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Pennsylvania Association for the Education of Young Children

Cost Estimation

Improving Child Care Subsidy Rate Setting

February 22, 2022

Welcome

Jen DeBell	Executive Director, Pennsylvania Association for the Education of Young Children
Jeanna Capito	Principal, Prenatal to Five Fiscal Strategies
Simon Workman	Principal, Prenatal to Five Fiscal Strategies
Daisy Lira	Director, Bumble Bee Learning Center, Sunland Park, New Mexico
Kelly Hoffman	Vice President of Data and Strategy, Pennsylvania Partnerships for Children
Kimberly Early	Senior Director of Public Policy and Advocacy, Pennsylvania Association for the Education of Young Children



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Agenda

- Purpose – Jen DeBell
 - National Expert Explanation of Cost Estimation and Provider Experience - Jeanna Capito, Simon Workman and Daisy Lira
 - Pennsylvania Cost Gap Data - Kelly Hoffman
 - Recommendations for Pennsylvania - Kimberly Early
 - Next Steps - Jen DeBell
 - Questions and Answers - Kimberly Early
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Purpose

How Pennsylvania can move to cost modeling to improve the financial stability and quality of our child care system and our recommendations to get us there.

Prenatal to Five Fiscal Strategies



- 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



The Child Care Market

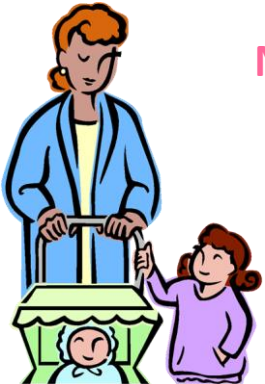
The Early Care and Education Market

After-school
program



School-based
PreK

Relative,
Neighbor
or
Nanny



Family Child
Care Home

Nanny
Service



Non-Profit
Child Care
Center



Head Start
Center

Private
preschools



Faith-based
community
programs

Proprietary
Child Care
Center



Market facts: Industry revenue

Consumer tuition (families)

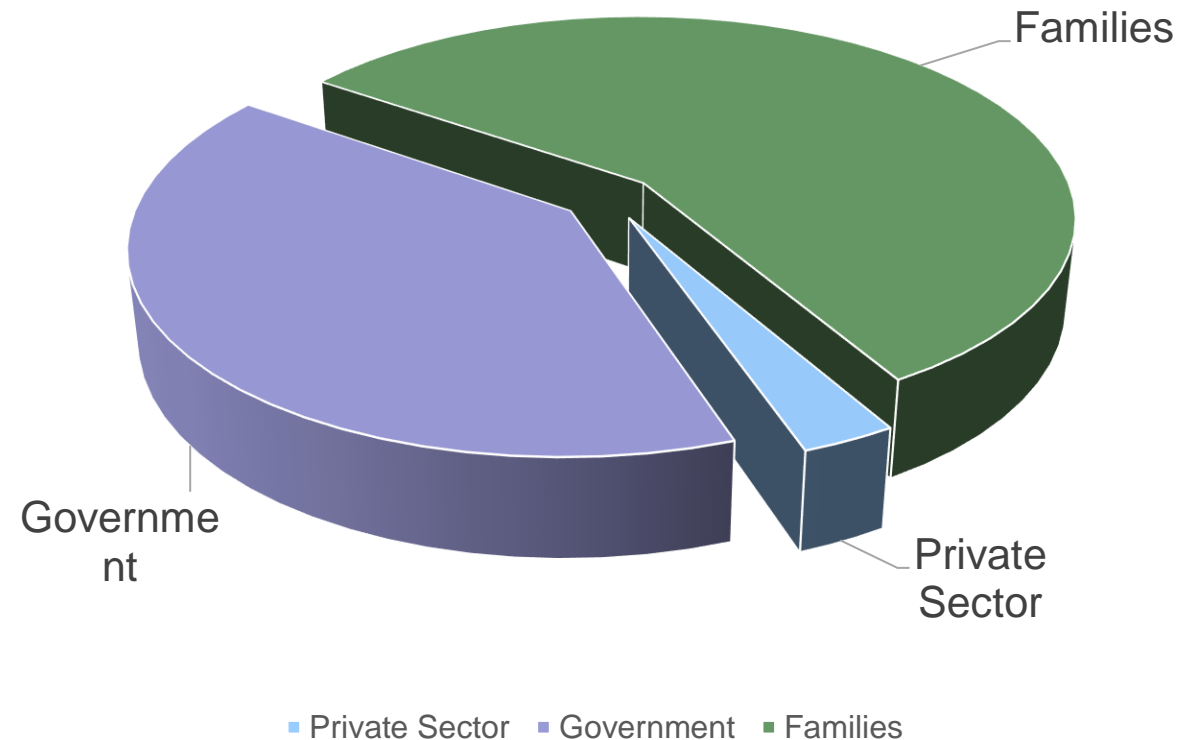
the largest source of revenue, roughly 57% of total industry receipts

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

Current reality: 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.

Child care is a broken market that disincentivizes 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.



