



# Using Cost Estimation to Inform Child Care Policy

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**P > 5**  
Fiscal  
Strategies

# Introduction

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*Principals, Prenatal to Five  
Fiscal Strategies*

# Prenatal to Five Fiscal Strategies



- Initiative focused on addressing the broken fiscal and governance structures that exist within the P5 system
- Founded in a set of shared principles that center the needs of children, families, providers, and the workforce and fundamentally re-thinks the current system in order to better tackle issues of equity of funding and access.
- Provides national leadership and direct support to states and communities
- Led by Jeanna Capito and Simon Workman



**01**

**Setting the stage**

# The child care market is broken

## Private pay

- Families are price-sensitive consumers
- Higher quality ECE costs more than most families can afford, which lowers demand for quality
- ECE market encourages price competition – low tuition fees – which discourages supplier investment in quality.

## Subsidy

- Setting subsidy rates via market rate survey embeds the market failures in the system
  - Providers in low-income areas must set rates low, but then receive low subsidy rate
- Very few state sets rates at the recommended percentile of the current market rate, decreasing the value of the voucher even further.

Child care is a broken market that disincentivizes quality



- Bifurcated system
  - Providers in higher-income neighborhoods can set rates closer to the true cost of care, pay higher wages
  - Providers in lower-income neighborhoods limited by what families can afford to pay, and by low subsidy reimbursement rates.
- Subsidy rates based on market price limits ability of providers serving most vulnerable children to operate a high-quality, financially sustainable program
- Results in higher number of child care deserts in low-income communities, increased instability during market disruptions.

**02**

**Working toward a  
solution: Cost modeling**

- Building capacity for higher quality
- Addressing compensation needs of child care workforce
- Paying on enrollment not attendance
- Incentivizing delivery of care:
  - Infants and toddlers
  - Underserved areas
  - Family child care setting
- Using alternative methodology to inform subsidy rate setting



## *Funding Mechanisms:*

- ✓ Contracts
- ✓ Tiered Reimbursement
- ✓ Incentives/Grants

# Cost estimation modeling

- Estimates the cost of providing care at varying levels of quality and the resources needed for a provider to remain financially solvent
- Examines the impact of program size, ages of children served, geographic region, enrollment, bad debt, etc.
- Demonstrates the impact of funding from multiple sources
- Identifies the gap between the costs and the revenue sources
- Helps policymakers and other interested parties understand the costs associated with delivering care in different settings, to different age groups at different levels of quality



# The difference between price and cost

## Price

Reflects what the market can bear, what families can actually pay

## Cost

Reflects the actual expenses a program incurs in order to operate

## True cost

Reflects the estimated cost to operating a program at high-quality with increased workforce compensation

