



Bipartisan Policy Center

Charting the Path Forward for Child Care

**USING COST MODELING TO DESIGN
NEW SOLUTIONS**

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COVID-19 intensified our nation's child care crisis. The child care sector's business model is unsustainable in a failing child care market. To save this critical industry, we must find different solutions. Cost modeling is an important tool used by businesses of all types to identify new strategies that will help solve the child care crisis and place businesses on solid footing.

Overview

The term "child care" is used throughout this paper to describe licensed and regulated center-based child care, family child care homes, or in-home child care providers who offer services for compensation.¹

The market rate survey is a data collection process that documents the average rates child care providers are charging families. There are variations in rates by geographic area, provider type, and age of children being served.² This data is used to compare the public subsidy rates offered to low-income families to the tuition paid by all families. States strive to reach subsidy levels on par with the 75th percentile of private tuition.³ In theory, this gives qualifying low-income families buying power on the private child care market.

Child care in the U.S. is in crisis. For working parents, especially those with young children, there isn't enough affordable quality child care. This impacts their ability to go to work and, ultimately, the country's economy. Even before the pandemic destabilized the industry, child care providers operated on razor-thin margins, often without the ability to invest in wages and recruit more employees to expand services.

Pre-pandemic, most government funding was used to provide child care subsidies to low-income families based on the average price of child care charged by providers in the state, which is determined through a market rate survey. However, this strategy has fallen short for decades in its inability to address the fundamentally broken child care market. Simply put, when the cost to produce the product, in this case a child care slot, exceeds the price customers can pay for it, the market will fail.

Like all private markets, there is both a supply and demand side to child care. Child care providers "supply" a service to parents who make-up the market's "demand." Child care subsidies, money provided to parents who need to buy care to go to work, are a demand-side intervention. Subsidies are critical for low-income parents, so they can afford to buy services on the private child care market. But subsidies alone cannot fix the broken child care market. Without enough providers low-income parents are trapped without a place to use their child care subsidy. Supply-side interventions must be used to address root causes of the crisis.

A **private market** (sometimes called a “free market”) is based on the principles of supply and demand. This means consumers are free to buy whatever meets their needs from businesses, and businesses can offer services consumers will buy. Sometimes, governments intervene in the private market to influence supply and demand or directly offer goods and services.

For example, when child care is offered through a child care center owned and operated by an individual it is operating in the private market. The provider sets the price for tuition and parents can purchase the amount of child care they want. In contrast, Head Start, a preschool program for children from low-income families, is entirely funded by the federal government.⁴ Families in poverty are offered Head Start services at no cost and providers receive funding for operational costs from the government.

Parent demand for child care sharply diminished in March 2020 when the country went into lockdown. Without consistent parent-based income, child care programs were forced to close. The reality of the pandemic was that states had to quickly build “supply-side” interventions and identify new strategies to distribute public funding to prevent the collapse of the child care industry. Many of these new strategies included investments in individual child care businesses. Rather than simply return to pre-pandemic normal, these innovative funding mechanisms could be continued to permanently repair the broken child care market. To ensure that these new solutions are data-driven, states must consider more than just the market rate survey.

Most private industries commonly use cost estimation models or “cost models” to analyze the costs of delivering a good or service. For the child care sector, these basic business tools can help calculate the cost of providing quality care. To design effective government intervention, it’s important to know how it impacts the child care business model and the market. Cost models can be the key to understanding these impacts. However, there is much work to be done to best adapt cost models to design child care investments. They are not a silver bullet. This paper will outline opportunities for the child care market to use cost modeling tools and preliminary considerations as cost modeling is integrated into strategic planning.

WHAT IS A COST MODEL?

A cost model is a tool that measures the cost of producing a service or good. In the case of child care, a cost model can be used to calculate the cost of operating a child care business given certain safety and quality standards. This includes all child care business models, including non-profit, for-profit and faith-based care. Depending on the methodology, it may calculate the cost to run an entire child care system, an individual program, or cost per-child.

Cost model design should be driven by the policy decisions being considered. Data from a cost model does not determine the best policy for any program, community, or state. Having an accurate cost model is the critical first step in evaluating child care investments.

What Information is in a Cost Model?

There is no one-size-fits-all cost model. There are many potential methodologies, all of which involve different information. Common methodologies are detailed more comprehensively in Appendix A.

To determine what information is included, a cost model makes assumptions about the child care business structure. These factors determine operational costs. Possible inputs include:

- Enrollment: The number of children attending
- Ratios: How many children one adult is caring for
- Wages: Child care worker compensation
- Age Distribution: The number of classrooms serving each age grouping
- Provider type: Family child care homes, center-based programs, and other program types depending on the community

Business structures can be scaled to show variations in cost at different units of analysis. For example, a cost model is estimating enrollment. Three possible enrollment inputs are:

- The average number of children enrolled in a child care centers across the state
- The total number of children enrolled in formal child care across the state
- The estimated number of children enrolled in child care if a state's subsidy rates increase by 10%

All three inputs would produce different cost estimates. Depending on the intended use of the cost model, different estimates would be appropriate.

Once the inputs are determined, cost models estimate the costs associated with each input. Costs are typically determined based on surveys and interviews with providers or national and state averages.

Why do assumptions matter?

Assumptions in the cost model determine the cost output. For example:

A cost model is needed to understand the monthly operational cost for a child care provider. The model uses assumptions for business structure and cost in key categories:

Monthly Rent	Monthly Supplies	Total FTEs	Salary	Monthly Cost of Operations
\$800	\$100	10	\$12/hour	\$22,800

Now, to understand how the monthly operational cost changes by moderately increasing wages:

Monthly Rent	Monthly Supplies	Total FTEs	Salary	Monthly Cost of Operations
\$800	\$100	10	\$15/hour	\$24,900

When the salary increases, the monthly cost to operate the business increases. **The underlying assumptions inputted into the cost model drive output of the estimated cost of care.**

Depending on the methodology, the output can be reported in a variety of ways. Cost can be given on a per-child, -provider, or system-level. Costs can be compared with subsidy rates or provider revenue. Models can also be used to estimate a provider's financial sustainability or that of an entire system given variations in the revenue stream.

What questions can a cost model help answer?

Cost models can help answer a variety of questions. Some possibilities include:

- Can the current market rate cover the cost of operating a program that meets minimum quality standards?
- If a program enrolls only government subsidized children, could they afford to operate?
- How much more revenue would an average program need to earn to raise wages by 10%?
- How does the average cost of care change as the average ages served gets lower?
- What is the cost of opening and operating a child care facility in a child care desert?
- How much would it cost for a program to extend its hours by two hours? Four hours?

Cost modeling methodology and design are critical in determining what cost is produced and what questions the data can answer.

