

Final Report for the 2021 Child Care Market Price Analysis

November 2021



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CHAPTER

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Executive summary

The Minnesota Department of Human Services (department), Child Care Services Unit, conducts periodic analysis of prices charged by licensed center-based and family child care providers to meet state and federal requirements. The 2021 Minnesota Child Care Market Price Analysis was based on data collected by Child Care Aware of Minnesota, the state's child care resource and referral system, through updates to an online provider portal, paper surveys, and by phone from August 2020 through March 2021. A contracted vendor prepared the analysis, ICF's Early Childhood Insights and Survey Research teams (research team). The analysis used a methodology developed by the research team, in conjunction with department staff. The analysis was based on responses from 1,225 center-based providers and 6,067 family child care providers, representing 82% of all providers contacted. The research team also examined changes to provider pricing and capacity between 2018 and 2021.

Although the 2021 Minnesota Child Care Market Price Analysis allows department staff to compare child care reimbursement rates to prices that providers charge parents in the private market, analyzing prices alone does not provide an accurate picture of the true cost of providing care. In 2020, the department published results of a cost model analysis that the research team prepared to augment the 2018 price analysis. [Minnesota Department of Human Services, 2020] This cost model analysis produced cost estimates for different types of care, age groups, quality levels and geographic regions. A summary of findings is included in this report. The cost analysis will be updated to augment the 2021 price analysis.



Key findings

Key findings of the child care analysis include:

- A comparison of Child Care Assistance Program reimbursement rates (effective Nov. 15, 2021) and current market prices of child care centers finds that approximately 87% of reimbursement rates examined are below the 75th market price percentile, 77% are below the 50th percentile, and 2% are below the 25th percentile. This represents an improvement in access to the market compared to findings in the 2018 Child Care Market Price Analysis. [Minnesota Department of Human Services, 2019]
- A comparison of department reimbursement rates and current market prices for family child care providers finds that approximately 94% of reimbursement rates examined are below the 75th market price percentile, 76% are below the 50th percentile, and zero below the 25th percentile. This represents an improvement compared to findings in the 2018 Child Care Market Price Analysis.
- A comparison of provider prices and differential reimbursement rates the department pays to providers that meet higher quality standards (providers with Three- and Four-Star Parent Aware ratings, those that are accredited, or have specific credentials) finds that most differential rates are equal to or more than prices that providers charge. This represents a significant improvement over findings in the 2018 Market Price Analysis.



Background on the market price analysis

Since 1998, the federal Administration for Children and Families has required states to conduct a study of child care market prices to evaluate adequacy of state reimbursement rates for the purpose of demonstrating equal access to child care for low-income families. States use the results of market price surveys to inform rate-setting policy and to establish maximum reimbursement rates for children served through child care assistance programs. The federal requirement encourages states to establish child care payment rates that are high enough to enable families receiving child care assistance to find and afford care.

Historically, the Administration for Children and Families has encouraged states to use market price survey findings to inform setting maximum reimbursement rates for child care subsidies. Federal Child Care and Development Fund regulations state that maximum rates established at least at the 75th percentile are regarded as providing equal access. At this percentile, states' reimbursement rates would be equal to, or exceed, prices charged by providers for three-quarters of child care slots. As described in the preamble to the final rule, [\[81 FR 67512\]](#) the 75th percentile payment rate is viewed as a proxy for equal access. However, a recent report by the National Women's Law Center found that only one state was reported to set reimbursement rates at the 75th percentile. [Schulman, 2021] When making state-to-state comparisons for this benchmark it should be noted that each state uses different definitions and methodologies to conduct surveys, and each state differs significantly in how it balances policy priorities for quality, access and affordability.

A 2008 report funded by the Administration for Children and Families, *Study of Market Prices: Validating Child Care Market Rate Surveys*, provides the main source of guidance on conducting valid child care market price surveys. [Grobe et al., 2008] States also received additional guidance on conducting market price surveys and alternative cost-based methodologies in a 2017 report produced by the Administration for Children and Families. [Davis et al., 2017] The 2021 Child Care Market Price Analysis was conducted using recommended practices included in the Administration for Children and Families reports and Child Care and Development Fund program guidance.

Department staff engaged with key stakeholders about data collection efforts. Stakeholders included representatives from Minnesota's Early Learning Council, child care provider professional associations, and center and family child care providers statewide. Discussions focused on explaining the survey, data analysis, and how analysis results would be used, while answering questions and gathering feedback.

Discussions also included strategies for reaching providers during the COVID-19 pandemic. As a result, department staff worked with Child Care Aware of Minnesota to improve survey delivery methods and marketing efforts.

This report provides an overview of the methodology used to conduct the analysis, results of the market price analysis, key findings from a prior narrow cost model analysis, and a summary of policy considerations.

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CHAPTER 3



Overview of methodology

Survey population

The 2021 Minnesota Child Care Market Price Analysis population includes licensed child care providers. Although many states only sample a portion of the population when preparing a child care market price analysis; the business update makes it feasible to conduct a census with high response rates producing accurate results. As shown in Table 1, the sample frame included 8,903 providers, including 1,773 center-based providers and 7,130 family child care homes. The sample frame excluded providers no longer in business, not accepting children from the public, and part-time preschool providers. In summary, 7,292 providers responded, including 1,225 center-based providers and 6,067 family child care providers. The overall response rate was 82% (69% for center-based providers and 85% for family child care providers). Data analysis of these responses represents the provider population distribution across counties within the state.

Table 1: Survey population by provider type

Description	Center-based providers	Family child care homes	Total
Survey population	1,773	7,130	8,903
Responses received	1,225	6,067	7,292
Response rate	69%	85%	82%

Data collection

Child Care Aware of Minnesota conducted the child care Provider Business Update between August 2020 and April 2021. Providers were instructed to complete the Update based on how they typically operate their program. During these updates, providers had the option to enter their price data into an online child care provider portal, provide the price data during phone interviews, or complete paper surveys. Typically, up to three contact attempts were made by phone to providers who did not enter data in the portal or return completed paper surveys. After completing data collection, Child Care Aware of Minnesota provided the research team with a file export to use for conducting the 2021 Minnesota Child

Care Market Price Analysis. The file export included basic demographic, business practices, capacity, and price data for each provider.

Data analysis

Cluster methodology

Department staff established the methodology used for the market price analysis in 2009 in partnership with the research team, with recommendations based on an *Alternative Methods* study. [Davis et al., 2009] The department conducted significant stakeholder engagement to provide input into design of the methodology, which organizes counties with similar price distributions into price clusters based on the 50th percentiles of market prices reported for each county. Since child care costs vary significantly depending on care setting and age of child, the 50th percentile ceilings are calculated for different types of providers, age groups, and price modes for each rate cluster, including:

- Type of provider — licensed child care center or licensed family child care home
- Age of child — infant, toddler, preschool, or school-age
- Price modes — hourly, daily and weekly rates.

The analysis places each county into one of four price clusters for each type of provider. Cluster assignments are updated each time the study is conducted; counties may be reassigned to different clusters as price data change over time.

Reviewing data inconsistencies and outliers

After receiving the file export from Child Care Aware of Minnesota, the research team converted the file into an SAS format for analysis and examined the files for data inconsistencies and outliers. A provider's record could be flagged as inconsistent or an outlier if data on prices, hours of operation or capacity fell outside of acceptable boundaries. Child Care Aware of Minnesota contacted providers whose records were flagged to determine whether edits to the data were needed. After receiving edits, the research team revised datasets and excluded any remaining outliers.

Weighting of data by desired capacity

For center-based providers, the research team weighted each provider's price by their capacity to represent varying sizes of providers more accurately. When available, the minimum of a provider's desired capacity and licensed capacity was used as the weighting factor because it represents the true capacity of a provider. For instances where data on desired capacity was unavailable, the licensed capacity was used as the weighting factor. The prices for family child care providers were not weighted, because these providers typically have the same licensed capacity.

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Percentile calculations and cluster assignments

The research team computed 50th percentile estimates for prices by county, provider, and rate types. The 50th percentile estimates were standardized to a normal distribution with a mean of zero and a standard deviation of one by provider and rate types. For each provider type, researchers computed the mean of standardized rates by county and entered the means in a price clustering algorithm modeled after Fisher's Method of Exact Optimization. For each type of care, the algorithm assigned to counties with similar price distributions to one of four price clusters.

Researchers calculated the 25th, 30th, 40th, 50th and 75th percentile price estimates for each price mode (hourly, daily, weekly), age group (infant, toddler, preschool, school age), and type of care in each of the four price clusters. The calculations for the 25th, 50th and 75th percentile price estimates are shown in Table 2 for center-based providers and Table 3 for family child care providers. A complete set of percentile calculations, including the 30th and 40th percentile price estimates, are included in Appendix A for licensed center-based providers, and Appendix B for licensed family child care providers. The cluster assignments are pre-smoothing/ assignment of counties with no providers for both center-based and family child care providers are shown in Table 4 and maps in Figures 1 and 2.

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Supplemental survey of certified school-age providers

In addition to the Provider Business Update, department staff conducted a survey of certified school-age child care providers in the state in March 2021. Historically, these providers have not been included in the market price analysis, as it only includes licensed child care programs. To learn more about certified school-age providers, department staff conducted a survey that collected demographic data on providers, the number of children served, participation in the Child Care Assistance Program, and prices. Of 566 certified school-age care providers sent a survey, 518 completed it, resulting in a response rate of 91.6%. Survey results were representative of 57 of 87 Minnesota counties (65.5%); given the 2021 cluster assignments, all four price clusters were represented.

Researchers compared prices reported by certified school-age providers to those reported by licensed school-age centers. The analysis compared the 50th percentile price estimates for both sets of providers, finding that prices charged by certified school-age providers were equal to or less than those charged by licensed school-age centers in the hourly and daily price modes in all clusters. However, prices for certified centers were higher in each price cluster in the weekly price mode, except for price cluster two. While prices for certified school-age providers were not included in the 2021 Market Price Analysis, the department plans to work with the research team to model how inclusion of these providers would impact price estimates and cluster assignments.

