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Conducting a Child Care Cost of Quality Study

A Toolkit for States and Communities

By Simon Workman and Steven Jessen-Howard February 2019

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Introduction

This toolkit is designed to help policymakers, program administrators, researchers, and advocates better understand the true cost of operating a licensed child care program and of achieving high-quality. The Center for American Progress has published a number of reports that estimate the cost of quality in each state, but with this toolkit, state and community leaders can calculate more specific estimates for their locality and specific populations.

The toolkit is organized into three sections. First, it details key considerations for why you should conduct a cost of quality study for licensed child care programs within your community or state and how to determine what type of study you should pursue. Following this, the toolkit provides step-by-step instructions for conducting a cost of quality study, using the U.S. Department of Health and Human Services' Provider Cost of Quality Calculator (PCQC). Finally, the toolkit provides examples of ways to communicate the results of your study and increase the likelihood of policy change.

Why conduct a cost of quality study?

Understanding the true cost of providing quality child care and preschool is key to developing a robust early learning system that meets the needs of all children and working families. The fact that child care is expensive has been covered in several different reports, including state-by-state comparisons. However, these reports usually account for the price that parents pay for child care, rather than what it actually costs to operate a program. Knowing what it really costs to provide high-quality child care can ensure that policies designed to increase access to them sufficiently achieve their goal.

What is the difference between price and cost?

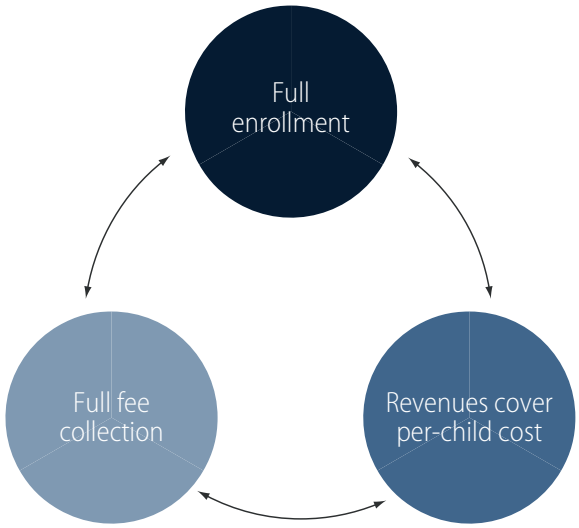
When we talk about the price of child care and the significant burden it places on families, we are usually talking about what parents report paying for care or child care programs' listed tuition rates. However, this does not necessarily represent the true cost of operating a child care program. Providers set rates based on the market and what parents can afford to pay. The real cost of child care is the actual expenses that providers incur to operate their program. The true cost of quality child care includes expenses to meet high-quality standards and to pay teachers higher salaries.

The importance of understanding child care programs' finances

Most early learning programs operate with razor-thin margins. As a result, any disruption to the expected revenues can have a major impact on the provider's ability to stay in business. Early childhood finance experts Anne Mitchell and Louise Stoney developed the concept of the "iron triangle" to describe the conditions child care programs need to meet in order to be financially viable.

FIGURE 1

The Iron Triangle



Source: Louise Stoney, "The Iron Triange: A Simple Formula for Financial Policy in ECE Programs" (Alliance for Early Childhood Finance, 2010), available at http://www.earlychildhoodfinance.org/downloads/2010/Iron-Triangle_10.2010.pdf.

As shown in Figure 1, the iron triangle consists of three pillars:

1. **Full enrollment:** Programs are staffed for their expected enrollment, so if enrollment falls below expectations, revenue will be insufficient to cover staffing costs. For example, if a toddler classroom has a ratio of 1 adult to every 5 children and has capacity for 10 children, then the program employs two teachers to staff the classroom. If only eight children are enrolled, the classroom still requires two teachers—with two teacher salaries—in order to maintain the ratio, but revenue for the program will be lower. While providers may intend for the program to always be fully enrolled, without robust enrollment and withdrawal policies, they can quickly find that spots in their program can go unfilled for weeks at a time when vacancies arise. It is important to monitor enrollment and address any shortfalls quickly—both of which involve understanding when children will age out of a classroom and managing an active waitlist.

2. **Full fee collection:** Programs must collect all of their expected revenue and ensure that policies are in place to guarantee families pay what they owe and in a timely manner. The thin margins with which providers operate mean that any missing payments can have a significant impact on the financial stability of the provider. Program directors must have clear payment policies and the ability to manage billing and other paperwork. Setting up automatic payments—such as direct bank transfers—by default for families is one way to strengthen fee collection.

3. **Revenues cover per-child cost:** Most programs set their rates based on the market in which they operate. If they charge more than parents can afford to pay, they will be underenrolled. However, in order to be financially viable, programs need to understand what it actually costs to deliver the services they are providing and ensure that the total revenues they collect cover these per-child costs. If parent tuition and subsidy rates are insufficient to cover the per-child costs, the program must raise revenue from elsewhere, such as in-kind support, fundraising, and additional fees.

Cost modeling can be used to illustrate the impact of the iron triangle's various pillars as well as the consequences if a pillar is not upheld. These data can then encourage providers to focus on business administration by showing the significant impact that fee collection and robust enrollment policies can have on provider finances. The data can also be used to encourage policymakers to support business administration policies that encompass the iron triangle's three pillars, with the knowledge that those pillars will help providers achieve financial stability.

Choosing the right type of study for your needs

There are a number of approaches to creating a study that estimates the true cost of child care. To determine which approach best fits the purpose of your study, the first step is to clarify what you are estimating, and what you will use the results for. Table 1 summarizes the primary methods for estimating the true cost of quality child care.

In most states, the gap between current child care subsidy rates and the true cost of quality child care is significant—especially for infants and toddlers. If your purpose is to highlight this gap to make the case for increased public investment in child care, then the child care dollar tool or the PCQC is likely sufficient. However, if you intend to set subsidy rates based on the true cost of quality or design quality rating and improvement system (QRIS)-based financial incentives that cover the higher costs of quality, you most likely will want to use the PCQC or develop a customized spreadsheet model in conjunction with a robust local data collection effort that represents your state or community.

TABLE 1

Tools for estimating the true cost of quality

Tool	Description	Purpose	Level of customization
Where Does Your Child Care Dollar Go? https://www.costofchildcare.org/	State-level estimate of infant, toddler, and preschooler cost at minimum quality (licensing standards) and high quality (kindergarten compensation parity)	• Simple estimate of the cost of child care depending on the elements of quality selected, specific to each state • Advocacy tool to demonstrate why child care is expensive and make the case for increased investment • Highlight the trade-offs between cost and quality	Limited—primarily around salaries and staffing ratios
Provider Cost of Quality Calculator https://www.ecequalitycalculator.com/Login.aspx	State or community-level cost at different levels of quality, aligned with quality rating and improvement systems (QRIS) levels, for centers and family child care homes. Integrates revenue data to highlight gap between expenses and revenue	• Estimate the level of subsidy reimbursement required to cover costs to meet basic standards and quality standards, including the effect on the cost of higher compensation • Demonstrate the impact of provider characteristics, business practices, and quality on cost • Show the gap between revenue and expenses and the impact of increased subsidy reimbursement	Medium—can use data defaults or can gather data to produce more customized results for state or community
Cost of Preschool Quality & Revenue Calculator http://ceelo.org/cost-of-preschool-quality-tool/	Estimated costs of expansion and quality enhancements to pre-K programs, aligned with National Institute for Early Education Research benchmarks	• Primarily focused on state pre-K but could be modified for infant and toddler cost modeling • Can identify trade-offs in quality and access associated with different policy options	Medium—includes many defaults but can be overridden by users with their own sources
Cost-of-quality spreadsheet model http://www.earlychildhoodfinance.org/downloads/2012/2012GenericCostModel-center.xlsx	State- or community-level cost at different levels of quality, aligned with QRIS levels or other quality metrics, for centers and family child care homes and other types of providers—public schools, for example—and can include revenue data	• Set subsidy reimbursement rates and/or tiered reimbursement rates for higher-quality programs • Set sufficient financial incentives in a QRIS • Inform budgets for increased investments in early childhood programs	High—can be set up to cost out specific early childhood education models used in a state or community

