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Child Care Subsidy Policies and Practices: Implications for Child Care Providers

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How much child care providers are paid, as well as how easily they can navigate the subsidy system, may ultimately affect their willingness to participate, their quality of care, and their financial stability.

This brief summaries the more in-depth report *Essential but Often Ignored: Child Care Providers in the Subsidy System* by Gina Adams and Kathleen Snyder with the assistance of Kathryn Tout, 2002, *Assessing the New Federalism* Occasional Paper No. 63. See http://www.urban.org for links to the complete paper.

Child care subsidies help low-income families defray some or all of the costs of purchasing care from child care providers in the larger child care market. Public funding for subsidies grew during the 1990s in large part because they were essential to welfare reform (as they help low-income parents work) and because they can also play a role in the development and safety of low-income children. While the system is based on parents being able to find child care providers willing to accept subsidies, relatively little is known about how providers experience the subsidy system, and the effects of subsidy policies and practices on provider's willingness and ability to participate. These issues are particularly important because one of the cornerstones of the federal child care program—the Child Care and Development Fund (CCDF, also known as Child Care and Development Block Grant)—is the principle that families receiving subsidies should have "equal access" to child care that is comparable to the care available to nonsubsidized children.

This brief (and the larger report upon which it is based) takes initial steps toward filling the gap in our knowledge of child care providers. Based on interviews and site visits in 17 sites in 1999, it examines subsidy policies and practices that can shape the experiences of providers serving subsidized children—particularly those that affect how much a provider receives in payment and a provider's overall experience with the subsidy system. According to our research, these issues may ultimately affect the willingness of providers to participate in the subsidy system, as well as the quality of care they provide and their financial stability.

In examining these issues, it is essential to recognize the realities facing state subsidy agencies. At the time of our research in 1999, many of our sites were unable to serve all eligible applicants, a problem that has since worsened in many states owing to current budget problems. A number of sites also faced administrative challenges, such as rising caseloads for caseworkers, administrative changes, and inadequate computer systems. As a result, subsidy agencies face a particular set of challenges and trade-offs as they work to identify ways to improve services for subsidized families.

Data and Research Methods

This research is based on interviews with state and local child care administrators and key experts, and focus groups with caseworkers, parents, and providers in the subsidy system in 17 sites in 12 *Assessing the New Federalism* (ANF) states between June 1999 and March 2000.[1] Providers in our focus groups were generally either center-based or family child care providers that were serving children receiving subsidies. Many were predominantly serving children receiving subsidies and more than half had been accepting subsidies for more than six years.

Our research focused on understanding how the *voucher* subsidy system operated at the local level. (We did not focus on "contract" payments.)[2] We asked respondents about a range of provider-related issues such as reimbursement rates, parent fees, and the payment process, as well as their experiences with the subsidy system. While providers were not the original focus of this project, we found the data about provider-related subsidy issues sufficiently compelling to produce these reports and undertake additional research in this area.[3] The research presented here should, therefore, be seen as a preliminary examination.

Our research approach allowed us to document the unique perspectives of those on the front line of the subsidy system—parents, providers, and caseworkers—who have been underrepresented in subsidy research. However, because our focus is on local agency practices, some of our findings are specific to the localities we visited or the individuals or agencies we interviewed. And since we spoke with few unregulated providers, our findings reflect the perspective of center-based and family child care providers. We also only focused on the experiences of providers in the subsidy system. Our research approach did not allow us to assess the prevalence of the problems discussed by providers and other respondents. However, a number of issues came up repeatedly across sites, suggesting that they were important to the provider community. In this report, we highlight only those issues that were discussed by a number of respondents across sites, unless otherwise noted.

