutes to an hour. Your answers today will only be viewed in full by our staff at Public Policy Associates. When we write the report for the Michigan Department of Education, your name and the name of your center will not be used in any way. The information you give will be grouped with other providers who are answering this interview to provide general answers to the questions we have.

If it's okay with you, I will be making an audio recording of our conversation. This is only for the purpose of cleaning up our notes later. If you want us to turn off the recording at any time we are happy to do that. Is recording okay with you? [Turn on Recorder]

Do you have any questions for me before we begin?

Operating Cost

Let's begin by discussing your annual operating costs. Overall, what does it cost to operate your child care business in a year?

[Interviewer note: This is all expenditures in a single year.]

And that's for about how many kids enrolled?

[Interviewer note: This is the average total enrollment last year.]

Cost Driver – Staff

Now, I'm going to ask you about the costs that go into that figure. Let's start with personnel.

How many staff do you employ?

[Interviewer note: This is the total number of FT and PT staff regardless of position. If they have a vacant position, ask whether the cost estimates they are giving include the salary for the vacancy or not. If the vacant position is included in their expenditures then add it to the count.]

About what percentage of your annual operating costs are associated with staffing your center? This includes wages and benefits.

About what percentage of your annual operating costs are associated with training new staff, professional development, or consultant expenses?

On a 1-5 scale, with 5 being very difficult, how hard is it for you to find qualified staff?

On a 1-5 scale, with 5 being very satisfied, how satisfied are you with the wages and benefits you are currently providing to staff?

How much turnover do you typically have in a year?

[Interviewer Note: This is the number of positions refilled in the past year. Could include multiple hires/loses for same position.]

Is there time where you or your staff are performing activities to maintain quality of child care that are not part of your or their paid time?

[Probes: Can you tell me more about that? What activities are they doing?]

[Interviewer note: This should only be an issue with higher QRIS ratings. Prompt for QRIS activities such as community partnerships or working on parent education.]

[If yes] On average, how much time is unpaid?

[Interviewer note: Record how much time unpaid as weekly, monthly, etc.]

Are there any regulations associated with hiring and staffing to meet health and safety regulations that contribute to higher operating costs?

[Probes: Can you tell me more about that? What is your cost to comply with this regulation? Does this impact how you set your tuition rates?]

[Interviewer note: Regulations are the legal requirements they must meet for health and safety reasons. These are listed in the LARA licensing rules document. This is different than the QRIS star rating standards, although they can comment on that also.]

Cost Driver – Nonpersonnel

Next, let's talk about your expenses beyond staff.

About what percentage of your annual operating costs are associated with your facility? This includes rent, utilities, cleaning, and maintenance.

About what percentage of your annual operating costs are associated with serving meals and/or snacks to the children? [Interviewer note: Need the percent expenditure regardless of whether they receive CACFP funds.]

About what percentage of your annual operating costs are associated with supplies and materials for the classrooms?

About what percentage of your annual operating costs are associated with office materials or equipment? This does not include telephone and internet; however, this does include mailings, copies, or advertising.

About what percentage of your annual operating costs are associated with your internet and phone, credit card processing fees, and other fixed costs for your business as a whole? This can also include transportation, audits, franchise fees, or costs to do payroll.

[Interviewer note: The percentages should add to 100%.]

Are there any regulations to meet health and safety regulations associated with non-personnel issues that contribute to higher operating costs?

[Probes: Can you tell me more about that? What is your cost to comply with this regulation? Does this impact how you set your tuition rates?]

Licensing and Accreditation

When your child care license is up for renewal, about how many hours do you spend to complete the necessary paperwork?

Do have an estimate of how much you spend in inspections and other fees to maintain your license?

Are there any regulations associated with maintaining your child care license that contribute to higher operating costs?

[Probes: Can you tell me more about that? What would make the licensing renewal process easier?]

Are you also accredited?

[If yes] What is the time and cost associated with accreditation? How often do you incur those costs?

Cost of Quality

If you were to meet the standards necessary to qualify for the next quality star rating level, what do you estimate that would cost you? What sort of activities would you need to do?

[Interviewer note: If they are not planning to apply for the next level, this is hypothetical. We are trying to get to what costs they foresee and why they might not proceed.]

Would moving to the next quality star level lead you to increase salary and/or benefits for staff?

Would it lead you to have smaller teacher to child ratios for any age group?