# Successful cost estimation modeling

Intentional, authentic, and ongoing stakeholder engagement

Understand relationship between model and scenarios

Ongoing refinement and updating of model

**03**

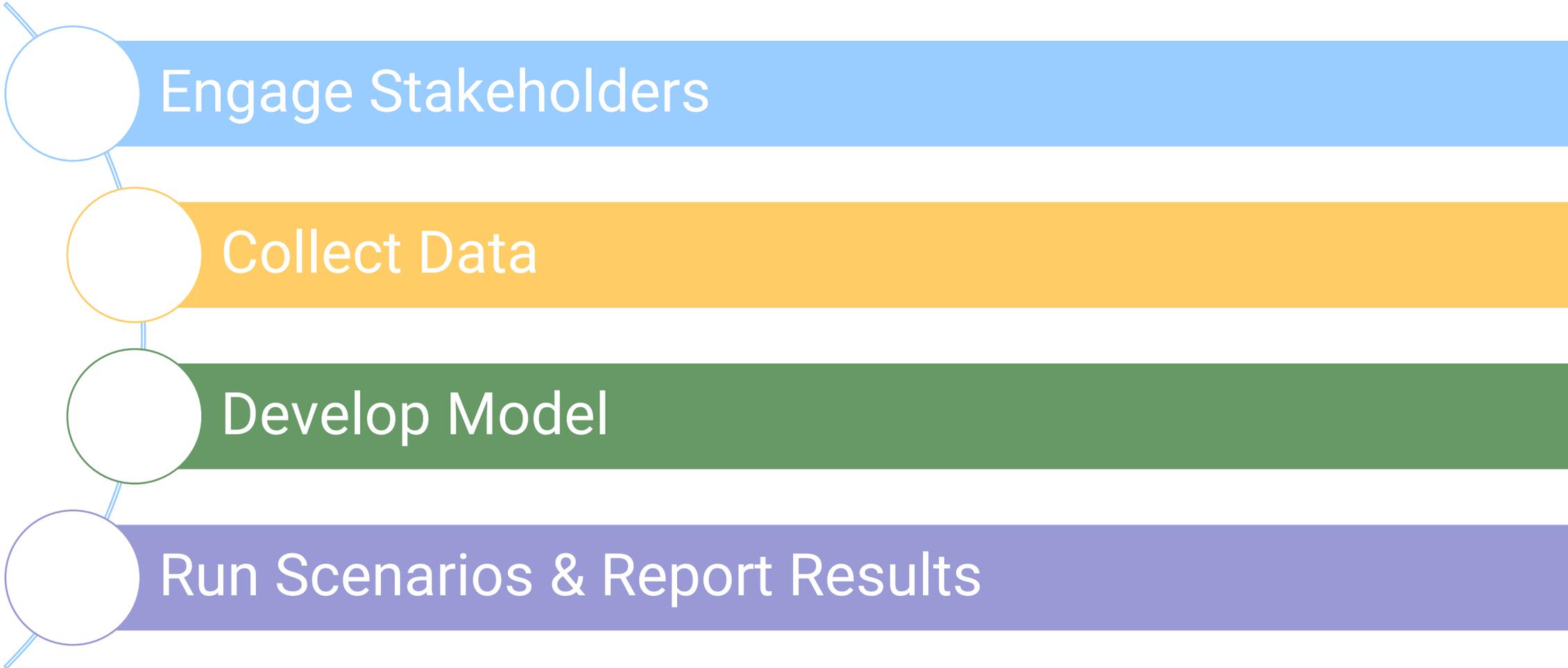
**Cost estimation  
model development**

# What do we mean by modeling?

- Understand revenue and expense at different levels of system
- Sufficiency of revenue streams
- Modeling quality: integration with state QRIS or other quality measures
- Not a budget tool
- Moving beyond current broken market, to model better system.



# Key steps in developing a cost model



Engage Stakeholders

Collect Data

Develop Model

Run Scenarios & Report Results

## Engage Stakeholders

- Multiple points of contact with a variety of stakeholder groups
- Multiple methods for participation: surveys, task forces, public review meetings and hearings, focus groups, provider interviews
- Engagement as an ongoing feedback on model development, important difference in approach to one time, or limited, stakeholder engagement.

## Collect Data

- Engage providers to gather financial data on real costs of operating the program
- Include all provider types, including family child care providers
- Available in multiple languages
- Cover all regions of state and variances in context experienced by providers.

## Stakeholder engagement

- Large and small group convenings to introduce project, gather input on quality frame, model assumptions, and share results
- Total of 686 attendees across meetings with representation from all five regions.

## Data collection – Online survey

- Online survey distributed to all child care providers through multiple channels
- Statewide blasts as well as targeted to underrepresented areas
- Survey available in English and Spanish
- Responses received from 146 providers, serving over 60% of children on subsidy

## Data collection – Provider interviews

- Study team conducted one-on-one interviews with center and home-based providers to gather deeper budgetary information to inform the model.



## Develop Model

- Use data collected from providers, plus other available data to develop assumptions
- Assumptions will inform custom model, building on national defaults
- Integrate different assumptions for different quality levels (aligned with QRIS) or program standards
- Integrate regional variations, based on state regions or data analysis

## Run Scenarios

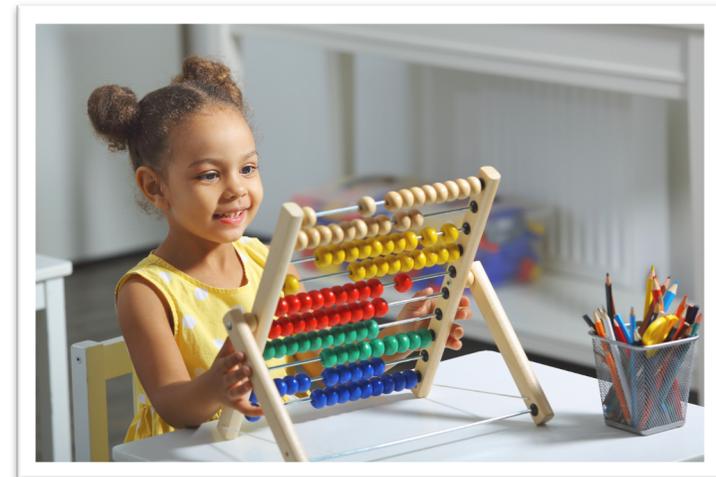
- Use model as baseline to run different scenarios, understand impact of program characteristics and policy choices
- Estimate revenue and expense based on different quality levels
- Scenarios tailored for goals of user – rate setting, advocacy, grant setting etc.
- One model, multiple scenarios – allows for customization for different purposes.