Findings

Factors That Affect How Much Providers Are Paid

How much providers are paid by subsidy agencies is a critical factor for providers, and can be affected by a number of issues. Subsidy agencies set a maximum amount that providers can receive to serve a subsidized child, usually equal to what the provider would receive to care for a private-paying family as long as it is under the state maximum rate. The state does not necessarily pay this full amount, as parents are often assessed a parent fee based on a sliding fee scale. Therefore, the amount that providers actually receive is affected by both the policies and practices that affect the subsidy agency payment and those that affect the parent fee.

How much providers receive from the subsidy agency. How much providers receive from the subsidy agency reflects the policies that determine the maximum amount providers can get in theory, and the policies and practices that shape what they actually receive in practice. Policies that affect the maximum amount that agencies will pay in theory include:

Maximum reimbursement rate ceilings. State subsidy agencies set a maximum amount they will pay for child care, called the maximum reimbursement rate.[4] CCDF rules require that states conduct market rate surveys every two years to determine what providers charge, and recommend that states set their maximum rates at a level sufficient to cover the rates of at least 75 percent of the providers in that locality (the 75th percentile). At the time of our research in 1999, seven of the 12 ANF states set their rates at least at the 75th percentile of a current rate, one state allowed counties to set their maximum rates, and four had their rate ceilings at lower levels. Where states set rate ceilings is likely to affect whether parents have equal access, as the ceiling affects how much of the market can be accessed by subsidized families. It also affects how much of a provider's costs are covered by the state.

Differential rates. States may also set higher rate ceilings for certain types of care, or give localities discretion to do so, through "differential rate" policies. These higher rates are designed to act as an incentive for providers to meet certain quality standards or to provide a particular type of care that is harder to find, though there is as yet little research on the efficacy of these policies. The majority of ANF states—though not all—offered some type of differential rate at the time of our site visits. These higher rates were for providers that met some higher quality standards (five states), or provided care during nontraditional hours (two states) or for children with special needs (two states). In two states, localities had the discretion of deciding whether to offer differential rates. While a number of respondents discussed the importance of these policies for providers, some questioned whether they had the desired effect. Factors that may influence the effectiveness of differential rates include: are they set at levels that allow providers to cover the higher costs associated with such care; do providers know about them; and are the rates paid as a bonus to all providers or are they only available to those providers that charge these higher rates to private-paying parents. More research needs to be done in this area.

Providers with rates above the state rate ceiling. A challenging issue facing states is how to deal with providers whose rates are above the maximum payment rate. Eight of 12 ANF states allowed these providers to charge parents the difference between the state rate and the provider's rate (which parents would have to pay in addition to the parent fee set by the subsidy agency). This policy presents difficult trade-offs. On the one hand, allowing providers to charge this difference gives higher-end providers the ability to collect their full private-pay rate, though it places additional burden on low-income parents. On the other hand, *not* allowing providers to charge the difference in rates protects parents from having to pay higher fees, yet it requires providers with higher rates either to accept the lower rate, make up the difference elsewhere, or potentially not accept subsidized children (or limit the number of subsidized children they serve). These trade-offs further underscore the importance of setting the maximum reimbursement rates at levels that allow families to access more of the child care market, as this cushions the negative consequences of either approach.

While rate policies create the framework that determines the maximum amount providers can receive, several other policies and practices can undercut whether providers are actually able to get the full rate they are due from the state. These include:

Absent days. Payment levels can be affected by whether the subsidy agency pays for days the child is absent. Private-paying parents generally pay for an entire period (i.e., a month) even if their child ends up being home sick, since providers incur most of the same costs regardless of whether the child is present. However, subsidy agencies do not necessarily pay for all absent days. Almost all the ANF states set limits on the number of allowable absent days, ranging from 4–5 days a month to nearly all days, though some left the decision up to the county (Schulman, Blank, and Ewen 2001). For agencies, limiting the number of absent days they cover can seem logical, so they do not pay for long periods of time the child is not actually in care. However, this may result in providers not receiving the full rate they are due, and actually getting less than they would from a private-paying parent.

