

BRIEFING PAPER



*minnesota*  
**CHILD CARE**  
**POLICY RESEARCH**  
*partnership*

# Tiered Reimbursement in Minnesota Child Care Settings

*A Report of the Minnesota Child Care Policy Research Partnership ■ July 2004*

■ Kathryn Tout, Ph.D.

Martha Zaslow, Ph.D.

Child Trends, Washington, DC

## **THE MINNESOTA CHILD CARE POLICY RESEARCH PARTNERSHIP**

The Minnesota Child Care Policy Research Partnership (MCCPRP) is a collaboration among Minnesota state agencies, counties, child care resource and referral agencies, and researchers. Coordinated by the Minnesota Department of Human Services, the partnership brings together researchers and policy-makers from the Minnesota Department of Employment and Economic Development (formerly the Department of Economic Security), county child care units from Anoka, Becker, Brown, and Hennepin Counties, the University of Minnesota, Child Trends, Wilder Research Center, the Minnesota Child Care Resource and Referral Network, and several national researchers. The goal of this broadly based partnership is to foster sound research on child care issues of importance to policy-makers at the state, local, and national level.

Funding for the Minnesota Child Care Policy Research Partnership is made possible by a grant from the U.S. Department of Health and Human Services, Child Care Bureau (Project Number 90YE0010) and additional support from the Minnesota Department of Human Services.

The research agenda of the Minnesota Child Care Policy Research Partnership is designed to answer critical questions about how affordability, quality and accessibility affect outcomes for families and children. A key objective is to enhance understanding of the impact on child care quality of various state policies, including the level of subsidies, tiered reimbursement, and quality regulations or standards. The broad research questions include:

- What is the quality of care in Minnesota and what supports are needed to improve and maintain quality child care?
- How do parents and children describe their experiences with child care?
- How many providers meet criteria for high quality care? Where are they located?
- When parents receive child care assistance, what types of care do they use? What types of jobs do they have? How much do they earn? How long do they keep their jobs?
- How does child care assistance influence the availability and price of child care?
- How does the quality of child care vary for different groups, including families receiving subsidies and families from various cultural groups?

Currently the Minnesota Child Care Policy Research Partnership is conducting six interrelated studies, which will be available online at: [http://www.dhs.state.mn.us/main/groups/children/documents/pub/DHS\\_id\\_008779.hcsp](http://www.dhs.state.mn.us/main/groups/children/documents/pub/DHS_id_008779.hcsp).



# Summary of Research Findings

*Tiered reimbursement is a policy strategy that has become increasingly prevalent in states to improve the quality of child care. While the specific provisions of tiered reimbursement policies vary from state to state, the basic feature is that child care providers offering high quality care (defined in a number of different ways) are eligible to receive a reimbursement rate that is higher than the maximum rate (established by the state through a market survey) for their particular type of care when they care for children receiving child care assistance.*

In Minnesota, child care centers and licensed family child care providers that are accredited, as well as family child care providers with state-approved educational credentials, are eligible to receive up to 10 percent above the county maximum rate for their type of care (as long as it does not exceed the rate charged to private pay families). Because Minnesota has had tiered reimbursement policies in place for over 10 years, it is an ideal setting for studying a broad array of questions asking whether, how, and for whom tiered reimbursement improves the availability of and access to higher quality child care. The Minnesota Child Care Policy Research Partnership addresses the following questions in this report:

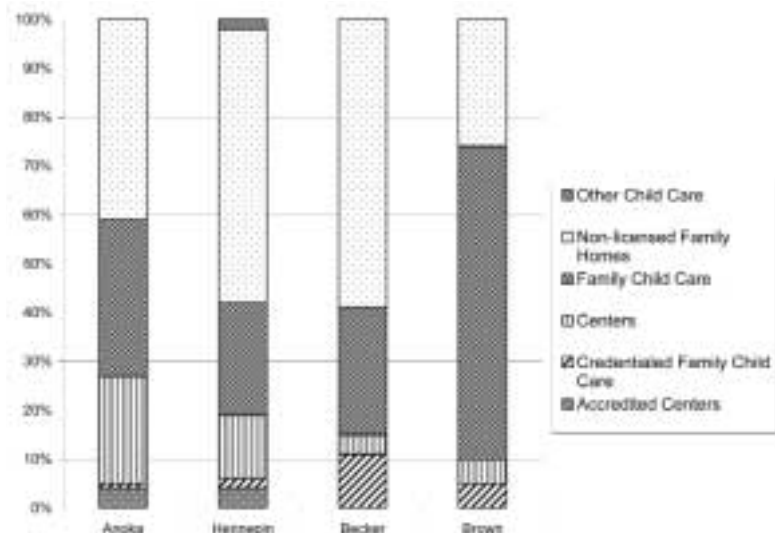
- 1.** How many and what proportion of licensed providers in Minnesota are accredited or have educational credentials (“credentialed”) that make them eligible for tiered reimbursement?
- 2.** How are accredited or credentialed providers distributed geographically across Minnesota?
- 3.** To what extent do families receiving child care assistance in four study counties – Anoka, Becker, Brown, and Hennepin – use accredited or credentialed providers?