Would it lead you to decrease the maximum group size for any age group?

Would moving to the next quality star level change the way you conduct your business?

At your current star level, does the revenue you collect from tuition cover the full cost of delivering quality care?

If you were to try and meet the standards for the next level of quality, do you anticipate that the costs of doing so would exceed the revenue you are able to collect at your current tuition rates?

Wrap-Up

We are almost done. I just have a few more questions.

Taking into account all of the cost factors discussed today, what factor(s) drive the tuition rates you charge?

When was the last time you raised your tuition rates?

If the State of Michigan decided to raise the minimum wage, at what new rate would that impact your staffing costs so that you would have to raise your tuition rates?

Is there a factor that we have not yet discussed that contributes a significant amount to your annual operating costs?

That's everything we have for you today. Is there anything else you would like to add?

Okay. Thank you again for your time today! We really appreciate your willingness to help!

As a thank you for participating in today's interview, we will be sending you a \$50 check. To whom should we make out the check to?

[Interviewer note: Could be the business name]

What address should we mail this to?

Interview Instrument for Child Care Homes

Home Name:

Family or Group Home:

Person to be Interviewed:

Contact Info:

QRIS Rating:

Date of Interview:

PPA staff conducting IW:

Introduction

Hi, this is [Name] from Public Policy Associates.

First off, I want to thank you for your time today. We set up this time to talk today in order to help the Michigan Department of Education better understand what factors are driving the costs for you to deliver quality child care.

The questions we have for you today will help identify where you are spending the most time and money to operate. If we do not cover an area that you think is an important aspect of your operating cost, we want to know that too. We will also ask you whether you think any regulations are causing your operating costs to be too high.

The interview today should take approximately 45 minutes to an hour. Your answers today will only be viewed in full by our staff at Public Policy Associates. When we write the report for the Michigan Department of Education, your name and the name of your business will not be used in any way. The information you give will be grouped with other providers who are answering this interview to provide general answers to the questions we have.

If it's okay with you, I will be making an audio recording of our conversation. This is only for the purpose of cleaning up our notes later. If you want us to turn off the recording at any time we are happy to do that. Is recording okay with you? [Turn on Recorder]

Do you have any questions for me before we begin?

Operating Cost

Let's begin by discussing your annual operating costs. Overall, what does it cost to operate your child care business in a year?

[Interviewer note: This is all expenditures in a single year.]

Cost Driver – Staff

Now, I'm going to ask you about the costs that go into that figure. Let's start with personnel.

How many hours do you work in an average week? Please include time that you are spending on business activities outside of spending time with the children, such as purchasing food or bookkeeping.

Do you issue yourself a regular paycheck or do you draw your salary from your profits?

[If paycheck] Is this included in the number you gave me as part of annual operating cost? Do you also include the cost of your health insurance and other benefits in your annual operating cost?

[Interviewer note: Many owners take business profit as their salary and do not issue themselves an official check. Many will also pay for their health, life, disability, and retirement after drawing their profit.]

[If yes] What percentage of your annual operating costs goes toward your salary?

Do you employ any assistants?

[Interviewer note: If no, then skip to next page]

[If assistant] About how many hours a year does your assistant(s) work?

[If assistant] Do you pay your assistant(s) minimum wage or higher?

[Interviewer note: record wage if higher than minimum wage]

[If assistant] Is your assistant's salary included in the number you gave me as part of annual operating cost? What about benefits?

[If yes] What percentage of your annual operating costs goes toward your assistant's salary?

[If assistant] On a 1-5 scale, with 5 being very difficult, how hard is it for you to find qualified assistants?

[If assistant] On a 1-5 scale, with 5 being very satisfied, how satisfied are you with the wages and benefits you are currently providing to your assistant?

[If assistant] How often do you have turnover with your assistant?

[If assistant] If the State of Michigan decided to raise the minimum wage, at what point would that impact your costs with your assistant so that you would have to raise your tuition rates or otherwise make changes to your business?

Is there time where you (or your assistant) are performing activities that are not part of paid time?

[Can you tell me more about that? What activities are being done?] On average, how much time is unpaid?

[Interviewer note: Record how much time unpaid as weekly, monthly, etc.]

Are there any regulations associated with caregiver responsibilities to meet health and safety regulations that contribute to higher operating costs?