Sources: Center for American Progress, "Where Does Your Child Care Dollar Go?", available at https://www.costofchildcare.org/ (last accessed January 2019); U.S. Department of Health and Human Services Office of Child Care, "Provider Cost of Quality Calculator," available at https://www.ecequalitycalculator.com/Login.aspx (last accessed January 2019); Center on Enhancing Early Learning Outcomes, "Cost of Preschool Quality and Revenue Calculator," available at http://ceelo.org/cost-of-preschool-quality-tool/ (last accessed January 2019); Alliance for Early Childhood Finance, "2012 Generic Cost Model," http://www.earlychildhoodfinance.org/downloads/2012/2012GenericCostModel-center.xlsx (last accessed January 2019).

What is the difference between a market rate survey and a cost of quality study?

Under Child Care Development Block Grant requirements, states must conduct market rate surveys every three years. These surveys analyze the tuition rates of child care providers across the state. While the results offer a useful guide to the tuition rates of programs and what parents are being asked to pay, they do not necessarily reflect the actual costs providers are incurring. Providers set rates based on their local market to ensure they are competitive and will be able to actually fill their available slots. Programs can augment tuition through fundraising or by accessing in-kind support from a sponsoring organization, such as a church or a private school.

A cost of quality study, on the other hand, will determine the actual expenses providers incur to meet high-quality standards and/or estimate the potential costs for providers to achieve those standards. Current child care subsidy reimbursement rates are based on the market rate, which perpetuates the current problems with the early learning system, where revenues are too low to cover high-quality programs, especially in low-income neighborhoods. Setting rates based on the results of a cost of quality study can ensure that public investments intended to support access to high-quality child care are sufficient to cover the real cost of operating such programs.

Additional considerations for conducting a cost of quality study

Do you want to just estimate expenses, or do you also want to understand the sufficiency of current revenues?

- Including revenues in your study can allow you to estimate the sufficiency of current revenue streams—both public and private—and model the impact of different subsidy rates on provider finances.
- Only estimating expenses, especially when done at the provider level, highlights the high cost of operating a program without identifying how that translates into the amount of revenue needed for each enrolled child.

What measure of cost do you want to calculate?

- The PCQC produces a total cost per program on an annual basis, whereas CAP's "Where Does Your Child Care Dollar Go?" tool estimates the monthly cost of a quality program per child. Both tools, as well as customized spreadsheets you can create, can be manipulated to calculate weekly, monthly, or annual costs at the child, classroom, or program level. However, certain assumptions have to be made about shared costs of child care programs, depending on which cost items you are interested in. The allocation of program-level costs on a per-child or per-classroom basis can have large impacts on a program's cost per child—especially when looking at populations such as infants, where staff-child ratios are low, and thus, staffing cost per child is high.

Are you estimating the actual costs of a high-quality child care program operating in your state today, or are you modeling what it should cost to operate a high-quality program?

- There are many quality child care centers and family child care homes operating within the current early learning system. However, to support quality, they usually rely on significant additional sources of revenue or in-kind support—such as donations and contributions that cover rent or utilities—and/or their workforce is poorly compensated. Calculating the cost of operating these programs currently will include these factors, so it is important to be clear on what you are modeling through your study—the current system or an ideal system in which teachers are properly compensated for the important work they do and programs don't have to rely so heavily on additional sources of revenue.

A word of warning on the limitations of cost modeling

This is modeling—not budgeting

All of the cost estimations discussed in this toolkit are just that: estimations. It is important to remember that you are modeling—not budgeting. The resources provided in this toolkit are not budget tools and should not replace robust budgeting techniques at the program or state level. Providers may not see their exact program reflected in the models, but the models should include enough variation to reflect the fiscal reality of the majority of providers in the state and be used to better understand the impact of policy decisions on providers and families.

Good data in equals good data out

Collecting accurate and complete financial information from providers is the surest way to create a valid cost estimation model. While it is often not possible to collect data from a representative sample of providers across a state or community, the more data that can be collected and the more stakeholders who can be engaged to inform assumptions, the better the final output of the models. Where data are not available, the models often include defaults to inform gaps, but the best source of data is annual revenue and expense statements of current high-quality providers, showing exactly what they spend each year.

Key steps in conducting a full cost of quality study

In this section, you will learn how to conduct a cost of quality study using the Provider Cost of Quality Calculator (PCQC), which is the most widely available tool to create a customized cost of quality study. The PCQC has a user guide that provides helpful information on how to use the tool, but this section of the toolkit will walk you through the key steps necessary to collect and analyze data in the PCQC.

Following this, the toolkit provides ways to discuss results and present findings, which can, in turn, can be applied to any of the cost model tools detailed in Table 1 above.

1. Engage stakeholders and establish study oversight

A cost of quality study should not be undertaken in a vacuum; it is important to engage a broad group of stakeholders to both advise and provide input throughout the study process and to build buy-in for the eventual results. There will be many times throughout the process that you need to make assumptions to inform the model. Basing those assumptions on the input of a stakeholder group that includes providers can bolster legitimacy to the assumptions beyond that which would be generated by policy analysts alone. In addition, when the right stakeholders have been included in the study from the start, they are more likely to publicly trust and support the study's process and findings.

Depending on the scope of the study, it can be an unwieldy process with multiple databases, models, outputs, and constituents. As a result, leadership of the study is key. One person or agency needs to be in charge of the study and be responsible for keeping data collectors, stakeholders, and policy analysts on target for deadlines, data collection, and helping achieve consensus among those groups on assumptions made within the study.

States and communities have taken various approaches to oversight of cost of quality studies and stakeholder engagement. In many examples, the approach has been to form a wide group of stakeholders—including providers, system administrators, legislators, state/local agency representatives, and nonprofit groups—who are engaged at the beginning of the study to ensure they are aware of its process and expected outcomes, as well as to seek stakeholders' input at key decision points. There may also be a smaller subcommittee or working group of the most-engaged stakeholders who will provide more regular oversight and input throughout the study, such as weighing in on assumptions and model development and assisting with data collection. This subcommittee is regularly convened either in person or electronically by the study's project manager, who might sit in the respective state's department of health and human services, early learning office/division, or in a private agency—whichever is sponsoring and leading the study. The project manager will oversee the entering of data into the PCQC and the creation of the actual models based on the study.

2. Understand how the PCQC works

The PCQC is designed to be a user-friendly tool. However, to get the most out of it, users should familiarize themselves with its full functionality and the embedded assumptions within the tool. As stated above, a user guide is available and provides detailed information on how the tool works. Within the tool itself, each page that asks for data input provides guidance and details on the calculations and the type of data needed.

The PCQC is designed for users to input a range of data specific to their state or local community to first create a base model and then add on variations for quality aligned with their quality rating and improvement systems (QRIS) or other quality standards. After adding revenue data, users can then build different scenarios to model different types of programs and the impact of various policy changes on both the expense and revenue side of child care programs.

