THE COSTS OF QUALITY CHILD CARE IN MICHIGAN

Findings from the Child Care Market Rate Study

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Even before the pandemic struck, the financial condition of many providers was precarious, and at the same time, for many families, high-quality care was unavailable or prohibitively expensive. The Michigan Child Development and Care (CDC) program helps families afford quality child care by providing subsidies to eligible low-income families. The following are key findings from the child care market rate survey and associated study of costs to provide quality care. This study is intended to inform policymaking, specifically the setting of provider reimbursement rates, as well as informing the state's plan for the program and use of federal funding.

Key Findings

Michigan Providers

86%
Of all children in licensed care are served by centers

48%
Of licensed providers are centers

55%
Of licensed providers participate in Great Start to Quality

- Four percent of family homes, 5% of group homes, and 24% of centers are rated at the higher Great Start to Quality levels (4-5 stars).
- About 20% of child care providers offer some form of grant-funded school-readiness programming—either the Great Start Readiness Program (GSRP) or Head Start.

Pricing

79%
Of providers charge daily or weekly rates

64%
Of providers offer discounted rates to families enrolling 2+ children

62%
Of providers charge registration fees and other costs

- Providers' pricing structures vary by whether a child is enrolled full time or part time.
- The type of facility, quality, and location affect the price of care. Centers are the most costly per hour, and the infant/toddler age group is the most expensive. Generally, higher-quality care costs more per hour.
- Three-quarters of providers charge families for at least part of the time a child is not in care due to illness, vacation, or holidays.

To learn more about this study or PPA's work on child care issues, contact Colleen Graber at cgraber@publicpolicy.com.

ABOUT THE STUDY

The 2020 market rate study was conducted by Public Policy Associates and included a survey of all licensed child care providers known to be open across the state. The response rate to the survey was 44%. The survey included questions about the number of children providers were able to serve (capacity), how many children were in care, tuition rates, and special cost considerations associated with COVID-19.

To assess the cost of providing quality care, PPA modeled annual provider revenue and expense summaries, by facility type and quality rating, using the Provider Cost of Quality Calculator (PCQC). The data used in the cost models came from in-depth interviews with 24 providers and a range of secondary data on various cost drivers.

To view the full report, visit:

https://www.michigan.gov/documents/mde/MRS_Final_Report_ADA_726867_7.pdf

Public Policy Associates Incorporated

Subsidy Rates Compared to the Market

- Current CDC subsidy rates fall below what 75% of providers charge parents for care. The average difference between the current base subsidy rate and base market rate across all age groups is $2.26 per hour among centers and$0.98 per hour among home-based providers. In 2017, the average differences were $2.21 per hour and $0.95 per hour, respectively.
- The closeness of subsidy and market rates varies by region.
- About 62% of providers charge families the full difference between the subsidy and tuition cost.

Access to Care

- Three-quarters of Michigan's children live in areas with limited access to licensed child care (3 or fewer children per slot).[i]
- Over 60% of Black and Hispanic/ Latino children live in places with limited access to child care.
- Approximately half of providers are currently caring for at least one child with exceptional needs (e.g., learning disabilities, homeless, migrant).
- Less than a quarter of providers offer care during non-traditional hours (before 7 a.m. or after 6 p.m. or on weekends).
- 89% of providers are willing to accept child care subsidies.

COVID-19 Effects

- Nearly one year after the start of the pandemic, most providers reported fewer children in care, with 54% of family homes, 61% of group homes, and 84% of centers reporting a drop.
- Very few providers have changed what they charge for child care during the pandemic, although they had revenue loss associated with enrollment inefficiency and increased costs associated with staffing and cleaning.

Cost Factors for Providers

- The biggest cost driver for providers is staffing.
- Providing higher-quality care increases provider costs.
- Due to low profit margins and the high number of hours worked, many home-based providers are making less than the state's hourly minimum wage ($9.65).
- The Child and Adult Care Food Program (CACFP) plays a critical role in the financial health of child care providers.
- The CDC program strengthens provider financial viability and improves access to child care.
- The pandemic has weakened providers' financial situations.

Key Observations

Based on the findings, it is clear that the pandemic has impacted the child care market in Michigan, with providers contending with cost increases and lower enrollment. The economic consequences of this for providers remain, and this is compounding an already challenged business proposition, where tuition and other fees often do not cover the actual costs of providing quality care. Centers make up most of the providers in the state, yet they experience the biggest gap between the subsidy rates and market prices.

Assisting providers during the pandemic with relief grants and CDC program changes that allowed for increased absence-hours billing and payment for school-aged children during school hours helped. For the long term, increasing the subsidy payment rates to meet the 75th percentile of market rates and increasing the registration fee reimbursement would help to close this gap. Continuing to offer differentiated reimbursement rates by quality rating, child age group, and provider type makes sense for the market.

Policymakers should also consider strategies to prompt increased slots in areas of limited child care access, particularly for rural families and Black and Hispanic/Latino families, as well as incentivizing providers to offer non-traditional-hours care.

[i] This estimate does not include providers that were closed at the time of the survey due to the COVID-19 pandemic.