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?**

Understanding Inputs: Cost Approach

Market Rate Approach

Uses tuition prices to set rates

Supports understanding the prices charged families

Sources:
Market Rate Survey

Cost Model Based Approach

Uses current cost information

Supports understanding the insufficiency of current rates

Uses true cost of care information

Supports understanding funding level needed for maintaining and growing programs to inform rate setting

Sources:

Primary data collection: survey; provider interviews and focus groups; advisory bodies

Secondary data: BLS data; other local provider cost data collection

What is a cost model?

- Tool to understand the cost of providing services

This tool:

- 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

Is a cost model the same as a cost study?

No, a **cost model** is a **functioning tool** which can be used to answer questions about the cost of a service and draw from multiple data points to answer those questions.

A **cost study** is a **point in time analysis** of the cost of a service, it is stagnant. A cost study can be used as one of the data sources in a cost model.



How does a cost model function?

Will I get the same answer or a single answer from the cost model?

- You will only get the same answer from the cost model if you make the exact same selections as you did previously, or as someone else using the model did to get their cost per child answer
- No, there is not a single answer generated by an ECE cost model. Cost answers vary by:
 - Program type (center, FCC, FFN)
 - Program size
 - Ages of children served
 - Program regulations (licensed only, Title 5, EHS/HS)
 - Equity and quality enhancements

Policy Development

- Highlight gap between current revenue and true cost
- Set subsidy rates that align with true cost
- Align tiered reimbursement and quality incentives with true cost of higher quality
- ECE business support
- Integrate accurate cost data into broader ECE strategies

Advocacy

- Educate policymakers, parents, and general public on finances of ECE business
 - Price vs. cost
 - Personnel as primary cost driver
- Build support for increased public investment
 - Highlight inadequacies of current funding streams
 - Demonstrate support needed for low and middle income families



Impact of Cost Based Approach



Provider Voice

Daisy Lira

New Mexico Child Care
Provider; Chair of NM
ECEC Advisory Council

- **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**

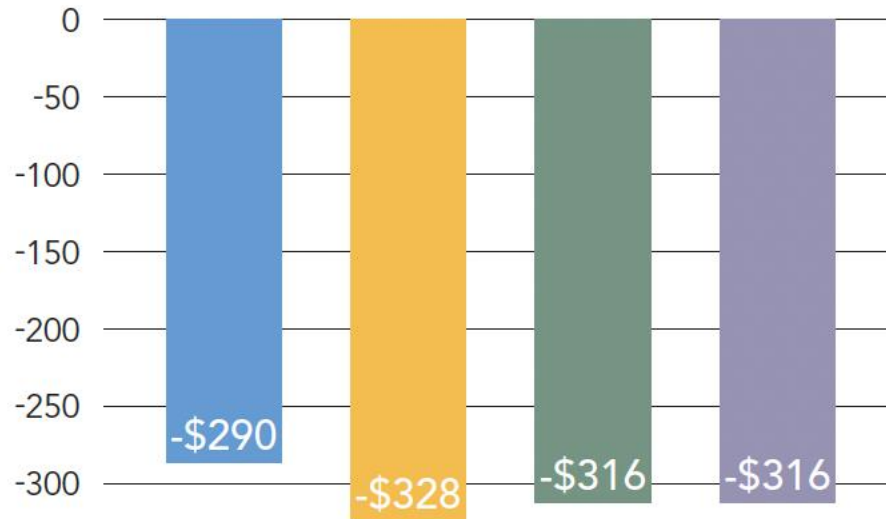
- Online survey distributed to all child care providers, through ECECD, Growing Up New Mexico, NMAEYC, via email and social media.
- Statewide blasts as well as targeted to underrepresented areas
- Survey available in English and Spanish, responses received between September and November 2020
- Responses received from 20% of licensed providers, reaching 66% of children covered by subsidized.

- **Data collection – Provider interviews**

- Study team conducted one-on-one interviews with providers to gather deeper budgetary information to inform the model. Diversity of type of provider, location in state

NM: Model Results

Figure 7: **Monthly gap between subsidy and cost per child, licensed FCC, infants**



2 Star 2+/3 Star 4 Star 5 Star

Figure 8: **Monthly gap between subsidy and cost per child, licensed FCC, toddlers**



NM: Rate Setting Decisions

Impact on policies and inequities

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

Finance planning

- Increasing hourly beyond MWO (\$15, 18, 25 per hour as minimum)