Reimbursement for other fees. Providers' charges also may not be covered if the state does not pay for standard fees that the provider charges to private-paying parents, such as registration fees or field trips. While there is little information on how prevalent these fees are, a number of providers in our focus groups discussed these costs. States varied in whether they covered these fees. While many covered at least some of them, in some cases these fees were paid only if, when added to the provider payment, the total did not exceed the maximum reimbursement rate. When subsidy agencies did not cover these costs, providers would need to forgo these funds, try to collect them from parents (if allowed), or not accept parents who couldn't pay the costs.

Part-time subsidies. Provider payments are also affected by whether the subsidy agency authorizes part-time subsidies, which might occur if the parent is working less than full-time. While part-time subsidies can make sense from an agency standpoint, some providers reported that it can be difficult to set up staffing patterns to accommodate part-time slots. Part-time subsidies can also affect their financial bottom line. Consequently, a number of providers reported requiring all private-paying parents to pay for a full-time slot. This issue becomes particularly complicated in cases where the agency changes the authorized subsidy from full-time to part-time as a parent's circumstances change. While we did not collect data on how common this practice was, this policy was in place in at least one of our sites, and could be particularly difficult for providers given the dynamic nature of low-income parents' employment patterns.

Reimbursement for full period of service. Payments can also be undercut if providers are not paid for the full time period they serve the child—for example, if the provider inadvertently ends up serving the child during some period when either the child or the provider was not authorized for payment. This situation seemed to most often occur during the child's transition into or out of the provider's care, or the family's transition into or out of the subsidy program. While this problem sometimes appeared to be due to provider error, providers also reported problems due to confusion or miscommunication with the subsidy agency. For example, some providers reported confusion about whether a parent was initially authorized for payment, or situations where they were not notified that a subsidized family lost its eligibility.

Regardless of the cause, the consequences were the same. Providers in a number of sites described situations where they ended up "getting burned" and "eating the costs" for the services they provided, since they were unable to get reimbursed by the state and it was difficult to recoup these costs from parents. These problems were further compounded by the fact that most subsidy agencies reimburse providers after they provide the service, which meant that providers could end up not discovering the problem for several weeks. Given that research suggests children receive subsidies for relatively short periods of time (3–7 months on average) (Meyer et al. 2002), providers may experience frequent transitions with the children they serve.

Clear communication between the subsidy agency and provider about authorizations and terminations can help ensure providers are aware of the family's status. A number of agencies, for example, notified providers in advance of any relevant changes in the parent's status to minimize these problems. In addition, some sites had developed practices—such as agreeing to pay providers for a limited time period before the provider was registered or the verification process was complete—to cover providers in cases where the parent was not approved or if there was a delay in the initial approval process.

How much providers receive from parents. Providers also often receive payments from subsidized parents through parent fees. While these fees are necessary for providers to receive their full rate, providers reported that collecting these fees can be difficult, which can further undercut the amount they receive. However, it seems likely that providers face similar challenges with private-paying parents. In fact, collection of payment from parents may be an area where there are benefits to serving subsidized children since providers have to collect less from subsidized parents than non-subsidized parents. And some providers noted that with subsidized families they know they will receive at least part of their payment from the subsidy agency. Although the challenge of collecting parent fees is not unique to subsidies, how this issue plays out for subsidized providers can affect the bottom line of what they receive, and thus could affect their willingness to serve subsidized families and/or the quality of care they can provide. The fees providers needed to collect for parents took three different forms, each of which is examined below.

Parent fee. The parent fee (also sometimes called copayment) is determined through a sliding fee scale that is usually set by the state. States varied widely in the fees that parents are expected to pay. In almost all the ANF states, providers were required to collect these fees from parents, though in a few cases the subsidy agency collected them. Providers overwhelmingly felt that collecting fees from parents was difficult. Many providers had a formal policy about parent fee collection, though they varied in how strictly they enforced this policy. There also seemed to be significant variation across sites in the extent to which subsidy agencies helped providers collect parent fees. Some subsidy agencies were not involved in the parent fee collection, viewing it as something that was between the parent and provider. Some sites required parents to prove they were up to date with their fee payments before they could change providers or re-enter the system following termination. And some agencies collected the parent fees for providers.