## In brief, we find:

- Statewide, accredited child care centers and credentialed family child care providers make up a limited proportion of all licensed care – 16 percent and 14 percent respectively. Only 5 percent of school-age care programs in Minnesota are accredited.
- The supply and distribution of accredited or credentialed providers vary by county type (metropolitan, rural counties with a regional center of 20,000 people or more — referred to as mid-rural counties in this report, and rural counties without a large regional center) and by the type of provider. Overall, the supply of accredited centers is limited and restricted primarily to metropolitan counties. The supply of credentialed family child care providers is also limited but is more evenly distributed across the three county types.
- Accredited centers and family child care providers with educational credentials (such as a Child Development Associate degree or a bachelor’s degree in early childhood education) make up less than 10 percent of the providers paid by counties’ child care assistance programs.
- Most accredited or credentialed providers caring for children receiving subsidies do not experience a large “density” of child care assistance in their programs in terms of the percentage of their capacity filled by children receiving subsidies.
  - Accredited centers in the two metropolitan counties fill less than 5 percent of their capacity with subsidized children.
  - The density of child care assistance in credentialed family child care programs in the metropolitan counties varies by county. Most credentialed family child care providers in Anoka County fill 5 to 10 percent of their capacity with subsidized children, while half of the credentialed family child care providers in Hennepin County fill 29 percent or more of their capacity with subsidized children.
  - Credentialed family child care providers in Becker County fill about a quarter of their capacity with subsidized children compared to 10 percent of capacity filled among credentialed family child care providers in Brown County.
- The percentage of subsidized children experiencing care by an accredited or credentialed provider in each county ranges from 4 percent in Brown County to 19 percent in Hennepin County. Notably, looking across all of the child care types used by subsidized children, the forms of care used vary considerably in the four study counties. For example, subsidized children in Anoka County are more likely to use center-based care than in the other counties. Subsidized children in Brown County are more likely to use licensed family child care providers than in the other counties. Thus, local variations exist not just in the use of accredited or credentialed providers but in the use of other types of providers as well.

► *Comparison of Providers Paid by Child Care Assistance Programs in Four Counties, Monthly Average, January–April, 2001*





- Basic Sliding Fee, the subsidy program for low-income families, is the child care assistance program used in counties to pay for the majority of care by accredited or credentialed providers. A smaller but still substantial proportion of accredited and credentialed care is paid for by subsidies from the state welfare program (Minnesota Family Investment Program and Transition Year care).
- Accredited centers are represented in metropolitan county subsidy systems in about the same proportion as they exist in the metropolitan counties in general. In metropolitan counties, credentialed family child care providers make up a smaller proportion of family child care providers in the subsidy system than in the counties in general. In the two mid-rural study counties, credentialed family child care providers are represented in county subsidy systems in about the same proportion as in the counties overall. Thus, there is not a large discrepancy between the presence of accredited and credentialed providers in the subsidy system and the presence of these providers in the counties in general.

---

## *Supporting Tiered Reimbursement*

Based on the findings from this study and a review of research on quality improvement initiatives, the Minnesota Child Care Policy Research Partnership proposes three broad goals for supporting an effective tiered reimbursement system. These goals are listed below along with a series of questions to consider in the development of supportive strategies.

### **1. Increase the supply of accredited and credentialed providers**

- What types of technical assistance, financial support, and educational resources increase the supply of accredited and credentialed providers? What additional supports are needed for providers as they work toward quality improvements? The answers to these questions can provide the basis for policies and programs aimed at creating and supporting high quality care.
- What rate differential should be used to recognize the higher costs associated with the provision of higher quality care? The only analysis completed to date suggests that a differential of at least 15 percent will encourage more centers to seek accreditation, but further research is needed to understand what resources providers need to improve quality and maintain quality improvements over time.<sup>1</sup>
- Does the provision of financial incentives – in addition to tiered reimbursement – to accredited and credentialed providers help support quality improvements and maintenance and encourage providers to seek additional quality credentials? Such financial supports may be especially attractive to providers, especially those serving low-income families, who cannot set rates that recognize the full cost of providing high quality care.

### **2. Increase awareness of tiered reimbursement policies and access to supports for quality improvements**

- Are child care providers aware of tiered reimbursement policies? Agencies that administer child care assistance programs, as well as resource and referral agencies, could play an important role in ensuring that providers understand the eligibility criteria for tiered reimbursement. They can also help connect providers to resources (for example, technical assistance) that can assist them with making quality improvements.
- Are providers asked about their accreditation status and their educational credentials when registering with county subsidy programs? The agencies administering subsidies should request documentation of qualifications and should be notified as these qualifications change.<sup>2</sup>
- Are parents given information about the types of providers they may choose when they receive child care assistance? Parents receiving subsidies should know that providers that are



accredited or who have educational credentials are eligible to receive a higher reimbursement rate from the county because they have those qualifications. Informing parents about tiered reimbursement underscores the significance of these qualifications for the quality of care that their children receive.