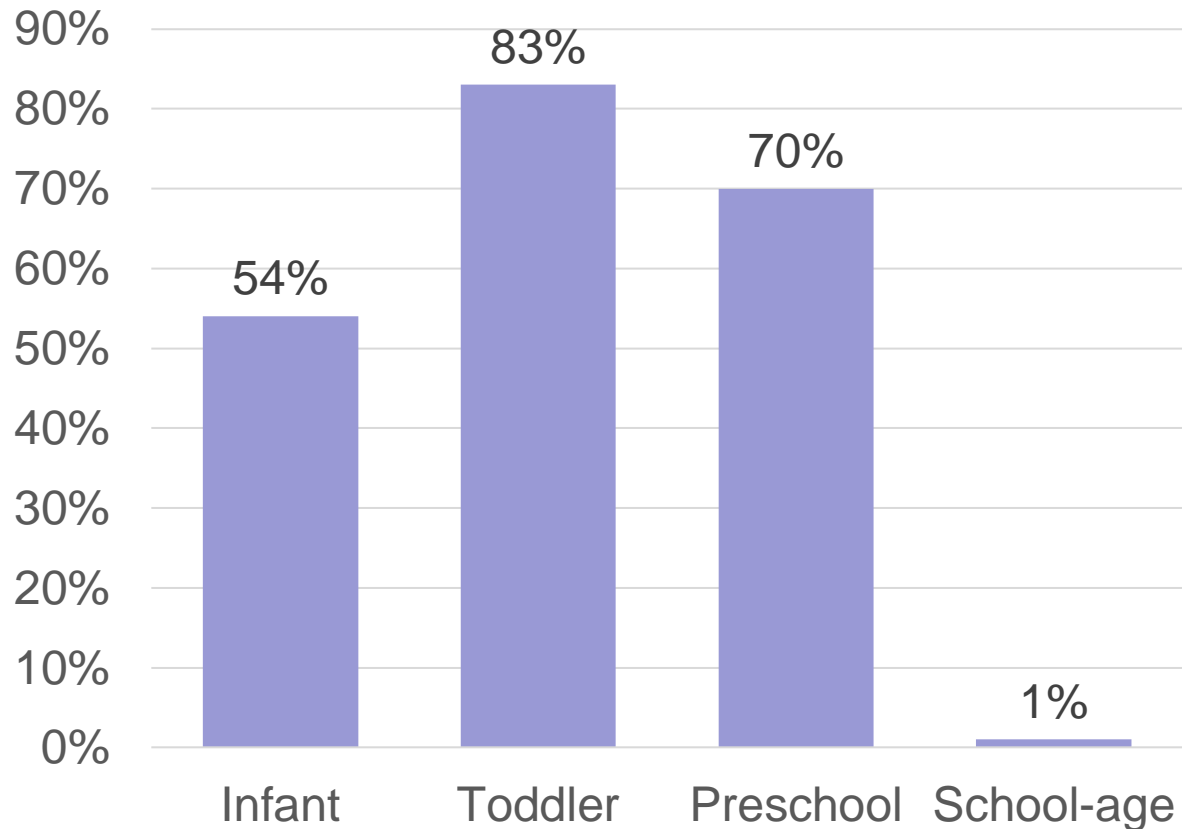
Revenue

- Differential for non traditional hours
- Stipends for bilingual staff and pay parity efforts; role these in to rate in next iteration



NM: Comparison between prior rates and new rates

New Mexico: Increase between rates based on market and rates based on cost model



Program Type	Average Underfunding Percent	
	2020 Rates	2021 Rates
Center	21%	6%
Family Child Care	38%	0%
Group Home	27%	0%

NM: Impact on Provider Experience

- How has the change impacted providers?
- What else is in process to continue to use cost modeling?
- Fight to move to \$15 minimum in the model for next year





Discussion



Pennsylvania Cost Gap Data

Cost Gap Calculation: Cost per Child

- Based on Center for American Progress' CostofChildCare.org online interactive
- Selected following variables to estimate top-quality cost per child:
 - fewer children per teacher
 - increase salaries
 - provide retirement benefits
 - increase contribution to health insurance
 - provide more time for teachers to plan lessons
 - increase resources for classroom materials
- Pennsylvania likely cost of child care:

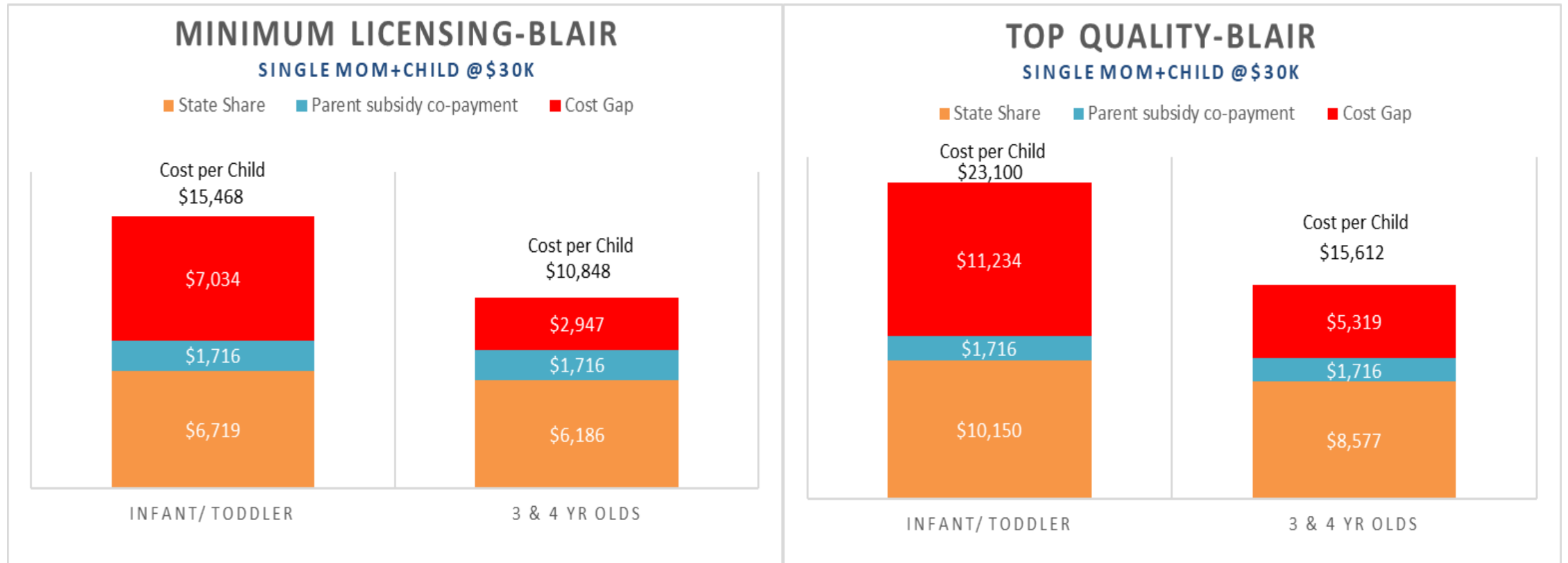
	Minimum licensing	Top-quality
Infant	\$17,244	\$25,980
Toddler	\$13,692	\$20,220
Infant/Toddler	\$15,468	\$23,100
Preschool	\$10,848	\$15,612



