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Briefing Paper

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PENNSYLVANIA REIMBURSEMENT TO CHILD CARE PROVIDERS IS TOO LOW TO ENSURE QUALITY CARE

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Summary

The Commonwealth of Pennsylvania subsidizes the provision of child care and early education to children from low-income families. For delivering subsidized care, the Commonwealth reimburses child-care providers based on the amount that those providers charge other parents, up to a maximum referred to as a "ceiling rate" (low-income parents pay part of this reimbursement amount based on a schedule of required co-payments). For four different types of providers (center-based, group home-based, family, and unregulated) within each of Pennsylvania's 67 counties, ceiling rates are set for six types of full-time care (infants, young toddlers, old toddlers, pre-schoolers, young school-age children, and old school-age children) and six types of part-time care. New ceiling rates under Pennsylvania's child-care subsidy system are scheduled to go into effect today.

This paper presents preliminary analysis of the adequacy of the subsidy ceiling rates available to child-care centers. The paper looks at how rates have changed since 1994. The paper also examines how the proposed new rates compare with the current cost of delivering child care, as measured by wages and housing costs (i.e., the cost of space for a child care center) at the county level.

The paper's main findings follow.

- A large body of evidence, including a recent Legislative Budget and Finance Committee (LFBC) study (and a new survey that will be released later this month by the Keystone Research Center), shows that turnover rates are high in the Pennsylvania early care and education field. A central reason is that wages and benefits are near the bottom end of the labor market.[1]

- The increases scheduled for today will bring most ceiling rates for child care centers above 1994 levels, adjusting for inflation. Even with the scheduled increases, rates for full-time care will have increased only 7 percent since 1994, on average. In almost half of Pennsylvania counties, average inflation-adjusted center-based rates for full-time care will be less than 4 percent higher than they were in 1994. Particularly with a tight labor market, and wages rising in other sectors, modest increases in child-care rates have not been enough to alter a pattern of low compensation, high turnover, and mediocre care.

- While rates in all counties are inadequate, large inequities exist in rates across counties. Relative to the costs of delivering child care (which depend on the wages of child care workers and, to a lesser extent, on the cost of rent), rates in different counties vary by more than 50 percent. Similar inequity exists in rates relative to the cost-of-living in different counties.

- Making center-based rates more equitable relative to county-specific levels of child care wages and rent would require at least a 10 percent increase in rates in nine counties: Cambria, Clearfield, Jefferson, Luzerne, Lycoming, Northumberland, Philadelphia, Schuylkill, and Wyoming (and likely many other rural counties with above-average rates of poverty). Making rates more equitable relative to county child-care wages alone would require at least a 10 percent increase in the same nine counties plus Beaver, Cumberland, Dauphin, and Delaware counties.

- Since rates depend on what parents can afford to pay, there is a slight tendency for high-poverty counties to have less adequate center-based ceiling rates.

- The two counties with the lowest ceiling rates relative to wages and rent are both rural counties with above-average poverty – Clearfield and Jefferson.

- The county with the highest poverty rate, Philadelphia, has the ninth lowest average ceiling rate relative to wages and housing costs. The full-time Philadelphia rates for pre-school children and older school-age children would each require at least an 18 percent increase to come up to par with other counties. Rates may be especially low in Philadelphia because higher-income families with children tend to leave the city, especially as those children approach school age. (As the paper explains, this drives down the ceiling rate for school-age children.)

In light of the inadequacy of child care subsidies in Pennsylvania,we make the following recommendations.

- *Over and above the ceiling rate increases scheduled for today, Pennsylvania should raise ceiling rates across the board by a minimum of 6 percent*. Today's new rates are based on a March, 2000 survey of "market" rates. In response to this survey, centers probably reported rates established in the summer of 1999. Inflation has therefore eaten away an estimated 6 percent of the value of rates reported on the survey.

- As soon as practical, but no later than the end of calendar year 2001, *the Department of Public Welfare should target additional increases at the specific county rates that are currently lowest relative to wages and rent*.

- Over the next several years, *Pennsylvania should phase in a new approach to setting child care subsidies that is based on the cost of delivering quality care in each county*.