A Failing Sector

THE CHILD CARE BUSINESS MODEL

U.S. child care is a mixed-delivery system, meaning parents have choice regarding the type of child care to purchase to best meet the needs of their family.⁵ This also means that child care is provided in a variety of different settings, including part day preschools, for-profit child care centers, non-profit child care centers, family child care homes (FCCHs), and faith-based providers. In total, 59% of families with children under five rely on the formal child care system for their child care.⁶ Of those, about 62% of children under five are in center-based care of some kind and 18% attend an FCCH.⁷ Unlike K-12 education, early education and care is primarily provided through the free market. For most child care providers, most revenue comes from parent tuition, paid for by individual families.⁸ Child care facilities are typically businesses owned and operated by an individual, board or corporation, not the government. Yet, regardless of business type, tuition fees are unaffordable for parents while providers make low wages and can barely cover operational costs. Quality child care is simply too expensive for most families to afford.

The cost of child care varies widely from place to place. The average annual cost of tuition ranges from \$4,784 for a four-year-old in Mississippi to \$24,243 for an infant in Washington D.C.⁹ Families that live below the poverty line would need to spend an average of 26% of their income to afford child care.¹⁰ Of working families who currently use an informal child care arrangement, 48% would consider using a child care provider if it was affordable and within their budget.¹¹

Despite the high tuition, most child care providers struggle to break-even financially. Personnel expenses account for 70 to 80% of the operating costs for most child care businesses,¹² but even still, child care professionals make low wages. Even though about half of child care teachers have an AA degree or higher,¹³ the median pay for a child care worker is \$13.23 per hour,¹⁴ and more than half (53%) are enrolled in at least one main public benefit program (Medicaid, CHIP, EITC, SNAP, or TANF).¹⁵ A 2021 survey found that the overwhelming majority of child care providers say low wages are the main obstacle to recruiting new staff and the main reason child care professionals leave the field.¹⁶ In many regions, the cost of providing care is too high to operate a viable business at all. The gap in supply of child care leaves about 30% of young children with working parents without access to any formal child care in their community at all.¹⁷

The most pressing issue is how to increase workforce compensation without increasing costs for parents. Current revenue from parent tuition fees can barely support current child care operational expenses. Increasing staff wages

will only make child care more unaffordable for parents, as costs are passed down through tuition. To address this tension, we must understand underlying challenges in the child care market.

CHARACTERISTICS OF THE CHILD CARE MARKET

When do markets fail?

Market failures occur when the free market cannot produce a vital good or service at a price consumers can afford. In this case, the price families can pay for quality child care (demand) is far below what it costs to operate a quality child care program (supply). A quality child care program cannot be sustained on what parents can generally afford for care. As a result, there are gaps in child care supply and providers are forced to pay low wages to keep costs down, creating challenges in workforce recruitment and retention. However, raising tuition to support increased staff wages will drive tuition costs up and make child care unattainable for more parents.

Low compensation and high tuition prices inherent in the child care business model stem from characteristics of the child care market.¹⁸

What are the challenges of the child care market?

Two key characteristics of the child care market make it difficult for businesses to succeed:

- **First, there is an artificial cap on what parents can afford to pay.**¹⁹ The average price of tuition is limited by what parents can afford to purchase rather than the true cost of child care.²⁰ Family budgets are constrained by their own income and available resources. Unlike other large purchases families are expected to make early in their careers, like a house or car, it is uncommon to take out a loan to cover the cost of child care. This budget constraint means that parents often cannot afford the amount and quality of care they would ideally demand in a free market.
- **Second, providers face inherent uncertainty when attempting to plan for their business.** Individual parental needs are constantly changing. A new baby or job, a move near relatives, divorce, and sickness can all impact child care needs. While it costs a fixed amount to operate a classroom, the number of children enrolled week-to-week varies—meaning income from tuition to cover operating costs varies. Under the current business model, providers receive income primarily through per-child tuition. This model faces drastic volatility with unexpected changes in enrollment and attendance. Investment in compensation increases and quality initiatives becomes impossible without some certainty for increased revenue. Without being able to accurately predict parents' future needs, child care businesses do not have enough certainty to make these necessary investments.



Child care is essential in keeping the economy running and ensuring healthy child development. These market failures have serious consequences for the country. Because cost models set their own quality standards, they can be used to determine the true cost of providing child care without market distortions. Traditional subsidies alone will not fix the failures in the market. New solutions must be developed to change the child care business model all together. If thoughtfully used, cost modeling could help develop new ways to invest in compensation without increasing cost for parents.

WHY QUALITY MATTERS

Quality child care benefits more than the child receiving care—it benefits our whole society.²¹ Investing in quality child care allows parents to work and contribute to a thriving economy and helps prevent negative outcomes later in a child’s life. Decades of research show the long-term benefits of quality child care,²² helping children attain higher levels of educational achievement, stay healthier, and commit fewer crimes.²³ The full benefit of quality child care goes far beyond what an individual parent can or should pay, thus parent’s investments must be supplemented by the government to reach the full value of quality child care for our society.

Charting a New Path Forward

RETHINKING EXISTING STRATEGIES

Government interventions in the child care market are critical due to the larger economic and societal benefits of quality child care. The primary federal funding stream supporting access to child care is the Child Care Development Block Grant (CCDBG).²⁴ This grant is allocated to states to ensure that low-income families can purchase child care from private providers. States typically use federal CCDBG funding to provide a tuition subsidy. Commonly referred to as a “voucher” or “certificate,” these subsidies are designed to cover a portion of tuition at parents’ chosen child care provider. CCDBG regulations require each state to set family copayment rates, meaning families who receive a subsidy may be required to pay their provider a portion of the subsidy rate set by the state.²⁵

The documented failures in the child care market make it clear that the country needs to rethink its strategy for supporting the child care industry. To date, the country’s most significant investment in child care, CCDBG, does not address the challenges that providers face due to failures in the child care market.²⁶

Demand vs. Supply Interventions

The government engages in demand- and supply-side market interventions to correct failures in the free market. Demand-side interventions target consumers, typically decreasing their costs so that they can afford more of a good or service. The theory behind demand-side interventions is that a boost in consumer demand will incentivize more businesses to enter the market.²⁷ In the child care market, most public funding has been used for demand-side market interventions.

Tuition subsidies through CCDBG are a demand-side intervention because they directly target families to decrease their child care costs. Subsidy rates are typically based on the average price of tuition, determined in the market rate survey. Prices in the market rate survey are artificially low due to the cap on what parents can afford to pay, and do not accurately reflect the true cost of providing care. Because of this, subsidy rates generally only cover a portion of the true cost of quality care.²⁸

Even if subsidy rates were increased it would not fully address the child care market challenges because the government does not support a sizeable enough share of the parents using vouchers to impact the entire child care industry.²⁹ Despite being the largest federal funding stream for child care, only about

1.4 million children receive subsidies through CCDBG.³⁰ In total, about 6.4% of children in early childhood education programs are recipients of public or private subsidies.³¹ The government is only offsetting the cost of child care for a small subset of families.

