



OFFICE OF THE LEGISLATIVE AUDITOR

STATE OF MINNESOTA

Child Care Reimbursement Rates

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The Department of Human Services should revise some of the procedures it has used to set maximum reimbursement rates for the Child Care Assistance Program.

Major Findings:

- The basic methods used by the Department of Human Services to set maximum reimbursement rates for the Child Care Assistance Program are reasonable.
- However, the department sometimes uses complicated rate conversion procedures that ignore important information about market rates for child care. As a result, some maximum rates exceed the levels we think are allowed under state law.
- We question whether the Department of Human Services complied with state laws in establishing regional and statewide maximum rates for child care centers in 68 counties in July 2003. The Department of Education's prior practice of paying a provider's rate without a maximum clearly violated state statutes.
- In some parts of the state, an unexpectedly high percentage of licensed family home providers have billed the maximum rate for subsidized care. The reasons for this are unclear, but the department needs to examine whether some providers are inappropriately billing the Child Care Assistance Program.
- There is some evidence that subsidized families in Minnesota use child care centers—the most expensive type of care—more often than unsubsidized families. However, the use of centers in Minnesota's Child Care Assistance Program is much lower than that for subsidized programs in most other states.



Key Recommendations:

- The Department of Human Services should revise the methods it uses to calculate maximum reimbursement rates, particularly the methods used to convert maximums from one time period to another.
- The Department of Human Services should seek changes in state laws that would clearly allow the department to implement maximum rates based on geographic areas larger than a single county.
- The Department of Human Services should become more familiar with the information reported in rate surveys. Department staff should adequately review the work of the child care resource and referral agencies that collect rate data and the consultant that analyzes the data and calculates maximum rates.
- The Department of Human Services should examine whether there is a problem in some counties with providers charging the Child Care Assistance Program a higher rate than they charge the general public.

Report Summary

Minnesota's Child Care Assistance Program pays a portion of child care expenses for certain low-income families. Fueled in part by growing federal support, total spending on the program increased to \$243 million in fiscal year 2003. In response to state budget shortfalls, the 2003 Legislature froze maximum reimbursement rates paid for subsidized care at child care centers and licensed family home providers, reduced the maximum rates paid for legal non-licensed care, tightened program eligibility, increased participant co-payments, and reduced state appropriations.

Despite the budget cuts made in 2003, the Legislature was concerned about future growth in program costs once the rate freeze is removed in July 2005. As a result, the Legislature asked the Department of Human Services to make recommendations for future cost containment to the 2005 Legislature. In addition, the Legislative Audit Commission directed our office to review the methods used by the department to calculate maximum reimbursement rates for subsidized child care.

The Department of Human Services Uses Inappropriate Methods to Calculate Maximum Reimbursement Rates in Some Counties

Minnesota law requires the Department of Human Services to establish maximum reimbursement rates for subsidized child care no higher than the 75th percentile rate for similar care in each county. The department sets separate rates for child care centers and licensed family home providers based on their respective market rates. Rates for legal non-licensed care are based on a percentage of the maximum rates for licensed family home care. In each of Minnesota's 87 counties, the department has 28 maximum rates, including 12 maximums each for child care centers and licensed family home providers. The 12 maximums include hourly, daily, and weekly rates for each of four age groups of children. For legal non-licensed care, there are hourly rates for each of the four age groups.

Generally, the department uses appropriate methods to survey providers about their rates and set maximum rates. But some of the department's complicated procedures for calculating maximum rates seem inappropriate and inconsistent with state law. The problems mainly occur when the department converts maximums for one time period to another time period. For example, about half of the weekly maximums for child care centers are based on conversions of hourly or daily maximums rather than simply on weekly rates. In those cases, the department's method ignores the weekly rates reported by providers and, at times, sets weekly maximums not only higher than the 75th percentile allowed by law, but far in excess of the reported rates. In one county, the department set a weekly maximum more than twice as high as the reported weekly rates.

We estimate that about 25 percent of the current maximum rates for child care centers and about 9 percent of the maximums for licensed family home care would be lower if more reasonable procedures were used to set maximum rates. In addition, 13 percent of the maximum rates for legal non-licensed care would be lower. About 3 percent of the maximums for child care centers would be higher. Most of the problems we found affect the maximum rates in counties outside the Twin Cities metropolitan area.

There are additional problems with the current maximum rates, particularly those for center-based care of school-age children. Because the size of child care centers varies significantly, the department uses information on licensed capacity in calculating maximum rates for centers. But, about one-fourth of the child care centers that reported rates for the care of school-age children did not report their licensed capacity in the 2001 survey. As a result, some of the current maximum rates are based on faulty assumptions about the capacity of these centers. The amount of non-reporting has decreased in more recent surveys, but we are concerned that some providers may be misstating their capacity when surveyed. In future surveys, the Department of Human Services should

The department's complicated rate conversion procedures have caused some maximum rates to be set higher than the 75th percentile allowed by state law.

The Department of Human Services should seek clearer statutory authority to set "regional" and "statewide" maximum rates.

obtain information on licensed capacity from its Licensing Division and supplement it, when necessary, with information from providers.