Other parent fees. Providers may also need to make up additional fees or charges that the state does not cover, such as registration and field trip fees, or the difference between the state rate and their private pay rate. State agencies varied in whether they allowed providers to collect these types of fees from parents. Where it was allowed, providers reported difficulties with collecting these fees, similar to the problems they had in collecting the agency-determined parent fees. Some providers noted that many low-income parents cannot pay these additional fees, so they end up covering the cost themselves. Some providers may also find other sources of funding to cover these costs.

Collecting the entire payment from parents. Who the agency actually pays—the provider, the parent, or some combined approach (i.e., a two-party check)—can also affect the amount providers receive. While in most sites the subsidy agency paid the provider directly, there were some sites where the agency under some circumstances paid parents directly or paid using a two-party check. Usually this occurred when parents were using child care that was exempt from licensing requirements. Paying parents directly was quite controversial across our sites and a number of our sites had stopped this practice within the past few years. Respondents fairly consistently reported that providers were less likely to receive payment with this approach. Respondents also noted similar concerns with the two-party check system used in a few of our sites—even though some agencies seem to have implemented this approach in an effort to increase the likelihood that the provider would be paid.

Factors That Affect How Providers Experience the Subsidy System

Other policies and practices can also affect providers, such as those that affect the payment process or providers' interactions with the system. These issues may influence the willingness of providers to participate and their financial stability.

Policies and practices that affect the payment process. Respondents highlighted a range of issues concerning the payment process and how it worked for providers, which are discussed below.

Getting authorized for payment. The first set of interactions that providers have with the subsidy agency involve getting authorized for payment. This process had three possible components. First, the subsidy agency needed to verify that the provider met the relevant health and safety requirements required under federal and/or state law. Second, the provider needed to have a payment agreement established with the agency. Third, the payment needed to be set up for the individual child. How these different components worked appeared to vary both across and within sites. In some cases, these seemed to be distinct steps involving multiple interactions, while in others they appeared to be handled with one interaction or form, or by phone. In some cases, the components also varied within sites by whether the provider was new to the system or was unregulated. For example, the process may be more streamlined for providers already in the system because the subsidy agency keeps providers' payment rates or license on file.

What providers have to do to get paid. Providers also need to regularly complete paperwork (e.g., attendance forms or bills) to receive payments from the subsidy agency. This paperwork ensures that the subsidy agency pays the provider correctly and can account for subsidy funds. However, some providers reported that paperwork requirements were burdensome and were one reason some providers would not serve subsidized families, or not accept families from certain agencies. While providers' concerns about paperwork requirements were often general, policies such as requiring parents to sign attendance forms, recording actual hours of attendance, completing separate forms for each child, and having to complete different paperwork requirements for different agencies appeared particularly problematic.

The level of detail required from providers is likely related in part to how closely the subsidy agency monitored attendance and the hours the child is in care. While inadequate funding and the need for responsible fiscal management give states incentives to monitor payments, the fact that paperwork requirements appeared to be easier in some sites, and that some sites had taken steps to reduce reporting requirements, suggests that it is possible to achieve a balance between these competing needs.

The timing and reliability of payments. Concerns about the timing and reliability of the payments came up frequently across a number of our sites, and appeared to affect providers' financial stability—particularly for those that depended more on subsidy payments.

