Using cost modeling to illustrate the broken child care business model

Montana Child Care Business Connect Summit

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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

www.prenatal5fiscal.org

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The Broken Child Care Market

Market facts: Quality matters

- There is strong, scientific evidence for the fact that <u>high quality</u> ECE can have a lasting effect on brain architecture, and child development.

- Especially important for children from low-income families

- Begins at birth – cognitive differences by income evident as early as 9 months
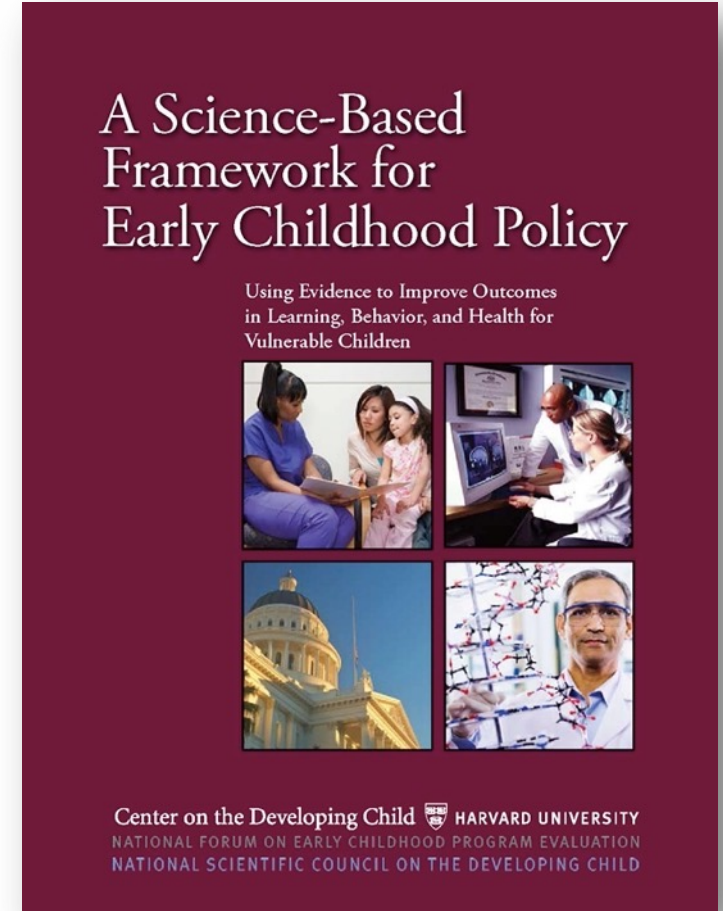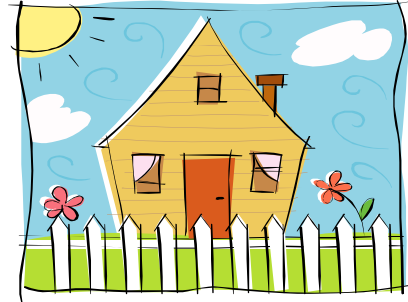
The Early Care and Education Market
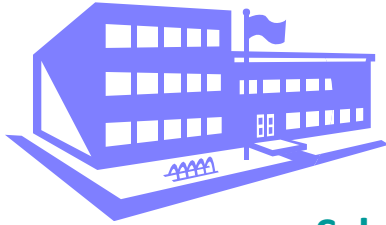
Family Child Care Home

