Family Child Care Homes' Challenges Participating in Subsidized Child Care Assistance Program: Voices from the Field

BACKGROUND

North Carolina received multiple federal Preschool Development Grants Birth through Five. As part of this work, a comprehensive needs assessment update was conducted in 2022 that included focus groups and interviews with early care and education providers, stakeholders, and parents in North Carolina. This brief synthesizes what researchers learned from family child care home providers and other key system stakeholders regarding the challenges associated with child care subsidies and the downstream impacts on child care slots within the state.

It is the third in a series of briefs, Parent and Provider Voices on Home-Based Child Care in North Carolina, that explore the barriers and challenges family child care providers experience opening and operating their business in North Carolina.

INTRODUCTION

Family child care homes (FCCHs) are an important part of the child care mixed delivery system in North Carolina. These child care providers make up 21% of all licensed child care in the state and are particularly valuable to families who work non-traditional hours or variable schedules, live in rural communities, earn low-income wages, and speak a primary language other than English. As detailed in Home-Based Care and the Challenges to Increasing Family Child Care Homes, most children ages 0-5 in North Carolina live in households with all parents working. While 36% of these young children use center-based care, and 1% use licensed FCCHs, the remaining 63% are cared for by family, friends, neighbors or other providers either in their own homes or at the homes of the providers. Licensed FCCHs are an important part of a solution to address the shortage of child care in North Carolina and yet, the number of licensed family child care homes in North Carolina and across the nation has declined in the last few decades. One reason for this decline is FCCH providers face significant and persistent financial challenges. Several FCCH providers who participated in focus groups noted systemic issues with North Carolina's child care subsidy program that make it challenging for them to participate and keep their doors open. States set most of the rules and regulations around subsidy participation, rates, and administration, making them a potential area for reforms that could encourage providers to open FCCHs or remain open.

Fewer than 1 in 4 eligible children receive child care subsidy

Child Care Subsidies

Across the country, states offer child care assistance programs for low-income and other eligible families through funding from the federal Child Care and Development Block Grant and supplemental state funding. These programs help families afford child care by sharing the cost of care. Most parents pay a portion of the cost of child care depending on the size of their family and their income. In North Carolina, about half of all children ages 0-5 live in families eligible for child care subsides, but less than a quarter of eligible families typically receive child care subsidies due to limited funding.

BARRIERS FACING FAMILY CHILD CARE HOMES RELATED TO CHILD CARE SUBSIDY POLICIES

Child Care Subsidy Rates Do Not Reflect the Cost of Care

Family child care home providers often accept both subsidy and private pay children, however the state subsidy rates for children in FCCHs are typically less than the rates for children in centers. Subsidy rates are set based on market surveys by county, age of child receiving care, and QRIS rating. Because FCCHs typically charge less than centers (an average of $775 per month vs $883 per month, respectively), the state reimbursement rate is lower for FCCHs.

Often FCCH monthly costs are restrained because FCCH providers are deeply attuned to what those in their communities can afford to pay for care. Many FCCH providers who participated in focus groups noted that they are free to charge what they wish as a business owner, but in many areas of the state this is more than the market can bear.

> *"It is different from county to county... This is a low-paying county, and a lot of companies have left so they don't make that kind of money around here. I would love to charge more, but it is not all about money. I do it for the children, but I think the subsidy should at least be what our private pay is."*
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> *- FCCH Advisory Council Member*

One participant explained that rural and/or lower-income areas have fewer child care options particularly because those are the counties with lower subsidy reimbursement rates.

> *"...You know, if you were really to think about this incredulous model of market rate - this is the median rate of what parents can afford to pay, which has nothing to do with the cost of care."*
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> *- ECE Stakeholder*

Providers also voiced concerns about subsidy vouchers only covering one shift when many parents in medical settings work 12-hour shifts.

> *"Vouchers only cover for one shift. I have nurses because I'm right here by the hospital. They work a 12-hour shift, but actually I end up working 14 hours because they have to drop off and they need an hour to debrief and all of that stuff. I don't get compensated for that."*
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> *- FCCH Provider*

Many focus group participants noted that the lower subsidy reimbursement rates paid to providers in rural areas of the state are increasing prevalence of child care deserts in the state.

> *"What you will find is in the counties with the lowest reimbursement rates, those are the populations or the counties that are going to have the least amount of child care available."*
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> *- ECE Stakeholder*

North Carolina currently pays providers a subsidy rate based on market prices rather than an alternative rate setting method based on cost modeling, which some states now use. Without an alternative rate setting method, child care providers are not reimbursed for the true cost to deliver care to families. Child care providers typically handle this by charging private paying families more to make up for the uncovered cost of providing care to children receiving child care subsidies. This is particularly challenging for FCCH providers, because they do not have a large group of families to share these costs.