[Probes: Can you tell me more about that? What is your cost to comply with this regulation? Does this impact how you set your tuition rates?]

[Interviewer note: Regulations are the legal requirements they must meet for health and safety reasons. These are listed in the LARA licensing rules document. This is different than the QRIS star rating standards, although they can comment on that also.]

Cost Driver – Business Expenses

Next, we will ask about your business expenses. As you are probably aware from your tax records, operational costs are divided into the direct expenses from running a child care business and those expenses that are a proportion of sharing your home expenses with a business.

About what percentage of your annual operating costs are associated with the direct child care business expenses? These are the expenses that exclusively come from the operation of the child care business—such as food for children’s meals and snacks, educational materials, office supplies, transportation, advertising, liability insurance, fees to accountants/tax prep/or credit card processing, professional development, professional membership dues, and licenses or permits.

[Interviewer note: In tax language, this is “100% business use expenses”.]

About what percentage of your annual operating costs are associated with the shared use of your home? These are the annual home expenses—such as mortgage and property taxes/or rent, insurance, utilities, repairs and home

maintenance, and cleaning supplies—that have been attributed as a proportion of your home’s use as the child care business.

[Interviewer note: This is the expenses for the square footage of the house used for child care out of the whole house. In tax language, this is “Business use of home expenses”.]

[Interviewer note: the percentages should add to 100%.]

Are there any regulations to meet health and safety regulations associated with non-personnel issues that contribute to higher operating costs?

[Probes: Can you tell me more about that? What is your cost to comply with this regulation? Does this impact how you set your tuition rates?]

Licensing and Accreditation

When your child care license is up for renewal, about how many hours do you spend to complete the necessary paperwork?

Do have an estimate of how much you spend in inspections and other fees to maintain your license?

Are there any regulations associated with maintaining your child care license that contribute to higher operating costs?

[Probes: Can you tell me more about that? What would make the licensing renewal process easier?]

Are you also accredited?

[If yes] What is the time and cost associated with accreditation? How often do you incur those costs?

Cost of Quality

If you were to meet the standards necessary to qualify for the next quality star rating level, what do you estimate that would cost you? What sort of activities would you need to do?

[Interviewer note: If they are not planning to apply for the next level, this is hypothetical. We are trying to get to what costs they foresee and why they might not proceed.]

Would moving to the next quality star level lead you to have a smaller group size or teacher to child ratio than required by licensing?

Would moving to the next quality star level change the way you conduct your business in any other way?

At your current star level, does the revenue you collect from tuition cover the full cost of delivering quality care?

If you were to try and meet the standards for the next level of quality, do you anticipate that the costs of doing so would exceed the revenue you are able to collect at your current tuition rates?

Wrap-Up

We are almost done. I just have a few more questions.

Taking into account all of the cost factors discussed today, what factor(s) drive the tuition rates you charge?

When was the last time you raised your tuition rates?

Is there a factor that we have not yet discussed that contributes a significant amount to your annual operating costs?

That's everything we have for you today. Is there anything else you would like to add?

Okay. Thank you again for your time today! We really appreciate your willingness to help!

As a thank you for participating in today's interview, we will be sending you a \$50 check. To whom should we make out the check to?

[Interviewer note: Could be the business name]

What address should we mail this to?

Child Care Centers Pre-Interview Operational Cost Worksheet

Thank you for agreeing to be interviewed regarding your center's operational costs to provide quality child care. In order to get an idea of what you are spending your resources on, we have broken down operational cost into several areas of potential expenses. We will ask for these numbers during the interview.

This worksheet is to give you advanced notice of the specific areas we will ask about so you can take some time to review your financial or tax records in order to provide this information. You do not need to be exact in your breakdown of percentages—ballpark figures are fine.

Overall, what does it cost to operate your child care business in a year?

- About what percentage of your annual operating costs are associated with staffing your center? This includes wages and benefits.
- About what percentage of your annual operating costs are associated with training new staff, professional development, or consultant expenses?
- About what percentage of your annual operating costs are associated with your facility? This includes rent, utilities, cleaning, and maintenance.
- About what percentage of your annual operating costs are associated with serving meals and/or snacks to the children?
- About what percentage of your annual operating costs are associated with supplies and materials for the classrooms?
- About what percentage of your annual operating costs are associated with office materials or equipment? This does not include telephone and internet; however, this does include mailings, copies, or advertising.
- About what percentage of your annual operating costs are associated with your internet and phone, credit card processing fees, and other fixed costs for your business as a whole? This can also include transportation, audits, franchise fees, or costs to do payroll.