A key issue for providers was whether they were paid prospectively or retrospectively. While anecdotal evidence suggests that providers generally require private-paying parents to pay for care before the service is provided (prospectively), subsidy agencies in all the ANF sites paid most child care providers retrospectively, though a few paid prospectively for certain parents. A number of providers noted that retrospective payments were problematic, as it meant being paid after service was provided and after the costs were incurred. This issue may be particularly challenging for providers with less revenue or a high proportion of parents receiving subsidies. However, retroactive payments can be easier for subsidy agencies as they can eliminate the need to adjust payments at the end of the pay period when children's attendance fluctuates—though some of this administrative burden could be minimized if agencies paid for absent days as required for private-paying parents.

Another issue that came up repeatedly was late payments. Across sites providers and subsidy staff described situations when initial payments had been delayed for several weeks or—in an extreme case—several months, as well as situations where regular payments were delayed. These delays, when combined with the delay already inherent in retrospective payments, could result in providers waiting significant periods of time to be paid. While some delays were mentioned by at least some providers, caseworkers, or parents in all the ANF sites, in some sites such reports appeared somewhat less common and in others it seemed that delays had occurred in the past and been resolved. Our research approach does not allow us to quantify the incidence of this problem, but the fact that these issues came up repeatedly across sites suggests this issue is worth examining more closely.

While in some cases the delays seemed to be due to provider error, in other cases the problem seemed to lie with the subsidy agency. These delays were sometimes due to delays in processing paperwork, administrative delays with transferring money, and challenges around implementing changes to the payment process or subsidy system.

A number of providers reported having significant financial difficulties because of payment delays, describing situations where they were unable to pay a car or mortgage payment, or had to take out a line of credit. In addition, some providers discussed how late payments made it more difficult to provide good quality care because, for example, they could not retain employees. Some respondents also reported that payment issues made some providers unwilling to participate in the subsidy system.

Factors that shape providers' overall interactions with the subsidy system. Providers described a number of issues that shaped the ease of their interactions with the subsidy agency and therefore may affect the willingness of some providers to participate in the subsidy program.

Number of programs or agencies. The number of subsidy programs or agencies operating at the local level can affect providers' experiences with subsidies. A number of ANF sites had either multiple subsidy programs or multiple agencies administering a single program in the locality (i.e., for different parts of the city). Having more than one agency or program did not appear to be a problem in and of itself, but it could present challenges for those providers that served children from more than one subsidy agency or program if those agencies or programs had different requirements and procedures. In some sites, there were different payment methods, forms, or pay schedules across agencies and programs. These issues may make a provider's experience with the subsidy system more complex, though some sites had taken steps to make policies more uniform across agencies and programs.

Staffing responsibilities within the agency. How staffing responsibilities are set up at the local agency—where the payments are handled and where that is in relation to the parent's caseworker—can affect how easily the provider interacts with the agency, in resolving payment issues and being able to advocate on behalf of the parent. Agencies seemed to vary in how they set up the provider-related staffing responsibilities. For example, payments could be handled by a separate billing office, by the same caseworkers that managed the parent's case, or by the state agency. In some cases, how the payments were handled varied by the office within sites. While there are trade-offs between specialization versus efficiency for each approach, the effectiveness of either depends upon the level of communication and trust between the provider and subsidy agency, how efficiently systems function, and whether caseworkers have the knowledge and time to be responsive.

Interactions with caseworkers. Caseworkers give providers a human connection to the subsidy system, and therefore can significantly affect providers' subsidy experiences. Providers talked quite a bit about their interactions with caseworkers. While some described staff that were helpful and willing to be flexible, we also heard of instances where caseworkers were disrespectful, difficult to reach, or generally unresponsive to provider problems. The quality of the interactions sometimes varied across agencies within a site, or even within a single agency. While many of the complaints may be "griping" on the providers' part, we found that many of the concerns seemed to be related to larger issues facing subsidy agencies, including rising caseloads, high staff turnover, and inadequate access to training and technical support.