Head Start Center

After-school program

School-based PreK

Nanny Service

Private preschools

Relative, Neighbor or Nanny

Non-Profit Child Care Center

Faith-based community programs

Proprietary Child Care Center

Market facts: Industry revenue
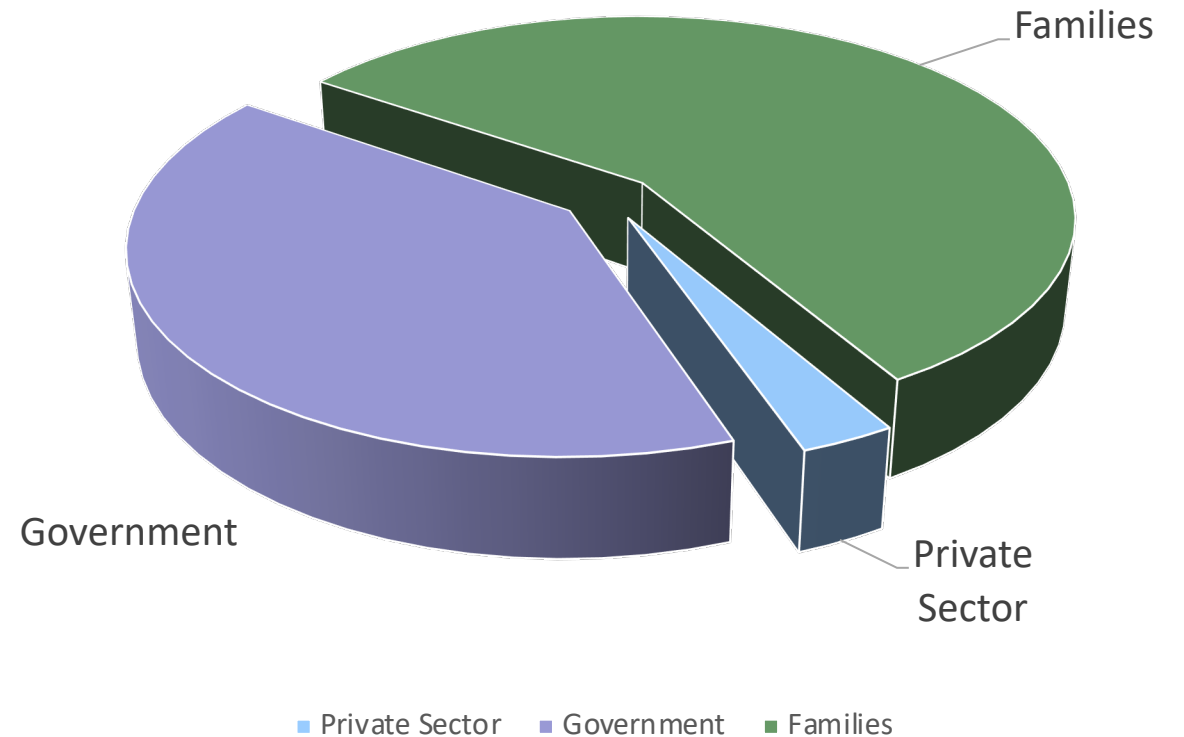
Consumer tuition (families)

the largest source of revenue, roughly **57%** of total industry receipts

Private (non-public, non-family)

revenue has increased dramatically over several decades but still only 3% of total

Government funding

40% of total, primarily portable funding (vouchers or tax benefits)

National Data

Families

Government

Private Sector

■ Private Sector   ■ Government   ■ Families

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 states set 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