Tuition subsidies and corresponding family copayments do not provide sufficient financial security to providers to incentivize investments in quality and increases in supply. Even with this demand-side intervention, the volatility and uncertainty in the market creates a mismatch between demand and supply.

Supply-side interventions work in the opposite direction³² - directly subsidizing businesses to offset the cost of supplying a good or service, increasing supply and driving down consumer costs. In child care, supply-side interventions provide funding directly to providers to offset operational costs, improve quality, and increase supply without impacting tuition. For example, supply-side interventions can directly target increases to staff compensation, which is largely acknowledged as a critical component of increasing supply and improving quality.

Without supply-side interventions, the cost of quality improvements like increased compensation is usually pushed onto parents through increased tuition costs.³³ However, direct grants to providers that are dedicated to personnel costs, for example, allow for increases in compensation without increases in tuition. Supply-side interventions can also offset uncertainty in demand by ensuring some stable revenue for providers.

The nature of the child care market failures necessitates the use of supply-side intervention alongside the current demand-side strategies.

SUPPLY-SIDE INTERVENTIONS WORK IN THE OPPOSITE DIRECTION

The per-child tuition subsidy is not the only funding mechanism state and federal governments use to support child care.

The limited supply-side interventions in child care have been shown to improve the sustainability of the business model. For example, the Child and Adult Care Food Program reimburses eligible child care providers for certain meals and snacks³⁴. Michigan's narrow cost analysis looked directly at the impacts of CACFP on provider costs³⁵ and found it "plays a critical role in the financial health of child care providers." Child care centers and FCCHs that participate increased their net revenue by about 9.6%. Although this program is limited to defraying the cost of food, reducing operational costs consistently has a positive impact on financial sustainability.

LESSONS FROM PANDEMIC RELIEF FUNDING

The pandemic further strained an already fragile child care market. To keep child care running, Congress approved an unprecedented investment of \$52.5 billion to re-open and stabilize the child care system.³⁶ Through interviews with more than 20 current and former state administrators responsible for allocating child care relief funding, BPC was able to document trends in state's decision-making processes. The flexibility states gained with this additional funding allowed for innovation across the country.

Child care was deemed an essential service during the pandemic, but many providers were forced to close.³⁷ Operational expenses skyrocketed due to stricter health and safety guidelines, which frequently called for fewer children in attendance to promote social distancing, more teachers, and expensive supplies. Families' child care needs changed as parents lost their jobs, worked from home or needed support for remote learning. Revenue became even more unstable with unpredictable attendance and closures for COVID-19 exposures and staff sickness.

Most states used some portion of relief funding to expand the typical child care subsidy structures: increasing subsidy rates, waiving parent co-pays, and paying based on enrollment instead of attendance. These helped maintain some stability for parents and providers, but they were not sufficient to get child care back to its pre-pandemic baseline and these demand-side strategies could not correct for the underlying market instability.

With traditional demand-side interventions insufficient,³⁸ States used their new-found flexibility to implement a variety of new strategies to address the supply-side issues.

BPC's analysis shows that there are some supply-side trends, including:

- *Operational Grants:* Grants given directly to providers to offset some portion of their overhead costs. This was the model most states used for the federally required "Child Care Business Stabilization Grants."
- *Workforce Supports:* Grants given directly to the workforce or distributed through providers to increase compensation, benefits, bonuses, enhanced professional development supports, or tuition discounts.
- *Child Care Desert Grants:* One-time grants for new providers willing to open facilities in underserved regions or provide care to underserved populations.
- *Business Leader Support:* Some of the challenges in designing supply-side public investments is driven by lack of necessary skills to manage a microbusiness in the face of uncertainty. Business training for providers, including coaches, classes and coursework, webinars on how to allocate grant money, and call lines dedicated answering provider's questions.

Most of these grants were available to all licensed child care providers regardless of whether they had traditionally served children receiving state subsidies. Several administrators explained that to support access to the most vulnerable children who receive subsidies, there was a need to stabilize the entire system. In a BPC survey of child care centers and FCCHs, the majority (58%) of providers who received government funding used it to pay their teachers and classroom staff.³⁹ These strategies were successful: providers reported that this funding was very helpful for creating stability and continuing services for children.⁴⁰

State administrators expressed that, while the need for supports beyond subsidies was clearly necessary, many did not have the infrastructure and data systems to ensure that relief funding was optimally allocated. Essential data for determining grant amounts and the impact on parent costs often did not exist. Many states do not have estimates of the true cost of quality care, let alone the cost of opening a facility in a child care desert, cost of care for underserved populations, and the level of workforce supports necessary to decrease turnover rates. Better understanding operational costs would help state administrators allocate funding to directly address providers' financial stability and the child care market's sustainability.

The nation must learn from the success of supply-side investment strategies during the pandemic and use cost modeling tools to inform future investments into the child care sector. Emergency funds are set to expire in September 2024, and all 50 states and the District of Columbia will face a \$48 billion fiscal cliff.⁴¹ With the upcoming cliff, there is no time to waste in finding new solutions to solve the child care crisis.

COST MODELING: A TOOL FOR TRANSFORMATION

Increasing interest in developing cost models for child care has come, in part, due to the pandemic. Although states were successful in quickly allocating emergency funding, they were restricted by outdated payment infrastructures and limited data. To make these successful funding strategies sustainable in the long-term, the sector must move beyond the existing approaches to demand-side interventions and use cost modeling to design more effective supply-side financing solutions.

Cost modeling is a method of calculating the costs of delivering a service, commonly used by businesses and governments when looking at industry trends and quality standards. With regards to child care, cost models can be used to determine the cost of delivering quality child care at different group-sizes and ratios, increasing staff salaries, or varying program models. Cost models can be developed to assess cost given changes to quality, including incremental increases in workforce compensation over time. Cost models are a

starting place to inform policy decisions, including rates for tuition subsidies that reflect the cost of quality care and determining amounts for provider grants to invest in compensation increases. Cost modeling can produce data that moves the field beyond traditional demand-side approaches by better understanding the supply-side of the market.

The child care market cannot be fixed without a better understanding of the operational cost drivers embedded in child care. Cost models aren't distorted by market failures because they model the cost for delivering care—not what parents are able to pay for it. This data can help states develop supply-side investment strategies that target the specific challenges in their child care sector locally.

To fully overcome the challenges in the child care market, states must begin to plan for long-term supply-side interventions. Thoughtfully using cost modeling to inform these new approaches will help ensure we create the child care sector our children – and our country—deserve.