CHAPTER 4



Results of the market price analysis

Licensed center-based provider percentile calculations

Table 2 shows the 25th, 50th and 75th percentile calculations for each age group and price mode (hourly, daily, weekly) for each of the four price clusters for licensed center-based child care providers. The 50th percentile is equivalent to the median. A comparison of Child Care Assistance Program reimbursement rates (effective Nov. 15, 2021) and current market prices for child care centers finds that approximately 87% of reimbursement rates examined are below the 75th market price percentile, 77% are below the 50th percentile, and 2% are below the 25th percentile. [Minnesota Department of Human Services, 2021a]

Table 2: Licensed center-based provider rates and percentiles by price cluster and age of care

Center price cluster	Age group	Hourly 25 th percentile	Hourly 50 th Percentile	Hourly 75 th percentile	Daily 25 th percentile	Daily 50 th percentile	Daily 75 th percentile	Weekly 25 th percentile	Weekly 50 th percentile	Weekly 75 th percentile
1	Infant	\$3.50	\$3.70	\$4.00	\$35.00	\$36.00	\$38.00	\$158.00	\$175.00	\$180.00
	Toddler	\$3.45	\$3.65	\$3.85	\$31.50	\$33.00	\$34.85	\$150.00	\$160.00	\$165.00
	Preschool	\$3.40	\$3.50	\$4.50	\$27.50	\$31.00	\$33.00	\$135.00	\$148.00	\$155.00
	School age	\$3.15	\$3.50	\$3.85	\$30.00	\$31.50	\$35.50	\$103.00	\$118.85	\$130.00
2	Infant	\$4.60	\$5.25	\$7.00	\$43.00	\$47.00	\$54.00	\$190.00	\$208.00	\$225.00
	Toddler	\$4.30	\$4.50	\$6.00	\$39.00	\$42.57	\$50.00	\$175.00	\$194.00	\$205.00
	Preschool	\$4.05	\$4.45	\$5.50	\$35.00	\$40.00	\$48.00	\$167.00	\$180.00	\$193.00
	School age	\$3.80	\$4.00	\$4.55	\$29.00	\$35.00	\$38.00	\$145.00	\$160.00	\$175.00
3	Infant	\$8.33	\$10.00	\$16.00	\$54.00	\$59.00	\$80.00	\$215.00	\$235.00	\$294.00
	Toddler	\$7.79	\$10.00	\$12.00	\$50.00	\$55.00	\$70.00	\$197.00	\$210.00	\$265.00
	Preschool	\$7.13	\$10.00	\$10.00	\$44.00	\$53.00	\$70.00	\$185.00	\$198.00	\$250.00
	School age	\$6.38	\$7.00	\$10.00	\$35.00	\$40.00	\$41.50	\$150.00	\$165.00	\$175.00
4	Infant	\$13.02	\$18.00	\$18.00	\$95.00	\$126.00	\$221.00	\$336.00	\$382.00	\$427.00
	Toddler	\$11.00	\$16.00	\$16.00	\$78.00	\$106.00	\$192.00	\$285.00	\$336.92	\$385.00
	Preschool	\$10.32	\$14.00	\$14.00	\$65.00	\$89.00	\$163.00	\$255.00	\$300.00	\$332.00
	School age	\$9.00	\$10.00	\$14.00	\$53.74	\$65.00	\$110.00	\$200.00	\$225.00	\$310.00

Licensed family child care provider percentile calculations

Table 3 shows the 25th, 50th and 75th percentile calculations for each age group and price mode (hourly, daily, weekly) for each of the four price clusters for licensed family child care providers. The 50th percentile is equivalent to the median. A comparison of department reimbursement rates and current market prices for family child care providers finds that approximately 94% of reimbursement rates examined are below the 75th market price percentile, 76% are below the 50th percentile, and zero (0) are below the 25th percentile (Department of Human Services, 2021a).

Table 3: Family child care provider rates and percentiles by price cluster and age of care

Family child care price cluster	Age group	Hourly 25 th percentile	Hourly 50 th percentile	Hourly 75 th percentile	Daily 25 th percentile	Daily 50 th percentile	Daily 75 th percentile	Weekly 25 th percentile	Weekly 50 th percentile	Weekly 75 th percentile
1	Infant	\$2.50	\$2.75	\$3.00	\$25.00	\$25.00	\$28.00	\$120.00	\$125.00	\$140.00
	Toddler	\$2.50	\$2.70	\$3.00	\$24.00	\$25.00	\$27.00	\$120.00	\$125.00	\$135.00
	Preschool	\$2.50	\$2.62	\$2.96	\$23.00	\$25.00	\$25.00	\$112.50	\$125.00	\$130.00
	School age	\$2.50	\$2.55	\$2.85	\$22.00	\$25.00	\$25.00	\$100.00	\$115.00	\$125.00
2	Infant	\$2.60	\$2.90	\$3.15	\$26.00	\$30.00	\$32.00	\$130.00	\$140.00	\$150.00
	Toddler	\$2.50	\$2.85	\$3.00	\$25.00	\$28.00	\$30.00	\$125.00	\$135.00	\$150.00
	Preschool	\$2.50	\$2.75	\$3.00	\$25.00	\$27.00	\$30.00	\$125.00	\$130.00	\$145.00
	School age	\$2.50	\$2.75	\$3.00	\$25.00	\$26.00	\$30.00	\$115.00	\$125.00	\$140.00
3	Infant	\$3.25	\$4.00	\$5.13	\$30.00	\$35.00	\$40.00	\$150.00	\$170.00	\$185.00
	Toddler	\$3.25	\$4.00	\$5.00	\$30.00	\$35.00	\$40.00	\$150.00	\$160.00	\$175.00
	Preschool	\$3.00	\$4.00	\$5.00	\$30.00	\$32.00	\$35.00	\$140.00	\$150.00	\$170.00
	School age	\$3.00	\$3.75	\$5.00	\$26.00	\$30.00	\$35.00	\$125.00	\$140.00	\$150.00
4	Infant	\$5.00	\$7.00	\$10.00	\$40.00	\$45.00	\$50.00	\$180.00	\$200.00	\$225.00
	Toddler	\$5.00	\$6.32	\$9.00	\$38.00	\$44.20	\$50.00	\$175.00	\$190.00	\$215.00
	Preschool	\$5.00	\$a.00	\$8.00	\$35.00	\$40.00	\$48.00	\$165.00	\$180.00	\$200.00
	School age	\$5.00	\$5.82	\$8.00	\$30.00	\$37.00	\$45.00	\$140.00	\$165.00	\$185.00

Cluster assignments

As described in the Methodology section, Minnesota counties were grouped into price clusters by provider type based on similarities in price distributions among counties. Table 4 provides cluster assignments for both center-based and family child care providers. Figures 1 and 2 show cluster assignments on maps for center-based and family child care providers, respectively.



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Summary of center-based provider cluster assignments

For center-based providers, 65 of 87 counties (74.7%) were assigned to the same cluster as the 2018 report:

- Nineteen counties (Benton, Cook, Goodhue, Houston, Hubbard, Itasca, Kanabec, Lyon, Mille Lacs, Nicollet, Nobles, Norman, Otter Tail, Pennington, Polk, Rice, Stearns, Waseca, and Wright) increased one cluster assignment.
- One, Beltrami County, increased two cluster assignments.
- Two counties (Murray and Yellow Medicine) decreased one cluster assignment.
- Ten counties (Big Stone, Clearwater, Grant, Koochiching, Lake of the Woods, Lincoln, Redwood, Rock, Roseau, and Traverse) had no 2021 center-based data and not assigned to clusters.

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Summary of family child care provider cluster assignments

For family child care providers, 63 of 87 counties (72.4%) were assigned to the same cluster as the previous report. Three counties (Faribault, Pope, and Stevens) increased one cluster assignment; Lake of the Woods County increased two cluster assignments; and 18 counties (Anoka, Clearwater, Dodge, Fillmore, Freeborn, Grant, Lac qui Parle, Le Sueur, Lincoln, Lyon, Marshall, Meeker, Morrison, Nobles, Polk, Sibley, Steele, and Todd) decreased one cluster assignment.



Table 4: Cluster assignments for center-based and family child care providers

County name	Center-based price cluster assignment	Family child care price cluster assignment	County name	Center-based price cluster assignment	Family child care price cluster assignment
Aitkin	1	3	Cook	3	4
Anoka	4	3	Cottonwood	1	2
Becker	2	2	Crow Wing	2	2
Beltrami	3	2	Dakota	4	4
Benton	3	2	Dodge	2	2
Big Stone	Unassigned	2	Douglas	2	2
Blue Earth	2	2	Faribault	1	2
Brown	1	2	Fillmore	1	2
Carlton	2	3	Freeborn	2	1
Carver	4	4	Goodhue	3	3
Cass	1	2	Grant	Unassigned	1
Chippewa	1	1	Hennepin	4	4
Chisago	3	3	Houston	2	2
Clay	2	3	Hubbard	3	2
Clearwater	Unassigned	1	Isanti	3	3

County name	Center-based price cluster assignment	Family child care price cluster assignment	County name	Center-based price cluster assignment	Family child care price cluster assignment
Itasca	2	3	Polk	2	1
Jackson	1	1	Pope	2	2
Kanabec	2	2	Ramsey	4	4
Kandiyohi	2	2	Red Lake	1	1
Kittson	1	1	Redwood	Unassigned	2
Koochiching	Unassigned	1	Renville	1	1
Lac qui Parle	1	1	Rice	3	3
Lake	3	2	Rock	Unassigned	1
Lake of the Woods	Unassigned	3	Roseau	Unassigned	1
Le Sueur	1	2	St. Louis	2	3
Lincoln	Unassigned	1	Scott	4	4
Lyon	2	1	Sherburne	3	3
McLeod	2	2	Sibley	1	2
Mahnomen	1	2	Stearns	4	2
Marshall	2	1	Steele	3	1
Martin	3	1	Stevens	1	2
Meeker	2	1	Swift	1	1
Mille Lacs	3	2	Todd	1	1
Morrison	1	1	Traverse	Unassigned	2
Mower	2	2	Wabasha	2	2
Murray	1	1	Wadena	1	1
Nicollet	2	2	Waseca	2	2
Nobles	2	1	Washington	4	4
Norman	2	1	Watonwan	1	1
Olmsted	4	3	Wilkin	1	1
Otter Tail	2	2	Winona	2	2
Pennington	2	2	Wright	3	3
Pine	2	2	Yellow Medicine	2	1
Pipestone	1	1			

Note: Counties with no reported prices in 2021 are not assigned to a price cluster.