What drives the cost of child care

Personnel

- Salaries

- Benefits

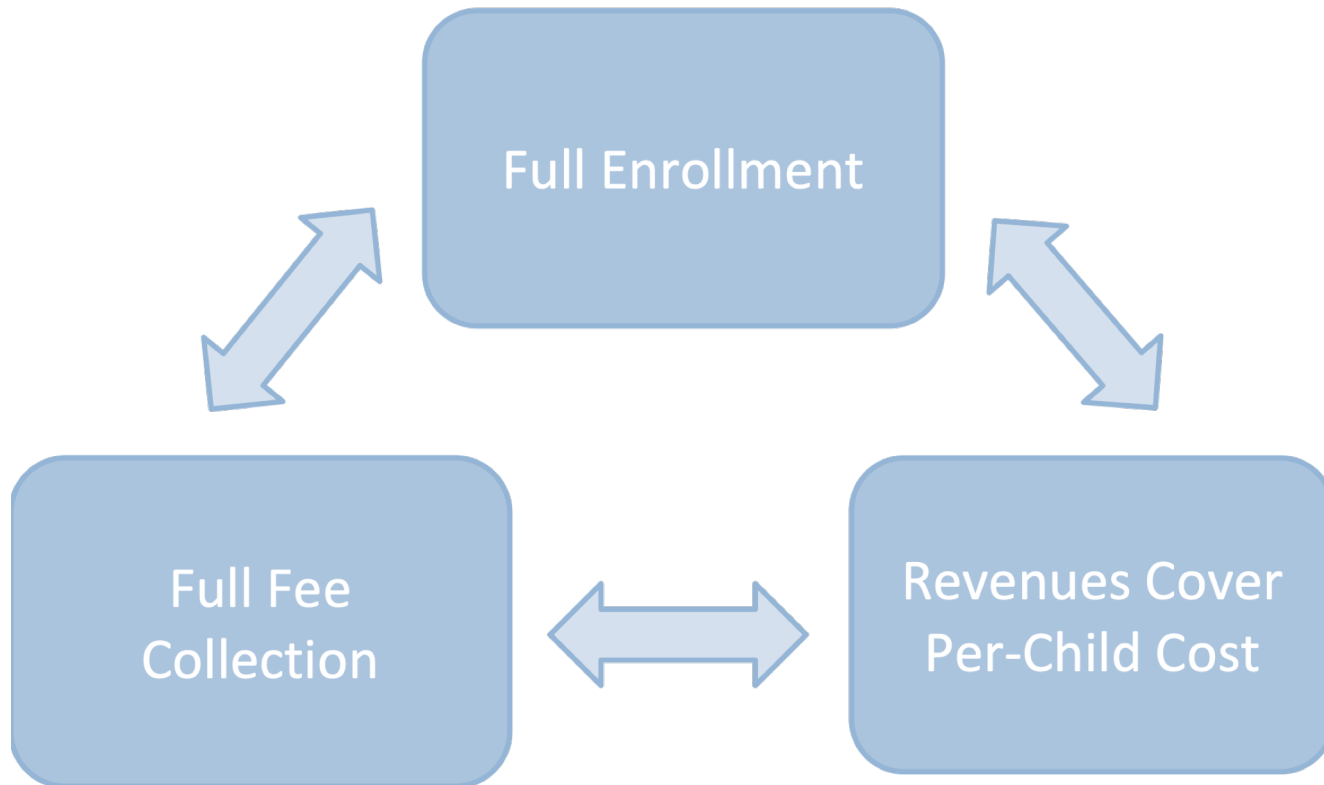- Ratio/Group size

- Additional staff

60-80% of expenses are personnel

Nonpersonnel

- Rent/lease/mortgage

- Utilities

- Supplies and equipment

- Transportation

- Food

- Administrative

The 'Iron Triangle' of financial sustainability

Full Enrollment

Full Fee Collection

Revenues Cover Per-Child Cost

- ECE revenue is largely tuition – from parents and/or government – that must be billed (or accounted for) on a per-child basis.

- ECE budgets have no margin for error; empty slots mean less $ for staff wages, benefits, etc.

- Tracking Iron Triangle data is an important way to ensure a program remains financially viable – ECE programs should maintain these data.

Reflection
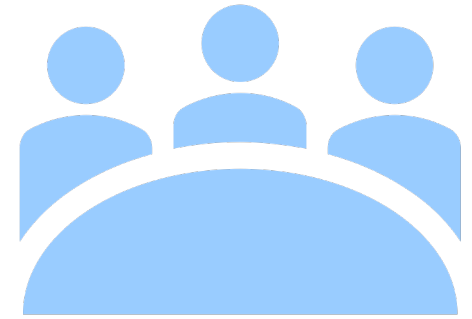
Does this reflect what you experience in Montana?

What are the biggest challenges you face in this area?

02

Role of a Cost-Based Approach

The difference between price, cost, and true 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

What is a cost model?