Cost Gap Calculation: Family and State Share

- State share uses:
 - County's Maximum Child Care Allowance (MCCA)
 - Keystone STAR 4 tiered reimbursement (top-quality calculation only)
 - Parent subsidy co-payment uses co-pay scale based on the 2022 Federal Poverty Income Guidelines
 - Family of two at \$30,000: \$33 per week (\$1,716 annual)
 - **Cost Gap formula:**
 - Minimum Licensing Cost Gap = Likely cost of child care – (MCCA – Co-pay)
 - Top Quality Cost Gap = Likely cost of child care – (MCCA + STAR 4 add-on - Co-pay)
-

Cost Gap: Blair County

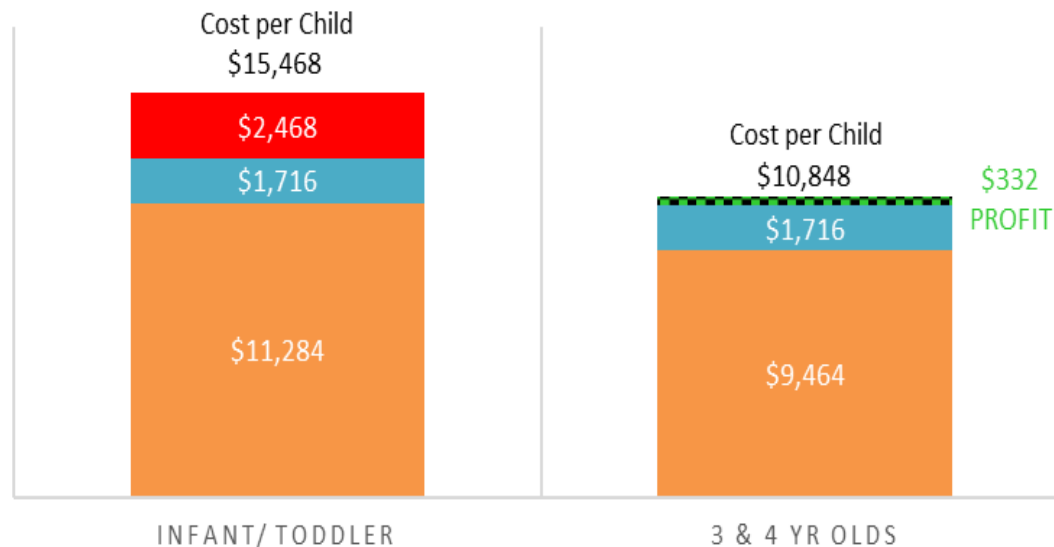


Cost Gap: Allegheny County

MINIMUM LICENSING-ALLEGHENY

SINGLE MOM+CHILD @\$30K

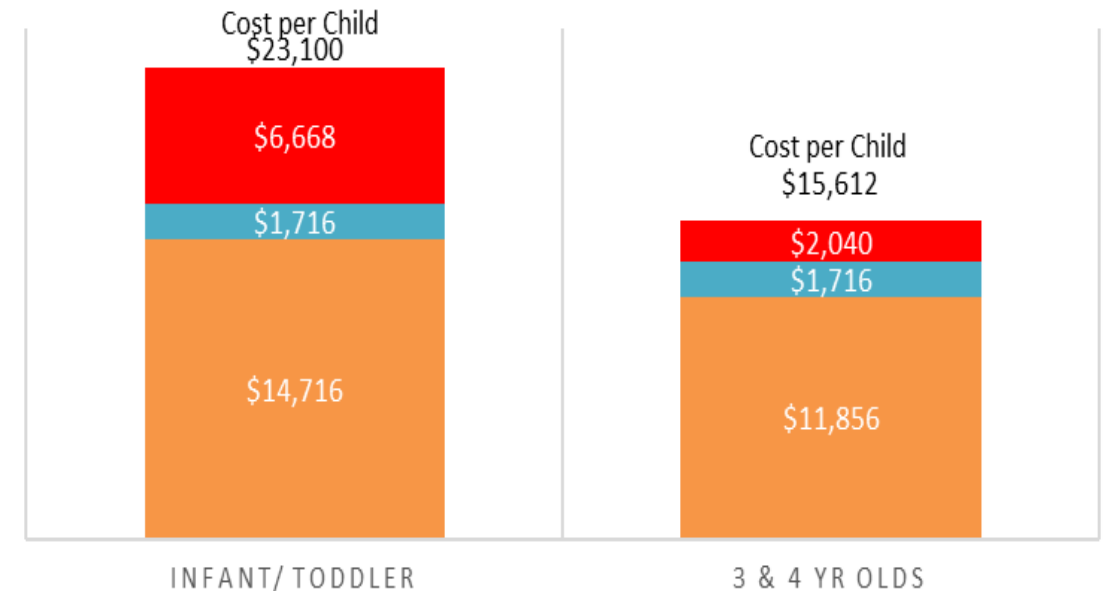
State Share Parent subsidy co-payment Cost Gap