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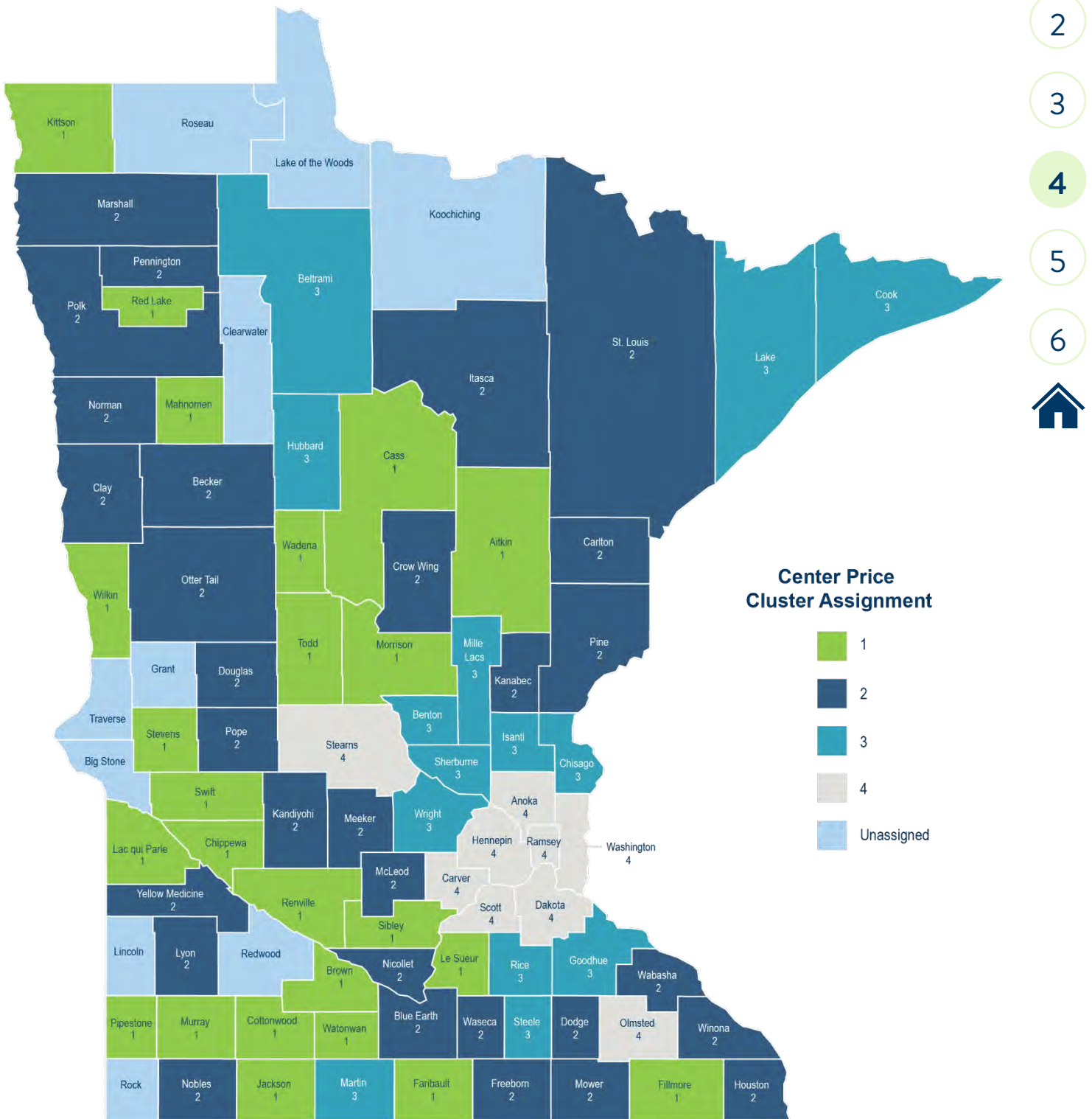
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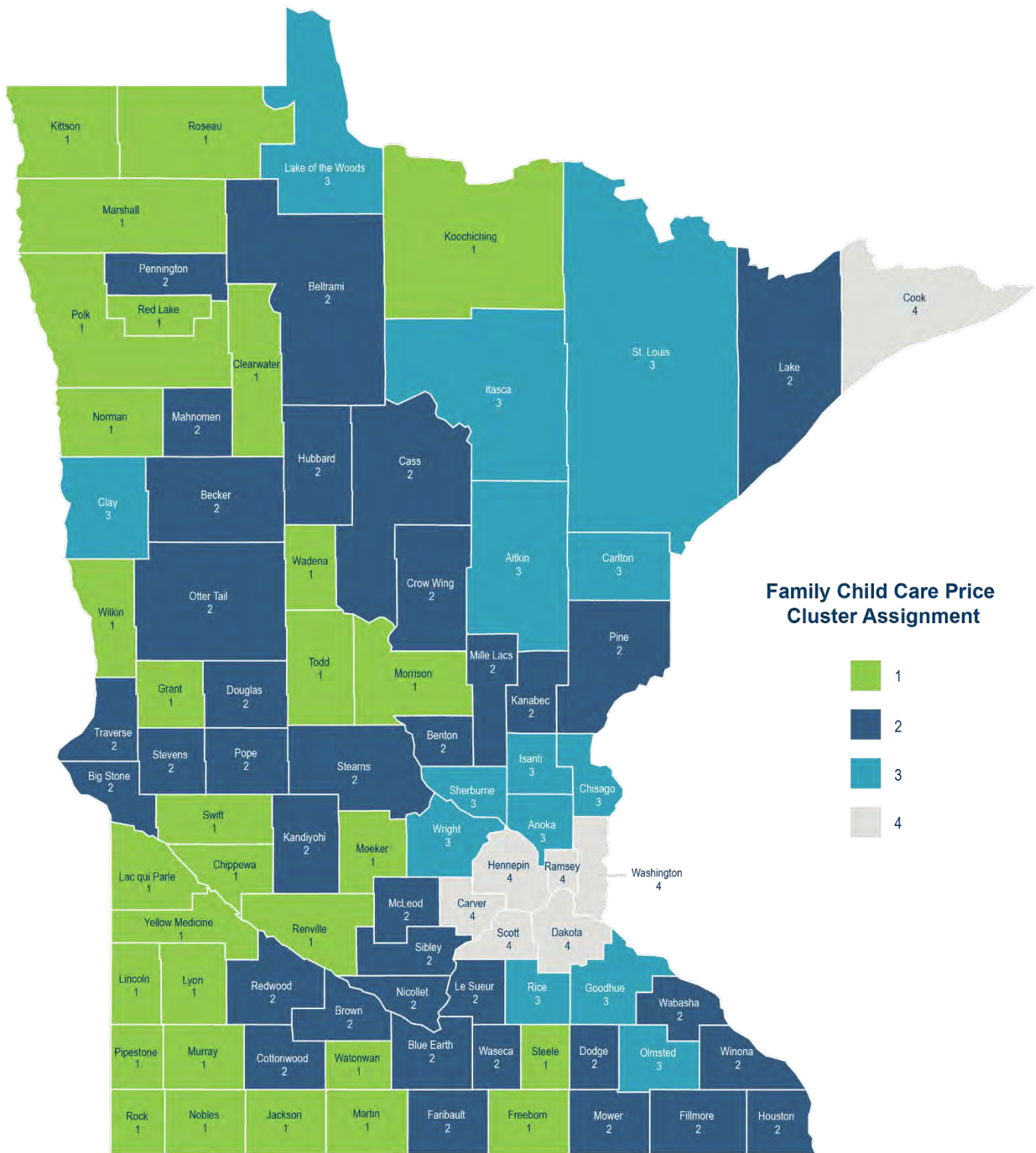


Figure 1: 2021 price cluster assignments for center-based providers



Note: Counties with no reported center rates in 2021 are not assigned a price cluster.

Figure 2: 2021 price cluster assignments for family child care providers



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Family Child Care Price Cluster Assignment

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Comparison of provider prices and differential rates

In addition to the standard reimbursement rate that providers receive when serving families participating in the Child Care Assistance Program (CCAP), providers are also eligible to receive up to an additional 15% differential (in addition to hourly, daily or weekly reimbursement rates) if they hold certain accreditations or credentials or have a Three-Star Parent Aware Rating. Providers are eligible for up to a 20% differential if they have a Four-Star Parent Aware Rating.

Researchers compared prices providers charge with differential rates they receive for meeting additional quality standards. In general, most differential rates are equal to or higher than prices providers charge, a significant change from the last version of the market price analysis, which found most rates less than prices charged. [Minnesota Department of Human Services, 2018] As shown in Figure 3, differential rates are more than prices charged for 80% of center-based providers and 65% of family child care providers that have Three-Star Ratings or hold accreditations or credentials. [Minnesota Department of Human Services, 2021b] As shown in Figure 4, differential rates for Four-Star Rated providers are more than prices charged for 60% of center-based providers, and 60% of family child care providers. [Minnesota Department of Human Services, 2021c]

Figure 3: Three-Star and accredited provider prices compared to 15% differential rate