- Tool to understand the cost of providing services

- Demonstrates the impact of funding from multiple sources

- Identifies the gap between the costs and the revenue sources

- Uses multiple data sources and points, which are driven by the selections that the user makes in running the tool

- Answers vary based on selection points chosen

Modeling opportunities
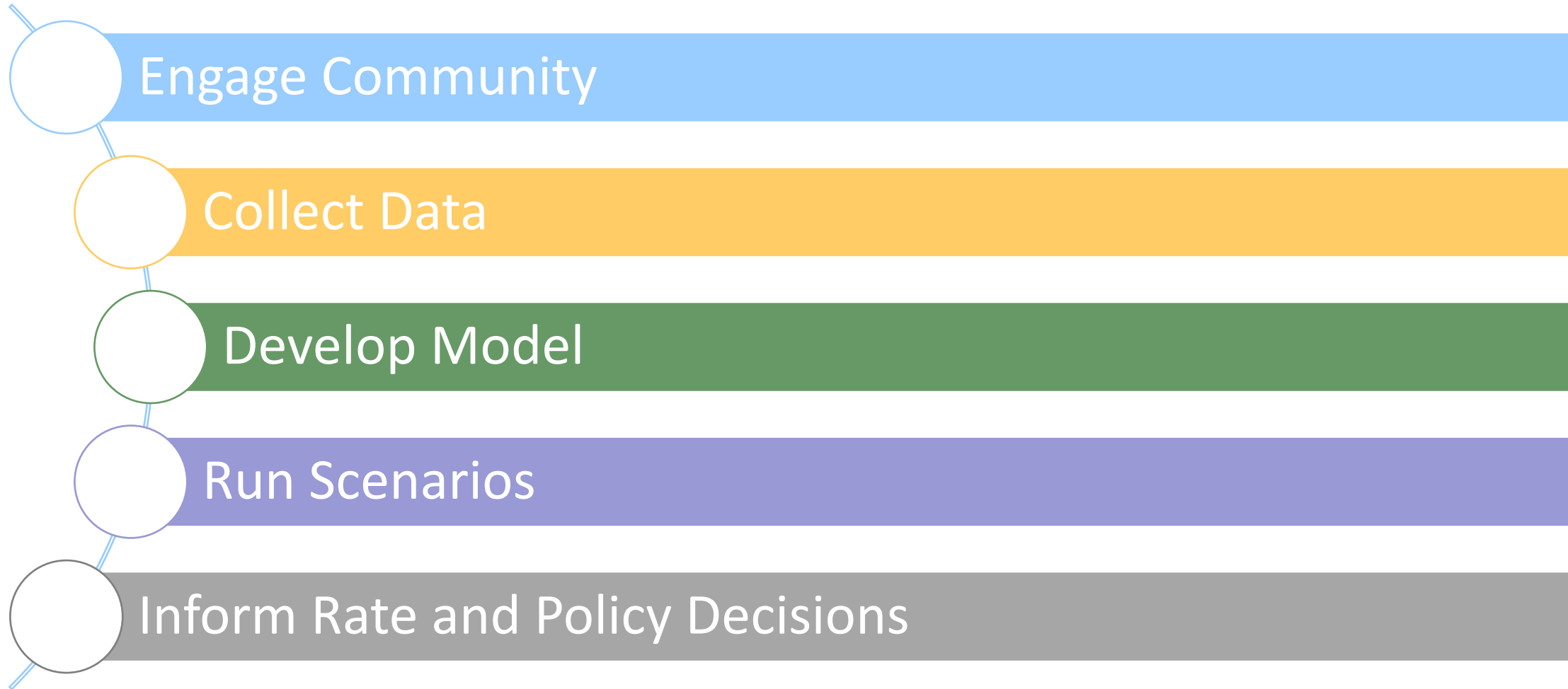
Direct Service

- Child Care

- PreK

- Home Visiting

- Early Intervention