Background

Affordable, high quality child care reaps long-term benefits by helping ensure that children enter school with the social and cognitive skills necessary to succeed. According to the RAND corporation, each dollar invested in early education returns over two dollars in the costs of remedial education, unemployment, welfare, and the criminal justice system.[2] Research indicates, however, that the quality of most child care is mediocre.[3]

High-quality care depends on decent wages and benefits for teachers, which enable child care providers to attract and retain qualified, experienced staff. With the "market" cost of child care constrained by parents' ability to pay, wages and benefits end up low. As a result, providers cannot hire or hold onto educated, experienced staff.

As the current child care subsidy system in Pennsylvania operates, most low-income children – like most children of middle-class families — do not have access to quality care. Under the subsidy system, the Department of Public Welfare sets the ceiling amounts available to providers serving low-income children at the "75th percentile" of the private market rate. The 75th percentile is a rate above that charged to three quarters of parents in the private market and below that charged to one quarter of parents. (Although federal regulations require the Department to conduct a market survey, it does not require that this survey determine child-care subsidy rates.)

The idea behind setting ceiling rates at the 75th percentile is that children in low-income families should have access to most of the care that is available to children in higher income families. To establish the new rates scheduled to go into effect today, the Department conducted a survey of child care providers in March, 2001. Most child care centers set rates in the summer of each year and would therefore have reported rates establised in 1999 on the survey. Measured by the CPI-U-X1 (an inflation index maintained by the U.S. Bureau of Labor Statistics and available on line at www.bls.gov), inflation from 1999 to mid-2001 has been 6 percent.

Unfortunately, costs in quality programs – with wages and benefits high enough to attract and retain educated and experienced teachers - are normally above the 75th percentile market rate. Therefore, rates pegged to this rate do not give low-income children access to high quality programs. In practice, moreover, many children from low-income families use providers that charge below the ceiling rate because non-subsidy parents in their community cannot afford the 75th percentile. Both because ceiling rates are too low and because most centers (by definition) charge less than the 75th percentile, children from low-income families are denied the enriched programs from which research shows they benefit greatly.

Analysis

In light of the increase in rates scheduled to go into effect today, Keystone Research Center analyzed the adequacy of rates in Pennsylvania from two perspectives. We first examined changes in rates adjusted for inflation since 1994. We then compared rates across counties relative to child care wages and the cost of rent.

Rate Increases Since 1994. Table A1 compares the rates scheduled for implementation today with those established in 1994. For the sake of simplicity and ease of exposition, we averaged the percentage increase in all 12 center-based rates to get an overall average increase in each county.[4] The adequacy of different rates within individual counties sometimes varies considerably, as we shall see below in the case of Philadelphia.

While child care subsidy ceilings did not change for several years after 1994, Table A1 shows that the increases scheduled for today will bring most rates for child care centers above the level of 1994, adjusting for inflation. Even with the scheduled increases, however, rates for full-time care will have increased only 7 percent since 1994, on average. In almost half of Pennsylvania counties, average inflation-adjusted center-based rates for full-time care will be less than 4 percent higher than they were in 1994. Particularly with a tight labor market, and wages rising in other sectors, modest increases in child-care rates have not been enough to alter a pattern of low compensation, high turnover, and mediocre care.

Variation in Rates Across Counties. We next examined subsidy ceiling rates in different counties relative to child care wages and the cost of rent – the two primary costs in any child-care center. For child-care wages, we downloaded average weekly wages in Child Day Care Services, available on line for 44 counties from the Pennsylvania Department of Labor and Industry web page. For rent, we obtained a 1997 housing cost index from the Center for Rural Pennsylvania.[5]

With these data we computed an index of ceiling rates relative to wages for each of the 44 counties. We also computed an index of ceiling rates relative to wages and rent.

Our index of rates relative to wages equals the ratio of the average ceiling rate in each county to the average weekly wage in that county (within the Child Day Care services industry), with this ratio scaled up so that its average for all 44 counties equals 100. Scaling the ratio up to 100 makes it easy to see which counties have high rates relative to wages: the index in counties with high rates exceeds 100. It also makes it easy to see which counties have low rates relative to wages: the index in counties with low rates is less than 100. We took a similar approach in computing an index of rates relative to the cost of both wages and rent.[6]

Our index of rates relative to wages varies by over 50 percent – from 74 in Clearfield County to 125 in Armstrong County. Our index of rates relative to wages and rent also varies by over 50 percent – from 79 in both Clearfield and Jefferson Counties to 122 in Chester County.[7]

Using our index of rates relative to wages and rent, it is possible to compute the increase in rates necessary to bring counties with below-average rates up to the current average rate for the group of 44 counties. For example, a county with an index of 75 would need a rate increase of 33 percent to move up to 100. A county with an index of 80 would need a rate increase of 25 percent. Table 1 below lists all counties that would need a rate increase of more than 10 percent to bring their rates (relative to wages alone or to wages and housing costs) up to the average.

