

2025 Child Care Subsidy Reimbursement Rate Final Report

Introduction. The Indiana Office of Early Childhood and Out-of-School Learning (OECOSL) is introducing a new schedule of child care subsidy reimbursement rates in 2025 to replace the transition rates it introduced in 2023. The new rates are based on an updated and expanded data set collected by OECOSL to inform its child care cost estimation model. While the transition rates allowed providers to keep their existing 2022 rates if those rates were higher than the cost model estimates, the new schedule of 2025 rates will apply to all child care providers. As a result, some providers will now see a decrease from their prior rates. Providers may also see a decrease in the cost-per-child rate due to increases in class size and child-adult ratio assumptions in the 2025 model; however, after excluding the effect of these assumptions the net change in rates between 2023 and 2025 is relatively small for a majority of child care providers.

Background. In 2023, the Indiana Office of Early Childhood and Out-of-School Learning (OECOSL) issued its first schedule of child care subsidy rates based on an alternative methodology that estimated the cost to provide child care services, rather than use market rate study of the providers' published tuition rates. The transition to an Alternative Rate Methodology (ARM) was the culmination of more than three years of development by OECOSL and its partners.

In 2020, OECOSL partnered with Early Learning Indiana (ELI) to conduct its first cost study, as a companion to the market rate study already underway at that time. The Narrow Cost Study (NCS) included a child care cost estimation model and an integrated survey instrument addressing all expenses incurred by providers, and was administered to 40 licensed centers, licensed family homes, and unlicensed registered ministries.¹ In 2021, OECOSL applied the findings from the NCS in determining its first round of subgrant utilization payments to child care providers, funded by the American Rescue Plan Act (ARPA). OECOSL required all subgrant recipients to report detailed information about their classroom attendance and staffing for the first round of payments; for the second round of payments in 2022, providers were also required to report the average wages they paid to their teaching and non-teaching staff, and were asked to provide their monthly mortgage or lease payments for the space they occupy. 2,306 providers participated in this data collection effort, setting the stage for OECOSL to combine the NCS and ARPA data and develop an ARM for determining child care subsidy reimbursements that included the following elements:

- Assigning Indiana counties into one of three regions based on 2020 Census data.
- Utilizing a child care cost model for each region to estimate costs by auspice, child age, and Paths to QUALITY™ (PTQ) level.
- Populating the cost model with assumptions drawn from data from OECOSL's 2020 NCS and 2021-2022 ARPA stabilization subgrant applications.

¹ *Indiana Early Childhood Education Cost Study*, Early Learning Indiana, January 2021.

- Implementing a transition period, during which subsidy rates are set equal to the greater of child care cost model estimates and rates previously paid to providers.²

At the time, OECOSL stated that upon the end of the transition period it would update its child care cost model estimates with the best provider-level data available at that time and set subsidy reimbursement rates according to these updated estimates. This policy was intended to protect providers from experiencing a reduction in reimbursements immediately following the implementation of the ARM, while also creating the incentive for them to share more data in the future about their costs.

Improvements to Data Sources for 2025. The cost data collected for the 2023 transition rates was subject to certain limitations. Given the urgency of the ARPA subgrants, OECOSL did not want overburden providers with too many questions pertaining to their costs and underlying cost drivers. Furthermore, providers' reported class size and child-adult ratios in 2021-2022 may have been influenced by pandemic-related factors. Finally, the 2020 NCS did not include exempt centers, exempt family homes, public schools, or private schools; for these auspices OECOSL adapted its analysis of licensed centers, licensed family homes, and unlicensed registered ministries to generate cost model assumptions that it felt were most appropriate.

For the derivation of 2025 subsidy reimbursement rates, OECOSL sought to update and expand upon the data it collected for its 2023 cost estimates. After issuing the transition rates, it immediately began development on a new provider survey to replace the market rate study it previously administered every three years. The resulting Reimbursement Rate (RR) Survey was rolled out in late 2023 and included questions pertaining to providers' enrollment and published tuition rates as well as their costs. A total of 1,099 providers participated in the 2024 RR Survey, representing 27% of a total provider population of 4,027. A breakout of participation by auspice is shown below, with participation rates by auspice shown in parentheses.

- 242 Licensed Centers (38% of the population)
- 437 Licensed Family Homes (20%)
- 201 Unlicensed Registered Ministries (28%)
- 96 Legally Exempt Centers (37%)
- 83 Public School programs (45%)
- 26 Legally Exempt Family Homes (39%)
- 14 Private School programs (64%)

Providers were asked to supply more detail about their personnel costs, including a breakdown of staffing levels, hourly wages, education credentials by staff position. Family home providers were asked for additional information required to estimate their effective hourly wage in a manner consistent with other auspices.³ All providers were asked to supply more detail about

² The rates previously paid to providers were set at a 20% premium over the subsidy rates derived using market rate survey data collected in 2018.

³ Many family home providers are sole proprietors who do not enroll in payroll services and therefore do not pay themselves an hourly wage; in addition, many of the tax deductions available to home-based businesses constitute supplemental income when drawing comparisons to caregiver wages in other settings, e.g. at child care centers, on an 'apples-to-apples' basis.

their costs related to their facilities, employee benefits and child meals than OECOSL collected in the ARPA applications.