Recommendations

Given the urgent need for tools to rebuild and sustain the child care industry, BPC recommends the following:

RECOMMENDATION 1:

Broaden Federal Requirements Beyond Market Rate Studies: *To support creative investment strategies that simultaneously address staff compensation and child care affordability, federal requirements should encourage states to use cost modeling tools to design interventions beyond tuition subsidy rates.*

The Child Care and Development Block Grant requires that states conduct a market rate survey or an approved alternative methodology to receive child care funding.^{42,i} As described in the introduction, market rate surveys capture the average price of child care tuition across a state, territory, or tribe. States may conduct an alternative methodology so long as it is approved by the Administration for Children and Families, an office of the U.S. Department of Health and Human Services. A cost estimation model is cited in the regulations as a potential alternative methodology.⁴³ Only one state (New Mexico) and one territory (Washington, D.C.) use an alternative methodology to conduct a cost estimation model in their 2022-2024 CCDF State Plans. The results of the market rate survey or alternative methodology must be compiled in a public report.⁴⁴

In their report, states must also include the estimated cost of care necessary to implement health, safety, quality, and staffing requirements, and the cost of higher-quality care as defined by the Lead Agency.⁴⁷ In Program Instruction, ACF refers to this component of the report as a narrow cost analysis.⁴⁸

Washington D.C.⁴⁵ and New Mexico⁴⁶ received an ACF waiver for their cost estimation models. Both reports utilize the Provider Cost of Quality Calculator (PCQC) and interviews or surveys with providers to develop their cost models. Interviews and surveys inform the assumptions they make regarding the child care business structure in their regions and key cost drivers. They can see how changes in compensation, benefits, and quality levels impact the overall cost of care. Notably, both cost estimation models can look at the financial sustainability of their child care providers given changes in revenue streams.

i For full text of the regulation, see Appendix B.

The purpose of the market rate survey, alternative methodology, and narrow cost analysis is to ensure that payment rates for the provision of child care services are sufficient to ensure that families receiving subsidy payments have equal access to child care services.⁵¹ In the regulations, data from these analyses are discussed in the context of establishing per-child subsidy rates on a sliding fee scale, meaning payment rates vary given income and family size.⁵² ACF guidance reinforces that data from the market rate survey, alternative methodology, and narrow cost analysis should be used for establishing subsidy rates. Their guidance focuses on methodologies that are designed to “collect information on child care prices and costs to inform child care subsidy payment rates.”⁵³

The CCDBG regulations and ACF guidance are the framework through which states think about their child care system. With the federal framework tying market rate surveys to per-child subsidy payment rates, state leaders are encouraged to only focus on the demand-side of the child care market. Typically, this involves comparing the subsidy payment rate with the per-child cost of care to show how much rates would need increase to cover the true cost of care. This guidance discourages states from pursuing market analyses that would provide insight on supply-side interventions. If state administrators want to address the supply-side challenges, they must conduct a cost estimation model with methodology that goes beyond federal requirements and guidance.

In a scan of 35 publicly available cost models, detailed in Appendix A, BPC documented several cost models that go beyond estimating per-child cost of care. If the field intends to move towards more sustainable business practices, a greater understanding of business operating costs is a prerequisite. For example, models that estimate system- and provider-level costs and financial sustainability are better equipped to provide data that can be used to address supply-side interventions. States would be better able to develop supply-side financing strategies if federal regulations and guidance encouraged states to use cost analyses for more than per-child subsidy payment rates.



ACF published guidance on recommended methodologies for conducting a narrow cost analysis, including:⁴⁹

- Develop a cost model using the Provider Cost of Quality Calculator (PCQC),⁵⁰ a tool developed by the U.S. Office of Child Care to help states estimate base cost for this analysis. The PCQC includes spending categories and national average costs to help states get started on estimating costs, and then allows states to input their own state-specific cost estimates.
- Use information from the market rate survey to collect additional information on cost, such as staffing salaries or enrollments.
- Conduct a limited cost study involving a small-scale survey of providers to determine average costs for specific areas of operations.

Some states have already implemented findings from the cost model to develop supply-side financing strategies. Massachusetts collected data from programs during a strategic planning process in 2019, including budget analysis for both center-based and family child care homes across the region. When the pandemic hit, the Commonwealth used this data to design a cost model that helped distribute over \$700M in operational grants to child care providers. By understanding the operating costs of child care, Massachusetts was able to target funding to cover 10-25% of a program's monthly expenses to buffer against the impacts of COVID instability.

RECOMMENDATION 2:

Support States to Leverage Cost Modeling More Effectively: *Those working to convene state-level leaders should help integrate cost modeling with strategic planning to inform supply-side innovation.*

While 48 states use a market rate survey to establish their subsidy rates to meet the federal requirements, there is increasing recognition from state leaders that more nuanced approaches to cost modeling are needed. As we navigate economic recovery, many of the long-standing failures of the child care market have been compounded. Cost models can be used to develop data driven supply side interventions, such as grants that incentivize providers to open facilities in child care deserts or wage-supports that reduce workforce turnover rates. When used intentionally, cost models can provide data to better inform the next phases of public investment.

Through interviews, BPC has documented a growing trend of state leaders looking for more comprehensive and nuanced cost modeling tools. State administrators often describe confronting similar obstacles in implementing alternative financing strategies and assessing the impact on business sustainability. By working and learning together, we can more effectively build cost models that answer the most pressing questions facing state and community leaders. Convenings and conversations must be designed to engage state-leadership around ways cost modeling can support their strategic efforts. States need opportunities to learn from each other and develop better understandings of how cost modeling can be used to overcome challenges in the child care market.

RECOMMENDATION 3:

Develop Industry Principles to Use in Cost Modeling Strategies: *The field must be vigilant against a “one-size-fits-all” approach to applying cost models that are used simply to replace the use of a Market Rate Study. The growing group of cost-modeling experts working in early education should coalesce around some standards to ensure appropriate guardrails are set when applying cost modeling tools to the child care sector.*

Cost modelers should work collaboratively to develop key principles. The public interest in ensuring cost modeling is used to improve services for children and families must be the driver for this work.

First, cost models must include realities of the child care sector for realistic cost projections. For example, while it costs a fixed amount to operate a classroom, the actual cost-per-child varies based on how many children are enrolled. Even for providers in high demand, full enrollment rarely occurs. The industry standard is to expect enrollment at 85% of desired capacity.⁵⁴ It is important that when estimating the cost-per-child to deliver a service like child care, 100% enrollment is never used in calculations.⁵⁵

Second, there are considerable variations in the insights a cost model can provide depending on the intended purpose. Cost models can deliver data to inform a variety of initiatives. Methodology must be developed with specific goals in mind. Variations in cost model methodology are further described in Appendix A. Cost modelers should help leaders understand their goals to best leverage cost modeling.