FIGURE 2

Flow of Provider Cost of Quality Calculator inputs

Source: U.S. Department of Health and Human Services Office of Child Care, "Provider Cost of Quality Calculator," available at https://www.ecequalitycalculator.com/Login.aspx (last accessed January 2019).

As noted, the PCQC has a number of embedded assumptions, some of which are based on public data sources—such as salary data from the U.S. Bureau of Labor Statistics—and others based on the professional judgement of the PCQC designers, drawn from experience conducting multiple cost of quality studies in various states over many years. Study leaders should review these defaults and decide which assumptions they will accept and what will need to be changed to reflect the reality in their state or community.

3. Collect data

As noted above, a robust, state- or local-specific cost of quality study relies on the availability of good data. The PCQC integrates data defaults, but to get to the true cost of quality in your community, you need to collect data from local providers. Finding providers who are savvy business owners and who track their expenses thoroughly can be very helpful. Home-based providers file federal tax forms that detail their direct expenses in a way that mirrors the data entry in the PCQC. If providers are willing to share information from their tax forms, you can more easily align those data in the PCQC template.

TABLE 2
Benefits and challenges of data collection methods

Data collection method	Description	Benefits	Challenges
Interviews	The interviewer conducts in-person or telephone interviews with providers to walk through their budgets and financial statements. The interviewer can complete the PCQC data collection form while interviewing the provider.	• Interviews provide the most detailed data. • Interviewer can probe into unexplained expenses and get the full picture of the cost of operating the program.	• Interviews are time- and resource-intensive—for both the interviewer and the child care provider being interviewed. • If multiple people conduct interviews, they need to have a shared understanding of how to interpret the provider data.
Surveys	The data collector sends providers an online or mailed questionnaire requesting responses to financial and enrollment questions.	• Surveys enable data collection from a large number of providers.	• Providers may interpret questions differently. • Online surveys may require providers to have computer access. • Paper surveys require data entry for results.
Review of program financial documents	The data collector reviews program budgets and/or revenue and expense reports from providers.	• These reviews grant access to the full financial information of providers.	• Confidentiality—providers may have concerns about sharing full financial data. • The reviewer must conform different budgets into a single template for comparisons.
Currently available data sources	Often, state agencies have access to data from licensing, market rate surveys, workforce studies, or other state studies that can help inform the cost of quality child care analyses. The federal Bureau of Labor Statistics also collects data on salaries. Nonpersonnel data can also be updated with state-specific numbers—for example, when looking at commercial rents, insurance costs, etc.	• Some data are readily available, and there is no need for primary data collection. • This method does not require the cooperation of providers, removing a burden on already overworked directors and owners.	• Data are limited to what has been previously collected and is readily available. • Data on salaries—the main driver of child care costs—may range widely with little explanation.

Unfortunately, many child care providers do not have a background or training in business management and do not maintain detailed financial budgets, which in turn requires more in-depth data collection. Table 2 details several ways to collect data from providers and lists the benefits and challenges of each.

Deciding from whom to collect data is also important. It is rarely possible to collect data from a statistically representative sample of providers across the state or community, nor is it necessary. Rather, you should determine the different profiles of providers you want to include in your cost of quality study. Reviewing the landscape of child care programs in your state is a good first step to ensure you gather data from the different types of providers you want to include in your model.

For example, at a minimum, you likely want to collect data from child care centers and family child care homes. If you have other designations of licensed providers, consider them, too. Then, you might want to build different models based on provider size to ensure you have a good mixture of small, medium, and large providers. Are multisite providers a big part of your early learning system? If so, include those, too. Then, add a layer of geographic diversity and ensure you include providers that serve both child care subsidy-eligible children and tuition-paying families to have a complete mix of provider types. And remember: Request data from more providers than you expect to need, knowing that not all providers will be responsive and not all will provide useful and/or complete data.

4. Build models

Once you have collected all your data, the fun part starts! First, you must compile it in a way that allows you to model a variety of different programs. For example, if you have decided to model small, medium, and large child care centers, you should review the data you have for each of these types of providers and estimate an average for each data point. With these averages, you can then start building your PCQC scenarios.

Whatever data collection method you chose, you will find yourself with a lot of data—some of it contradictory. At some point, you have to decide which data to base your model on; this is where professional judgment comes into play. For example, a QRIS might not require lower classroom ratios than state licensing, but to meet all of the requirements of a high-quality program, you might decide that it is necessary to have lower classroom ratios. This is where the importance of a leadership team or steering committee comes in. Ensuring that this team includes experts with experience across

many different child care programs can ensure that the decisions made in conducting the study are informed by the collective wisdom of knowledgeable professionals. This is also a good time to remember that conducting a cost of quality study is a process of modeling—not budgeting. You are not attempting to model every single program in your state; rather, you're building models that reflect the different variations that exist and can be used to exemplify policy impact.

The simplest way to work with the PCQC is to first build one scenario with all of your default data—for example, for nonpersonnel expenses, benefit rates, and salaries. Then, create multiple copies of this scenario and modify each to reflect other scenarios you are building. It is important that you use the naming function for the scenarios and/or the notes section of the PCQC to keep track of the different scenarios you create and the modifications you have made to each one.

When modeling family child care homes, the PCQC only estimates the costs of nonpersonnel expenses and personnel costs for assistants. As a result, the net revenue that the tool shows is what is remaining at the end of the year and doubles as both income for the provider/owner and business profit or loss. If you want to include a salary for the owner in your model, you have three options:

1. Take the PCQC output and add a salary to the expenses figure. Then manually calculate the net revenue figure from this new expense total.
2. Use the "Assistants" and minimum wage override lines on PCQC's site profile page. This calculates a personnel cost for assistants but in a program with no assistants, it can be used to calculate a salary for providers.
3. Add the provider salary to the "Training/professional development" expense line on PCQC's "Cost Drivers (Homes)" page.

5. Run analyses

The PCQC contains a wealth of data and can be a powerful tool. Once you have built your base models in the PCQC, you can run many different analyses to answer a variety of questions and to model the impact of policy proposals. The key to making the most of it is to focus on the key questions you want to answer through your cost of quality study. For example:

- Do you want to understand the sufficiency of subsidy rates?
- Do you want to know how much it costs at different levels of quality within your QRIS?
- Do you want to know the necessary level of financial incentives required at different levels of quality, such as tiered reimbursements or bonuses?
- Do you want to know the impact of higher minimum wages on provider net revenue?
- Do you want to understand how much parents would have to pay to cover the cost of high-quality child care?

These are all questions that the PCQC can answer. Understanding which questions you want to answer before conducting your study can ensure you will build models that will help answer these questions.

Calculating per-child or per-classroom costs

The output of the PCQC details the expenses and revenues for the entire child care program. However, users might find it helpful to understand how this translates into a per-child or per-classroom cost. While this cannot be calculated within the PCQC, there are ways to estimate these results using the PCQC output. This requires determining which expenses apply to individual children, which apply to a classroom, and which apply to the program as a whole and then allocating shared expenses.

For example, personnel costs can be divided into the cost for classroom teachers and for nonclassroom personnel. Classroom teacher compensation can then be allocated to the age group they are serving, and the nonclassroom teacher costs can be shared equally across the classrooms in the program If you have the same number of teachers in each classroom, then you can simply divide the total personnel expenses across all classrooms. You can then take the expense lines provided by the PCQC output for child-level costs and classroom-level costs, and divide them by the number of children and number of classrooms, respectively. Finally, per-staff and per-program costs can be divided equally across all children in the program.