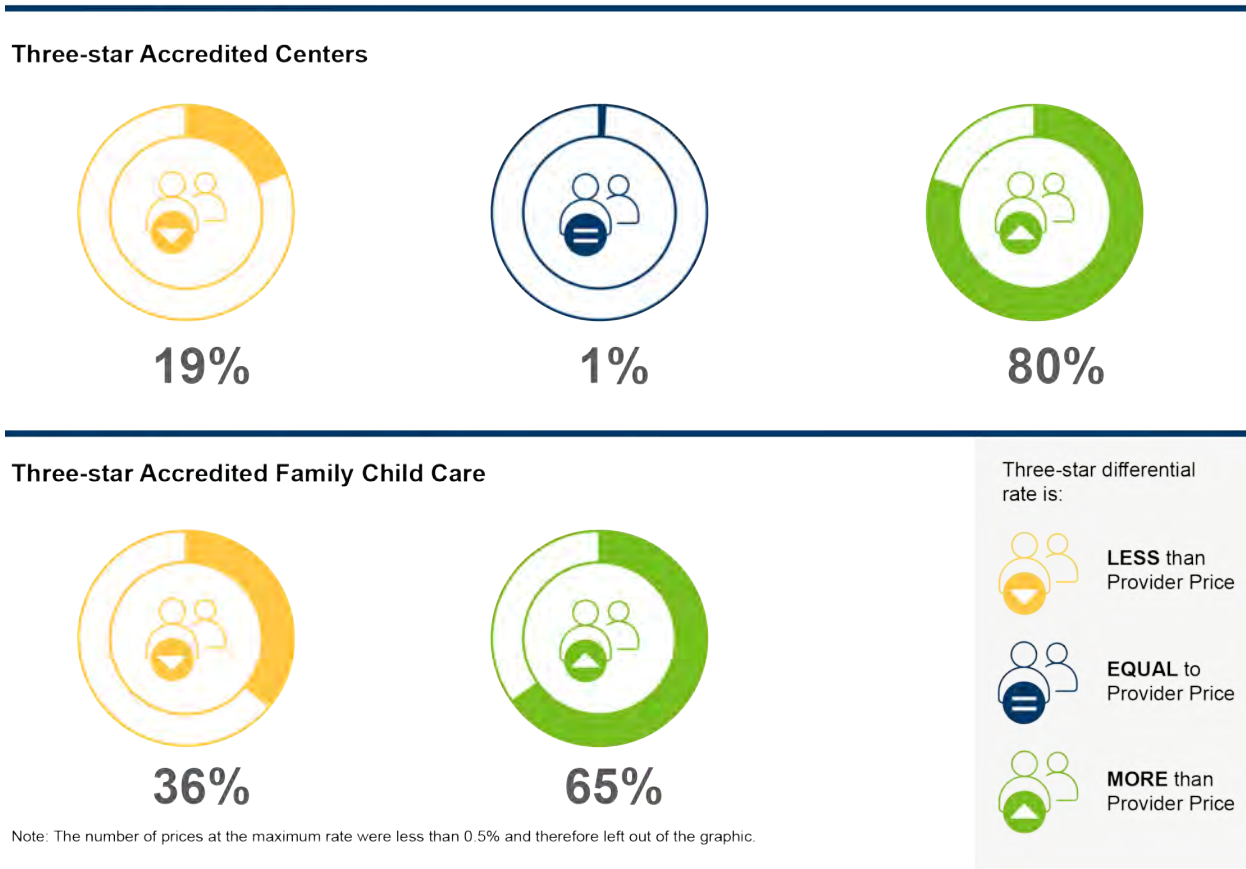
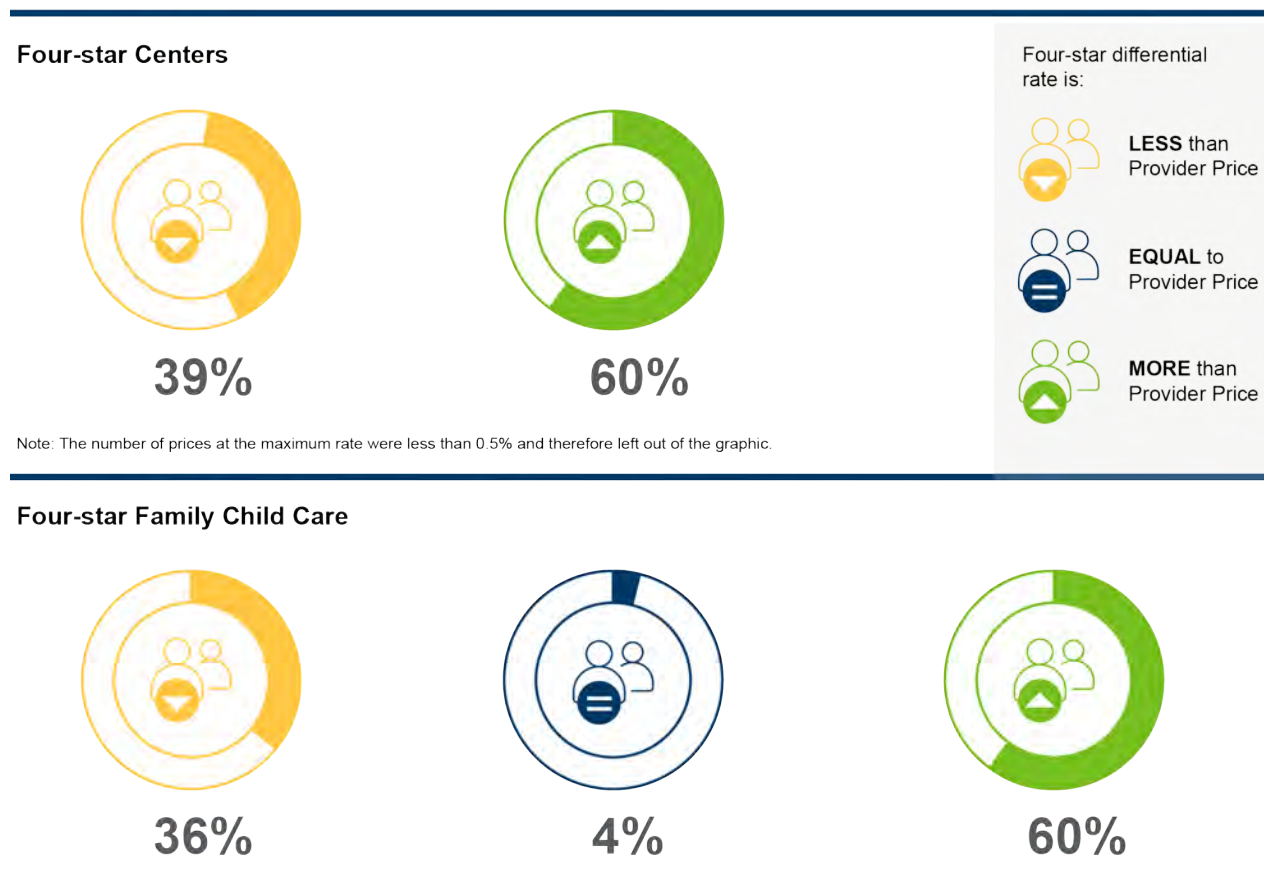


Figure 4: Four-Star provider prices compared to 20% differential rate



Findings from the market price analysis

Based on analysis detailed above, key findings include:

Progress was made to increase rates since 2018, but still remain below the 75th percentile benchmark in most areas for both types of care.

A comparison of CCAP reimbursement rates that will go into effect Nov. 15, 2021, and prices gathered during the 2021 Market Rate Survey for:

- Child care centers shows that 87% of reimbursement rates examined are below the 75th market price percentile, 77% below the 50th percentile, and 2% below the 25th percentile. This represents an improvement compared to findings in the 2018 Child Care Market Price Analysis.
- Family child care providers shows that 94% of reimbursement rates examined are below the 75th market price percentile, 76% are below the 50th percentile, and none are below the 25th percentile. This represents an improvement compared to findings in the 2018 analysis.

The 2021 differential reimbursement rates for providers with Three- and Four-Star Parent Aware ratings significantly improve the percentage of private market prices covered by those rates.

A comparison of provider prices and differential reimbursement rates the department pays to providers that meet higher quality standards (providers with Three- and Four-Star Parent Aware ratings, are accredited, or achieved specific credentials) finds that most differential rates are equal to or more than prices that providers charge. This represents a significant improvement in access to the market over findings in the 2018 market price analysis.



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Narrow child care cost model analysis

Background on child care markets

States have historically set reimbursement rates for child care subsidies based on market prices. However, market price analyses do not capture the true cost of providing child care, and do not take market failures into consideration. The essential argument for public action and investment in early childhood programs is that stable, high-quality care produces both private benefits to participating children and their families and to society, as taxpayers and citizens. The benefits to taxpayers and citizens are positive spillovers (what economists call externalities) that families do not consider when making decisions about how much high quality early childhood services to consume. [Council of Economic Advisors, 2014] In the classic economic framework this leads to under-investment in early childhood programs (relative to the investment producing the greatest net benefit for the economy). This is especially true if families must pay the full cost, especially for those with lower-incomes who cannot afford to pay the cost of high quality early childhood programs, or borrow against private gains they and their children would experience in the future. [National Academies of Sciences, Engineering, and Medicine, 2018] As a result, providers can only charge prices that parents in their area are able and willing to pay for child care. Prices charged may not produce revenue required to fully cover costs associated with stable, high-quality care (most important, costs of hiring and retaining staff with the required education and experience).

While market price analyses provide important information to inform rate-setting and broader subsidy policies, prices reported may vary widely based on incomes of the surrounding community and not likely to reflect the true cost of providing child care. Basing subsidy reimbursement rates on already depressed market prices instead of on the cost of providing child care puts child care programs in a precarious business model, reinforcing a cycle of poorly paid staff and low-quality care, even when a program's leadership and staff are committed to quality improvement. [Bipartisan Policy Center, 2020]

To better understand the true cost of providing child care in Minnesota, the department contracted with ICF to conduct a narrow child care cost-modeling analysis to augment findings of the 2018 Child Care Market Price Analysis. The [Minnesota Cost Modeling Report](#) was published in August 2020. A description of the methodology and results from the cost model analysis is in the report. [Minnesota

Department of Human Services, 2020] Key findings from the analysis are included in this report because it has critical implications for rate-setting and early childhood finance policy.

Findings from the child care cost model analysis

The analysis produced cost models for center-based and family child care providers for three different geographic groupings: Greater Minnesota, small metro areas, and large metro areas. The models estimate total personnel costs (including wages and benefits), non-personnel costs, and costs for the entire program. The models show the percentage of net revenue, which is the surplus or deficit divided by total



revenue. A net revenue of 7% is considered desirable. The report also shows the average cost of providing care for each age group. These scenarios are based on assumptions built into the cost model and may not reflect the experience of any one provider or community.

Center-based child care model

Greater Minnesota: The model for center-based child care is not financially sustainable at any level of quality, including basic licensing.

Center-based care for greater Minnesota shows:

- Net revenues are negative, ranging from -23% to -24% . Centers in greater Minnesota are constrained by child care markets that lack population density yet yield relatively low prices compared to large metro areas. This result is similar to findings in other cost model studies that examined geographic variations. A recent study of child care costs in Colorado found that centers have negative revenues at all quality levels in areas with lower cost of living indices. [Franko et al., 2017] Centers in rural areas may need to rely on a combination of additional revenue sources, lower wages, or a leaner staffing model.
- The annual amount received through CCAP (based on 2014 rates) is significantly less than estimated costs for infants and toddlers across all quality levels.
- To achieve wage and benefit parity with public schools, the cost of providing care for all age groups would rise significantly above current CCAP maximum rates (based on 2014 rates).



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Small metro areas: The model for center-based child care is not financially sustainable at any level of quality.

Findings for small metro areas show:

- Net revenues range from -14% to -15%. The annual amount received through CCAP (based on 2014 rates) is significantly less than the estimated cost for all types of care and quality rating levels, except for toddlers in Three- and Four-Star programs, and preschool in Four-Star programs.
- To achieve parity with public school wages and benefits, the cost of providing care for all age groups would rise significantly above current CCAP maximum rates (based on 2014 rates).

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Large urban areas: The model for center-based child care produced positive financial results at every level of quality.