Creating a set of principles to apply cost modeling to the child care sector will ensure that we fully leverage the power of this tool. Thoughtful partnership across cost-modeling experts working in this sector will accelerate the transformation in the child care market.

Conclusion

The child care sector must think differently as it recovers from the COVID-19 crisis. Long-standing struggles have worsened: there is a child care workforce shortage, child care providers have closed their doors, and too many parents cannot afford tuition. Traditional funding mechanisms, including subsidies for low-income families, cannot fix these issues alone. We cannot stabilize the child care market without new funding strategies that address its critical flaws.

We must be thoughtful in designing new solutions as the sector begins to harness cost modeling. Building a better understanding of the child care market, and its implications on provider business structure, is the missing link to informing our investments. With decades of evidence that more needs to be done to address our nation's persistent child care crisis, it is essential that we leverage the appropriate tools in this new era.

The child care industry must be able to support independent providers to truly support children and families while adequately compensating their workforce. Cost modeling can help ensure that we are designing interventions that can build on the existing foundation and accelerate sector-wide impact. In future papers, BPC will further analyze trends in cost modeling being used at the state level and detail insights on potential methodologies that will move the field forward.



Appendix A: Cost Methodology Tracker

OKLAHOMA

Oklahoma completed a narrow cost analysis to fulfill their requirement in their CCDF State Plan. Their analysis involved an extensive survey, interview, and budget review process to determine the cost drivers in improving child care quality.⁵⁶ They found that some quality improvements do not necessitate increases in cost of care, including changes in educational practices and time utilization. The most significant cost driver across quality levels was increased personnel costs providers face when lowering the student to teacher ratio. Using information gleaned in their survey work, they used the PCQC to develop a cost estimation model that showed the cost of care per-child and -provider, and compared cost and subsidy rate, at different levels of quality.

BPC analyzed 35 cost models in 2022-2024 Child Care and Development State Plansⁱⁱ or otherwise publicly available online. Although not an exhaustive list of all cost models conducted, this is a representation of the range of methodologies that have been utilized in the child care sector.

Each cost model identified in the tracker uses different data, underlying assumptions, variables, and units of analysis—and each provide unique insight into certain aspects of their state’s child care system. States and other stakeholders should intentionally design a methodology that produces data relevant to their long-term goals. The following section outlines the methodologies used across the 35 cost models, broken down into four sections: Background, Data Collection, Cost Levers, and Analysis.

Background

- **Development:** Who developed and funded the cost study. Most cost models were developed by the state agency charged with CCDBG oversight either to fulfill the narrow cost analysis requirement for CCDBG or with Preschool Development Block Grant funding, although some were conducted by advocacy and research organizations.
- **Part of CCDF State Plan:** If this study was used to fulfill the narrow cost analysis requirement on their 2022-2024 CCDF State Plan. Some states included their narrow cost analysis as a section within their larger market rate survey report.
- **Year:** Year of publication.

ii The following states conducted a narrow cost analysis per their 2022-2024 CCDF State Plan, but the analysis could not be located: Florida, Louisiana, Maryland, Montana, and South Carolina.

State	Background		
	Development	CCDF State Plan	Year
Alabama	Alabama Child Care Services Division (CCSD) contracted with Alabama State University	<u>Yes-- portion of MRS</u>	2021
Alaska	Alaska Child Care Program Office contracted with University of Alaska Anchorage	<u>Yes-- portion of MRS</u>	2020-2021
Arkansas	Arkansas Division of Child Care and Early Childhood Education (CDDECE) contracted with University of Arkansas	<u>No-- requested waiver</u>	2019-2021
Colorado	Developed by the Bell Policy Center with funding from Denver Preschool Program, Raise Colorado Coalition, and general operating funders.	<u>No-- requested waiver</u>	2022
DC	Office of the State Superintendent of Education (OSSE)	<u>Yes</u>	2021
Delaware	Conducted by the Delaware Office of Early Learning as part of PDG B-5 Grant	<u>No</u>	2020
Delaware*	Delaware Division of Social Services (DSS) contracted with consultants to complete the study	<u>Yes</u>	2021
Idaho*	Used a study produced by Center for American Progress	<u>Yes</u>	2018
Illinois	Illinois Office of Child Care contracted with Northern Illinois University (NIU) with funding from PDG B-5	<u>No-- requested waiver</u>	2019
Iowa	Iowa Department of Human Services (DHS) partnered with Iowa State University	<u>Yes-- portion of MRS</u>	2020
Kansas	Kansas Department for Children and Families contracted with Learning Tree Institute	<u>Yes</u>	2021
Kentucky*	The Prichard Committee for Academic Excellence	<u>No-- separate report done</u>	2017
Kentucky*	Kentucky Cabinet for Health and Family Services contracte with Child Care Aware of Kentucky at the University of Kentucky	<u>Yes</u>	2021
Maine	Maine Department of Health and Human Services contracted with Health Management Associates	<u>Yes-- portion of MRS</u>	2021
Maryland*	Maryland State Department of Education contracted with APA Consulting	<u>No</u>	2016
Massachusetts	Massachusetts Board of Early Education and Care worked with the Center for Early Learning Funding and Equity	<u>No-- requested waiver</u>	2022
Michigan	Michigan Department of Education contracted with Public Policy Associates	<u>Yes-- portion of MRS</u>	2021
Minnesota	Minnesota Department of Human Services contracted with ICF	<u>Yes</u>	2020
Nebraska	Funded by the Buffett Early Childhood Institute at the University of Nebraska	<u>No-- requested waiver</u>	2020
New Hampshire*	RAND	<u>No-- requested waiver</u>	2017
New Jersey	Conducted by Advocates for Children of New Jersey (ACNJ)	<u>No-- requested waiver</u>	2017
New Mexico	Early Childhood Education and Care Department (ECECD) worked with Prenatal to Five Fiscal Strategies	<u>Yes</u>	2021
New York	Prepared by Center for American Progress	<u>No-- requested waiver</u>	2019
North Carolina	North Carolina Division of Child Development and Early Education (DCDEE) contracted with the Center for American Progress as part of PDG B-5 Grant	<u>No--requested waiver</u>	2021
North Dakota*	North Dakota Department of Human Services (DHS) worked with Child Care Aware	<u>Yes-- portion of MRS</u>	2021
Ohio	groundWork partnered with Anne Mitchell	<u>No</u>	2016
Ohio	Ohio Department of Job and Family Services contracted with Strategic Research Group	<u>Yes-- portion of MRS</u>	2021
Oklahoma	Oklahoma Partnership for School Readiness (OPSR) contracted with RAND with PDG B-5 funding	<u>Yes</u>	2020
Oregon	Oregon Early Learning Division (ELD) commissioned the Center for American Progress	<u>Yes</u>	2020-2022
Pennsylvania	Pennsylvania Office of Child Development and Early Learning (OCDEL) partnered with Pennsylvania State University	<u>Yes</u>	2020
Rhode Island	Rhode Island Department of Human Services (DHS) contracted with Public Consulting Group LLC	<u>Yes-- portion of MRS</u>	2021