Table 3 illustrates the process detailed above for a program with four classrooms—one infant classroom, two toddler classrooms, and one preschool classroom—that serve a total of 48 children.

TABLE 3

Estimating the per child cost of quality child care

Hypothetical child care center with one infant classroom, two toddler classrooms, and one preschool classroom

Cost categories in the PCQC	Overall site, or program, costs	Cost per classroom	Cost per infant	Cost per toddler	Cost per preschooler
Personnel costs	$631,654	$157,914	$19,739	$15,791	$7,896
Nonpersonnel child-level costs	$67,526	N/A	$1,407	$1,407	$1,407
Nonpersonnel classroom costs	$101,734	$25,434	$3,179	$2,543	$1,272
Nonpersonnel staff/site costs	$6,500	N/A	$135	$135	$135
Total cost per child			**$24,461**	**$19,877**	**$10,710**

Source: Author's calculations using U.S. Department of Health and Human Services Office of Child Care, "Provider Cost of Quality Calculator," available at https://www.ecequalitycalculator.com (last accessed January 2019).

Additional considerations

Going beyond the PCQC

There are instances when you will find that the scenario you need to model is too complex to manage within the PCQC. You might have a large number of revenue streams beyond tuition and subsidies or have very complicated revenue streams. You may want to integrate public school-based programs in a way that goes beyond the PCQC's capabilities. In these instances, you can use the PCQC in companion with Excel spreadsheets. The "Revenue and Expense" output table in the PCQC can be exported into Excel and form the basis of a model you develop from there. For example, if you have complex revenue streams, use the PCQC to model the expense side, and then add the revenues in Excel.

The key to success in these instances is to find a stakeholder who is well-skilled in the intricacies of Excel and also understands the child care business. This person can be invaluable in exploring cost modeling beyond the capabilities of the PCQC.

Modeling networks or alliances

Staffed family child care networks and shared services alliances offer a model where providers can combine resources to maximize efficiency and access additional supports. Moving administrative tasks to a network or alliance will have an impact on the finances of a program, and some networks and alliances require providers to pay a fee or share of revenue to the central organization that is managing the alliance.

There are a number of resources to help you think about the costs related to these models:

- **Staffed family child care networks**
  The U.S. Office of Child Care has published technical assistance resources to support the development of these networks. They have also developed a cost estimation tool designed to help states and communities understand the costs of operating a staffed family child care network. This Excel tool estimates the cost of the network itself and can be combined with provider data from the PCQC to understand the true per-child cost of family child care when accessed as part of a network.

- **Shared services alliances**
  There are many different types of shared service alliance models that can significantly affect the cost of operating an alliance and the potential cost implications for providers. The iron triangle (see Figure 1) helps make clear the potential impact of alliances: They can help with fee collection and enrollment, maximizing revenue to better meet the true cost of operating the program. The nonprofit consulting group Opportunities Exchange has a wealth of resources related to shared services, including advice for calculating alliance membership fees.

Estimating system-level costs

For policymakers looking to have a significant impact on their early learning system, it is important to tackle the full range of issues beyond simply financial incentives for quality or subsidy rates. A robust system will incur additional systemwide expenses, such as support for the current and future workforce and costs related to a robust QRIS, complete with coaches, raters, and a consumer outreach campaign.

There are a number of additional resources that can help cost out the full early learning system, including:

- **Cost estimation model (CEM)**
  The CEM—a free resource offered by the U.S. Office of Child Care—helps states project the key elements and costs involved with implementing a QRIS. This tool includes elements such as professional development, technical assistance, evaluation, and data analysis. It incorporates defaults based on best practice as well as the option for states to input their own data. The CEM is available at https://cemocc.icfwebservices.com/.

- **Professional Development System Cost Analysis Tool**
  This tool helps states understand the cost of a robust professional development system. It generates data related to workforce qualifications and professional development investments and can be used by states to estimate the cost to improve workforce credentials. The tool is available at https://earlyeducatorcentral.acf.hhs.gov/pdtool/ and includes a helpful user guide with case studies.

Strategies for communicating the cost of quality

In order to turn cost of quality study results into the desired outcomes, effective communication is crucial. This communication will look different, depending on what you want to emphasize. Graphs, charts, and other data visualizations can be especially useful in displaying cost differences and emphasizing areas in need of investment. Below are some of the ways to present data for different audiences/messages.

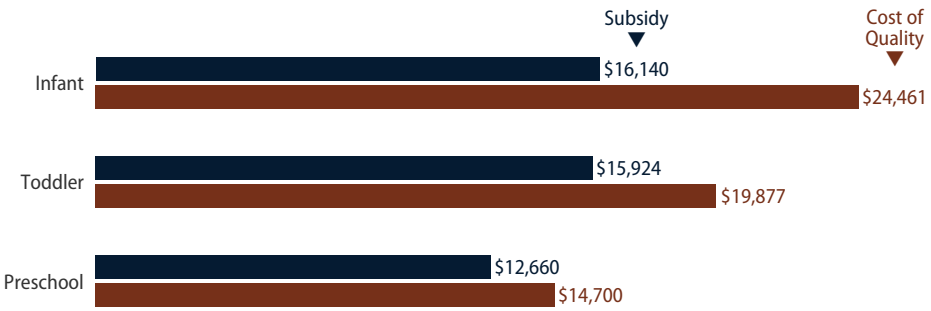
Demonstrate the gap between current revenues and the true cost of quality child care

Providing a visual of the gap between child care subsidy payment rates and the true cost of child care can be an effective way to highlight the extent to which subsidies fall short. This type of visualization can also be easily adjusted to show gaps by different age groups or geographic areas, highlighting inequity in the system. Figure 3 provides an example from a recent study CAP conducted for Oregon, which not only highlights the gap between subsidies and the true cost of child care but also demonstrates how much larger the gap is for infants compared with preschool-age children.

FIGURE 3

The gap between child care subsidy rates and the true cost of quality is greatest for the youngest childen

Child care subsidy rates compared with the cost of quality child care

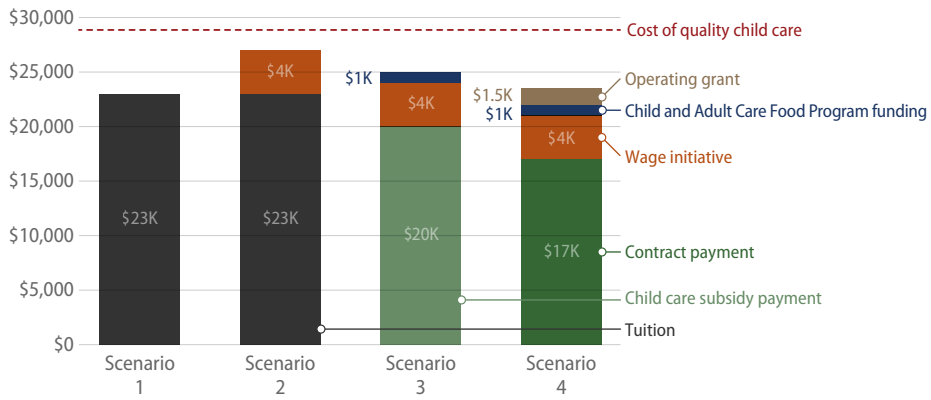


Source: Author's calculations from unpublished cost of quality study in Oregon, September 2018, on file with author.