State Administrators of the Child Care Assistance Program Have Not Paid Sufficient Attention to State Laws Governing the Setting of Maximum Rates

Prior to March 2003, the Department of Education was responsible for administering the Child Care Assistance Program and setting maximum rates. The Department of Education used a "pay provider rate" system that did not have maximum rates for child care centers in 68 counties for one or more age groups. The department allowed child care centers in those counties to charge the program whatever rate they charged private customers and to increase the rate charged to the program during a fiscal year. We think the "pay provider rate" system clearly violated state statutes that require maximum rates to be set in each county based on the 75th percentile of market rates as surveyed by the department. To comply with state law, state program administrators should have set maximum rates in these counties and enforced those rates until new rates were set throughout the state based on a new rate survey.

Within months after the Department of Human Services assumed responsibility for the program, the Legislature directed the department to continue using the Department of Education's schedule of provider rates through June 2005. That schedule had been implemented in July 2002 and included the "pay provider rate" system for child care centers in 68 counties.

The Department of Human Services implemented some parts of the legislative directive but did not continue the "pay provider rate" system. Instead, the department established maximums for child care centers in each of the 68 counties based on rates from counties in the same region or other regions of the state. The department's action caused the allowed payment rates for some child care centers to decline even though the legislation required that the

department's rate schedule remain unchanged.

In establishing "regional" and "statewide" maximums in these 68 counties, the Department of Human Services did not consider the statutory language that appears to require maximum rates to be set based on rates in each county, rather than rates in multiple counties. While the department believes that its rules give it authority to set maximum rates based on multi-county jurisdictions, we think that the department should seek clearer statutory authority to set regional or statewide rates.

It Is Difficult to Determine Whether Licensed Providers Raise Their Rates to Take Advantage of the State's Maximum Rates

Some legislators have been concerned that some child care providers increase their rates to the state's maximum reimbursement rate in order to charge the state more for subsidized care. Almost all legal non-licensed providers charge the maximum rate. This result is not surprising since such providers generally do not have regular rates. They only provide care for children of relatives and no more than one unrelated family.

But available evidence suggests that most licensed providers do not respond in the same way to increases in the maximum rate. Most licensed providers have a large number of private-pay customers and would lose some of these customers if they set their rates too high. Only providers that primarily serve children from the Child Care Assistance Program have a strong incentive to increase their rates to the maximum rates.

It is unclear, however, how many licensed providers are highly dependent on the subsidy program and how they respond to increases in maximum rates. This issue cannot be directly examined due to a lack of information on individual providers. The Department of Human Services does not have information on the extent to which providers rely on the subsidy program. In addition, the department did not maintain data on the names of providers responding

The Department of Human Services needs to examine whether some licensed family home providers are inappropriately charging the maximum rate.

to the 2001 rate survey. As a result, it is not possible to identify how much individual providers—particularly those serving a large number of children in the state’s program—raised their rates in recent years.

Indirect evidence suggests that there is not a significant problem with child care centers. However, in some parts of the state, there is a greater tendency among licensed family home providers to charge the maximum rates than one would expect from the market rates of providers serving the general public. This finding may indicate that there are a significant number of licensed family home providers that mostly serve subsidized families in those parts of the state. Another possibility is that providers are billing the maximum rate to a county or the state even though they charge a lower rate to the general public and are not entitled to the maximum rate. Although providers are required to provide counties with the rates they charge to the general public, some counties may not be checking that information before making payments.

Program Participants Seem to Use Child Care Centers More than Unsubsidized Families But Use Centers Less than Subsidized Families in Most Other States

There has been a concern among some legislators that the system of setting maximum rates provides program

participants with an incentive to select child care centers, even though they are the most expensive type of care for the state’s assistance program. The best information currently available on this issue comes from a 1999 survey of Minnesota families. Data from that survey suggest that subsidized families choose child care centers almost twice as often as families not receiving child care subsidies. However, some of the results from this survey are contradicted by the findings from a 1997 Urban Institute study. Data from a 2004 survey of Minnesota families will be available in 2005 and could be used to provide more up-to-date results.

While participants in Minnesota’s Child Care Assistance Program may be more likely to use child care centers than the general public, the setting of maximum rates limits the costs paid by the program. Furthermore, the use of centers in Minnesota’s program is low compared with other states. In 2001, only 36 percent of program participants in Minnesota used child care centers, while 58 percent of subsidized families in other states used center-based care.

The full evaluation report, *Child Care Reimbursement Rates* (#pe05-01), includes the agency’s response and is available at 651/296-4708 or:
www.auditor.leg.state.mn.us/ped/2005/pe0501.htm

Summary of Agency Response:

In a letter dated December 21, 2004, Kevin Goodno, Commissioner of Human Services, wrote, “While we dispute most of the key findings, we agree with the general direction of most of the report’s recommendations.” For example, regarding the department’s methods for setting maximum rates, he said, “We agree that the conversion process used by the Department needs to be reviewed and we have begun such a review, but do not agree that some rates set by the Department exceed those allowed in state law.”

The commissioner also agreed to improve oversight of the parties that the Department hires to conduct rate surveys and calculate maximum rates. Specifically, he said, “the Department should provide closer oversight of the survey conducted by Child Care Resource and Referral agencies, revise and tighten some of the instructions for data collection and work with (the) contractor to review data in more depth to ensure completeness and consistency.”

Finally, Mr. Goodno said the department would investigate whether providers in some counties are inappropriately charging the maximum rate. However, he said that the department does “... not believe the report has made a very strong case that this problem exists.”