Findings for large urban areas show:

- Child care markets in large metro areas yield higher prices compared to greater Minnesota, potentially enabling more robust budgets. However, it is important to understand that even in metro areas, there may be providers whose prices are set near the CCAP maximum reimbursement rate (2014 rates), and financial circumstances not considered sustainable.
- The annual amount received through CCAP (based on 2014 rates) is significantly less than the estimated cost for infants across all quality levels. However, CCAP maximum reimbursement rates for preschool are significantly more than the actual cost across all levels of quality. Other studies of costs and market prices found that programs often charge more for preschool than actual costs and use the surplus to fund costs of providing more expensive infant and toddler care.
- To achieve parity with public school wages and benefits, the cost of providing care for all age groups would rise significantly above current CCAP maximum rates (based on 2014 rates).

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Family child care model: The earnings per hour (dividing net revenue by total hours worked) ranged significantly from greater Minnesota to small and large metro areas.

The range of earnings per hour for family child care includes:

- When the profit that a family child care program earns is divided by the hours they actually work, an effective wage rate may be derived and compared to wages earned in comparable jobs or to the minimum wage. In the model, the estimated hours worked ranged from 65 per week for unrated family child care programs to 68 for Four-Star Rated programs.
- The effective wage was slightly above the minimum at all quality rating levels in greater Minnesota. In small and large metro areas, the effective wage was higher, ranging from \$13 to almost \$20 per hour. These rates are similar to the median wages that lead teachers in center-based child care earn in those areas, but far less than what kindergarten teachers earn. It is also important to consider that family

child care providers may have to purchase their own health insurance. As highlighted previously in the provider cost survey, 18% of providers indicated they purchase private health insurance, and 5% indicated they do not have health insurance. The remaining 77% indicated they have private insurance either through a spouse or family member, or a public program, such as Medicare or MinnesotaCare.

Subsidy density (percentage of enrollment with CCAP subsidy) can influence revenue for programs and providers at both ends of the quality spectrum (e.g., unrated to Four-Star Rated providers).

Subsidy density for all spectrums of quality includes:

- There is a significant impact on revenue for centers in both large and small metro areas as the percentage of CCAP subsidy increases from 25% to 75% of enrollment.
- Revenue for centers in greater Minnesota is not sensitive to changes in subsidies because median market prices and CCAP reimbursement rates (based on 2014 rates) are nearly equal.
- There is minimal impact on family child care provider revenue because median prices and CCAP reimbursement rates (based on 2014 rates) are either equal or nearly equal in all cases. In greater Minnesota and small metro areas, where CCAP Four-Star Rates exceed median prices, the increase in subsidy density produces slightly higher revenue.

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Policy considerations

Access to quality child care is essential to children most at-risk, such as those from families with low incomes and children of color. Such access is an important strategy to close gaps in outcomes and opportunities, especially in Minnesota, where students of color face some of the worst achievement gaps nationally. [Grunewald & Nath, 2019] Department staff is working to close gaps by improving access to quality early learning opportunities. The following policy considerations are based on the market price analysis, cost model analysis, and a comparative analysis of 2018 and 2021 provider pricing and capacity, in Appendix C. These are intended to help the department in its efforts to close opportunity gaps by helping early learning programs stabilize operations, increase quality programming to close opportunity gaps, and become sustainable resources for families and economic development partners in their communities. The department may consider:

- **Continuing to increase CCAP provider payment rates** to better align with provider costs, ensuring that providers receiving Child Care and Development Fund grants have the means to provide high-quality care for low-income families.
- Because the amount programs can charge in the private market has a significant impact on budgets available to support quality, department staff may want to further explore ways to more precisely **identify areas where depressed prices may constrain the ability of child care programs to build and sustain quality.**
- Developing strategies to **provide direct supply-side incentives** (e.g., substantial quality grants based on the size of a program) for programs in both greater Minnesota and metro regions where private markets may not provide enough revenue to build and sustain quality, and increase access to child care in areas where needed.
- Developing strategies to **provide support to develop and sustain infant and toddler capacity** because the private market tends not to provide funding to support care in this area, especially at higher levels of quality.
- Exploring needs and **cost drivers related to providing culturally responsive** child care to address racial and ethnic disparities more effectively.

- Identifying and promoting strategies to improve the strength of child care operations, particularly in greater Minnesota. Examples of these strategies include **participating in shared service initiatives to lower the cost of services, and providing technical assistance and training to improve business skills.**
- The **significant increases in the price of child care in the past three years will make affordability for child care an even greater challenge** for most Minnesota families, including those with middle incomes who do not qualify for child care subsidies.
- The results from the analysis show that **prices rose at a higher rate in lower-income communities and communities of color.** This may exacerbate existing inequities in access and affordability, especially for families that do not have access to a subsidy, or who must pay the difference between CCAP reimbursements and the private market price for care.
- Prices for licensed **school-age care increased at a rate significantly higher than for other age groups.** Based on data examined, it is not clear whether this is part of a long-term trend or a new development that may have been precipitated by the pandemic. This report did not compare prices from license exempt centers. Parents with school-age children may be facing new child care affordability challenges.
- The results from the analysis show **declines in licensed center-based child care capacity in small towns.** If not offset by a comparable decrease in demand for child care or an increase in supply in public preschool, family child care or license exempt school-age care, small towns may be experiencing a deepening supply challenge. Additional analysis is required to determine if this is the case.

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Appendix A: Licensed center-based provider percentile calculations

Tables A.1 through A.4 show the 25th, 30th, 40th, 50th and 75th percentile calculations for each age group and price mode (hourly, daily, weekly) for each of the four price clusters for licensed center-based child care providers. The 50th percentile is equivalent to the median.

Table A.1: Licensed center-based provider rates and percentiles by age group for price cluster one

Center-based price cluster one					
Price mode	Percentile	Infant	Toddler	Preschool	School age
Hourly	25 th percentile	\$3.50	\$3.45	\$3.40	\$3.15
	30 th percentile	\$3.50	\$3.45	\$3.40	\$3.25
	40 th percentile	\$3.65	\$3.50	\$3.45	\$3.25
	50 th percentile	\$3.70	\$3.65	\$3.50	\$3.50
	75 th percentile	\$4.00	\$3.85	\$4.50	\$3.85
Daily	25 th percentile	\$35.00	\$31.50	\$27.50	\$30.00
	30 th percentile	\$35.00	\$31.50	\$29.00	\$30.00
	40 th percentile	\$36.00	\$32.45	\$30.00	\$30.00
	50 th percentile	\$36.00	\$33.00	\$31.00	\$31.50
	75 th percentile	\$38.00	\$34.85	\$33.00	\$35.50
Weekly	25 th percentile	\$158.00	\$150.00	\$135.00	\$103.00
	30 th percentile	\$165.00	\$153.00	\$135.00	\$103.00
	40 th percentile	\$170.00	\$155.00	\$135.00	\$114.00
	50 th percentile	\$175.00	\$160.00	\$148.00	\$118.85
	75 th percentile	\$180.00	\$165.00	\$155.00	\$130.00

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Table A.2: Licensed center-based provider rates and percentiles by age group for price cluster two

Center-based price cluster two					
Price mode	Percentile	Infant	Toddler	Preschool	School age
Hourly	25 th percentile	\$4.60	\$4.30	\$4.05	\$3.80
	30 th percentile	\$4.60	\$4.30	\$4.05	\$3.90
	40 th percentile	\$4.80	\$4.45	\$4.20	\$4.00
	50 th percentile	\$5.25	\$4.50	\$4.45	\$4.00
	75 th percentile	\$7.00	\$6.00	\$5.50	\$4.55
Daily	25 th percentile	\$43.00	\$39.00	\$35.00	\$29.00
	30 th percentile	\$45.00	\$40.00	\$36.00	\$30.00
	40 th percentile	\$45.13	\$42.00	\$38.00	\$32.00
	50 th percentile	\$47.00	\$42.57	\$40.00	\$35.00
	75 th percentile	\$54.00	\$50.00	\$48.00	\$38.00
Weekly	25 th percentile	\$190.00	\$175.00	\$167.00	\$145.00
	30 th percentile	\$195.00	\$180.00	\$174.00	\$150.00
	40 th percentile	\$200.00	\$185.00	\$176.00	\$154.00
	50 th percentile	\$208.00	\$194.00	\$180.00	\$160.00
	75 th percentile	\$225.00	\$205.00	\$193.00	\$175.00

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Table A.3: Licensed center-based provider rates and percentiles by age group for price cluster three

Center-based price cluster three					
Price mode	Percentile	Infant	Toddler	Preschool	School age
Hourly	25 th percentile	\$8.33	\$7.79	\$7.13	\$6.38
	30 th percentile	\$9.00	\$8.00	\$7.13	\$6.38
	40 th percentile	\$9.00	\$8.00	\$9.00	\$6.38
	50 th percentile	\$10.00	\$10.00	\$10.00	\$7.00
	75 th percentile	\$16.00	\$12.00	\$10.00	\$10.00
Daily	25 th percentile	\$54.00	\$50.00	\$44.00	\$35.00
	30 th percentile	\$54.00	\$52.00	\$45.00	\$37.00
	40 th percentile	\$55.00	\$52.00	\$47.00	\$39.00
	50 th percentile	\$59.00	\$55.00	\$53.00	\$40.00
	75 th percentile	\$80.00	\$70.00	\$70.00	\$41.50
Weekly	25 th percentile	\$215.00	\$197.00	\$185.00	\$150.00
	30 th percentile	\$215.00	\$200.00	\$188.00	\$155.00
	40 th percentile	\$222.00	\$207.00	\$195.00	\$160.00
	50 th percentile	\$235.00	\$210.00	\$198.00	\$165.00
	75 th percentile	\$294.00	\$265.00	\$250.00	\$175.00

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Table A.4: Licensed center-based provider rates and percentiles by age group for price cluster four

Center-based price cluster four					
Price mode	Percentile	Infant	Toddler	Preschool	School age
Hourly	25 th percentile	\$13.02	\$11.00	\$10.32	\$9.00
	30 th percentile	\$14.00	\$11.30	\$10.32	\$9.00
	40 th percentile	\$18.00	\$16.00	\$14.00	\$9.00
	50 th percentile	\$18.00	\$16.00	\$14.00	\$10.00
	75 th percentile	\$18.00	\$16.00	\$14.00	\$14.00
Daily	25 th percentile	\$95.00	\$78.00	\$65.00	\$53.74
	30 th percentile	\$100.00	\$82.00	\$69.00	\$60.00
	40 th percentile	\$105.00	\$86.00	\$75.00	\$64.49
	50 th percentile	\$126.00	\$106.00	\$89.00	\$65.00
	75 th percentile	\$221.00	\$192.00	\$163.00	\$110.00
Weekly	25 th percentile	\$336.00	\$285.00	\$255.00	\$200.00
	30 th percentile	\$350.00	\$295.00	\$265.00	\$200.00
	40 th percentile	\$366.00	\$314.00	\$282.00	\$220.82
	50 th percentile	\$382.00	\$336.92	\$300.00	\$225.00
	75 th percentile	\$427.00	\$385.00	\$332.00	\$310.00

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Appendix B: Licensed family child care provider percentile calculations

Tables B.1 through B.4 show the 25th, 30th, 40th, 50th and 75th percentile calculations for each age group and price mode (hourly, daily, weekly) for each of the four price clusters for licensed family child care providers. The 50th percentile is equivalent to the median.