All percentages should add to 100%.

Child Care Homes Pre-Interview Operational Cost Worksheet

Thank you for agreeing to be interviewed regarding your business's operational costs to provide quality child care. In order to get an idea of what you are spending your resources on, we have broken down operational cost into several areas of potential expenses. We will ask for these numbers during the interview.

This worksheet is to give you advanced notice of the specific areas we will ask about so you can take some time to review your financial or tax records in order to provide this information. You do not need to be exact in your breakdown of percentages—ballpark figures are fine.

Overall, what does it cost to operate your child care business in a year?

Do you include your salary and benefits in the annual operating cost above? Yes/No

If yes, your salary is in the annual operating cost:

About what percentage of your annual operating costs goes toward your salary and benefits?

Do you employ one or more assistant? Yes/No

Is your assistant's salary and benefits included in the annual operating cost above? Yes/No

If yes to both employing an assistant and including their salary in the annual operating cost:

About what percentage of your annual operating costs goes toward your assistant's salary and benefits?

All other business expenditures:

About what percentage of your annual operating costs are associated with the shared use of your home? These are the annual home expenses—such as mortgage and property taxes/or rent, insurance, utilities, repairs and home maintenance, and cleaning supplies—that have been attributed as a proportion of your home's use as the child care business.

This is the expenses for the square footage of the house used for child care out of the whole house. In tax language, this is "Business use of home expenses".

About what percentage of your annual operating costs are associated with the direct child care business expenses? These are the expenses that exclusively come from the operation of the child care business—such as food for children's meals and snacks, educational materials, office supplies, transportation, advertising, liability insurance, fees to accountants/tax prep/or credit card processing, professional development, professional membership dues, and licenses or permits. In tax language, this is "100% business use expenses".

All percentages applicable to your situation should add to 100%.