FIGURE 4

Even with multiple funding streams, the true cost of high-quality child care is out of reach

Sufficiency of multiple funding streams to cover the true cost of quality infant child care



Source: Adapted from Jeanna Capito, Anne Mitchell, and Simon Workman, "San Francisco Comprehensive Fiscal Analysis: Analysis and Recommendations" (San Francisco: City and County of San Francisco Office of Early Care and Education, 2016), available at http://sfoece.org/wp-content/uploads/2016/04/CFA-Report.pdf.

Data from a cost model can also be incorporated into an analysis of all available revenue sources. Figure 4, taken from a San Francisco cost model, exemplifies how different revenue sources can be displayed in a single chart. The chart highlights the insufficiency of multiple funding streams for child care programs, showing that even when subsidy is combined with a city wage initiative and the federal food program, revenues still fall short of total true cost of child care.

Highlight the impact of provider characteristics

You can use the results of your cost of quality study to demonstrate the importance of program-level policies that maximize revenue and the impact of program characteristics on program finances.

Enrollment and revenue collection

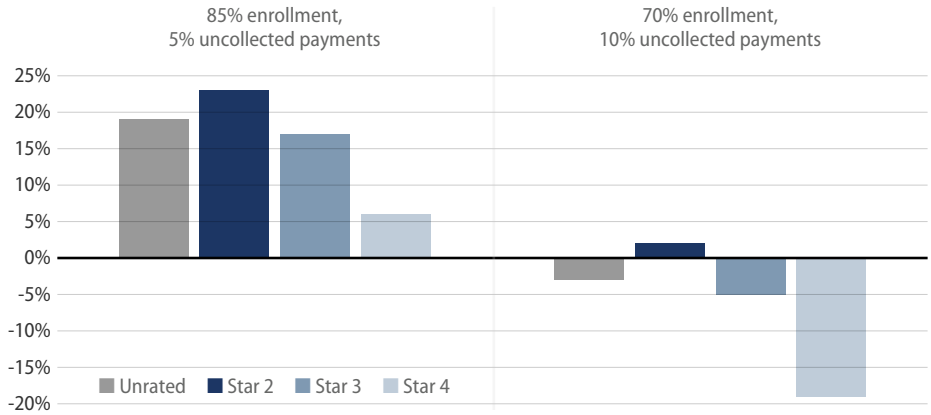
Using the concept of the iron triangle discussed earlier in this toolkit, data can be used to demonstrate the impact of maintaining full enrollment and preventing outstanding debt. Figure 5, adapted from a cost of quality study completed for Tarrant and Dallas counties in Texas, highlights how even relatively small differences in enrollment and revenue collection can determine the success or failure of child care facilities. The group of programs represented in the cluster on the left of the chart are 85 percent fully enrolled and only fail to collect 5 percent of expected payments. As shown,

programs at all levels of the QRIS make a profit, although profits are much lower for a Star 4 program. In contrast, the programs represented in the cluster on the right of the chart are only 70 percent enrolled and fail to collect 10 percent of their expected revenue. These programs, with the slight exception of the Star 2 program, are now losing money and are not financially sustainable, demonstrating the significant impact enrollment and debt collection policies can have on a provider's bottom line, and the disproportional impact this has on higher-quality programs.

FIGURE 5

Lower enrollment levels and higher rates of uncollected payments significantly affect providers' net revenue

Net annual revenue by star level, enrollment, and debt in Dallas County



Source: Anne Mitchell, "The Cost of Quality Child Care Study: A Community Release and Recommendations" (Fort Worth, TX: Workforce Solutions for Tarrant County and Dallas: Workforce Solutions Greater Dallas County, 2017), available at http://workforcesolutions.net/wp-content/uploads/2017/05/Cost-of-Quality-Study.pdf.

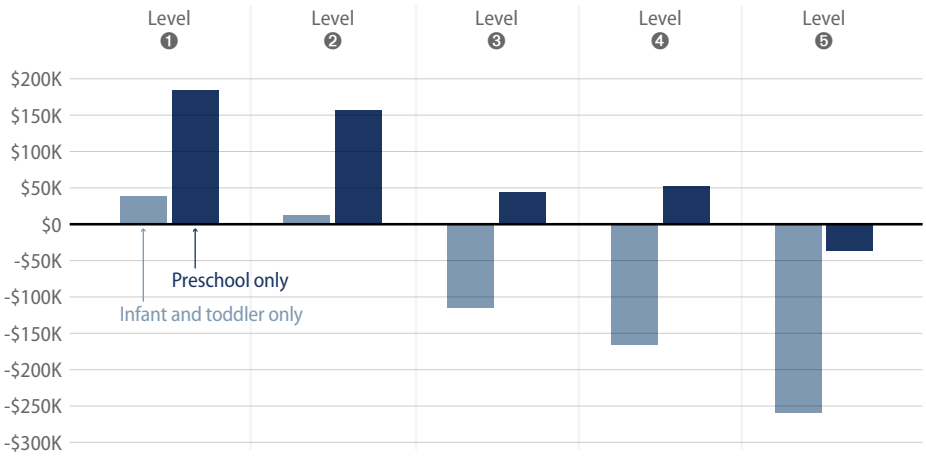
Program size and enrollment profile

The data from your cost of quality study can also demonstrate the impact of program size and of enrolling children of different ages. Programs serving only infants and toddlers struggle to be financially sustainable, and cost modeling can demonstrate the impact of losing preschoolers from community-based programs. Figure 6 uses data from a New Jersey cost of quality study to demonstrate the impact on net revenue of a program that only enrolls infants and toddlers and one that only enrolls preschoolers. Figure 7, using data from the same New Jersey study, demonstrates the impact of program size, with large programs being financially better off than small programs due to efficiencies of scale.

FIGURE 6

Net revenue is higher for preschool-only programs when compared with infant- and toddler-only programs

Impact of program enrollment mix on net revenue, at different quality levels

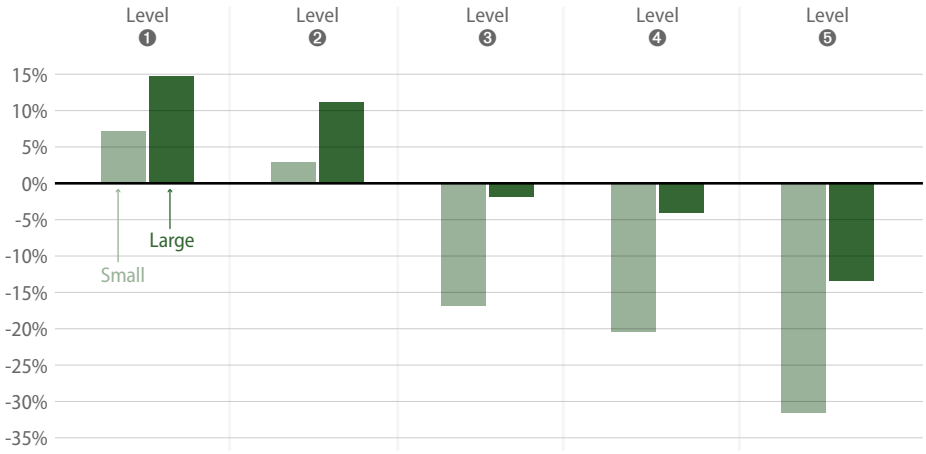


Source: Diane Dellanno, Kristen Brady, and Jaime Kaiser, "Quality Costs How Much? Estimating the Cost of Quality Child Care in New Jersey" (Newark, NJ: Advocates for Children of New Jersey, 2017), available at http://acnj.org/downloads/2017_04_25_Quality%20Costs%20How%20Much_reduced.pdf.