State	Background		
	Development	CCDF State Plan	Year
Utah	Utah Department of Workforce Services contracted with the University of Utah	<u>Yes-- portion of MRS</u>	2021
Vermont	Vermont Agency of Human Services, Department of Children and Families (DCF) worked with Vermont Building Bright Futures (BBF)	<u>Yes-- portion of MRS</u>	2019
Virginia*	Virginia Department of Education contracted with VPI+ Implementation Team Members with funding from PDG B-5	<u>No-- requested waiver</u>	2019
Washington*	Washington Department of Early Learning contracted with Public Consulting Group LLC	<u>Yes-- portion of MRS</u>	2018

***Notes:**

DE: This is a preliminary report

ID: Developed and independently published by Center for American Progress-- Idaho used their findings to fulfill their narrow cost analysis

KY: Analysis limited to preschool

KY: Considered a narrow cost analysis per the state plan but does not meet definitions used in this report

MD: Analysis limited to preschool

NH: Analysis limited to early learning programs (i.e. preschool) and home visiting

ND: Considered a narrow cost analysis per the state plan but does not meet definitions used in this report

VA: Analysis limited to preschool

WA: Considered a narrow cost analysis per the state plan but does not meet definitions used in this report

Data Collection

States relied on a variety of data sources when determining costs. Data collection strategies impact the type of conclusions a cost model can draw. For example, cost models that rely on PCQC or national averages without conducting interviews may overlook the unique challenges that child care providers across their states face.

- **Market Rate Survey/Subsidy Rates:** Consideration of market rate survey data or state subsidy rates in the analysis.
- **Interviews:** Providers or other stakeholders were directly contacted to gather provider-level cost data or vet the findings, including one-on-one interviews, site visits, and group stakeholder meetings.
- **Surveys:** Provider surveys or budget reviews, including state-wide surveys to determine average costs, small scale budget reviews to identify trends in costs or key cost drivers, and cost-related questions in the market rate survey.
- **National or State Averages:** State and national averages from a source other than their own survey work to determine average costs, including data cost estimates found in the National Academies of Sciences, Engineering, and Medicine report and Bureau of Labor Statistics wage data.
- **Provider Cost of Quality Calculator (PCQC):**ⁱⁱⁱ Use of the PCQC or data embedded in the calculator.

ⁱⁱⁱ The PCQC is a publicly available cost modeling tool developed by ACF to show state-specific costs of child care and show how changes in cost drivers impact per-child costs.

State	Data Collection				
	MRS/Subsidy	Interviews	Surveys	National or State Averages	PCQC
Alabama	X		X	X	X
Alaska	X		X	X	
Arkansas	X	X	X	X	
Colorado	X	X	X	X	
DC	X	X		X	X
Delaware	X	X	X	X	X
Delaware			X		
Idaho				X	
Illinois			X	X	X
Iowa			X		
Kansas			X		X
Kentucky	X			X	X
Kentucky	X				
Maine	X		X		X
Maryland				X	X
Massachusetts	X	X	X	X	
Michigan	X	X		X	X
Minnesota	X	X	X	X	X
Nebraska				X	
New Hampshire				X	X
New Jersey	X	X	X	X	X
New Mexico	X	X	X	X	X
New York	X			X	X
North Carolina	X		X	X	
North Dakota	X				
Ohio	X	X	X	X	X
Ohio	X		X		X
Oklahoma	X	X	X	X	X
Oregon	X	X	X	X	X
Pennsylvania		X		X	
Rhode Island	X		X		
Utah	X		X	X	
Vermont	X		X	X	
Virginia		X	X	X	X
Washington	X		X		

Cost Levers

Reports designed to show the true cost of care go beyond showing provider-level average expenses. These reports must pinpoint key cost drivers and show how changes in these variables impact cost. The underlying data to determine values of a cost level must have been derived from cost and expenditure data, not the market rate survey. Simply discussing a variable is not enough to be considered a cost lever: reports must show how changes in a cost driver impact expenses on a per-child, -provider, or system level.

- **Compensation:** Increase in compensation impacts overall costs. Some reports considered increases in compensation as general quality improvement, and others considered it a separate cost.
- **Benefits:** Increase in benefits beyond mandatory requirements or average benefits package currently offered. Although some reports may have assumed that quality improvements or compensation meant an increase in benefits, this was not checked unless explicitly mentioned.
- **Geography:** Showing changes in costs given geographic variations in cost of living or cost of services.
- **Provider Type:** Inclusion of the differences in cost of care for child care centers and family child care homes.
- **Quality Improvement:** Increase in cost related to any factors of quality improvement, including, but not limited to, professional development and education, student to teacher ratios, facility improvements, curriculum and materials, and family engagement programs. Typically, reports that consider quality improvements will show how costs change for providers at different levels of their state's Quality Rating and Improvement System. Only checked if a report considered additional quality improvements beyond wages and compensation.
- **Infants and Toddlers:** Cost of providing care given the increased needs of infants and toddlers.
- **Subsidy Density:** Changes in cost to provide care given the percent of private vs. public pay families. While not a direct cost, these financing dynamics impact a provider's revenue and financial stability, and therefore, their ability to invest in quality improvement.
- **Special Populations:** Increase in cost to provide care for students with disabilities, dual language learners, or other populations that may require specialized care.

State	Cost Levers							
	Compensation	Benefits	Geography	Provider Type	Quality Improvements	Infants & Toddlers	Subsidy Density	Special Populations
Alabama						X		
Alaska			X	X		X		
Arkansas	X		X	X	X			
Colorado	X	X	X	X	X			
DC	X	X		X	X	X		
Delaware	X	X		X	X			X
Delaware	X		X	X	X			
Idaho	X	X		X	X	X		
Illinois	X	X	X	X	X	X		X
Iowa			X	X	X			
Kansas	X		X	X				
Kentucky	X		X		X			X
Kentucky								
Maine				X		X		
Maryland	X	X	X	X	X			
Massachusetts			X	X		X		
Michigan	X			X	X		X	
Minnesota	X		X	X	X	X	X	
Nebraska								
New Hampshire								X
New Jersey	X	X		X	X	X	X	
New Mexico	X	X	X	X	X	X		
New York	X		X	X	X	X		
North Carolina	X		X		X	X		
North Dakota								
Ohio	X		X		X		X	
Ohio				X	X	X		
Oklahoma	X	X	X	X	X	X		
Oregon	X	X	X	X	X	X	X	X
Pennsylvania	X		X	X	X	X		
Rhode Island								
Utah	X			X	X	X		
Vermont	X			X	X	X		
Virginia	X		X		X			
Washington								

Unit of Analysis

The unit of analysis should be informed by the overall goals of the model as it affects how the information can be utilized. For states that want to further understand their subsidy rate, cost per child and cost vs. market rate may be more useful. For those that want to develop their grants and contracts funding, provider costs might be most helpful. To address system level market failures and long-term stability, system cost and financial sustainability might be the most important metrics.