Systems Modeling

- Quality supports
- Infrastructure
- State and local systems building

Key stages in developing a cost model

Engage Community

Collect Data

Develop Model

Run Scenarios

Inform Rate and Policy Decisions

Principles of developing a model

Engage full diversity of community

Have a clear definition of programming

Don't get bogged down in unnecessary details

Align communication of results with messaging
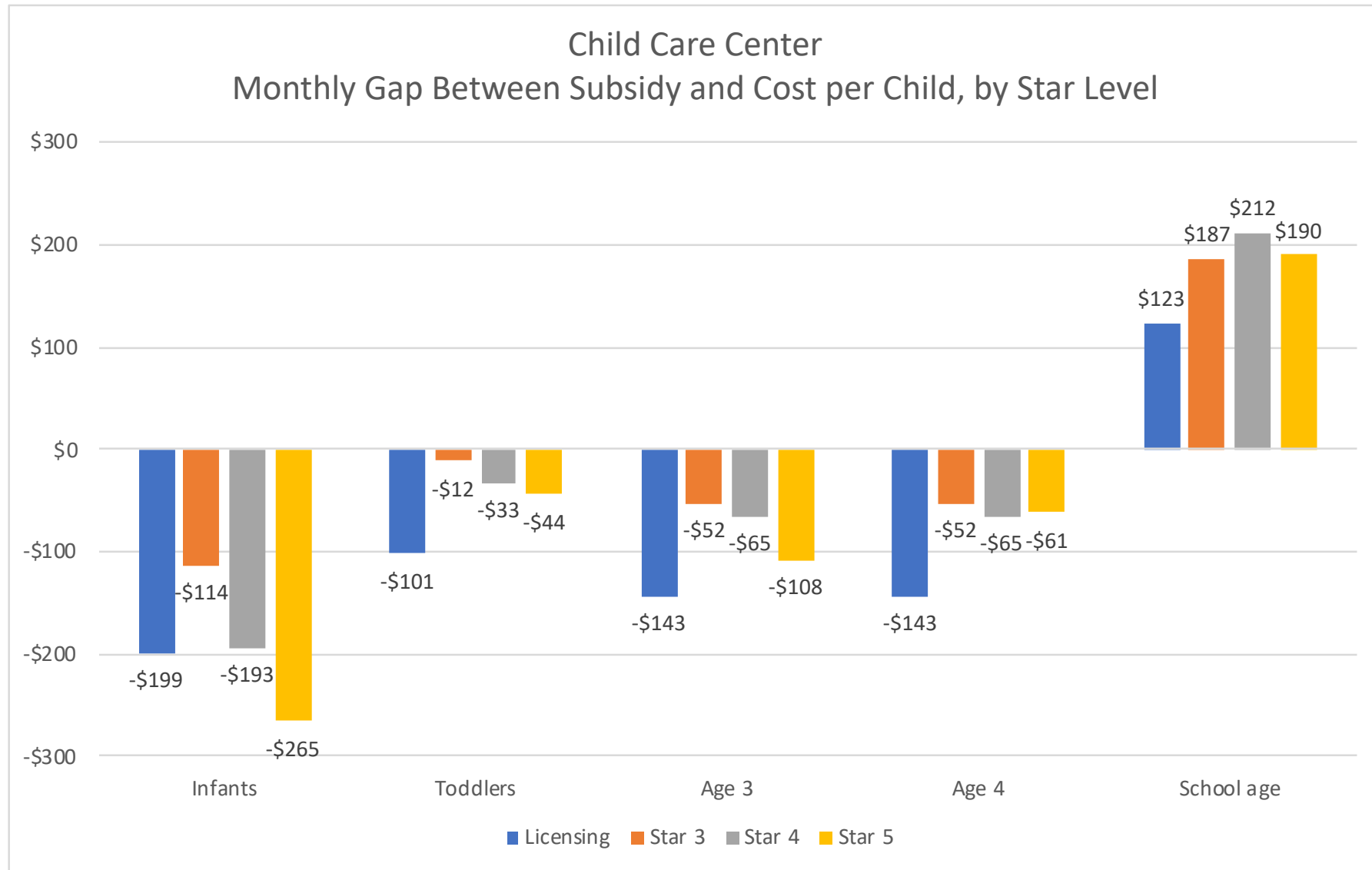
Uses of cost modeling results