## Model inputs

1. Licensed capacity, by age
2. Staffing pattern
3. Enrollment percentage
4. Salary and benefits, with variations based on qualifications and experience or quality level as applicable
5. Amount of planning/release time
6. Family engagement activities
7. Professional development supports

## Scenario results

- Each input variable has default values which can be selected, or modified, to create a custom scenario
- Can be aligned with quality standards, or user determined standards.



# Oregon Child Care Center Cost Model - 2021

Items in **YELLOW** shaded cells are for INPUT to model different center 'profiles'. **PLEASE DO NOT CHANGE**  
 Items in **GREEN** shaded cells are for INPUT to model different quality variables.. **PLEASE DO NOT CHANGE**

## SIZE of CENTER

# of classrooms	Age	Quality Level	Ratios	Group size	# Children/Age
1	Infants	Licensing	4	8	8
1	Toddlers	Licensing	5	10	10
1	Preschoolers	Licensing	10	20	20
1	School age	Licensing	15	30	30
4	<b>Total classrooms</b>			<b>TOTAL Children</b>	<b>68</b>

## QUALIFICATIONS of STAFF

<i>enter % at each level</i>	Director	Infant/Toddler		Preschool	
		Head Teacher	Teacher	Lead Teacher	Asst. Teacher
Steps 1-6					
Step 7, 7.5, 8, 8.5			50%		50%
Step 9, 9.5		50%	50%	50%	50%
Step 10	100%	50%		50%	
Step 11, 12					

Salary Override  Select yes to override salaries based on step levels, and manually enter salaries in table to right ----->

**QUALITY VARIABLES**

Select Quality Level	Infant/Toddler	Preschool
Family Engagement	Licensing	Licensing
Professional Development Supports	Licensing	Licensing
Planning/Release Time	Licensing	Licensing

**SPECIAL NEEDS STAFFING**

Instructional Support Staff  Input number of FTE

**BENEFITS**

Health Insurance	<input type="text" value="Yes"/>	Select whether program offers health insurance to employees
Sick Days	<input type="text" value="10"/>	enter annual number of days per staff member
Paid Leave	<input type="text" value="10"/>	enter annual number of days per staff member, not including holidays where program is closed

**EFFICIENCY**

Enrollment as % of total staffed capacity	<input type="text" value="85%"/>	85-95% is typical
Bad Debt as % of revenue not collected	<input type="text" value="3%"/>	About 3% is typical

**REVENUE**

Enter # of children by age receiving each type of subsidy using YELLOW cells only in the table below. Private Tuition cell will automatically calculated and should not be a negative number.

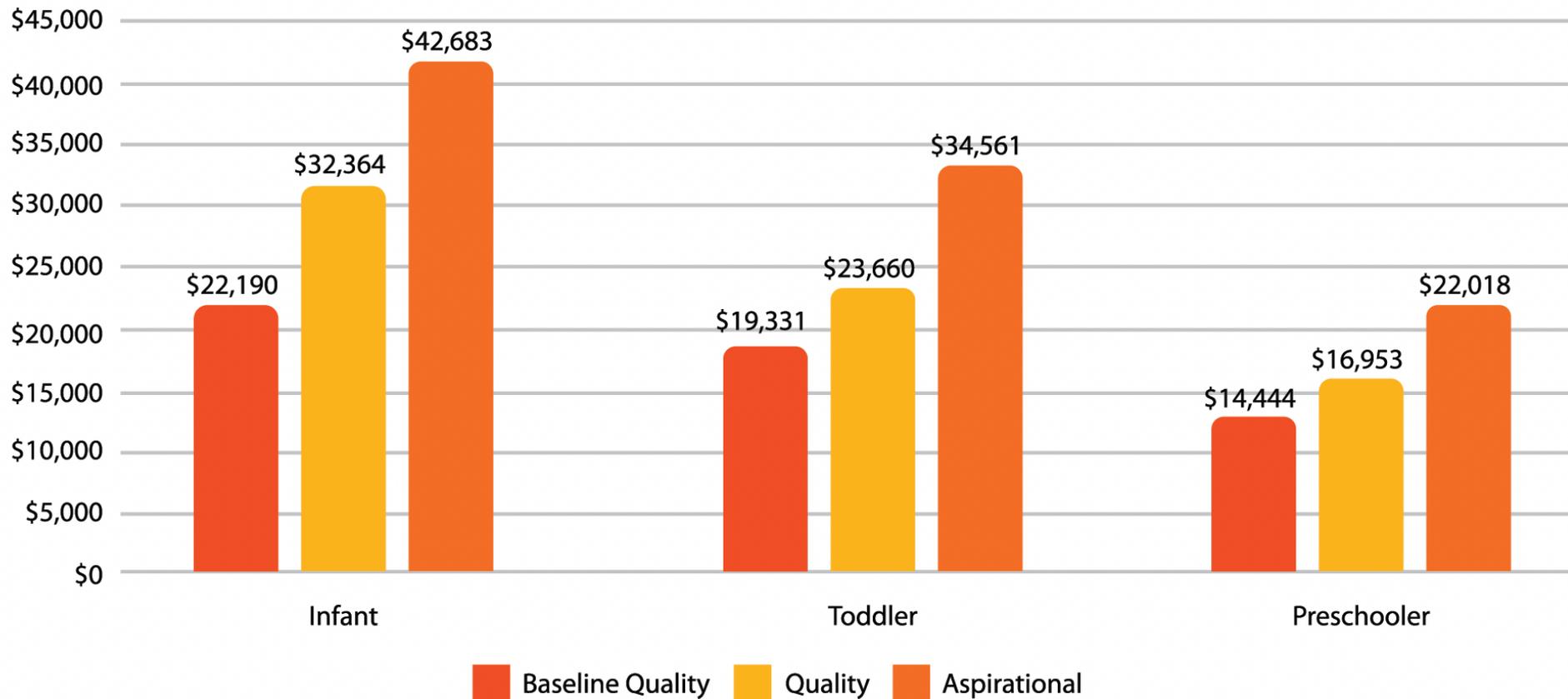
	Child care subsidy (ERDC)	Baby Promise	Early Head Start	Preschool Promise	Head Start/OPK	Private Tuition
Infants	<input type="text" value="0"/>	<input type="text" value="0"/>				8
Toddlers		<input type="text" value="0"/>				10
Preschoolers						20
School age						30
Special Needs						
<b>Total</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>68</b>
Total across all public funding						<b>0</b>
Percent subsidy						<b>0%</b>