Ceiling Rates Compared to Poverty. Research suggests that quality child care is especially important to the long-term educational and social well-being of low-income children. For that reason, it is especially critical that low-income children have access to quality child care. To take a look at how much the child care subsidy system accomplishes this goal, we examined the relationship between poverty in Pennsylvania counties and our index of rates relative to wages and rent. As Figure 1 shows, the relationship between poverty and the adequacy of rates is not strong. There is, nonetheless, a slight tendency for high-poverty counties to have less adequate rates. (The relationship of poverty to low rates might be stronger with information on the 23 mostly rural counties for which we have no wage data.)

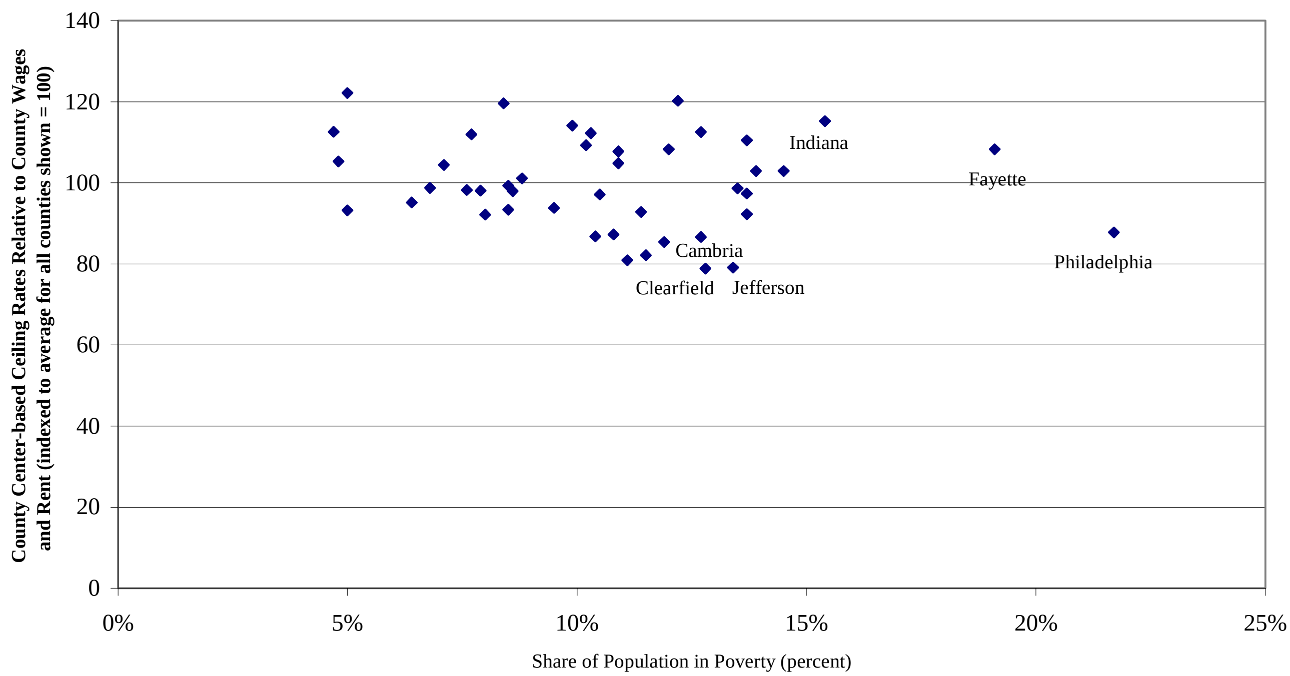
In this sample of 44 counties, the two counties with the lowest rates relative to wages and rent are both rural counties with above-average poverty – Clearfield and Jefferson. The county with the highest-poverty rate, Philadelphia, has the ninth lowest rates.