- Subsidy rate setting

- Grant or contract setting

- Costing out specific initiatives

- Quality improvement incentives

- Systems change planning

- Advocacy

Modeling in Action

New Mexico and District of Columbia

Example: Model Results in New Mexico

Child Care Center
Monthly Gap Between Subsidy and Cost per Child, by Star Level

Full report available at: www.nmececd.org

Rate setting decisions in New Mexico

Impact on policies and inequities

- Family child care
- Infant and toddler care
- Increasing quality (future goal)

Finance planning

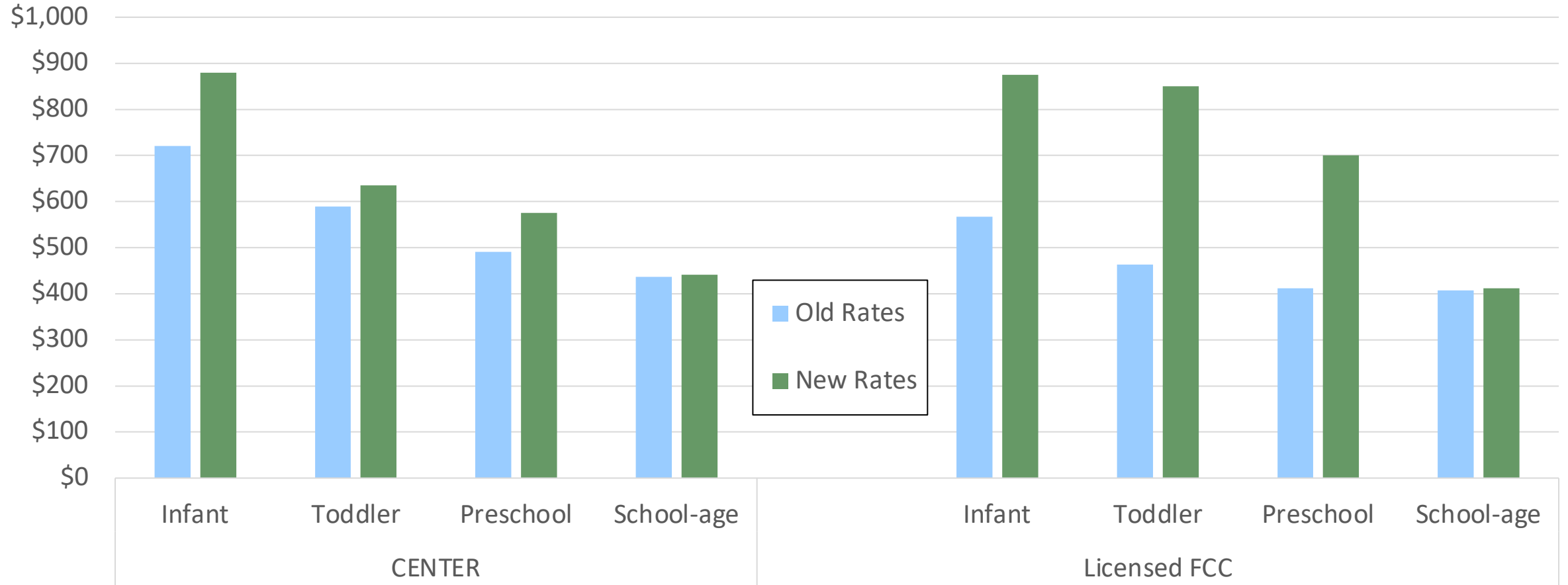- Increasing hourly beyond minimum wage ordinance

Revenue

- Differential for non traditional hours
- Stipends for bilingual staff and pay parity efforts, preparing for next rate setting round