Table B.1: Family child care provider rates and percentiles by age group for price cluster one

Family child care provider rates price cluster one					
Price mode	Percentile	Infant	Toddler	Preschool	School age
Hourly	25 th percentile	\$2.50	\$2.50	\$2.50	\$2.50
	30 th percentile	\$2.50	\$2.50	\$2.50	\$2.50
	40 th percentile	\$2.60	\$2.50	\$2.50	\$2.50
	50 th percentile	\$2.75	\$2.70	\$2.62	\$2.55
	75 th percentile	\$3.00	\$3.00	\$2.96	\$2.85
Daily	25 th percentile	\$25.00	\$24.00	\$23.00	\$22.00
	30 th percentile	\$25.00	\$25.00	\$24.00	\$22.50
	40 th percentile	\$25.00	\$25.00	\$25.00	\$24.00
	50 th percentile	\$25.00	\$25.00	\$25.00	\$25.00
	75 th percentile	\$28.00	\$28.00	\$27.00	\$25.00
Weekly	25 th percentile	\$120.00	\$120.00	\$112.50	\$100.00
	30 th percentile	\$125.00	\$120.00	\$115.00	\$100.00
	40 th percentile	\$125.00	\$125.00	\$120.00	\$110.00
	50 th percentile	\$125.00	\$125.00	\$125.00	\$115.00
	75 th percentile	\$140.00	\$135.00	\$130.00	\$125.00

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Table B.2: Family child care provider rates and percentiles by age group for price cluster two

Family child care provider rates price cluster two					
Price mode	Percentile	Infant	Toddler	Preschool	School age
Hourly	25 th percentile	\$2.60	\$2.50	\$2.50	\$2.50
	30 th percentile	\$2.75	\$2.60	\$2.60	\$2.50
	40 th percentile	\$2.75	\$2.75	\$2.75	\$2.75
	50 th percentile	\$2.90	\$2.85	\$2.75	\$2.75
	75 th percentile	\$3.15	\$3.00	\$3.00	\$3.00
Daily	25 th percentile	\$26.00	\$25.00	\$25.00	\$25.00
	30 th percentile	\$27.00	\$25.00	\$25.00	\$25.00
	40 th percentile	\$28.00	\$27.00	\$26.00	\$25.00
	50 th percentile	\$30.00	\$28.00	\$27.00	\$26.00
	75 th percentile	\$32.00	\$30.00	\$30.00	\$30.00
Weekly	25 th percentile	\$130.00	\$125.00	\$125.00	\$115.00
	30 th percentile	\$130.00	\$125.00	\$125.00	\$120.00
	40 th percentile	\$135.00	\$130.00	\$130.00	\$125.00
	50 th percentile	\$140.00	\$135.00	\$130.00	\$125.00
	75 th percentile	\$150.00	\$150.00	\$145.00	\$140.00

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Table B.3: Family child care provider rates and percentiles by age group for price cluster three

Family child care provider rates price cluster three					
Price mode	Percentile	Infant	Toddler	Preschool	School age
Hourly	25 th percentile	\$3.25	\$3.25	\$3.00	\$3.00
	30 th percentile	\$3.50	\$3.25	\$3.25	\$3.00
	40 th percentile	\$3.60	\$3.50	\$3.50	\$3.50
	50 th percentile	\$4.00	\$4.00	\$4.00	\$3.75
	75 th percentile	\$5.13	\$5.00	\$5.00	\$5.00
Daily	25 th percentile	\$30.00	\$30.00	\$30.00	\$26.00
	30 th percentile	\$32.00	\$30.00	\$30.00	\$27.00
	40 th percentile	\$35.00	\$32.00	\$30.00	\$30.00
	50 th percentile	\$35.00	\$35.00	\$32.00	\$30.00
	75 th percentile	\$40.00	\$40.00	\$35.00	\$35.00
Weekly	25 th percentile	\$150.00	\$150.00	\$140.00	\$125.00
	30 th percentile	\$155.00	\$150.00	\$145.00	\$125.00
	40 th percentile	\$160.00	\$150.00	\$150.00	\$135.00
	50 th percentile	\$170.00	\$160.00	\$150.00	\$140.00
	75 th percentile	\$185.00	\$175.00	\$170.00	\$150.00

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Table B.4: Family child care provider rates and percentiles by age group for price cluster four

Family child care provider rates price cluster four					
Price mode	Percentile	Infant	Toddler	Preschool	School age
Hourly	25 th percentile	\$5.00	\$5.00	\$5.00	\$5.00
	30 th percentile	\$5.27	\$5.00	\$5.00	\$5.00
	40 th percentile	\$6.00	\$5.50	\$5.17	\$5.00
	50 th percentile	\$7.00	\$6.32	\$6.00	\$5.82
	75 th percentile	\$10.00	\$9.00	\$8.00	\$8.00
Daily	25 th percentile	\$40.00	\$38.00	\$35.00	\$30.00
	30 th percentile	\$40.00	\$40.00	\$36.00	\$32.00
	40 th percentile	\$43.00	\$40.00	\$40.00	\$35.00
	50 th percentile	\$45.00	\$44.20	\$40.00	\$37.00
	75 th percentile	\$50.00	\$50.00	\$48.00	\$45.00
Weekly	25 th percentile	\$180.00	\$175.00	\$165.00	\$140.00
	30 th percentile	\$185.00	\$175.00	\$170.00	\$150.00
	40 th percentile	\$195.00	\$185.00	\$175.00	\$155.00
	50 th percentile	\$200.00	\$190.00	\$180.00	\$165.00
	75 th percentile	\$225.00	\$215.00	\$200.00	\$185.00

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Appendix C: 2018 – 2021: Comparative analysis for child care provider prices and capacity



Methodology

The Minnesota Department of Human Services (department) requested ICF to create a comparative analysis between child care providers in the 2018 and 2021 market price analysis datasets to examine changes in total desired capacity and pricing over time. The analysis first combined raw data of center-based and family child care providers in the datasets from these two years. These datasets included each provider's associated county and ZIP code, its desired and licensed capacity by age group served, and its hourly, daily and weekly pricing for each age group served. The number of unique child care providers in these original datasets were 7,451 and 7,292 for 2018 and 2021, respectively. After merging these two datasets and matching each provider's county to its 2021 cluster designation, the analysis removed providers that did not provide data for both 2018 and 2021, resulting in a final analytical sample of 5,124 unique child care providers.

For these child care providers, the analysis matched U.S. Census Bureau data from the American Community Survey's 2019 five-year estimates to each provider's Minnesota five-digit ZIP code. The American Community Survey data points that were matched to each child care provider included the:

- Percentage of the population that identified as white, and
- Median household income.¹

These data points were used later in the analysis to examine changes in total desired capacity and pricing, depending on the racial and ethnic diversity, and the economic prosperity of each child care provider's community. The analysis also looked at these two outcomes by urbanicity. To define the level of urbanicity, these child care providers operate in, each Minnesota ZIP code was matched to one of the U.S. Department of Agriculture's rural-urban commuting area classifications. This analysis used the 2010 rural-urban commuting area classifications that were mapped to all individual ZIP codes in U.S. Census tracts nationwide. These classifications concurrently measure a ZIP code's population density, urbanization and daily commuting.² Although rural-urban commuting area classifications are very granular, for the purposes of this analysis, they were rolled into four main categories: Rural, small town, large town, and urban (i.e., metropolitan).³ These same four rural-urban commuting area classification segmentations have been used previously by Minnesota state agencies for analysis thus, for consistency, were used in this analysis.⁴

¹ Data from ACS's 2019 five-year estimates from table DP05.

² U.S. Department of Agriculture. (n.d.) Rural-Urban Commuting Area Codes. USDA ERS - Rural-Urban Commuting Area Codes. <https://www.ers.usda.gov/data-products/rural-urban-commuting-area-codes/>.

³ Definitions and parameters for these categorizations is at: <https://www.ers.usda.gov/data-products/rural-urban-commuting-area-codes/documentation/>.

⁴ The Minnesota Demographic Center (SDC), Minnesota Department of Administration. (2017, January). Greater Minnesota: Refined & Revisited: https://mn.gov/admin/assets/greater-mn-refined-and-revisited-msdc-jan2017_tcm36-273578.pdf.

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To examine whether there were price increases or decreases for child care, researchers compared the average change in child care prices between 2018 and 2021. For center-based providers, the comparison was weighted by a provider's desired capacity as reported in the dataset. This comparison represents the average price change for a child care slot, by type of care and age group. The analysis employed this weighting method across all Minnesota child care providers in the analytical sample to calculate the average price change for a child care slot, by type of care and age group, between the two years.

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After completing the price weighting process, the analysis calculated the percentage difference between the 2018 and 2021 weighted prices by provider and age group, where 2018 was the reference year. This calculation was completed for all child care providers' weighted prices that were not zero in the years 2018 and 2021. The analysis calculated the percentage difference between the total desired capacities across all age groups, as reported by child care providers in 2018 and 2021. Of note, when the total desired capacities or the desired capacities for a particular age group were zero, the analysis replaced the zero values with those of the respective licensed capacities reported by that same child care provider. After this step in the analysis, there were 122 child care providers that still had a zero total desired capacity for 2018. Because of this result, and the percentage difference in the calculation used, these child care providers were removed from the analysis *only when* calculating the change in total desired capacity from 2018 to 2021. Thus, for analyzing the changes in total desired capacity, the total sample dropped to 5,002 unique child care providers. However, when analyzing the changes in pricing, the sample count did not change.