### **3. Increase availability of information for parents about the characteristics of high quality care**

- Do parents know that program accreditation and providers' education credentials are associated with child care quality and that high quality care is, in turn, linked to children's cognitive, language and social development? It is important to provide families with information about the characteristics of high quality care that they can use when selecting care for their children. While accreditation status and providers' education level do not guarantee the quality level of a program, they are helpful indicators. In general, improving parents' awareness about child care programs and the components of quality can help make them better consumers.

---

## *Conclusion*

Tiered reimbursement is one of many potentially promising strategies for improving the affordability and the quality of child care. In a recent report from the Smart Start Evaluation Team in North Carolina, the authors emphasize that "quality enhancement requires clearly focused goals and multiple strategies that are built as a system of linked services. Community collaborators are necessary to make the system work, as are continued financial support and public involvement."<sup>3</sup> The effectiveness of tiered reimbursement in a state, therefore, is best assessed in the context of other policies and programs aimed at improving child care quality.

### **Update on Policy Changes in Minnesota**

Since the completion of this report on tiered reimbursement, a number of changes and modifications were made to Minnesota's Child Care Assistance Program (CCAP) by the 2003 Minnesota Legislature. The changes were effective July 1, 2003.

The State's budget deficit required difficult decisions to reduce program expenses while maintaining core services. As a part of this process, the 2003 Minnesota Legislature made changes to the Child Care Assistance Program to control program costs, including increasing parental co-payments, freezing provider rates and eliminating the tiered reimbursement policy for accredited programs or family child care providers with educational credentials. Research for the following report was completed prior to these legislative changes. The report does not discuss the elimination of tiered reimbursement or any of the other financial and policy changes made to CCAP.

For further information about the changes enacted by the 2003 Minnesota Legislature, please consult the Minnesota Department of Human Services Bulletin #03-68-06 (online access is available: [http://www.dhs.state.mn.us/main/groups/publications/documents/pub/DHS\\_id\\_002182.hcsp](http://www.dhs.state.mn.us/main/groups/publications/documents/pub/DHS_id_002182.hcsp)).

<sup>1</sup> Gormley, W.T., & Lucas, J.K. (2000). *Money, Accreditation, and Child Care Center Quality*. Working Paper Series. New York, NY: The Foundation for Child Development. Available at <http://www.ffcd.org/ourwork.htm>

<sup>2</sup> This is a statutory requirement (Minnesota Rule 3400/0130, subp. 2a).

<sup>3</sup> Smart Start Evaluation Team. (September, 2002). *Demonstrating Effective Child Care Quality Improvement*. FPG Child Development Institute, University of North Carolina at Chapel Hill.

This briefing paper and a full report are available from the Minnesota Child Care Policy Research Partnership at [www.dhs.state.mn.us/main/groups/children/documents/pub/DHS\\_id\\_008779.hcsp](http://www.dhs.state.mn.us/main/groups/children/documents/pub/DHS_id_008779.hcsp)



#### RESEARCH TEAM

Deborah Ceglowski, Ph.D., University of North Carolina–Charlotte, Department of Counseling, Special Education and Child and Family Studies

Elizabeth Davis, Ph.D., University of Minnesota, Department of Applied Economics

Merianne Peterson, Social Service Program Advisor, Minnesota Department of Human Services

Kathryn Tout, Ph.D., Senior Research Associate, Child Trends

Julianne Sherman, M.Ed., Research Consultant

Deb Swenson-Klatt, Early Childhood Research & Evaluation Specialist, Minnesota Department of Human Services

Avisia Whiteman, Early Childhood Research & Evaluation Specialist, Minnesota Department of Human Services

Martha Zaslow, Ph.D., Director of Early Childhood Development, Child Trends

#### INSTITUTIONAL PARTNERS

Coordinated by the Minnesota Department of Human Services, the Partnership brings together researchers and policy-makers from around Minnesota along with several nationally prominent researchers.

Anoka County Community Action Program

Becker County Human Services

Brown County Family Services

Child Trends

Hennepin County Children and Family Services Department

Minnesota Child Care Resource & Referral Network

Minnesota Department of Employment and Economic Development

Minnesota Department of Human Services

Wilder Research Center

For more information on the Minnesota Child Care Policy Research Partnership, its studies and research materials, check our Web site or contact 651-296-7970.

This information is available in other forms to people with disabilities by contacting us at 651-282-5329 (voice). TDD users can call the Minnesota Relay at 711 or 1-800-627-3529.

For the Speech-to-Speech Relay, call 1-877-627-3848.

Child **TRENDS**



Minnesota Department of Human Services