- **Cost per Child:** The cost of care for one child.
- **Provider Cost:** The cost for a provider to operate a classroom, center, or family child care home.
- **System Cost:** The cost of the state-wide child care system.
- **Cost vs. Subsidy Rate:** The cost of care in comparison with data from the market rate survey or subsidy rates. This may be shown on a per child, per provider, or whole system unit of analysis.
- **Cost vs. Revenue:** The cost of care in comparison with revenue streams. This should include the variety of revenue streams that providers and systems braid together, including public and private funding. This may be shown on a per child, per provider, or whole system unit of analysis.
- **Financial Sustainability:** The long-term sustainability of a child care provider or system at different levels of quality given changes in revenue streams. Reports must show how changes in financing dynamics, including changes in subsidy vs. private pay density or diversifying revenue streams, may impact the viability of the business model.

ILLINOIS

Illinois conducted a cost model to look at the total statewide cost of the child care system, including center-based care by age, family child care homes, school-based preschool, additional costs for students with special needs and dual-language learners, relative care, home visiting, and infrastructure costs⁵⁷. This comprehensive cost model helps show how the intricate interactions among providers in a mixed delivery system impact the costs of the overall child care system in a state.

MINNESOTA AND OHIO

Cost models conducted in Minnesota⁵⁸ and Ohio⁵⁹ look directly at financial sustainability of the child care providers given changes in the revenue stream. Minnesota found that child care providers are not financially sustainable at any level of quality given the current subsidy rate. In most cases, child care centers and FCCHS receive greater revenue when their subsidy density is lower. The Ohio cost model found similar results, showing that centers who serve higher proportion of subsidized children tend to be more financially unstable and have higher rates of bad debt. The results of the cost model show the inefficiencies in the subsidy model. Their innovative methodology that directly addresses financial sustainability illuminates the types of questions that cost modeling could be used to answer.

State	Analysis					
	Cost per Child	Provider Cost	System Cost	Cost vs. Revenue	Cost vs. Subsidy Rate	Financial Sustainability
Alabama	X	X			X	
Alaska	X					
Arkansas				X	X	
Colorado	X		X			
DC	X			X	X	X
Delaware	X					
Delaware	X	X				
Idaho	X					
Illinois	X		X			
Iowa	X	X				
Kansas		X				
Kentucky	X				X	
Kentucky	X					
Maine	X	X			X	
Maryland	X	X	X			
Massachusetts	X	X			X	
Michigan*	X	X			X	X*
Minnesota	X	X		X	X	X
Nebraska			X			
New Hampshire	X		X			
New Jersey	X	X		X	X	X
New Mexico*	X			X	X	X*
New York	X				X	
North Carolina	X				X	
North Dakota	X					
Ohio		X		X	X	X
Ohio	X	X				
Oklahoma	X				X	
Oregon	X				X	
Pennsylvania	X	X				
Rhode Island		X				
Utah	X					
Vermont	X	X			X	
Virginia	X		X			
Washington	X					

***Notes:**

MI: Shows how participation in CACFP programs impact net revenue, but not changes in other revenue streams

NM: The report does not show how changes in revenue streams impact costs, but the full cost-estimation model has this capability.

Appendix B: CCDBG Act of 2014 658E(c)(5); Child Care and Development Fund, 45 C.F.R § 98.45 (2016).

Section 98.45 Equal Access

(a) The Lead Agency shall certify that the payment rates for the provision of child care services under this part are sufficient to ensure equal access, for eligible families in the area served by the Lead Agency, to child care services comparable to those provided to families not eligible to receive CCDF assistance or child care assistance under any other Federal, State, or tribal programs.

(b) The Lead Agency shall provide in the Plan a summary of the data and facts relied on to determine that its payment rates ensure equal access. At a minimum, the summary shall include facts showing:

(1) How a choice of the full range of providers is made available, and the extent to which child care providers participate in the CCDF subsidy system and any barriers to participation including barriers related to payment rates and practices, based on information obtained in accordance with paragraph (d)(2) of this section;

(2) How payment rates are adequate and have been established based on the most recent market rate survey or alternative methodology conducted in accordance with paragraph (c) of this section;

(3) How base payment rates enable providers to meet health, safety, quality, and staffing requirements in accordance with paragraphs (f)(1)(ii)(A) and (f)(2)(ii) of this section;

(4) How the Lead Agency took the cost of higher quality into account in accordance with paragraph (f)(2)(iii) of this section, including how payment rates for higher-quality care, as defined by the Lead Agency using a quality rating and improvement system or other system of quality indicators, relate to the estimated cost of care at each level of quality;

(5) How co-payments based on a sliding fee scale are affordable, as stipulated at paragraph (k) of this section; if applicable, a rationale for the Lead Agency's policy on whether child care providers may charge additional amounts to families above the required family co-payment, including a demonstration that the policy promotes affordability and access; analysis of the interaction between any such additional amounts with the required

family copayments, and of the ability of subsidy payment rates to provide access to care without additional fees; and data on the extent to which CCDF providers charge such additional amounts to families (based on information obtained in accordance with paragraph (d)(2) of this section);

(6) How the Lead Agency's payment practices support equal access to a range of providers by providing stability of funding and encouraging more child care providers to serve children receiving CCDF subsidies, in accordance with paragraph (l) of this section;

(7) How and on what factors the Lead Agency differentiates payment rates; and

(8) Any additional facts the Lead Agency considered in determining that its payment rates ensure equal access.

(c) The Lead Agency shall demonstrate in the Plan that it had developed and conducted, not earlier than two years before the date of the submission of the Plan, either:

(1) A statistically valid and reliable survey of the market rates for child care services; or

(2) An alternative methodology, such as a cost estimation model, that has been:

(i) Proposed by the Lead Agency; and

(ii) Approved in advance by ACF.

(d) The Lead Agency must:

(1) Ensure that the market rate survey or alternative methodology reflects variations by geographic location, category of provider, and age of child;

(2) Track through the market rate survey or alternative methodology, or through a separate source, information on the extent to which:

(i) Child care providers are participating in the CCDF subsidy program and any barriers to participation, including barriers related to payment rates and practices; and

(ii) CCDF child care providers charge amounts to families more than the required family co-payment (under paragraph (k) of this section) in instances where the provider's price exceeds the subsidy payment, including data on the size and frequency of any such amounts.