FIGURE 7

Small programs are financially worse off than large programs

Impact of program size on net revenue, at different quality levels



Note: In these scenarios, a small child care center serves 50 children and a large center serves 208 children.

Source: Diane Dellanno, Kristen Brady, and Jaime Kaiser, "Quality Costs How Much? Estimating the Cost of Quality Child Care in New Jersey" (Newark, NJ: Advocates for Children of New Jersey, 2017), available at http://acnj.org/downloads/2017_04_25_Quality%20Costs%20How%20Much_reduced.pdf.

Impact of the Child and Adult Care Food Program (CACFP) funding

Cost of quality studies can demonstrate the importance of providers accepting CACFP and how that decision can improve providers' bottom line. While providers may opt out of the program due to the administrative paperwork required, accepting CACFP can have a highly positive effect on a provider's net revenue. (see Figure 8)

FIGURE 8

Accepting federal Child and Adult Care Food Program (CACFP) funding has a significant impact on provider revenue

Impact of CACFP funding on net revenue

Source: Author's calculations of a hypothetical child care provider using U.S. Department of Health and Human Services Office of Child Care, "Provider Cost of Quality Calculator," available at https://www.ecequalitycalculator.com (last accessed January 2019).

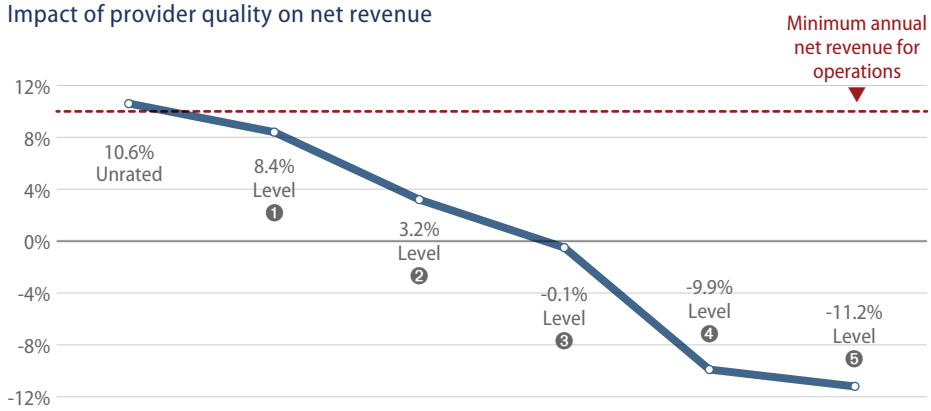
Impact of quality on net revenue

The results of your PCQC study can be used to demonstrate the cost of providing care at different quality levels, demonstrating the struggle providers face when trying to increase the quality of their programs. Figure 9 is an example from an Ohio study demonstrating that existing revenues within the state are inadequate to incentivize child care providers to improve quality. As shown, the estimated cost of operating a higher quality program—those at Star 3, 4, or 5—is not covered by the revenues available to these child care programs. Presenting the data in this way can help highlight the disincentives that exist in many systems for providers to improve quality.

FIGURE 9

Existing revenue streams are inadequate to support the increased cost of operating a high-quality program

Impact of provider quality on net revenue

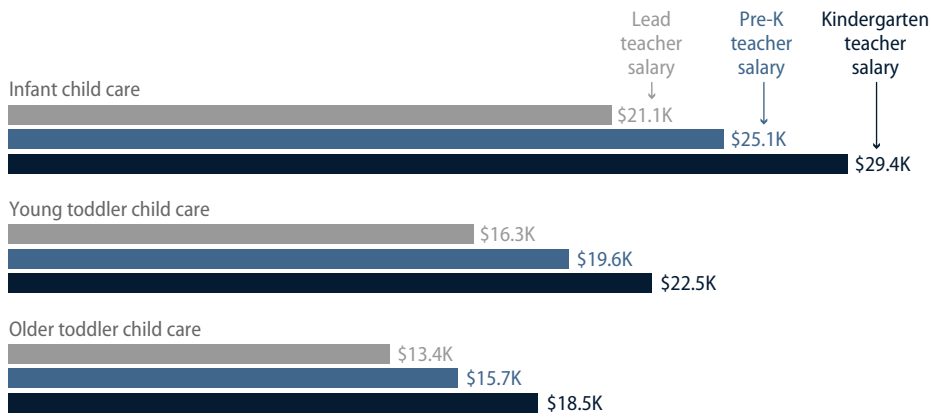


Source: groundWork, "The Dollars and Cents of Early Learning: Investing in Success" (Columbus, OH: 2016), available at http://www.earlychildhoodfinance.org/dev/wp-content/uploads/2016/03/Dollars-and-Cents-FINAL-031416.pdf.

FIGURE 10

Without additional public investment, higher teacher salaries make the cost of child care unaffordable for most families

Impact of lead teacher salaries on the cost of child care in Philadelphia



Source: Author's calculations based on an unpublished 2018 study the author completed for Public Citizens for Children and Youth analyzing the cost of infant and toddler child care in Philadelphia, on file with author.

Figure 10, from a study conducted in Philadelphia, shows the impact of teacher salaries on the cost per child of quality infant and toddler care. While this chart shows that higher teacher salaries result in a higher cost per child, which is ultimately unaffordable for many families, it also highlights the link between salaries and cost, making the case that when child care is affordable, it is often because teachers are underpaid.

Messaging guidance on why quality is worth the cost

The charts in the previous section illustrate ways to present the results of a cost of quality study. It is important to also develop messaging strategies to accompany these visuals to address the sticker shock policymakers may face when they see the results. This messaging strategy addresses the question of whether the high cost of quality is worth it.

Lead with the importance of high-quality child care, and then layout how much it costs

- Leading with a high price tag can result in immediate negative reactions. If your audience buys into the importance of high-quality child care first, they are more likely to accept the costs associated with its benefits.
  - Depending on your audience you might lead with brain science research on early childhood development, economic impact analysis, or return on investment analyses, to demonstrate how high-quality child care is a primary driver behind positive health, learning, and economic outcomes for children and their families.

- To this end, use the cost data as one element of a story you are telling. For example:
  - Children, families, and economies benefit from access to high-quality child care programs.
  - Young children's brain development is significantly influenced by their early interactions and experiences.
  - High-quality programs require well-trained and highly skilled teachers with the time and resources to maximize every interaction within their classrooms.
  - To recruit and retain these teachers, you need to offer professional-level compensation. That costs $X.
  - Current revenue streams for child care programs are insufficient.
    - Subsidy only covers X percent of this amount and doesn't reach enough families.
    - The current cost of child care represents X percent of the median family income in STATE, which is unaffordable.

- There needs to be an increased public investment to achieve the goals and benefits laid out above.

- Investing in high-quality child care is a priorities issue—not a funding issue. The resources exist to adequately fund early childhood programs. We need to ensure that families of infants and toddlers are prioritized in the budget-making process to support them at a critical time in their child's development.

Emphasize the benefits of high-quality child care for children, families, parents, and the economy

- Early childhood is a foundational time for brain development, and high-quality child care is crucial for building that foundation to promote lifelong success.
- Research has demonstrated early child care programs that are high quality provide lasting academic advantages for young children.
- Parents of young children are often stretched thin on money and time and need child care support.
- Quality early childhood programs have high returns on investment, as they help parents remain at work, while promoting positive academic outcomes for children. In addition, high-quality programs generate returns as high as $13 for every $1 invested.
- Early childhood programs grow the economy. When child care is available and affordable, it allows parents to work and contribute to the tax base. The Economic Policy Institute estimates that the benefits of capping child care costs at 10 percent of a family's income would increase women's labor force participation rate enough to boost gross domestic product by about $210 billion.