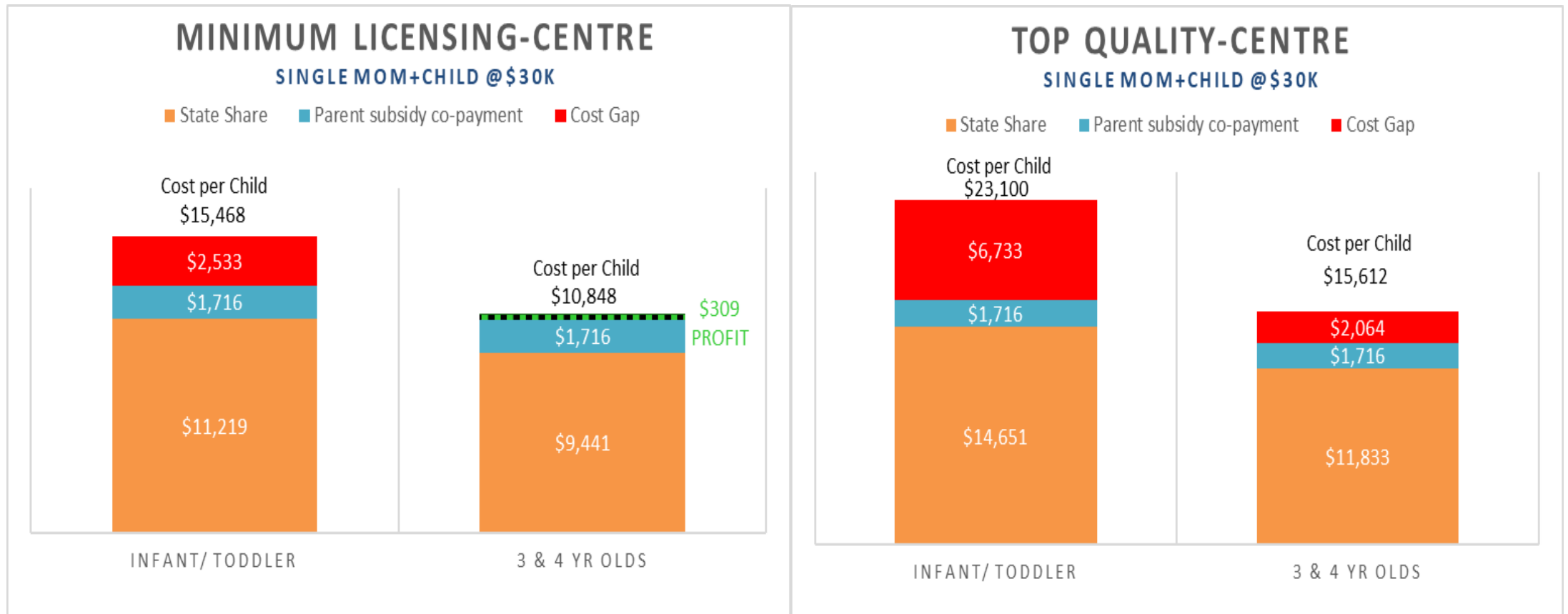
TOP QUALITY-ALLEGHENY

SINGLE MOM+CHILD @\$30K

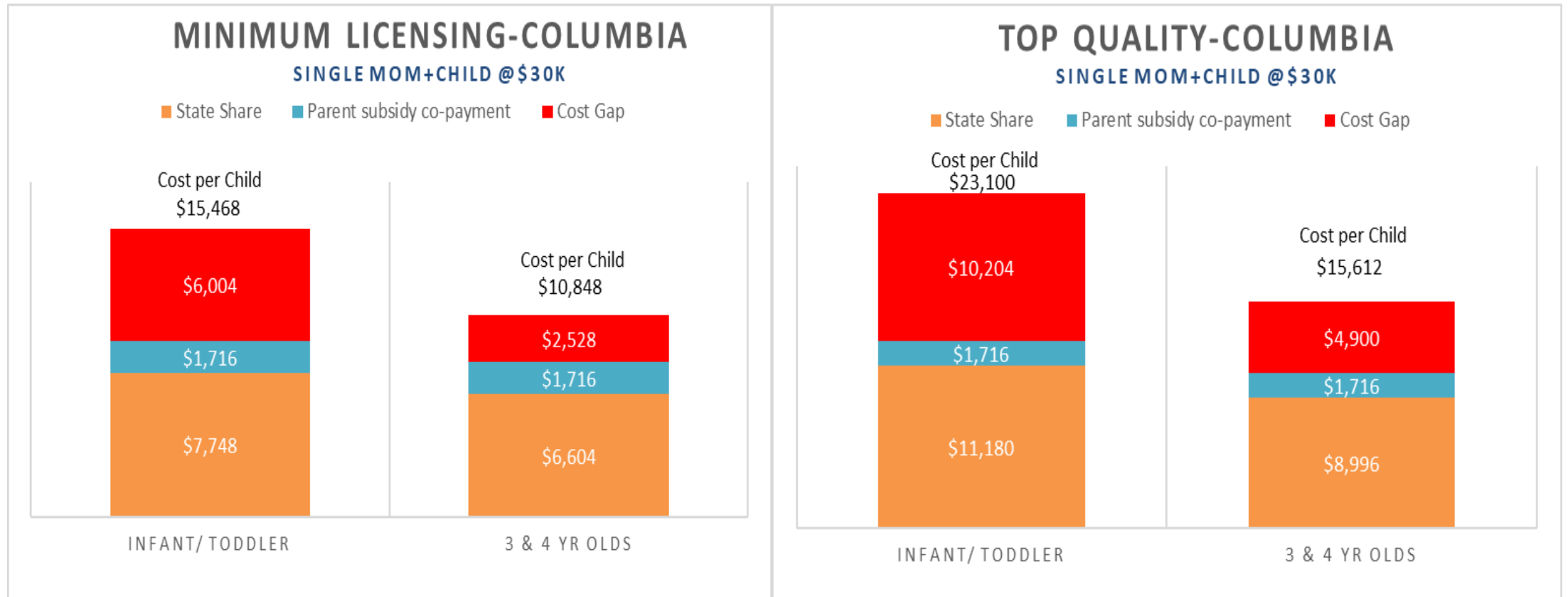
State Share Parent subsidy co-payment Cost Gap