Table 1. Rate Increases Needed To Bring 13 Counties Up to the Average

	Rate Increase (percent) Needed to Bring Rates Up to the Average for All Counties	
	Considering Rates Relative to Wages	*Considering Rates Relative to Wages and Rent*
Jefferson	31	27
Clearfield	36	26
Wyoming	28	24
Northumberland	18	22
Lycoming	16	17
Cambria	18	15
Schuylkill	17	15
Luzerne	19	15
Philadelphia	10	14
Beaver	14	8
Cumberland	10	7
Delaware	14	7
Dauphin	10	7

Source: Keystone Research Center, based on new DPW child care center-based ceiling rates, 1999 Department of Labor and Industry wage data by county for the Child Day Care Services industry, and a 1997 housing cost index from the Center for Rural Pennsylvania. Wage data are available only for 44 counties. Thus 23 mostly rural counties are not included in the analysis in the table. Some of them may need increases in rates of 10 percent or more to bring their rates relative to the current cost of care into line with other counties.

Figure 1. Some High-Poverty Counties Have Low Cost-Adjusted Child Care Center Subsidy Rates



Source: Keystone Research Center.

It is not very surprising that there is some tendency for ceiling rates to be lower in high-poverty counties. That is because the ceiling rate is based on what parents at the 75th percentile can afford to pay. To the extent that parents who pay the 75th percentile rate earn less in counties where poverty rates are higher, then absolute rates will be lower where poverty is higher. To some extent, on the other hand, low rates in poor counties may be compensated for by lower wages and lower costs for renting space.

There may be a more pronounced tendency for subsidies actually paid out under Pennsylvania's child care program – as opposed to be ceiling rates — to be lower in high poverty counties. That is because subsidies paid out are based on what providers actually charge. It is likely that providers in high-poverty areas charge less, based on what parents can afford to pay, than providers in middle- and upper-income areas that nonetheless have a few children eligible for subsidy.

Preschool and School-age Rates in Philadelphia. The impact of what parents can afford to pay on ceiling rates can be seen in the case of Philadelphia preschool and school-age rates. We have already seen that, relative to wages and rent, average rates in Philadelphia are ninth lowest. Table 1 above shows that a 14 percent increase in average rates would be necessary to bring Philadelphia up to the average, relative to wages and rents.

It turns out that Philadelphia's depressed rates are depressed largely due to the ceiling rates for preschool and old school-age children. This may reflect the fact that middle- and upper-income families with children tend to leave the city (hence county) of Philadelphia by the time those children approach school age. That means that families left in Philadelphia who have preschool and old school-age children may be disproportionately low-income. This drives down preschool and school-age rates at the 75th percentile.

Using the same method as above to compare average rates across counties relative to wages and rent, we individually compared each of the 12 Philadelphia center-based rates to the average rate for that care category for all of our sample of 44 counties. Relative to wages and rent, Philadelphia's full-time preschool rate is 15 percent below the average preschool rate for the 44 counties. The full-time old school-age rate is 21 percent below the average. Philadelphia's part-time old school-age rate is 40 percent below the average for the 44 counties. This means that Philadelphia's full-time preschool rate would need to increase by 18 percent to bring it up to the average. Philadelphia's school age rate would need to increase by 27 percent to reach the average for all counties. Philadelphia's part-time old-school rate would need to increase by 67 percent.

Conclusion

The inadequate compensation and high turnover in child care centers, plus the inequitable child care center subsidy rates, point to several conclusions.

- Pennsylvania needs higher rates across the board.
- Pennsylvania also needs rates that are linked to the cost of delivering quality care in each county, based on the wages and benefits necessary to attract and retain qualified teachers as well as the cost of rent.

In the short run,

- Over and above the ceiling rate increases scheduled for today, Pennsylvania should immediately raise ceiling rates for all child care providers (i.e., not just centers) by a minimum of 6 percent. This would compensate for the 6 percent inflation since child care providers set the fee schedules used to establish the ceiling rates scheduled to go into effect today.

- As soon as practical, and within calendar year 2001, the Department of Public Welfare should target additional rate increases at the specific county rates that are currently lowest relative to wages and rent.

- So that the public can learn whether subsidies paid out (as opposed to ceiling rates) tend to be much lower in low-income areas, the Department should cooperate with the completion of a study of actual subsidies to lowincome children in different counties. DPW could either do such a study themselves, or cooperate with the completion of a study by another government agency or a private research group.