The 2024 RR Survey did not address all categories of provider costs. For these expenses, and to update the data from the original NCS, OECOSL completed a Narrow Cost Study Update (NCS Update) in 2024. A total of 20 licensed centers, licensed homes, and unlicensed registered ministries were surveyed in the NCS Update, allowing OECOSL to estimate the percent change in values for key unit costs and cost drivers since the 2020 NCS.

2025 Reimbursement Rates. A new schedule of child care subsidy reimbursement rates based on current data and the cost estimation model is shown in Figure 1.

Figure 1: Schedule of Child Care Subsidy Reimbursement Rates for 2025, by Auspice, Age Group, Region, and PTQ Level (Source: OECOSL Cost Estimation v18)

		Urban				Mixed				Rural			
		Level 1	Level 2	Level 3	Level 4	Level 1	Level 2	Level 3	Level 4	Level 1	Level 2	Level 3	Level 4
Licensed Center	Infant	\$411	\$424	\$437	\$478	\$387	\$402	\$415	\$455	\$369	\$377	\$389	\$432
	Toddler	\$332	\$343	\$353	\$385	\$313	\$325	\$335	\$366	\$299	\$305	\$315	\$348
	3/4/5 Years Old	\$203	\$209	\$214	\$231	\$191	\$198	\$203	\$219	\$184	\$187	\$192	\$210
	Kindergarten	\$172	\$177	\$182	\$196	\$163	\$168	\$173	\$187	\$156	\$159	\$164	\$179
	School Age	\$54	\$55	\$57	\$61	\$51	\$52	\$54	\$58	\$49	\$50	\$51	\$56
	School Other	\$144	\$147	\$151	\$162	\$135	\$140	\$143	\$154	\$130	\$133	\$136	\$148
Licensed Family Home	Infant	\$147	\$152	\$158	\$166	\$141	\$146	\$152	\$159	\$136	\$140	\$146	\$155
	Toddler	\$147	\$152	\$158	\$166	\$141	\$146	\$152	\$159	\$136	\$140	\$146	\$155
	3/4/5 Years Old	\$147	\$152	\$158	\$166	\$141	\$146	\$152	\$159	\$136	\$140	\$146	\$155
	Kindergarten	\$147	\$152	\$158	\$166	\$141	\$146	\$152	\$159	\$136	\$140	\$146	\$155
	School Age	\$56	\$58	\$60	\$64	\$54	\$56	\$58	\$61	\$52	\$53	\$56	\$59
	School Other	\$147	\$151	\$158	\$165	\$141	\$145	\$151	\$159	\$135	\$140	\$145	\$155
Unlicensed Registered Ministry	Infant	\$356	\$381	\$394	\$425	\$339	\$364	\$377	\$407	\$325	\$343	\$355	\$382
	Toddler	\$306	\$326	\$336	\$360	\$289	\$309	\$318	\$342	\$278	\$292	\$301	\$322
	3/4/5 Years Old	\$193	\$207	\$212	\$227	\$181	\$196	\$201	\$215	\$180	\$189	\$194	\$208
	Kindergarten	\$135	\$145	\$148	\$158	\$128	\$138	\$141	\$150	\$127	\$133	\$136	\$146
	School Age	\$43	\$45	\$46	\$49	\$40	\$43	\$44	\$47	\$40	\$42	\$42	\$45
	School Other	\$113	\$120	\$123	\$130	\$106	\$114	\$116	\$124	\$106	\$111	\$113	\$120
Legally Exempt Center	Infant	\$370	\$385	\$389	\$407	\$354	\$371	\$375	\$393	\$339	\$348	\$352	\$375
	Toddler	\$298	\$309	\$312	\$326	\$286	\$298	\$301	\$316	\$274	\$280	\$284	\$302
	3/4/5 Years Old	\$176	\$182	\$184	\$191	\$170	\$176	\$178	\$186	\$163	\$167	\$169	\$178
	Kindergarten	\$152	\$158	\$159	\$165	\$147	\$153	\$154	\$161	\$142	\$145	\$146	\$154
	School Age	\$47	\$48	\$49	\$51	\$45	\$47	\$47	\$49	\$43	\$44	\$45	\$47
	School Other	\$129	\$133	\$134	\$139	\$124	\$129	\$130	\$135	\$120	\$122	\$124	\$130
Legally Exempt Family Home	Infant	\$140	\$140	\$140	\$140	\$132	\$132	\$132	\$133	\$132	\$132	\$132	\$133
	Toddler	\$140	\$140	\$140	\$140	\$132	\$132	\$132	\$133	\$132	\$132	\$132	\$133
	3/4/5 Years Old	\$140	\$140	\$140	\$140	\$132	\$132	\$132	\$133	\$132	\$132	\$132	\$133
	Kindergarten	\$140	\$140	\$140	\$140	\$132	\$132	\$132	\$133	\$132	\$132	\$132	\$133
	School Age	\$55	\$55	\$55	\$56	\$52	\$52	\$52	\$53	\$52	\$52	\$52	\$52
	School Other	\$140	\$140	\$140	\$140	\$132	\$132	\$132	\$133	\$132	\$132	\$132	\$133
Public - Private School	School Age	\$47	\$48	\$49	\$51	\$45	\$47	\$47	\$49	\$43	\$44	\$45	\$47
	School Other	\$148	\$148	\$148	\$148	\$148	\$148	\$148	\$148	\$148	\$148	\$148	\$148