Extent to which providers are viewed as partners. A less tangible, but related issue that seemed to affect the relationship between subsidy agencies and providers was the extent to which the subsidy agency saw providers as an integral part of the system. In some agencies, administrators and caseworkers spoke positively about providers, seemed to respect their needs, worked hard to get payments out on time, and identified ways to try to keep providers involved in the system. In other agencies, caseworkers seemed to view providers as adversaries, spoke disparagingly about them, or seemed to communicate with them only minimally. There was wide variation both within and across sites in where different agencies fell on this continuum, suggesting that some variation is due to local agency leadership and culture.

The relationship between agencies and providers is particularly important because providers can play a significant role in facilitating parents' interactions with the subsidy system. A number of providers across our sites reported assisting parents by telling them about the availability of subsidies, reminding them to recertify, and helping them complete subsidy requirements. Providers can be well suited to play this facilitating role because they have contact with parents and may be more familiar with subsidy rules. As a consequence, the subsidy agency may find it beneficial to work closely with providers to keep them informed, as providers can help parents navigate the system and perhaps minimize unnecessary terminations (Adams, Snyder, and Sandfort 2002).

Conclusions and Implications

Providers are a critical component of the child care subsidy system and play an essential role in achieving important social goals. They provide a service that allows parents to work and stay (or become) self-sufficient, and provide the environments where low-income children spend a significant time each week. Providers can also help parents navigate the subsidy system. The research summarized here provides some initial insights into the subsidy policies and practices that affect providers. Some of the key overarching issues suggested by this research are described below.

A broad range of policies and practices interact to affect the provider's bottom line. What providers are paid is affected by broad reimbursement policies (such as maximum reimbursement rate ceilings and differential rates), as well as less obvious policies and practices—such as whether providers are paid for absent days and extra fees, paid for the full time period they serve the child, and able to collect fees from parents. The insert shows the cumulative impact of these issues on how much a hypothetical provider would be paid under three different scenarios. While these scenarios are not meant to depict real sites, they illustrate the very real impact subsidy policies and practices can have on a provider's financial bottom line—both in terms of the total amount the provider receives as well as the stability of how much the provider receives each month.

Other factors also can affect providers' experiences. Other policies and practices—including paperwork requirements, timeliness of payment, consistency of requirements across different subsidy agencies, and caseworker interactions—may also affect how easy it is for providers to participate in the subsidy system. In many ways, the combined impact of these issues, along with those that affect how much providers are paid, creates the "real" cost or benefit of participating for the provider.

Provider-related policies and practices may also affect quality of care. Many providers had serious concerns about whether the amount of money they received was sufficient to provide good quality care, as well as the effects of irregular payments on the quality of care they provided. In particular, they mentioned how these issues affected staff salaries, staff turnover, and materials. While paying higher rates does not ensure quality care, it can be difficult for providers to provide good quality care if they do not have the resources needed to attract and retain qualified staff, and to have lower child-to-staff ratios, as well as decent materials and facilities. Subsidy reimbursement rate ceilings may also affect participation among higher-cost providers, some of whom may be providing higher quality care, though more research is needed in this area. Obviously, however, there are many systemic issues beyond subsidy policies that have a major impact on the quality of care that subsidized providers can provide and that families can access (Adams and Rohacek 2002).

Subsidy policies and practices may affect different providers differently. While some providers were reportedly unwilling to accept subsidies, other providers actively sought families receiving subsidies even though they may experience delays in payments or other challenges. This suggests that different providers may react somewhat differently to subsidy policies and practices—for example, because of their motivations for serving subsidized families, or whether they have alternative sources of funding or are heavily dependent upon subsidies.

Subsidy agencies can address the needs of providers. Despite challenges, some agencies and sites had implemented policies that provided more support to providers. Some of these strategies are described in the insert. This list demonstrates that subsidy agencies are able to address many of the issues identified in this brief, as these issues are not determined by federal policy. Further, while the devolved nature of the subsidy system creates certain challenges, it also provides a wealth of different approaches to subsidies at the local level. On the other hand, many subsidy agencies face serious funding constraints and are already unable to serve all eligible families. Without additional funding, addressing some of these provider-related issues may force agencies to make more difficult decisions. However, to the extent that these issues may limit equal access to child care for subsidized families—a fundamental principle of the CCDF—agencies may wish to examine their policies and practices, and begin to take steps if these policies appear to affect the willingness or ability of providers to serve subsidized children.

