

North Carolina Alternative Market Rate Study

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Amanda Danks, Karen Manship, Laura Wallace, Maya Escueta, Damon Blair, Ashley Darang, and Sarah Haynes

Background

With the goal of moving toward an alternative rate model for child care subsidies, the North Carolina Division of Child Development and Early Education (DCDEE) partnered with the American Institutes for Research® (AIR®) to conduct a study to estimate the true cost of high-quality child care and to recommend three new rate models for the state to consider. Adequate subsidy rates are thought to contribute to a more sustainable system, leading to more child care options for families and a more stable workforce.



The AIR team estimated costs using two approaches: a **cost-based approach**, which estimates the full value of all resources child care programs *currently use*, and an **adequacy-based approach**, which estimates the cost of all resources that *would be needed* to meet and sustain the requirements of a five-star license, North Carolina’s

highest quality rating. AIR then used all cost information to develop the **North Carolina Child Care Cost Estimation Tool** (NC CCCET), a comprehensive cost-estimation model that can inform decisions related to child care subsidies and other policies.

Lessons Learned

The study resulted in recommendations for DCDEE for a new subsidy rate model, including how rates should be structured (e.g., geography, cost- or adequacy-based approach, age groupings), how data needed to update the rates can be collected efficiently, and how new rates might be phased in over time.

Several critical lessons emerged from this work:

Authentic two-way conversations with state and local leaders from the beginning of the project is essential to gather accurate data and address policy nuances.

Comparing strategies with other states is critical; many states are grappling with similar issues, and sharing experiences can yield innovation and efficiency.

Administrative data systems can be leveraged to inform cost modeling, but they must be built or adapted with this goal in mind.

Costs will reflect a state’s definition of what quality means in child care; this definition must be clear from the outset of a project. Changing quality goals will change estimated costs to meet them.

The inputs and resulting estimates of a cost estimation model should be transparent and understood by all affected partners in a state for recommended models to be useful and for policies to be successfully implemented.

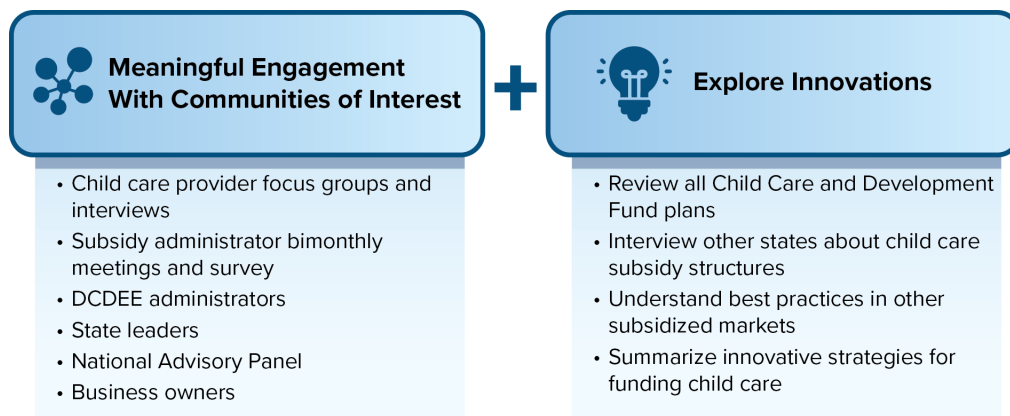
Study Motivation

In North Carolina, child care subsidies are based on market rates. The market rate is the amount that programs charge parents for child care services. Market rates therefore represent what families in the area can afford to pay, not necessarily what it costs to actually provide child care services. To stay in business, child care providers can charge only what families in their communities can afford to pay, but sometimes these fees do not cover all their true costs.



Data Used

The alternative models, final recommendations, and NC CCCET were all heavily informed by comprehensive engagement with communities of interest and exploration of subsidy systems in other states and markets.



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