Illustrate the insufficiency of current financial support to help families access child care

- A typical family would have to spend about 25 percent of their income to send two children to child care—well beyond the federal standard of affordability, which estimates family should spend no more than 7 percent of their income on child care to maintain economic stability.
- Current subsidies fall far short of the true cost of providing quality child care. In only one state do child care provider payment rates reach the federally recommended level. In 35 states, families at 200 percent of the federal poverty line could not qualify for child care assistance.
- More public investment is needed to close the gap so that families can afford child care and providers can stay open and provide quality care that sets infants and toddlers up for a strong start.

Appendix

Data collection template

The Provider Cost of Quality Calculator (PCQC) provides a data collection template to help users organize the data they will need to use the tool most effectively. This data collection template is reproduced in this appendix and is also available under the "Resources" tab of the PCQC, which can be found at www.ecequalitycalculator.com.

Provider Cost of Quality Calculator Data Collection Template

Directions:

Enter data for your state in the pink boxes. Default values are based on typical values across states and will be automatically used unless state-level data are entered.

	Your State's Value	Default Value
Enter Your State		
Enter descriptors for your state's age group categories:		
Age Group A		
Age Group B		
Age Group C		
Age Group D		
Age Group E		
Age Group F		
NonPersonnel Cost Drivers - Centers		
Per-child costs:		
Food & Food Prep		$1,000
Kitchen Supplies		$50
Education Supplies		$50
Education Equipment		$100
Office Supplies		$30
Office equipment		$22
Insurance (liability, accident, etc.)		$75
Postage		$24
Advertising		$25
Miscellaneous		$15
Per-classroom costs:		
Square feet/classroom		1280
Enter costs per square foot		
Rent /Lease		$13.65
Utilities		$2.19
Building Insurance		$1.34
Maintenance/Repair/Cleaning		$2.85

Per-staff costs:		
Consultants/Training		$200
Per-site costs:		
Telephone & Internet		$1,440
Audit		$3,000
Fees/Permits		$500
Miscellaneous		
Cost Drivers: Personnel		
Number of children at which director must be full time		40
Number of children at which Ed Coordinator is full time		120
Number of children at which part-time Ed Coordinator is hired		40
Number of children requiring administrative asst.		40
Mandatory Benefits (enter percent of annual wages)		
Worker's Comp		1.20%
Unemployment		2%
Unemployment (maximum basis for annual wages)		$19,600
Disability		1%
Disability (maximum basis for annual wages)		$100,000
Family Child Care Homes: Expenses		
Enter Expenses - 100% Business Use		
Advertising		$150
Vehicle expenses		$250
Depreciation (equipment)		$300
Insurance (liability, accident)		$450
Interest (paid on business debt)		$120
Legal & professional fees (accountant, payroll service, tax prep, credit card processing)		$600
Office supplies (pens, postage, printing, paper, computer software)		$180
Repairs and maintenance (directly for child care including cleaning and exterminating fees)		$240
Supplies (arts and crafts, toys, books, games, consumable materials for children)		$450
Food (food and food-related supplies, paper goods, etc.)		$4,800
Telephone/internet (only if exclusively for business use)		$900
Training/professional development		$250
Professional membership dues and subscriptions		$100
License and permits		$100
Assistant Benefits		
Unemployment insurance percentage		
Workers' compensation insurance percentage		

Shared business use of home			
Either: Mortgage interest & property taxes & depreciation Or: Rent/lease			$12,000
Home Owners/ Renters Insurance			$675
Repairs and maintenance			$500
Utilities (heat, lights, water, sanitation, security, snow removal, yard service)			$1,800
Supplies (household supplies, paper products, cleaning supplies)			$240
Time-Space Percent			
Hours worked per week			$68
Space in home used for child care (sq. feet)			$1,200
Total space in home (sq. feet)			$2,400
QRIS Level 1 (Centers)			
Enter average salary (if different from state averages)			
Director			
Education Coordinator			
Classroom Teacher			
Teacher Assistants			
Administrative Assisstant			
Health Consultant			
Enter staff-child ratios (children per adult)			
Age Group A			
Age Group B			
Age Group C			
Age Group D			
Age Group E			
Age Group F			
Enter maximum group size			
Age Group A			
Age Group B			
Age Group C			
Age Group D			
Age Group E			
Age Group F			
Additional Cost Drivers			
Enter costs per child of child assessment system			
Enter percent additional staff time			20%
Annual contribution to insurance and other benefits (dollars per staff)			

Homes

Number of hours per week of additional provider time for quality-related activities	
Level 1	
Level 2	
Level 3	
Level 4	
Level 5	
Cost Per Child of Assessment System (if required)	
Level 1	
Level 2	
Level 3	
Level 4	
Level 5	

Reimbursement Rates - Centers

Level 1	
Age Group A	
Age Group B	
Age Group C	
Age Group D	
Age Group E	
Age Group F	

Reimbursement Rates - Homes

Level 1	
Age Group A	
Age Group B	
Age Group C	
Age Group D	
Age Group E	
Age Group F	

Tuition Rates - Centers

Programs permitted to charge parents difference between subsidy rate and tuition rate	

Enter Full-Time Weekly Tuition Rates

Level 1	
Age Group A	
Age Group B	
Age Group C	
Age Group D	
Age Group E	
Age Group F	

Tuition Rates - Homes

Programs permitted to charge parents difference between subsidy rate and tuition rate	

Enter Full-Time Weekly Tuition Rates

Level 1	
Age Group A	
Age Group B	
Age Group C	
Age Group D	
Age Group E	
Age Group F	

Interview protocol example

If you will be collecting data directly from child care providers through in-person or telephone interviews, the data collection questionnaire reproduced in the following pages provides a template to ensure you gather data that can be translated into data entry fields in the PCQC.

PCCY Philadelphia Cost of Infant-Toddler Care Study

Child Care Provider Data Collection

The purpose of this questionnaire is to gather information from you about the true costs of operating your program, and specifically the costs of serving infants and toddlers in Philadelphia. The information you provide will be used to estimate the overall cost of providing quality infant and toddler care in child care centers in Philadelphia. We ask for your name so we can link your results to information in the state licensing database, but the information you provide will be used anonymously in the reporting, meaning that the name of your center will remain private. Providing the data in this survey will help support the ongoing work to get more resources and supports for programs like yours. Thank-you!

Program Information

Child Care Center name: _____

Contact Person: _____

Contact Number/Email: _____

Enrollment and Staffing

Non-classroom staff

- List all non-classroom staff (e.g. Program Director, Curriculum coordinator, Deputy Director, Nurse, etc.)

_____ _____

_____ _____

_____ _____

Classroom Staff

	Infant (0-12 months)	**Young Toddler (1-2 years)**	**Older Toddler (2-3 years)**	**Preschool (3 years-K entry)**	**Mixed age (please specify age)**
Number of classrooms					
Number of lead teachers in each classroom					
Number of assistant teachers in each classroom					
Number of aides in each classroom					

Current full-time equivalent (FTE) enrollment of children in each classroom					
Current full-time equivalent (FTE) average daily attendance in each classroom					
Maximum number of full-time equivalent (FTE) children you plan to serve in each classroom (i.e. desired capacity)					

Revenue

	Infant (0-12 months)	**Young Toddler (1-2 years)**	**Older Toddler (2-3 years)**	**Preschool (3 years -K entry)**	**Mixed age (please specify age)**
Weekly Tuition Rates					
Number of children who receive Child Care Works subsidy					
Number of children who qualify for CACFP (food program)					

- Do you have any additional funding sources (e.g. donations, grants, in-kind support from partner/community)? If yes, what is the amount of that funding?