Impact on Rates in New Mexico

Comparison of subsidy rates, monthly, per child, New Mexico

CENTER

Licensed FCC

Legend: Old Rates, New Rates

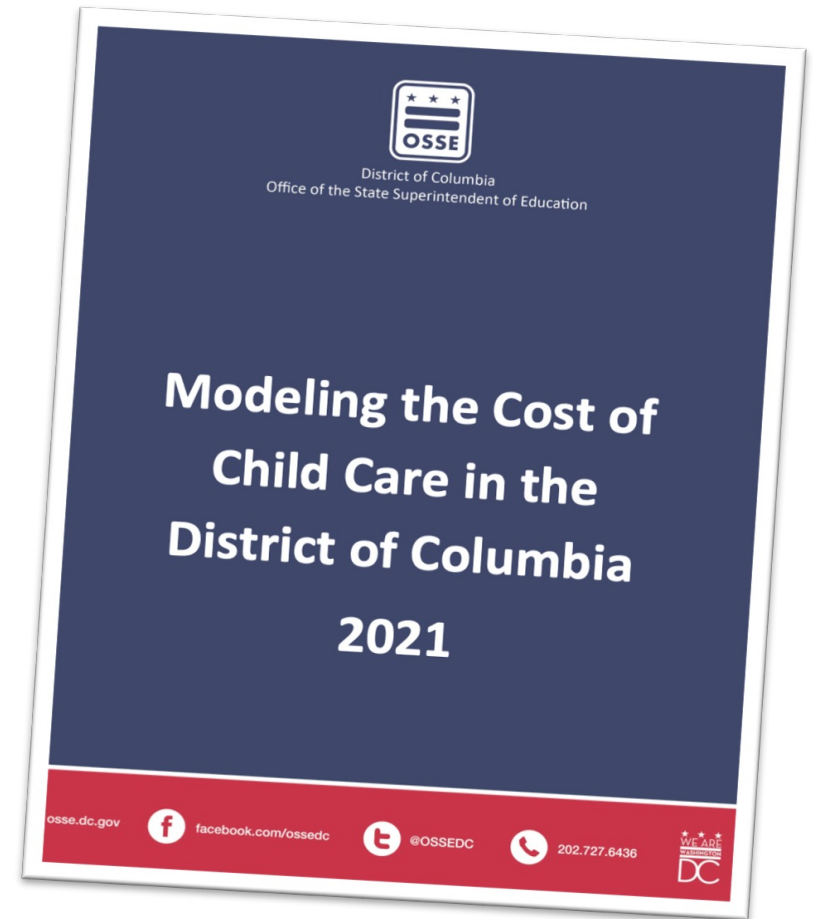| Percent increase:	22%	8%	17%	1%		54%	83%	70%	1%