Notes

Analysis for this report was completed by the authors along with Kathryn Tout. The research presented is based on the site visits and data collection of a larger team of researchers, which includes the authors, James Barsimantov, Jeffrey Capizzano, Patricia McMahon, Deborah Montgomery, Stefanie Schmidt, Freya Sonenstein, and Kathryn Tout.

1. The sites/states were Alabama (Birmingham), California (Los Angeles, Oakland, San Diego), Colorado (Denver), Florida (Miami and Tampa), Massachusetts (Boston), Michigan (Detroit), Minnesota (Minneapolis), New Jersey (Jersey City), New York (Buffalo and New York City), Texas (El Paso and Houston), Washington (Seattle), and Wisconsin (Milwaukee). Mississippi, an ANF state, did not participate.

2. This research did not focus on subsidy funds administered through contracts. In a number of states, some part of the subsidy funds are delivered through a "contract" mechanism, though relatively few rely heavily upon this payment approach.

3. A new Urban Institute study will examine child care providers and the subsidy system in greater depth.

4. The state may allow localities to determine this policy (as was the case in Colorado).

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About the Authors

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Strategies to Address Providers' Needs

Many policies and practices that subsidy agencies have implemented seem to better support providers in the subsidy system. The list below outlines steps states and localities might consider if they wish to address the issues highlighted in this brief. It is based on strategies used by agencies studied in our ANF site visits. This is a preliminary list. There are, no doubt, many other interesting policies and practices in other agencies around the country.

"Backward Mapping"[a]

One approach to assessing social service systems is to examine how the system works from the provider's perspective and then to work backwards into identifying the causes of the problems uncovered and finding possible solutions. This could involve asking the following questions:

- From the providers' perspective, how easy or difficult is it to participate in the subsidy system? (This can be assessed through provider surveys or focus groups.)
- Where there appear to be challenges, where do they come from? State or local policy requirements? Local agency practices or leadership? Agency resources? Individual caseworkers? Some combination of the above?
- Are these situations necessary from the agency's perspective? What alternatives can be implemented to better meet the needs of providers?

Developing Strategies That Can Support Providers

1. ***Examine the extent to which subsidy system policies and practices follow market practices.*** Subsidy agencies can examine policies and practices around:

- Where market rate ceilings are set and how market rate surveys are conducted.
- How differential rates are implemented, whether providers below the reimbursement ceilings can access these higher rates, whether providers know about these rates, and whether differential rate levels are sufficient to cover the cost of providing the care.
- Whether absent day policies reflect how providers charge private-paying parents.
- Whether reimbursement policies recognize special fees—such as registration fees and field trip fees—that providers may charge private-paying parents.
- Whether paying providers prospectively is feasible within the context of agency procedures around monitoring payments and fraud.
- Whether there is clear communication between the agency and providers about when payments are initially authorized and when they are terminated, to minimize the likelihood that providers unknowingly serve children during times they are ineligible.
- Whether subsidy agencies follow provider policies about giving providers advance notice before termination.

2. Ensure that payments are made in a timely and reliable manner. Agencies can examine whether payment delays are common for initial and / or ongoing payments—and if so, why. For example, are they caused by local agency practices or more structural or administrative problems?

3. Identify ways to simplify the enrollment and payment process. Agencies can examine the cumulative burden of initial enrollment and payment requirements, and assess the necessity of each requirement. The fact that a number of agencies had simplified forms and requirements suggests that these additional requirements may not, in fact, be necessary.