Funding Source	**Annual Funding**

- Do you currently have families that have overdue tuition (bad debt)? *If yes:*

  Can you estimate how many families currently owe you money? _____

  Can you estimate how much, in total, you are owed in back tuition? _____

Compensation

Non-classroom staff

- For each of the non-classroom staff listed above, please indicate if they are employed full-time or part-time and provide the average annual salary or hourly rate for each of the positions.

Position	**Full-time or part-time (or avg. hours per week)**	**Average Salary (annual or hourly)**

Classroom Staff

	Lead Teachers	**Teacher Assistant**	**Teacher Aide**
Total Number of full-time personnel (40 hours)			
Total Number of part-time personnel			
How many hours per week is part-time in your center?			
Average annual salary or hourly rate – **Infant Classroom** (if hourly rate, indicate # hours worked per week)			
Average annual salary or hourly rate – **Young Toddler Classroom** (if hourly rate, indicate # hours worked per week)			
Average annual salary or hourly rate – **Older Toddler Classroom** (if hourly rate, indicate # hours worked per week)			
Average annual salary or hourly rate – **Preschool Classroom** (if hourly rate, indicate # hours worked per week)			

- Do you pay teachers for time they spend outside the classroom engaging in planning, coaching, supervision or family engagement activities? If so, approximately how many hours per month, and do you pay them overtime for this or is this included in their salaried hours?

  _____

  _____

Benefits

- Do you contribute to health insurance for employees? If yes, how many employees receive the benefit and how much do you spend, on average, per employee?

  _____

- Do you contribute to a retirement plan for employees? If yes, how many employees receive the benefit and how much do you spend, on average, per employee?

  _____

- Do you offer paid time off to employees? If yes, how many employees receive the benefit and how many days per year do they receive?

  _____

- Do you offer any other benefits? If so, please list benefit, number of employees who receive it, and the average cost per employee per year.

  _____

Non-personnel Costs

OCCUPANCY	**Total ANNUAL Expense**
Rent /Lease or Mortgage	
All other occupancy expenses (includes utilities like electric, gas, oil, water, sewer; building insurance; yard/grounds keeping, and exterminating costs and any other occupancy items)	

PROGRAM	**Total ANNUAL Expense**
Food & Food related items	
Classroom Supplies (arts and crafts, toys, books, games, consumable materials for children)	
Health Supplies (diapers, wipes, gloves, dental supplies)	
Educational Supplies for teachers/providers	

Office Supplies & Equipment

Laundry Service

Telephone/internet

Repairs and maintenance

Cleaning/Janitorial

Insurance (child liability)

Legal & professional fees (accountant, payroll service)

Training/professional development

Professional association memberships and subscriptions

License and permits

Other expense (specify_____)

Other expense (specify _____)

Please share any employee handbook you have and any family contract and/or handbook.

Compendium of study reports

The following is a list of publicly available reports from cost of quality studies that have been completed throughout the country in recent years.

Arkansas: Lorraine McKelvey and Melanie Chapin-Critz, "Making Quality Ends Meet: UAMS examines 2014 Arkansas early childhood program operation costs" (Little Rock, AR: University of Arkansas for Medical Sciences, 2014), available at http://humanservices.arkansas.gov/images/uploads/dccece/QRIS%20Making%20Quality%20Ends%20Meet-highlights%20-%202014.pdf.

Delaware: Anne Mitchell, "Modeling Quality Costs for Delaware Stars: Interim Report on Program Costs of Quality in Centers" (Alliance for Early Childhood Finance, 2013), available at http://www.earlychildhoodfinance.org/dev/wp-content/uploads/2016/03/DE-Cost-of-Quality-Study-Centers-Final-2013-07.pdf.

District of Columbia: District of Columbia Office of the State Superintendent of Education, "Modeling the Cost of Child Care in the District of Columbia"(Washington: 2016), available at http://osse.dc.gov/sites/default/files/dc/sites/osse/publication/attachments/Modeling%20the%20Cost%20of%20Child%20Care%20in%20the%20District%20of%20Columbia%20-%202016_0.pdf.

Kentucky: Prichard Committee for Academic Excellence, "Building Blocks: The Kentucky Early Childhood Cost of Quality Study" (Lexington, KY: 2017), available at http://prichardcommittee.org/wp-content/uploads/Cost-of-Quality-Brief-November-2017.pdf.

New Jersey: Diane Dellanno, Kristen Brady, and Jaime Kaiser, "Quality Costs How Much? Estimating the Cost of Quality Child Care in New Jersey" (Newark, NJ: Advocates for Children of New Jersey, 2017), available at http://acnj.org/downloads/2017_04_25_Quality%20Costs%20How%20Much_reduced.pdf.

North Carolina: North Carolina Department of Health and Human Services, "Study Child Care Subsidy Rate Setting: Session Law 2016-94, Section 12B.2" (Raleigh, NC: 2017), available at http://www.ncga.state.nc.us/documentsites/committees/JLEOC/Reports%20Received/2017%20Reports%20Received/Study%20Child%20Care%20Subsidy%20Rate%20Setting.pdf.

North Carolina: Center for Urban Affairs and Community Services at North Carolina State University, "Study Costs and Effectiveness Associated with NC Pre-K Slots:" (Raleigh, NC: 2017), available at https://files.buildthefoundation.org/wp-content/uploads/2018/07/Costs-Associated-with-NC-PreK-Study.pdf.

Ohio: Jason Smith and Devin Keithley, "The Dollars and Cents of Early Learning: Investing in Success: A Summary of Findings From groundWork's Early Childhood Financing Project" (Columbus, OH: groundWork, 2016), available at http://www.earlychildhoodfinance.org/dev/wp-content/uploads/2016/03/Dollars-and-Cents-FINAL-031416.pdf.

Rhode Island: Anne Mitchell, "The Cost of Quality Early Learning in Rhode Island: Interim Report" (Providence, RI: Rhode Island Early Learning Council, 2013), available at https://qrisnetwork.org/state_resource/2014/cost-quality-early-learning-rhode-island-interim-report.

San Francisco: Jeanna Capito, Anne Mitchell, and Simon Workman, "San Francisco Comprehensive Fiscal Analysis: Analysis and Recommendations" (San Francisco: City and County of San Francisco Office of Early Care and Education, 2016), available at http://sfoece.org/wp-content/uploads/2016/04/CFA-Report.pdf.

Southwest Florida: Kathryn Rooney and others, "The Cost of Preparing Students for Kindergarten in Southwest Florida" (Denver: Augenblick, Palaich and Associates, 2017), available at http://futurereadycollier.org/wp-content/uploads/Florida-ECE-Costing-Out-Study-Report-Final-with-Cover.pdf.

Tarrant and Dallas counties, Texas: Anne Mitchell, "The cost of quality child care study: A community release and recommendations" (Fort Worth, TX: Workforce Solutions for Tarrant County and Workforce Solutions Greater Dallas County, 2017), available at http://earlylearningntx.org/wp-content/uploads/2017/07/Cost-of-Quality-Study.pdf.

Washington: Anne Mitchell, "Modeling the Cost of Quality in Early Achievers CENTERS and FAMILY CHILD CARE" (Olympia, WA: Washington Department of Early Learning, 2013), available at https://del.wa.gov/sites/default/files/imported/publications/elac-qris/docs/Cost_of_Quality_Mitchell_2013.pdf.

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