DC Rate Setting Approach

Quality Levels
- Increase wages at each level
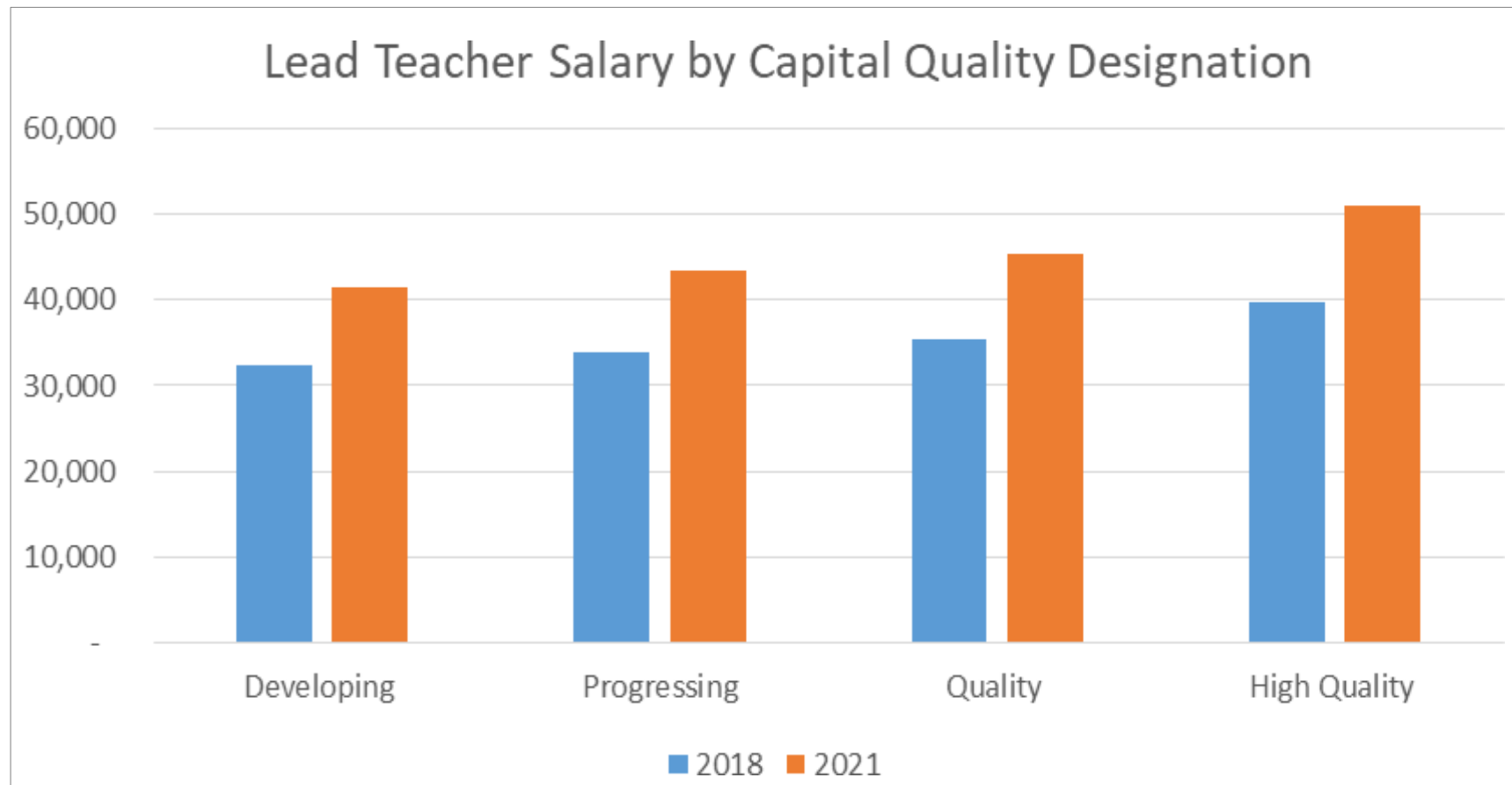- Positions added: coach, healthcare consultant, family engagement specialist

Enhancements
- Intake and Engagement
- PreK
- Family Child Care network supports

Revenue
- Certain child and family characteristics

District of Columbia
Office of the State Superintendent of Education

Modeling the Cost of Child Care in the District of Columbia 2021

osse.dc.gov   facebook.com/ossedc   @OSSEDC   202.727.6436

Impact on Salaries in DC

Lead Teacher Salary by Capital Quality Designation

- 2018 BLS child care worker salary for Washington, DC was $29,450
- 2021 BLS child care worker salary for Washington, DC is $37,760, an increase of $8,310

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Cost modeling in Montana

Montana cost calculator

- **P5FS worked with Zero to Five and a work group to develop a child care cost model**
  - Work group Included representatives of center and home-based child care programs, from different parts of the state, and at different Star levels

- **Reviewed Montana child care licensing standards and STARS requirement to identify key cost drivers**

- **Analyzed existing datasets to identify data to inform the model**
  - ARPA survey responses
  - State licensing data
  - Existing calculator

- **Developed calculator, piloted with work group**

Discussion

How might you use cost modeling to support the child care system in Montana?

Questions?

P▶5 Fiscal Strategies

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