**Salary Override**

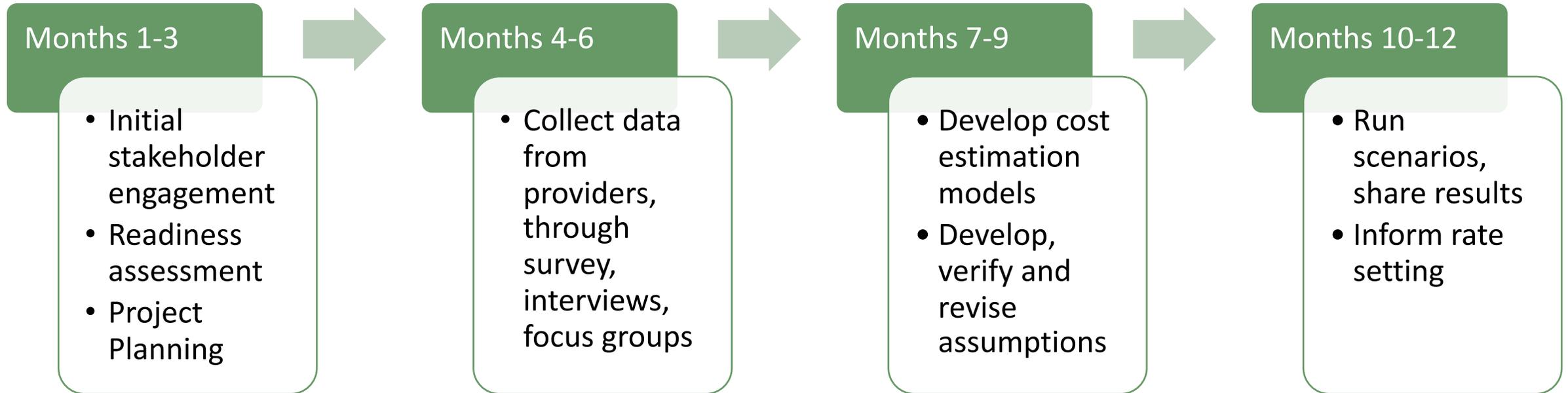
Position	Annual Salary
I/T Head Teacher	<input type="text"/>
I/T Teacher	<input type="text"/>
Preschool Teacher	<input type="text"/>
Preschool Teacher Assistant	<input type="text"/>
Program Director	<input type="text"/>

# Example: LA County scenario results

## Estimated annual cost per child of full day, full year center-based child care in LA County



# Sample Timeline



# Additional Resources

## Visit our website for:

- Cost estimation modeling report
- State reports and models
- Cost model toolkit
- Links to online tools

Available at

[www.prenatal5fiscal.org/fiscal-modeling](http://www.prenatal5fiscal.org/fiscal-modeling)



# Questions?



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