Appendix C: Great Start to Quality Regions

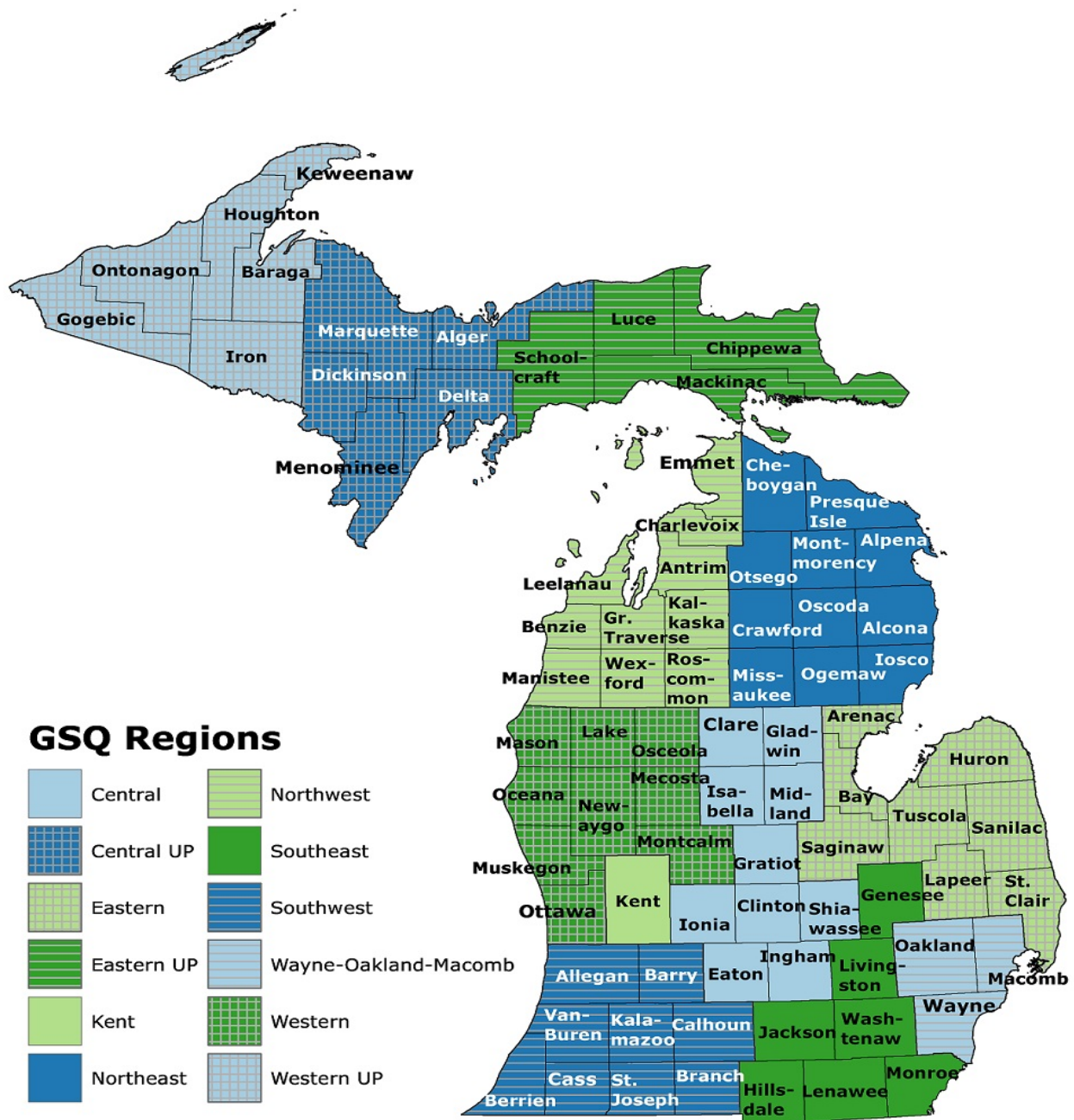


Figure 35. Great Start to Quality Regions

Appendix D: Data Tables

Table 14. Market Rates (75th Percentile), by County and Age Group – Rates Based on 3 or Fewer Providers Excluded

County	Infant: Rate	Infant: Count of Providers Included in Rate Calculation	Toddler: Rate	Toddler: Count of Providers Included in Rate Calculation	Preschool: Rate	Preschool: Count of Providers Included in Rate Calculation	School Age: Rate	School Age: Count of Providers Included in Rate Calculation
Alcona	x	x	x	x	x	x	x	x
Alger	x	x	x	x	x	x	x	x
Allegan	\$4.00	26	\$4.00	27	\$3.75	31	\$3.67	26
Alpena	\$3.45	8	\$3.42	9	\$3.19	9	\$3.35	7
Antrim	\$4.92	4	\$4.92	4	\$4.02	5	\$4.02	5
Arenac	x	x	x	x	x	x	x	x
Baraga	x	x	x	x	x	x	x	x
Barry	\$4.87	14	\$4.74	14	\$4.31	14	\$3.48	14
Bay	\$4.92	21	\$4.64	21	\$4.06	25	\$4.00	21
Benzie	x	x	\$4.45	4	x	x	x	x
Berrien	\$4.44	22	\$4.42	23	\$4.12	26	\$4.01	25
Branch	\$3.75	11	\$3.13	11	\$3.93	14	\$4.00	13

County	Infant: Rate	Infant: Count of Providers Included in Rate Calculation	Toddler: Rate	Toddler: Count of Providers Included in Rate Calculation	Preschool: Rate	Preschool: Count of Providers Included in Rate Calculation	School Age: Rate	School Age: Count of Providers Included in Rate Calculation
Calhoun	\$4.33	24	\$4.25	25	\$3.72	30	\$3.36	31
Cass	\$3.98	6	\$3.65	6	\$3.58	7	\$3.07	7
Charlevoix	\$3.61	5	\$3.49	5	\$3.38	6	\$3.21	4
Cheboygan	\$3.72	4	\$3.72	4	\$3.07	6	x	x
Chippewa	\$3.29	12	\$3.12	12	\$3.26	13	\$3.15	11
Clare	\$3.81	7	\$3.75	8	\$3.75	8	\$3.33	8
Clinton	\$5.03	19	\$5.26	20	\$9.15	22	\$5.03	15
Crawford	x	x	x	x	x	x	x	x
Delta	\$4.19	6	\$4.15	7	\$3.92	8	\$3.96	6
Dickinson	\$4.37	5	\$4.37	5	\$4.37	5	\$6.57	5
Eaton	\$3.89	34	\$3.82	35	\$3.75	37	\$3.33	28
Emmet	\$4.71	7	\$4.50	8	\$4.00	10	\$3.84	8
Genesee	\$5.14	43	\$5.08	46	\$4.49	55	\$4.28	47
Gladwin	\$3.50	5	\$3.50	5	\$3.05	5	\$3.00	5