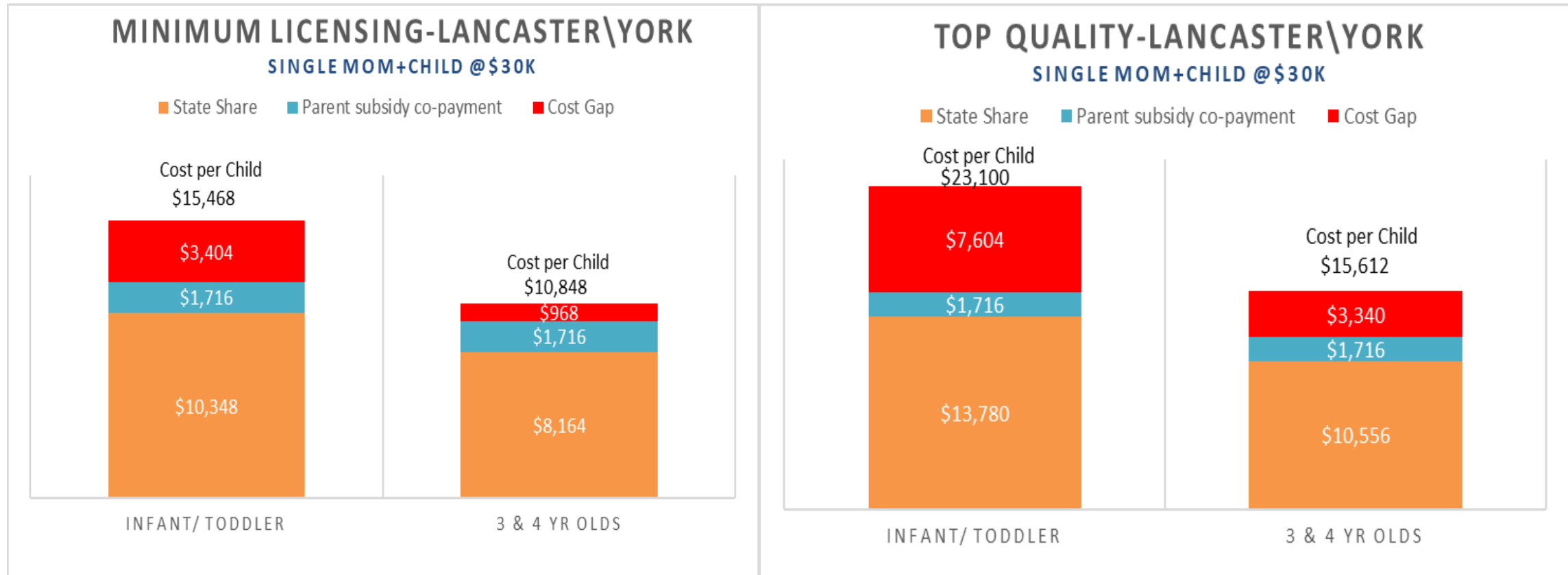
Cost Gap: Centre County



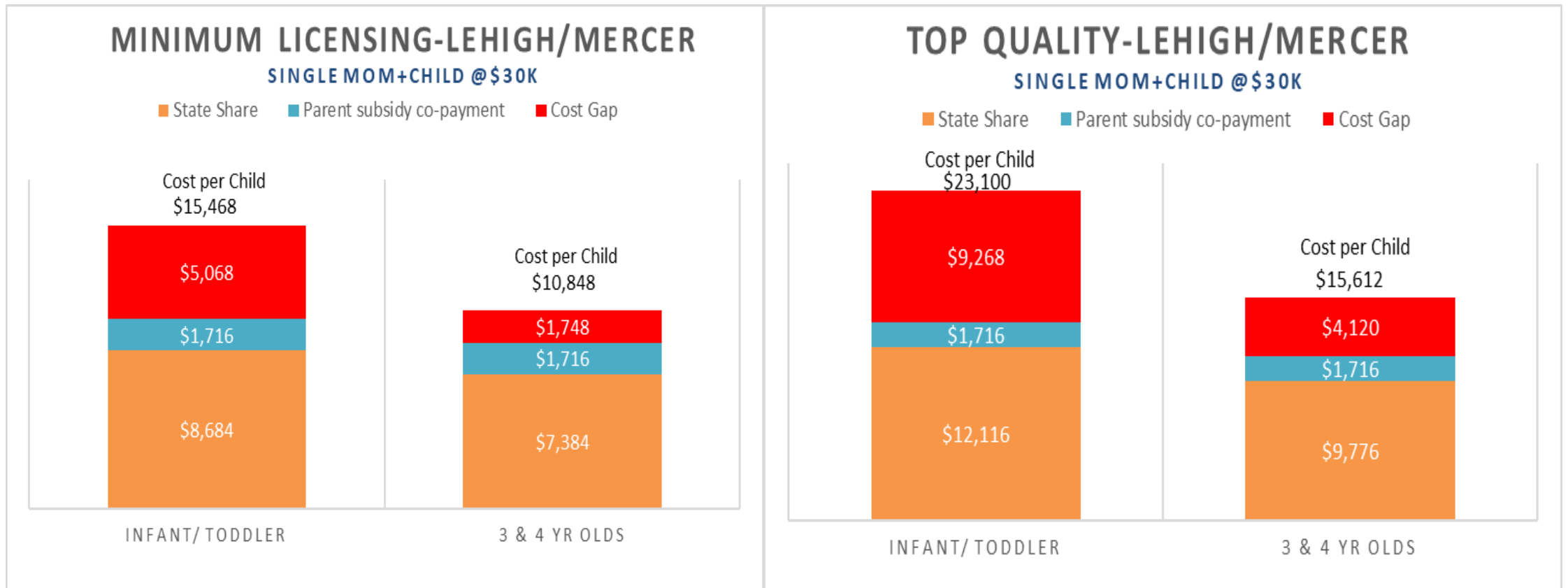
Cost Gap: Columbia County



Cost Gap: Lancaster and York Counties



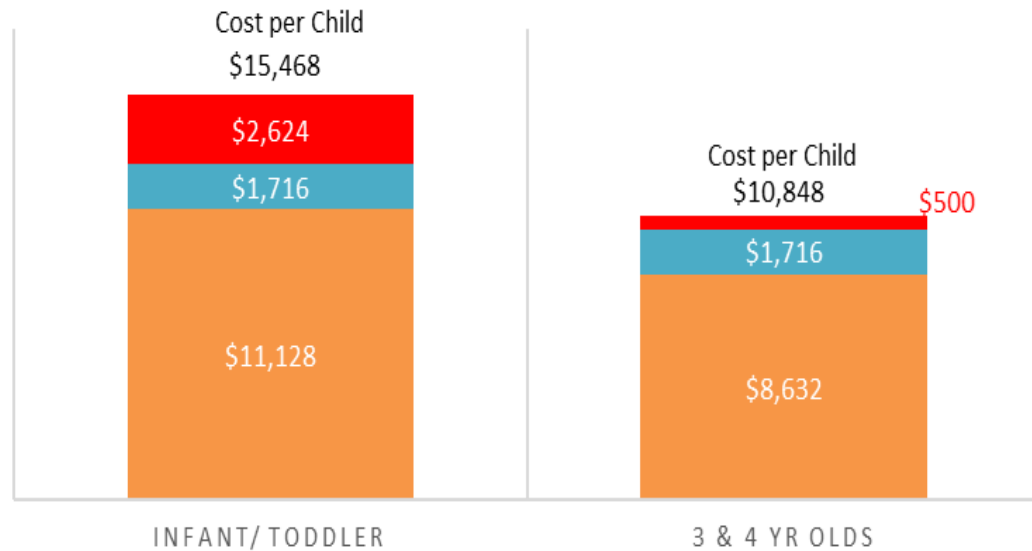
Cost Gap: Lehigh and Mercer Counties



Cost Gap: Philadelphia County

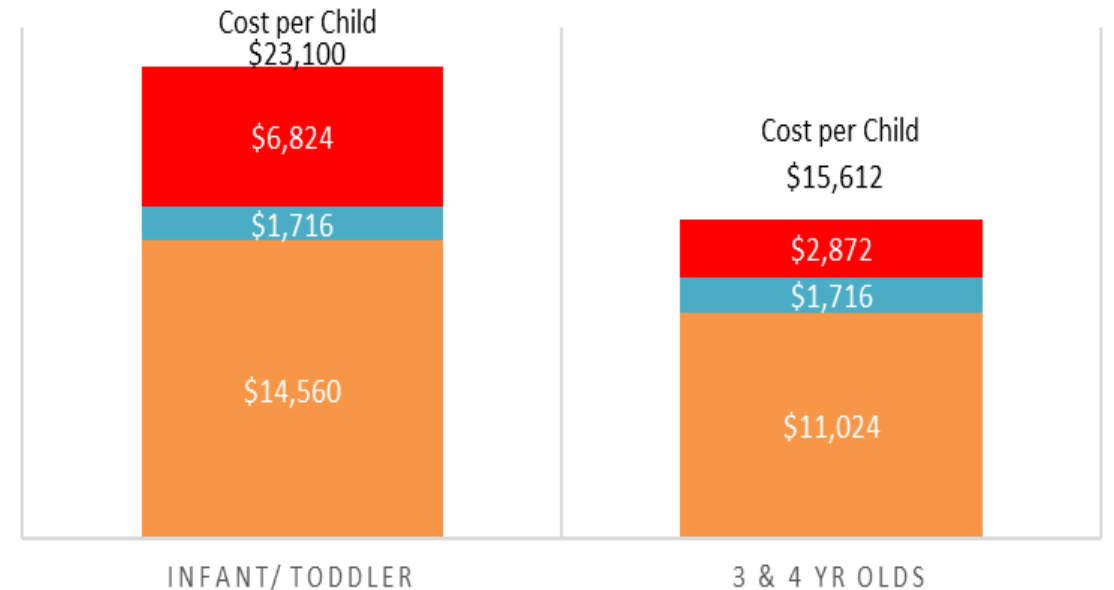
MINIMUM LICENSING-PHILADELPHIA SINGLE MOM+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap



TOP QUALITY-PHILADELPHIA SINGLE MOM+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap

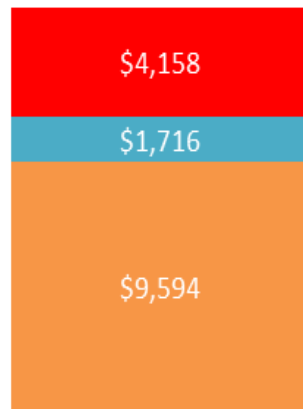


Cost Gap: Westmoreland County

MINIMUM LICENSING-WESTMORELAND SINGLE MOM+CHILD @\$30K

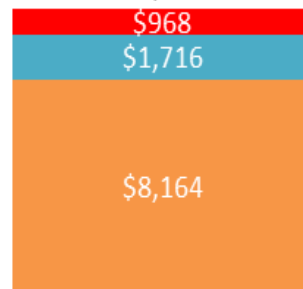
State Share Parent subsidy co-payment Cost Gap

Cost per Child
\$15,468



INFANT/TODDLER

Cost per Child
\$10,848