4. Maximize consistency across multiple agencies and programs. Subsidy agencies can assess whether providers in their jurisdictions are likely to be serving children from multiple agencies or programs. If so, agencies can work together to develop consistent policies, procedures, and requirements to minimize the burden on providers. Having multiple agencies or programs is not necessarily a problem for providers, except when they must juggle different requirements.

5. Work toward clear communication and positive relationships between the agency and providers. Subsidy agencies can ensure that they communicate clearly with providers, and that providers know who to contact in case of questions or problems. Agencies can also examine their office practices to see whether providers are treated with respect. These issues are important components to helping providers function as partners in the subsidy system and to help them support parents.

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a. The technique (called "backward mapping") has proven an effective strategy in assessing social service systems. For more information see Richard F. Elmore, "Backward Mapping," *Political Science Quarterly* 94 (winter 1979): 601–16.

The Financial Bottom Line of a Hypothetical Child Care Provider under Three Scenarios over a Five-Month Period

Note: These scenarios are hypothetical, and are not meant to represent any particular site. For a fuller description of these scenarios, and the assumptions upon which they are based, see the full report.

The Parent/Provider Situation: Parent enrolls her child in the provider's program. The provider charges $445 / month, has a one-time initial registration fee of $65 and a $10 field trip fee (which occurs in the second month the child is in care). In the child's third month of care, the child is sick for six days. Halfway through that same month, the parent loses her job. In all scenarios, it takes the provider two weeks to fill a vacancy.

In the subsidy scenarios below (the "better" and "worse" scenarios), the parent begins to receive subsidies at the same time she starts her child with the provider. When she loses her job, she is given subsidies for two weeks of job search but is unable to find a job. As a result, at the beginning of the fourth month she is given a two-week advance notice that she will be terminated from the subsidy program, and loses her subsidy midway through the fourth month.

Three Scenarios

Private-Pay Scenario: Parent must pay all fees at the beginning of month, with no discounts for absent days. Parent must give two weeks advance notification of leaving the program, and does so halfway through the fourth month, leaving the program at the end of the month. A new private-pay parent begins care at the beginning of the fifth month paying the provider the monthly fee and registration fee at the beginning of the month.

Provider receives a total of $2,365, spread fairly evenly across the five-month period.

"Better" Subsidy Agency Scenario: The subsidy agency pays retrospectively. Agency pays registration and field trip fees, as well as covers all absent days. Agency requires parent to provide proof that copayments are paid. Agency notifies the provider in advance (at the beginning of the fourth month) that the parent will be terminated midway through the fourth month. The provider replaces the subsidized parent with a new private-pay parent, who begins care midway through the fourth month, paying the provider the monthly fee and registration fee at the beginning of the month.

Provider receives a total of $2,365, though monthly payments are consistently one month later than under the private-pay scenario because of retrospective payments.

"Worse" Subsidy Agency Scenario: The subsidy agency pays retrospectively, does not pay registration and field trip fees, and limits the number of absent days it will cover. It does not have policies to help providers collect parent fees. The subsidy agency makes initial payments late and fails to notify the provider that the parent was terminated from subsidies. As a result, the provider does not find out that the parent was terminated from subsidies halfway through the fourth month, until it shows up on their reimbursement midway through the fifth month. The provider requires the parent to leave immediately, but is unable to find someone to fill the slot until the beginning of the next month.

Provider receives a total of $1,558, spread unevenly over the five-month period owing to late initial payment.

The reduction in the provider's payment is because: the parent is unable to pay some fees (-$40), the subsidy agency does not cover two absent days (-$35), the provider serves the parent for a period of time unaware the parent is no longer eligible (-$223), and the provider is unable to fill the slot until the beginning of the next month (-$445). The provider also has not yet received the $65 registration fee from a new parent—which shows up in the preceding scenarios because the provider has already filled the vacancy—though this will be eliminated in month six when they fill the vacancy.

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