For the derivation of these reimbursement rates, OECOSL selected the following statistics from its data collection to inform the child care cost estimation model:

- The 75th percentile statistic from the 2024 RR Survey data for daily operating hours, which equated to 12 hours of full-time child care services per day.
- Class sizes equivalent to 85% of the maximum allowable group size by auspice, which was found to be consistent with the 50th percentile statistics from the 2024 NCS Update.
- From the 2024 RR Survey, the average (mean) percentage split of teaching credentials by provider for lead teachers and assistant teachers, and the most frequently occurring (mode) education credentials for center directors, by auspice and PTQ level.
- The 50th percentile statistics for all other assumptions drawn from the RR Survey and 2024 NCS Update data.⁴

Comparing 2025 Reimbursement Rates to 2023 Transition Rates. OECOSL observed that in many cases there is strong agreement between the new schedule of reimbursement rates and the cost estimates generated for the 2023 transition period. 26% of the 2025 reimbursement rates exceed the 2023 cost estimates; another 21% of the rates are less than the 2023 cost estimates but the difference is less than five percent. Where there are more significant reductions, OECOSL can attribute the change to one or more of the following factors:

1. Expiration of the transition period policy preserving the existing rates providers were paid in 2022, if those rates exceeded the 2023 cost model estimates.
2. An increase in the 2025 cost model assumptions for class size and child-adult ratios, compared to 2023 assumptions.
3. New data collected describing exempt centers and exempt family homes.
4. 2025 cost estimates for family homes no longer varying as a function of child age.

Approximately 34% of the transition rates preserved the existing rates paid to providers in 2022, and those rates are now subject to a larger potential decrease than rates based on the 2023 cost estimates. School Age rates are disproportionately represented and account for 65% of the preserved rates; 83% of all published School Age (i.e., before-/after-school care) rates were affected, evenly distributed across regions. For the remaining 66% of preserved rates, the establishment of three regions played a key role. By aggregating provider data into three regions, rather than 92 separate counties, variations between counties within the same region would disappear; a number of the previous county rates would increase to the new, region-wide rate, but a number of previous rates would decline as well.

⁴ Assumptions drawn from the RR Survey data include staffing levels and hourly wages for non-teaching staff by position, auspice and PTQ level; hourly wages for teaching staff and center directors by position, education credentials, region, auspice, and PTQ level; employee benefit rates by auspice and PTQ level; child meals (and snacks) cost by auspice; mortgage or lease, utility, property insurance, and building maintenance costs per square foot, by auspice and region.

Assumptions drawn from the NCS Update data including professional development training hours and training fees per hour by auspice and PTQ level; transportation costs by child age and auspice; consumable education and office supplies per child, telephone and internet, professional services, fees and permits, and other operations expenses by region and auspice; usable classroom square footage per child and a facility shared space factor by auspice and PTQ level; child assessment rates and cost per assessment by child age and auspice.

Cost model assumptions for the 2025 reimbursement rates include higher values for class size and child-adult ratios. During the pandemic, child care providers were presented with an adverse set of circumstances. OECOSL observed that median class size statistics in the 2021-2022 ARPA application data for 3/4/5 Year Old, Kindergarten, and School Age classrooms were 70%, 50%, and 40% of the maximum allowable group size, respectively. In the 2024 NCS Update, the median class size statistics for these age groups fell much closer to 85% of the maximum allowable group size. In both the ARPA and NCS Update data, the median class size statistics for Infant and Toddler classrooms met or exceeded the 85% threshold. As a result, 3/4/5 Year Old, Kindergarten, and School Age rates are more likely to decrease in 2025 than rates for Infants and Toddlers.

As mentioned above, exempt providers were not included in the 2020 NCS. The 2024 RR Survey provided OECOSL with its first opportunity to better understand their personnel and facility costs in greater detail, and how their costs varied from their licensed counterparts.

Finally, it should be noted that the pattern of rates for family homes rates in Figure 1 shows no variation by child age. This pattern is a consequence of rules for class size and child-adult ratios and OECOSL's analysis of the data it collected about family home staffing and enrollment. Unlike other auspices, the maximum group size and child-adult ratios at family homes are not based on the age of the youngest child in attendance; instead, homes can care for up to 16 children regardless of age, and decreases in child-adult ratios are triggered upon hitting certain thresholds for the number of Infants in care. A single adult can care for up to 10 children with as many as 3 infants, and two adults can care for up to 16 children with as many as 6 infants. OECOSL found only a very small number of cases where the number of infants would trigger a requirement for three or more adults in the classroom; therefore, for rate-setting purposes it found no evidence that rates should vary significantly by the age of the child.