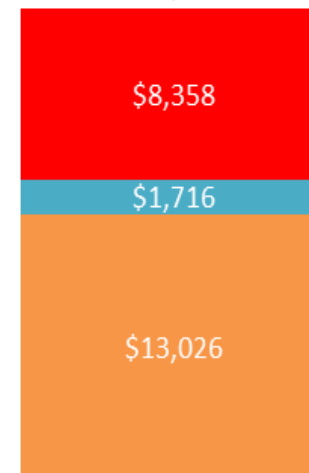


3 & 4 YR OLDS

TOP QUALITY-WESTMORELAND SINGLE MOM+CHILD @\$30K

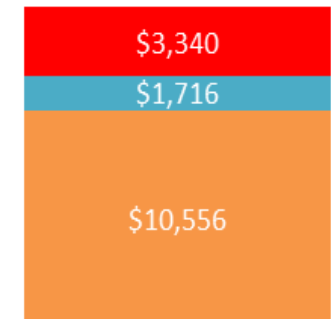
State Share Parent subsidy co-payment Cost Gap

Cost per Child
\$23,100



INFANT/TODDLER

Cost per Child
\$15,612



3 & 4 YR OLDS

The background is a solid blue color with several large, semi-transparent geometric shapes overlaid. On the left, there is a large circle. On the right, there are several overlapping polygons, including a large triangle and a smaller one, creating a layered effect.

Recommendations for Pennsylvania



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Rather than conduct a market rate survey, Pennsylvania should:

Conduct a cost estimation study.

- Results in subsidy rates that reflect the true cost of high-quality child care.
 - Reduces inequities in funding across communities.
 - Estimates revenue streams and the impact of various subsidy rates on providers.
 - Considers all major factors driving program cost.
 - Creates principles that inform cost models and establish a shared language.
 - Requires significant stakeholder engagement in the study.
 - OCDEL must lead the cost estimation study process.
 - The study process must be transparent and the results shared with policymakers.
 - Develop a new payment methodology, based on the study results, including a plan to fund any gaps.
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Next Steps

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Questions and Answers



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Email questions on the Policy Brief to:

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