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The analysis then estimated the average change in 1) weighted prices across price modes and 2) total desired capacity by different segmentations (e.g., 2021 cluster segmentation, rural-urban commuting area classification, portion of population that identified as white, median household income). These results are presented in the subsequent section, Summary of findings. Of note, with the categories used to analyze changes in pricing and total desired capacity given a ZIP code's percentage of the population who identified as white, two extremes were examined: The top and bottom 5th percentiles (i.e., 95th percentile and 5th percentile), and the top and bottom 10th percentiles (i.e., 90th percentile and 10th percentile).

Thus, the percentage of white categories shown in the to the distribution of this variable for the 5,124 child care providers in this analytical sample. The 95th percentile for this variable was a ZIP code that represented the portion of the population being greater than or equal to 96.9% white, while the 5th percentile represented the portion of the population being less than or equal to 55.4% white. The income brackets used to determine whether price or total desired capacity changes varied by the median household income of a child care provider's ZIP code were determined using the distribution of this variable among the analytical sample. The analysis used five categories in increments of \$35,000 to showcase results. It is important to note that the sample size for the median household income analysis is 5,123, rather than 5,124 child care providers because the ZIP code of one provider in the sample did not have this median household income metric in the American Community Survey data. Thus, that provider was removed *only* from this income-specific segmentation.

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Summary of findings

Statewide summary of market changes

The analysis examined changes in prices between 2018 and 2021 for each price mode (hourly, daily and weekly), and changes in capacity for both center-based and family child care providers, as shown in Table C.1. The average price increase for center-based child care ranged from approximately 11% to 16% for infant care, 15% to 17% for toddler care, and 21% to 23% for preschool-age care. **Price increases were more pronounced for school-age care** and ranged from 19% to 46%. Weekly prices saw the greatest increase. The desired capacity increased by approximately 4% during this period.

Price increases for infants and toddlers were significantly higher among family child care providers than increases for center-based providers. Prices for infants increased by approximately 18% to 19%; prices for toddlers increased by approximately 21% across all price modes. Prices for preschool care increased approximately 18% to 19% across price modes; prices for school-age care increased 29% to 34%. The desired capacity increased by less than 2%.

Table C.1. Average percentage change in pricing and capacity by type of care and age group from 2018 to 2021

	Hourly pricing	Daily pricing	Weekly pricing	Total desired capacity
Center-based provider				
Infant (sample size)	13.50%	11.03%	15.76%	4.01%
	154	236	504	853
Toddler (sample size)	15.60%	14.89%	16.72%	4.01%
	167	268	551	853
Preschool (sample size)	23.22%	20.62%	22.97%	4.01%
	187	299	590	853
School age (sample size)	18.77%	39.93%	46.18%	4.01%
	106	184	298	853
Family child care provider				
Infant (sample size)	18.57%	17.56%	19.25%	1.53%
	786	1,288	2,221	4,149
Toddler (sample size)	21.18%	20.58%	20.72%	1.53%
	820	1,339	2,289	4,149
Preschool (sample size)	18.16%	17.45%	19.33%	1.53%
	830	1,369	2,307	4,149
School age (sample size)	29.16%	34.41%	32.28%	1.53%
	859	1,229	1,869	4,149

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Summary of market changes by cluster level

The analysis also examined changes in prices and capacity based on the market price clusters to which the child care providers were assigned in the 2021 market price survey. As shown in Table C.2, **price increases for center-based child care in cluster one were generally lower than the statewide average price increases**, except for weekly infant, toddler and school-age care. The desired capacity for center-based child care in cluster one increased by approximately 6.1%, higher than the statewide average.

Price increases for family child care in cluster one were generally lower than or nearly the same as the statewide average price increases, except for school-age care, which was consistently lower than the state average. The desired capacity for family child care in cluster one increased by approximately 1.9%, slightly higher than the statewide average.

Table C.2. Average percentage change in pricing and desired capacity in price cluster one by type of care and age group from 2018 to 2021

	Hourly pricing	Daily pricing	Weekly pricing	Total desired capacity
Center-based provider				
Infant (sample size)	2.00%	2.80%	31.19%	6.07%
	9	6	9	29
Toddler (sample size)	9.31%	10.47%	17.65%	5.87%
	10	10	12	30
Preschool (sample size)	15.88%	16.37%	19.34%	5.87%
	10	10	13	30
School age (sample size)	4.83%	15.39%	3.39%	5.87%
	7	1	4	30
Family child care provider				
Infant (sample size)	15.01%	18.32%	20.29%	1.87%
	214	127	190	570
Toddler (sample size)	18.04%	15.61%	16.80%	1.87%
	217	128	193	570
Preschool (sample size)	15.93%	17.61%	17.67%	1.87%
	217	130	192	570
School age (sample size)	22.81%	18.86%	17.69%	1.87%
	216	128	180	570

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As shown in Table C.3, price increases for center-based child care in cluster two were generally higher than or nearly the same as the statewide average price increases, except for hourly infant care, weekly preschool care, and daily and weekly school-age care. The desired capacity for center-based child care in cluster two increased by 3.7%, slightly less than the statewide average.

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Price increases for family child care in cluster two were generally lower than or nearly the same as the statewide average price increases. The desired capacity for family child care in cluster two increased by approximately 2.6%, higher than the statewide average.

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Table C.3. Average percentage change in pricing and desired capacity in price cluster two by type of care and age group from 2018 to 2021

	Hourly pricing	Daily pricing	Weekly pricing	Total desired capacity
Center-based provider				
Infant (sample size)	10.86%	24.98%	17.69%	3.65%
	20	36	53	120
Toddler (sample size)	24.43%	27.99%	23.33%	3.65%
	24	39	59	120
Preschool (sample size)	24.96%	26.87%	20.49%	3.65%
	28	45	62	120
School age (sample size)	33.88%	25.66%	25.42%	3.65%
	25	21	24	120
Family child care provider				
Infant (sample size)	19.02%	17.19%	18.64%	2.60%
	312	340	538	1,270
Toddler (sample size)	18.96%	20.29%	19.35%	2.60%
	328	352	558	1,270
Preschool (sample size)	15.36%	15.95%	19.63%	2.60%
	331	362	563	1,270
School age (sample size)	25.56%	33.01%	33.95%	2.60%
	335	333	467	1,270

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As shown in Table C.4, price increases for center-based child care in cluster three varied in comparison to the statewide average price increases. Price increases for infants and toddlers were generally the same or slightly less than the statewide average increase. Price increases for preschool and school age care were consistently lower than the statewide average price increase. The desired capacity for center-based child care in cluster three increased by approximately 4.6%, slightly higher than the statewide average.

2

Price increases for family child care in cluster three were generally higher than or nearly the same as the statewide average price increases, with the exception of weekly infant care and daily school-age care. The desired capacity for family child care in cluster three increased by approximately 1.1%, slightly lower than the statewide average.

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Table C.4. Average percentage change in pricing and desired capacity in price cluster three by type of care and age group from 2018 to 2021

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	Hourly pricing	Daily pricing	Weekly pricing	Total desired capacity
Center-based provider				
Infant (sample size)	14.20%	10.62%	11.43%	4.58%
	12	20	33	61
Toddler (sample size)	16.13%	15.71%	12.10%	4.65%
	12	21	33	60
Preschool (sample size)	16.21%	17.52%	17.40%	4.65%
	16	24	38	60
School age (sample size)	25.58%	28.40%	24.99%	4.65%
	10	17	25	60
Family child care provider				
Infant (sample size)	21.67%	18.46%	18.23%	1.13%
	147	393	635	1,073
Toddler (sample size)	25.77%	18.70%	19.48%	1.13%
	157	412	651	1,073
Preschool (sample size)	26.42%	17.58%	19.79%	1.13%
	160	425	664	1,073
School age (sample size)	34.37%	32.49%	32.48%	1.13%
	175	374	546	1,073

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As shown in Table C.5, price increases for center-based child care in cluster four were generally higher than or nearly the same as the statewide average price increases, except for hourly infant care, weekly preschool care, and daily and weekly school-age care. The desired capacity for center-based child care in cluster four increased by 3.9%, slightly less than the statewide average.

2

Price increases for family child care in cluster four were generally higher than or nearly the same as the statewide average price increases, except for daily toddler and preschool care. The desired capacity for family child care in cluster four increased by approximately 0.6%, which is less than the state average.

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Table C.5. Average percentage change in pricing and desired capacity in price cluster four by type of care and age group from 2018 to 2021

	Hourly pricing	Daily pricing	Weekly pricing	Total desired capacity
Center-based provider				
Infant (sample size)	14.81%	8.47%	15.52%	3.93%
	113	174	409	643
Toddler (sample size)	14.32%	12.45%	16.16%	3.93%
	121	198	447	643
Preschool (sample size)	24.25%	19.87%	23.83%	3.93%
	133	220	477	643
School age (sample size)	13.32%	43.52%	51.08%	3.93%
	64	145	245	643
Family child care provider				
Infant (sample size)	20.06%	16.81%	20.16%	0.63%
	113	428	858	1236
Toddler (sample size)	27.01%	23.96%	23.35%	0.63%
	118	447	887	1236
Preschool (sample size)	18.90%	18.48%	19.16%	0.63%
	122	452	888	1236
School age (sample size)	41.67%	42.48%	34.85%	0.63%
	133	394	676	1236

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Summary of market changes by urbanicity

The analysis also examined how provider prices and capacity changed by the level of urbanicity of the surrounding community, including rural areas, small towns, large towns, and urban areas, as the Methodology section described in greater detail in this section.

As shown in Table C.6, price increases for center-based child care in rural areas, as determined by ZIP codes, were generally lower than or nearly the same as the statewide average price increases, except for daily and weekly infant and preschool care, and weekly toddler care. The desired capacity for center-based child care in rural areas increased by 0.7%, much less than the statewide average.

Price increases for family child care in rural areas, as determined by ZIP codes, were generally lower than or nearly the same as the statewide average price increases. The desired capacity for family child care in rural areas increased by approximately 1.6%, which is slightly higher than the state average.