County	Infant: Rate	Infant: Count of Providers Included in Rate Calculation	Toddler: Rate	Toddler: Count of Providers Included in Rate Calculation	Preschool: Rate	Preschool: Count of Providers Included in Rate Calculation	School Age: Rate	School Age: Count of Providers Included in Rate Calculation
Gogebic	x	x	x	x	x	x	x	x
Grand Traverse	\$4.43	28	\$4.48	31	\$4.05	35	\$3.80	25
Gratiot	\$3.78	17	\$3.59	17	\$3.35	18	\$3.33	18
Hillsdale	\$3.00	14	\$2.88	14	\$2.88	14	\$2.88	14
Houghton	\$4.80	4	\$4.50	5	\$3.93	7	\$4.18	5
Huron	\$3.66	12	\$3.55	12	\$3.53	12	\$3.17	12
Ingham	\$5.51	57	\$5.31	62	\$4.99	63	\$4.42	53
Ionia	\$3.50	17	\$3.41	17	\$3.36	18	\$3.38	17
Iosco	\$4.86	5	\$4.34	5	\$3.74	5	\$3.53	5
Iron	x	x	x	x	x	x	x	x
Isabella	\$4.61	18	\$4.51	19	\$4.20	21	\$3.34	15
Jackson	\$4.11	26	\$3.97	28	\$3.48	38	\$3.08	32
Kalamazoo	\$5.37	54	\$5.49	60	\$4.99	69	\$4.58	60

County	Infant: Rate	Infant: Count of Providers Included in Rate Calculation	Toddler: Rate	Toddler: Count of Providers Included in Rate Calculation	Preschool: Rate	Preschool: Count of Providers Included in Rate Calculation	School Age: Rate	School Age: Count of Providers Included in Rate Calculation
Kalkaska	x	x	x	x	x	x	x	x
Kent	\$4.98	145	\$4.63	160	\$4.35	169	\$4.00	150
Keweenaw	x	x	x	x	x	x	x	x
Lake	x	x	x	x	x	x	x	x
Lapeer	\$4.97	12	\$4.97	12	\$4.19	14	\$3.75	12
Leelanau	\$4.03	7	\$4.03	7	\$3.89	8	\$3.57	6
Lenawee	\$3.97	23	\$4.46	24	\$4.06	26	\$4.61	24
Livingston	\$5.62	24	\$5.59	24	\$4.94	29	\$4.26	26
Luce	x	x	x	x	x	x	x	x
Mackinac	\$3.05	5	\$2.95	4	\$2.91	5	x	x
Macomb	\$5.50	91	\$5.89	95	\$5.00	110	\$4.50	96
Manistee	x	x	x	x	\$12.88	4	\$12.81	4
Marquette	\$5.67	9	\$5.67	9	\$4.53	14	\$4.15	13
Mason	\$4.29	8	\$4.00	9	\$4.00	9	\$4.15	9

County	Infant: Rate	Infant: Count of Providers Included in Rate Calculation	Toddler: Rate	Toddler: Count of Providers Included in Rate Calculation	Preschool: Rate	Preschool: Count of Providers Included in Rate Calculation	School Age: Rate	School Age: Count of Providers Included in Rate Calculation
Mecosta	\$3.75	10	\$3.75	10	\$3.32	11	\$3.23	11
Menominee	x	x	\$3.14	5	\$2.97	5	\$2.97	5
Midland	\$4.22	21	\$4.22	22	\$4.02	24	\$4.19	22
Missaukee	\$4.75	4	\$4.75	5	\$4.00	5	\$4.00	5
Monroe	\$4.60	22	\$4.63	27	\$4.00	27	\$4.00	23
Montcalm	\$3.75	12	\$3.60	12	\$3.55	15	\$3.50	14
Montmorency	x	x	x	x	x	x	x	x
Muskegon	\$4.01	44	\$4.00	46	\$3.67	45	\$3.54	41
Newaygo	\$3.89	10	\$3.80	10	\$3.43	11	\$3.33	10
Oakland	\$6.41	154	\$6.37	169	\$5.98	188	\$5.00	148
Oceana	\$3.31	7	\$3.13	7	\$3.13	7	\$3.13	7
Ogemaw	\$3.00	6	\$2.99	6	\$2.75	6	\$3.05	6
Ontonagon	x	x	x	x	x	x	x	x
Osceola	\$3.86	6	\$3.68	6	\$3.31	6	\$3.31	6