TABLE A1. AVERAGE RATE INCREASES, 1994-2001 (percent) (inflation-adjusted dollars)			
COUNTY	**FULL-TIME CARE**	**PART-TIME CARE**	**ALL CARE**
Adams	7	46	26
Allegheny	5	33	19
Armstrong	-1	10	5
Beaver	32	18	25
Bedford	17	19	18
Berks	2	15	9
Blair	1	35	18
Bradford	7	79	43
Bucks	3	25	14
Butler	10	55	32
Cambria	12	19	16
Cameron	8	-1	4
Carbon	2	45	23
Centre	6	20	13
Chester	7	32	20
Clarion	-1	26	13
Clearfield	3	8	6
Clinton	21	43	32
Columbia	13	22	18
Crawford	-1	5	2
Cumberland	4	28	16
Dauphin	3	18	11
Delaware	0	19	9
Elk	0	68	34
Erie	21	55	38
Fayette	4	20	12
Forest	12	-1	6
Franklin	1	0	1
Fulton	1	96	49
Greene	8	17	12
Huntingdon	20	25	23
Indiana	4	0	2

Jefferson	3	68	35
Juniata	2	13	7
Lackawanna	-1	7	3
Lancaster	7	7	7
Lawrence	13	-1	6
Lebanon	2	55	28
Lehigh	5	4	4
Luzerne	9	37	23
Lycoming	1	19	10
Mckean	12	30	21
Mercer	4	20	12
Mifflin	9	15	12
Monroe	10	29	19
Montgomery	2	13	8
Montour	14	54	34
Northampton	9	14	12
Northumberland	2	0	1
Perry	14	32	23
Philadelphia	2	14	8
Pike	3	22	12
Potter	16	31	23
Schuylkill	0	0	0
Snyder	0	15	8
Somerset	4	29	16
Sullivan	48	47	47
Susquehanna	5	4	5
Tioga	13	17	15
Union	3	25	14
Venango	-1	18	9
Warren	17	0	9
Washington	19	27	23
Wayne	1	12	6
Westmoreland	9	18	14
Wyoming	4	6	5
York	11	18	14
Average Increase	7	24	16

Source: Keystone Research Center based on new DPW rates and 1994 rates provided to KRC by Philadelphia Children for Citizens and Youth.

FOOTNOTES

[1] The LBFC study contains information on wages and benefits as well as turnover rates. See Pennsylvania 0Legislative Budget and Finance Committee, *Salary Levels and their Impact on Quality Care for Child Care Workers in Licensed Day Care Programs*. For additional information on the low wages of child care workers in Pennsylvania, see Howard Wial, *The State of Working Pennsylvania 1999* (Harrisburg: Keystone Research Center, 1999), on line at www.keystoneresearch.org. For information on health benefits available to child care workers, see David H. Bradley and Stephen A. Herzenberg, *Pennsylvania Child Care Workers Face Health Insurance Crisis* (Harrisburg: Keystone Research Center, 2001), also on line at www.keystoneresearch.org.

[2] Lynn A. Karoly, et al., *Investing in Our Children: What We Know and What We Don't Know about the Costs of Benefits of Early Childhood Interventions* (Santa Monica, CA.: RAND, 1998); on line at www.rand.org/publications/MR/MR898/.

[3] Suzanne W. Helburne et al., *Cost, Quality, and Child Outcomes in Child Care Centers* (Denver: Department of Economics, University of Colorado, 1995).

[4] Ideally, an overall average of rates for each county would weight each rate by the number of children receiving subsidies in each of the 12 categories. Full-time would also be weighted more heavily than part-time. In averages across counties, it would also be desirable to weight more heavily counties with more children on subsidy than counties with very few children. Since we do not have the data necessary to compute weighted averages of rates, we use unweighted arithmetic averages.

[5] James A. Kurre, *Differences in the Cost of Living Across Pennsyvlania's 67 Counties* (Harrisburg: Center for Rural Pennsylvania, 2000).

[6] In computing the index of rates relative to both wages and rent, we weighted wages by 0.7 and rents by 0.3 to reflect the fact that wages are a more important component of cost than rent.

[7] An index of rates relative to the cost-of-living in each county, which can be computed for all 67 counties, also varies widely. This index equals 78 in Northumberland County and 136 in Chester County. For our cost-of-living calculation we used a county-level cost-of-living index for 1997 available from the Center for Rural Pennsylvania (see Kurre, *Differences in the Cost of Living Across Pennsyvlania's 67 Counties*.)