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Table C.6. Average percentage change in pricing and desired capacity for rural areas by type of care from 2018 to 2021

	Hourly pricing	Daily pricing	Weekly pricing	Total desired capacity
Center-based provider				
Infant (sample size)	2.63%	12.69%	64.89%	0.67%
	7	5	6	19
Toddler (sample size)	7.48%	13.96%	37.29%	0.67%
	7	7	7	19
Preschool (sample size)	12.54%	22.33%	37.90%	0.67%
	7	7	7	19
School age (sample size)	5.04%	21.19%	17.91%	0.67%
	5	2	3	19
Family child care provider				
Infant (sample size)	18.18%	17.11%	20.66%	1.61%
	181	118	114	453
Toddler (sample size)	17.73%	18.17%	21.46%	1.61%
	184	120	115	453
Preschool (sample size)	15.74%	15.93%	20.48%	1.61%
	185	122	116	453
School age (sample size)	23.41%	24.56%	29.86%	1.61%
	184	113	106	453

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As shown in Table C.7, price increases for center-based child care in small towns, as determined by ZIP codes, were generally lower than or nearly the same as the statewide average price increases, except for weekly toddler care and hourly preschool care. The desired capacity for center-based child care in small towns decreased by 1.2%, a significant difference from the 4.0% increase statewide.

2

Price increases for family child care in small towns, as determined by ZIP codes, were generally lower than or nearly the same as the statewide average price increases, except for daily infant, preschool and school-age care, and daily preschool care. The desired capacity for family child care in small towns increased by approximately 1.6%, which is slightly higher than the state average.

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Table C.7. Average percentage change in pricing and desired capacity for small towns by type of care from 2018 to 2021

	Hourly pricing	Daily pricing	Weekly pricing	Total desired capacity
Center-based provider				
Infant (sample size)	-8.44%	1.74%	9.14%	-1.22%
	3	7	13	32
Toddler (sample size)	13.45%	5.16%	21.55%	-1.22%
	3	9	15	32
Preschool (sample size)	26.49%	9.05%	18.17%	-1.22%
	6	13	18	32
School age (sample size)	20.45%	10.21%	26.50%	-1.22%
	6	5	10	32
Family child care provider				
Infant (sample size)	15.49%	19.30%	18.10%	1.63%
	142	127	196	511
Toddler (sample size)	16.89%	14.93%	14.10%	1.63%
	147	129	202	511
Preschool (sample size)	21.52%	17.04%	18.18%	1.63%
	148	136	201	511
School age (sample size)	28.17%	40.19%	29.72%	1.63%
	146	122	177	511

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As shown in Table C.8, price increases for center-based child care providers in large towns, as determined by ZIP codes, were generally higher than or nearly the same as the statewide average price increases, except for hourly infant care and weekly infant, preschool and school-age care. The desired capacity for center-based child care in large towns increased by 4.0%, which is nearly equal to the statewide average.

2

Price increases for family child care providers in large towns, as determined by ZIP codes, were generally lower than or nearly the same as the statewide average price increases, with the exception of hourly infant and toddler care. The desired capacity for family child care in large towns increased by approximately 4%, which is significantly higher than the state average.

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Table C.8. Average percentage change in pricing and desired capacity for large towns by type of care from 2018 to 2021

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	Hourly pricing	Daily pricing	Weekly pricing	Total desired capacity
Center-based provider				
Infant (sample size)	12.30%	18.52%	9.88%	3.95%
	18	19	29	68
Toddler (sample size)	23.59%	29.66%	17.03%	3.95%
	23	21	32	68
Preschool (sample size)	25.34%	35.26%	18.21%	3.95%
	24	21	31	68
School age (sample size)	21.96%	39.43%	29.09%	3.95%
	21	9	15	68
Family child care provider				
Infant (sample size)	19.42%	16.75%	20.77%	4.00%
	183	188	246	632
Toddler (sample size)	22.72%	18.35%	20.31%	4.00%
	190	194	254	632
Preschool (sample size)	18.09%	14.66%	15.96%	4.00%
	191	194	254	632
School age (sample size)	19.32%	18.61%	30.68%	4.00%
	194	187	217	632



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As shown in Table C.9, price increases for center-based child care in urban areas, as determined by ZIP codes, were generally higher than or nearly the same as the statewide average price increases, except for hourly and daily toddler care and daily preschool care. The desired capacity for center-based child care in urban areas increased by 4.3%, slightly higher than the statewide average.

2

Price increases for family child care in urban areas, as determined by ZIP codes, were generally lower than or nearly the same as the statewide average price increases. The desired capacity for family child care in urban areas increased by approximately 1.6%, which is slightly higher than the state average.

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Table C.9. Average percentage change in pricing and desired capacity for urban areas by type of care from 2018 to 2021

	Hourly pricing	Daily pricing	Weekly pricing	Total desired capacity
Center-based provider				
Infant (sample size)	14.80%	10.61%	15.67%	4.33%
	126	205	456	734
Toddler (sample size)	14.70%	13.96%	16.27%	4.33%
	134	231	497	734
Preschool (sample size)	23.25%	19.96%	23.21%	4.33%
	150	258	534	734
School age (sample size)	18.65%	41.07%	48.17%	4.33%
	74	168	270	734
Family child care provider				
Infant (sample size)	19.83%	17.54%	19.07%	0.89%
	280	855	1,665	2,553
Toddler (sample size)	24.43%	22.20%	21.51%	0.89%
	299	896	1,718	2,553
Preschool (sample size)	18.05%	18.30%	19.88%	0.89%
	306	917	1,736	2,553
School age (sample size)	38.44%	38.58%	33.05%	0.89%
	335	807	1,369	2,553

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Summary of market changes by income of community

The analysis also examined how provider prices and capacity changed by the median household income of the surrounding community. As shown in Table C.10, the **greatest price increases occurred in communities that had the lowest median household incomes (\$0–\$35,000)**, with increases ranging from 25% to 64% across all price modes. The smallest price increases occurred in communities with the highest median household incomes (\$140,000–\$175,000), with increases ranging from 8% to 15% across price modes. In the remaining communities, where incomes ranged from \$35,000 to \$140,000, the price increases ranged from approximately 20% to 29%.

The analysis did not examine specific factors that may explain the significant price increases in the communities with the lowest household incomes. One hypothesis is that the 2020 Child Care Assistance Program reimbursement rate increases may have had a greater influence on private market prices in communities that have the lowest incomes because they may contain a higher concentration of providers that set their private prices at or near the CCAP reimbursement rate. However, it does not seem likely because that factor alone could explain the entire price increase. It is possible that families with low incomes who do not have access to subsidies may experience a widening affordability gap compared with families with higher incomes.

The analysis found that the **greatest increase in desired capacity also occurred in communities with the lowest incomes**, where capacity increased by nearly 7%, which is significantly higher than the statewide average of 4%. **Desired capacity in the communities with the highest incomes decreased by 5.6%**, while the remaining communities experienced increases that ranged from approximately 2% to 3%.

Table C.10. Average percentage change in pricing and desired capacity by median household income from 2018 to 2021

Median income bracket	Hourly pricing	Daily pricing	Weekly pricing	Total desired capacity
\$0–\$35,000 (sample size)	24.66%	41.82%	64.26%	6.93%
	24	37	49	21
\$35,001–\$70,000 (sample size)	19.81%	20.02%	21.05%	1.97%
	2,744	2,882	4,356	2,485
\$70,001–\$105,000 (sample size)	24.16%	22.50%	23.39%	1.80%
	996	2,690	5,125	2,057
\$105,001–\$140,000 (sample size)	29.21%	28.42%	22.97%	2.72%
	135	582	1,064	420
\$140,001–\$175,000 (sample size)	15.30%	7.65%	12.35%	–5.62%
	10	21	32	18

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Summary of changes by race and ethnicity of community

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Across all age groups and provider types, the analysis examined whether there were changes in provider prices and desired capacity based on racial composition of the surrounding community. As shown in Table C.11, price increases tended to be somewhat greater as the percentage of the population that is white decreased and the percentage of the population that represents people of color increased. In communities where 97% of the population is white, the price increases ranged from 18% to 24%. In communities where only 55% of the population is white, the price increases ranged from 21% to 29%.

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The analysis did not explore factors that may explain the differences in price changes among communities with different racial compositions. This issue also may be one that the department may want to investigate. Most families face child care affordability challenges, but this analysis indicates that communities with larger populations of people of color may have experienced somewhat higher price increases, therefore, face a widening affordability gap compared with communities that have populations that are predominately white.

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Capacity increases were the highest in communities where larger portions of the population were white. **Communities in which a smaller portion of the population is white experienced smaller increases in capacity, or declines in capacity.** These capacity increases may also be an issue the department may want to investigate.

Table C.11. Average percentage change in pricing and desired capacity by racial composition from 2018 to 2021

	Hourly pricing	Daily pricing	Weekly pricing	Total desired capacity
Greater than or equal to 96.9% white	24.05%	18.17%	23.96%	0.96%
(sample size)	351	234	337	242
Greater than or equal to 95.9% white	21.86%	19.63%	22.63%	3.62%
(sample size)	618	529	760	494
Less than or equal to 67.3% white	21.83%	21.55%	26.12%	0.63%
(sample size)	369	734	1,260	491
Less than or equal to 55.4% white	21.07%	23.91%	29.08%	-0.68%
(sample size)	224	383	671	257

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Key policy implications

The results of the analysis discussed in this section highlight several findings that may warrant additional analysis by department staff to determine implications for subsidy policy, including:

- Significant increases in the price of child care in the past three years will make affordability an even greater challenge for most Minnesota families, including middle-income families who do not qualify for child care subsidies.
- Results from the analysis show that **prices rose at a higher rate in lower-income communities and communities of color**. These increased prices may exacerbate existing inequities in access and affordability, especially for families who do not have access to subsidies, or who must pay the difference between CCAP reimbursements and the private market price for child care.
- Prices for licensed **school-age care increased at a rate significantly higher than for other age groups**. Based on data, it is not clear whether this increase is part of a long-term trend or a new development that may have been precipitated by the pandemic. This report did not compare prices among license-exempt centers. Parents with school-age children may be facing new child care affordability challenges.
- Results from the analysis show **declines in licensed center-based child care capacity in small towns**. If not offset by a comparable decrease in demand for child care, or an increase in supply in public preschool, family child care or license-exempt school-age child care, small towns may be experiencing a deepening supply challenge. Additional analysis would be required to determine the degree of such challenges.

Department staff continues to examine access and affordability of child care. During the 2021 legislative session, Minnesota made targeted investments of federal dollars considered short-term. The governor's office has convened a Childcare and Education Work Group to examine long-term solutions for Minnesota families and the child care industry. Department staff continue to examine access and affordability of child care. During the 2021 legislative session, Minnesota made targeted investments of one-time federal dollars for an array of initiatives to increase child care access and affordability and support the workforce. Due to the time-limited nature of the federal funds used these are considered short-term. The administration continues to examine longer terms solutions to make accessible and affordable child care a priority for Minnesota.