County	Infant: Rate	Infant: Count of Providers Included in Rate Calculation	Toddler: Rate	Toddler: Count of Providers Included in Rate Calculation	Preschool: Rate	Preschool: Count of Providers Included in Rate Calculation	School Age: Rate	School Age: Count of Providers Included in Rate Calculation
Oscoda	x	x	x	x	x	x	x	x
Otsego	\$4.33	12	\$4.33	12	\$4.32	11	\$3.84	11
Ottawa	\$4.44	60	\$4.42	65	\$4.37	78	\$4.00	72
Presque Isle	x	x	x	x	x	x	x	x
Roscommon	x	x	x	x	x	x	x	x
Saginaw	\$4.60	46	\$4.48	47	\$4.03	49	\$3.81	46
Sanilac	\$4.57	7	\$4.43	7	\$3.56	11	\$3.94	7
Schoolcraft	x	x	x	x	x	x	x	x
Shiawassee	\$3.79	14	\$4.16	16	\$3.71	16	\$3.62	14
St. Clair	\$16.71	13	\$14.53	14	\$6.69	22	\$4.75	18
St. Joseph	\$5.31	17	\$5.10	17	\$5.10	17	\$4.20	17
Tuscola	\$3.56	8	\$3.56	8	\$3.26	9	\$3.24	8
Van Buren	\$4.10	14	\$4.10	14	\$3.74	16	\$3.50	16
Washtenaw	\$7.40	67	\$7.43	73	\$6.71	84	\$5.56	57

County	Infant: Rate	Infant: Count of Providers Included in Rate Calculation	Toddler: Rate	Toddler: Count of Providers Included in Rate Calculation	Preschool: Rate	Preschool: Count of Providers Included in Rate Calculation	School Age: Rate	School Age: Count of Providers Included in Rate Calculation
Wayne	\$5.93	182	\$5.87	199	\$5.52	233	\$5.34	189
Wexford	\$3.35	11	\$3.22	11	\$3.30	12	\$3.18	11

Table 15. Comparison of Subsidy Rates to Market Rates (75th Percentile) Among Centers, by Star Rating and Condensed Age Group – Market Rates Based on 3 or Fewer Providers Excluded

Star Rating	Infant and Toddler: Subsidy Rate	Infant and Toddler: Market Rate	Infant and Toddler: Count of Providers Included in Rate Calculation	Preschool and School Age: Subsidy Rate	Preschool and School Age: Market Rate	Preschool and School Age: Count of Providers Included in Rate Calculation
Empty Star	\$4.00	\$6.25	239	\$2.75	\$5.68	364
1 Star	\$4.00	x	x	\$2.75	x	x
2 Stars	\$4.25	\$4.70	11	\$3.00	\$4.61	13
3 Stars	\$4.75	\$5.98	262	\$3.50	\$5.32	306
4 Stars	\$5.00	\$6.22	146	\$3.75	\$5.24	210
5 Stars	\$5.50	\$9.84	7	\$4.25	\$5.28	20

Table 16. Comparison of Subsidy Rates to Market Rates (75th Percentile) Among Home-Based Providers, by Star Rating and Condensed Age Group

Star Rating	Infant and Toddler: Subsidy Rate	Infant and Toddler: Market Rate	Infant and Toddler: Count of Providers Included in Rate Calculation	Preschool and School Age: Subsidy Rate	Preschool and School Age: Market Rate	Preschool and School Age: Count of Providers Included in Rate Calculation
Empty Star	\$3.15	\$4.00	551	\$2.65	\$3.89	557
1 Star	\$3.15	\$3.94	28	\$2.65	\$3.50	30
2 Stars	\$3.40	\$4.00	123	\$2.90	\$3.80	124
3 Stars	\$3.90	\$4.00	329	\$3.40	\$3.89	336
4 Stars	\$4.15	\$4.22	30	\$3.65	\$4.12	32
5 Stars	\$4.65	\$5.00	15	\$4.15	\$4.60	15