Recommendations from the Field:

The state Division of Child Development and Early Education (DCDEE) under the Department of Health and Human Services is actively making efforts to address the challenges related to the subsidy program's market rate often not matching the true cost of care across all geographic regions. Interviews with DCDEE leadership and staff as well as representatives from the Child Care Commission indicate a clear acknowledgement of these issues and a desire to identify policy strategies that can address them.

- Consider program waivers that would eliminate differential subsidy rates for FCCH providers that offer specialized care, infant care, and/or services for families that require 2nd and 3rd shift care to expand access in high need areas of the state.
- Obtain support and funding from the federal government and North Carolina General Assembly to implement the model recommended from the alternative market rate study conducted by the American Institutes of Research through PDGB-5 grant funding.
  - Single statewide rate by setting, age, and quality levels.
  - Fund subsidy rate at a level that is most likely to lead to high-quality care.

Administration of Subsidy Payments

Several FCCH providers who participated in focus groups noted systemic issues with subsidy reimbursement processes. Examples included not always receiving prompt, reliable, or predictable subsidy payments from local Departments of Social Services (DSS) or Child Care Resource and Referral (CCR&R) programs, which makes operating their businesses challenging. Many providers noted that they must provide care to families receiving a child care subsidy up front and be reimbursed later. This contrasts with non-subsidy families who pay for their child care tuition at the start of the month, or bi-monthly. Providers also noted that subsidy payments are based upon a child's attendance, which providers have no control over.

Some providers also noted that the state system to record attendance for children receiving subsidy shuts down from 9PM-6AM, which is sometimes the only timeframe FCCH providers have free to enter this information into the electronic system.

"One of the issues that I have with subsidy is the way that they pay, everything is a month behind. So, it kind of discourages me from wanting to take subsidy vouchers and go more with the private payers and get paid every week because, you know, most of our bills are usually at the first of the month."

- FCCH Provider

Recommendations from the Field:

- Pay subsidy fees to child care providers at the start of the month rather than at the end.
- Negative cost consequences related to child attendance should not be attributed to child care providers.
- Pay providers based on enrollment, rather than the current attendance-based method.
- Pilot a process to allow local Smart Start, DSS, and CCR&R agencies to collect the parent portion for subsidy and pay providers directly to remove this burden from providers.

In February 2024, the federal government released a final rule that makes regulatory changes to the Child Care and Development Fund. The rule will require states to make several policy changes to their child care subsidy systems to improve provider payment rates and practices, including requiring states to pay child care providers prospectively and based on enrollment rather than attendance. These changes will help FCCHs, however, states have up to two years to implement the changes. Prompt adoption of these new rules is needed to help support child care providers and centers that accept subsidies. To better support child care providers who accept child care subsides, the state should focus in on changes within the administration of the subsidy program that could greatly improve provider's experiences and increase their willingness to participate.

Inconsistent Information Provided to Families

Throughout the conversations, multiple providers offered examples of confusion about subsidy policies and resources among local DSS programs, parents, and providers. Providers noted that some parents come to them unaware of the parent fee or that they need to make up the difference between the subsidy amount and the actual rate charged by the provider. These conflicts can cause friction between providers and parents.

> *"I have gone through the same instance where parents have been given the market rate when they go to DSS and they tell [parents], "Hey, this is your parent fee," and they tell them, "This is all you have to pay." But when I do the interview with the parents, I give them a breakdown, I give them the numbers. Say for instance, I charged $500 but DSS is only going to cover $400, but they tell [the parents], [you] only owe $25 (based on the market rate survey), I say no, you owe $100. [Parents] have to make it come up to what I charge for the month."*
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> *- FCCH Provider*

Recommendations from the Field:

- Implement universal messaging for county level DSS staff to share with families. This will help to ensure consistent understanding of how the program functions and will help to ensure that parents are made aware that market rates established by the state have no bearing on what an individual, private provider can charge for their services and that gaps must be met out-of- pocket by caregivers.
- Inform parents and providers in a timely manner of changes to subsidy eligibility.

CONCLUSION

One of the largest barriers for FCCH providers to open and operate is financial strain and insufficient profit to pay themselves a living wage. States can increase compensation through increasing subsidy reimbursement rates and salary supplement programs, and by doing so, help incentivize opening and operating a FCCH.

Implementation of strategies and recommendations to guide system level improvements for FCCHs and to reduce barriers, decrease needs, and close gaps will require a combination of system design, rule change, policy reform, and other methods that no one stakeholder group controls. This will require a collaborative effort from multiple stakeholder groups to achieve both short-term and long-term outcomes.

While this publication includes or references data provided by the North Carolina Department of Health and Human Services to the James B. Hunt, Jr. Institute for Educational Leadership and Policy Foundation, Inc., or information that was derived from or generated by the Department's data, the findings and conclusions in this publication are those of the author and do not necessarily represent the view of the North Carolina Department of Health and Human Services.