(e) Prior to conducting the market rate survey or alternative methodology, the Lead Agency must consult with:

(1) The State Advisory Council on Early Childhood Education and Care (designated or established pursuant to section 642B(b)(1)(A)(i) of the Head Start Act (42 U.S.C. 9837b(b)(1)(A)(i)) or similar coordinating body, local child care program administrators, local child care resource and referral agencies, and other appropriate entities; and

(2) Organizations representing child care caregivers, teachers, and directors.

(f) After conducting the market rate survey or alternative methodology, the Lead Agency must:

(1) Prepare a detailed report containing the results, and make the report widely available, including by posting it on the Internet, not later than 30 days after the completion of the report. The report must include:

(i) The results of the market rate survey or alternative methodology;

(ii) The estimated cost of care necessary (including any relevant variation by geographic location, category of provider, or age of child) to support:

(A) Child care providers' implementation of the health, safety, quality, and staffing requirements at §§ 98.41 through 98.44; and

(B) Higher-quality care, as defined by the Lead Agency using a quality rating and improvement system or other system of quality indicators, at each level of quality; and

(iii) The Lead Agency's response to stakeholder views and comments.

(2) Set payment rates for CCDF assistance:

(i) In accordance with the results of the most recent market rate survey or alternative methodology conducted pursuant to paragraph (c) of this section;

(ii) With base payment rates established at least at a level sufficient for child care providers to meet health, safety quality, and staffing requirements in accordance with paragraph (f)(1)(ii)(A) of this section;

(iii) Taking into consideration the cost of providing higher-quality child care services, including consideration of the information at each level of higher quality required by paragraph (f)(1)(ii)(B) of this section;

(iv) Taking into consideration the views and comments of the public obtained in accordance with paragraph

- (e) and through other processes determined by the Lead Agency; and
- (v) Without, to the extent practicable, reducing the number of families receiving CCDF assistance.
- (g) A Lead Agency may not establish different payment rates based on a family's eligibility status, such as TANF status.
- (h) Payment rates under paragraph (a) of this section shall be consistent with the parental requirements in § 98.30
- (i) Nothing in this section shall be construed to create a private right of action if the Lead Agency acts in accordance with the Act and this part.
- (j) Nothing in this part shall be construed to prevent a Lead Agency from differentiating payment rates on the basis of such factors as:
 - (1) Geographic location of child care providers (such as location in an urban or rural area);
 - (2) Age or particular needs of children (such as the needs of children with disabilities, children served by child protective services, and children experiencing homelessness);
 - (3) Whether child care providers provide services during the weekend or other non-traditional hours; or
 - (4) The Lead Agency's determination that such differential payment rates may enable a parent to choose high-quality child care that best fits the parents' needs.
- (k) Lead Agencies shall establish, and periodically revise, by rule, a sliding fee scale(s) for families that receive CCDF child care services that:
 - (1) Helps families afford child care and enables choice of a range of child care options;
 - (2) Is based on income and the size of the family and may be based on other factors as appropriate, but may not be based on the cost of care or amount of subsidy payment;
 - (3) Provides for affordable family copayments that are not a barrier to families receiving assistance under this part; and
 - (4) At Lead Agency discretion, allows for co-payments to be waived for families whose incomes are at or below the poverty level for a family of the same size, that have children who receive or need to receive protective services, or that meet other criteria established by the Lead Agency.
- (l) The Lead Agency shall demonstrate in the Plan that it has established payment practices applicable to all CCDF child care providers that:

- (1) Ensure timeliness of payment by either:
 - (i) Paying prospectively prior to the delivery of services; or
 - (ii) Paying within no more than 21 calendar days of the receipt of a complete invoice for services.

- (2) To the extent practicable, support the fixed costs of providing child care services by delinking provider payments from a child's occasional absences by:
 - (i) Paying based on a child's enrollment rather than attendance;
 - (ii) Providing full payment if a child attends at least 85 percent of the authorized time;
 - (iii) Providing full payment if a child is absent for five or fewer days in a month; or
 - (iv) An alternative approach for which the Lead Agency provides a justification in its Plan.

- (3) Reflect generally-accepted payment practices of child care providers that serve children who do not receive CCDF subsidies, which must include (unless the Lead Agency provides evidence in the Plan that such practices are not generally-accepted in the State or service area):
 - (i) Paying on a part-time or full-time basis (rather than paying for hours of service or smaller increments of time); and
 - (ii) Paying for reasonable mandatory registration fees that the provider charges to private-paying parents:

- (4) Ensure child care providers receive payment for any services in accordance with a written payment agreement or authorization for services that includes, at a minimum, information regarding provider payment policies, including rates, schedules, any fees charged to providers, and the dispute resolution process required by paragraph (1)(6);

- (5) Ensure child care providers receive prompt notice of changes to a family's eligibility status that may impact payment, and that such notice is sent to providers no later than the day the Lead Agency becomes aware that such a change will occur;

- (6) Include timely appeal and resolution processes for any payment inaccuracies and disputes.

Endnotes

- 1 CCDBG Act of 2014 658E(c)(5); Child Care and Development Fund, 45 C.F.R § 98.2 (2016).
- 2 CCDBG Act of 2014 658E(f)(1); Child Care and Development Fund, 45 C.F.R § 98.2 (2016).
- 3 U.S. Department of Health and Human Services, Office of Child Care, “CCDF Payment Rates—Understanding the 75th Percentile,” April 14, 2017. Available at: <https://childcareta.acf.hhs.gov/resource/ccdf-payment-rates-understanding-75th-percentile>.
- 4 Childcare.gov, “Head Start and Early Head Start.” Available at: <https://childcare.gov/consumer-education/head-start-and-early-head-start>.
- 5 Suzann Morris and Linda Smith, “Examples of Mixed-Delivery Early Care and Education Systems,” Bipartisan Policy Center, June 17, 2021. Available at: <https://bipartisanpolicy.org/blog/examples-of-mixed-delivery-early-care-and-education-systems/>.
- 6 National Center for Education Statistics, “Child Care”, 2019. Available at: <https://nces.ed.gov/fastfacts/display.asp?id=4>.
- 7 Bipartisan Policy Center, *Building Bipartisan Support for Child Care Toolkit: 2021 Update*, April 22, 2021. Available at: <https://bipartisanpolicy.org/report/building-bipartisan-support-for-child-care-toolkit-2021-update/>.
- 8 Lindsay Oncken, “The First Pillar of Care: Cost,” New America. Available at: <https://www.newamerica.org/in-depth/care-report/first-pillar-care-cost/>.
- 9 Economic Policy Institute, “Child care costs in the United States,” October 2020. Available at: <https://www.epi.org/child-care-costs-in-the-united-states/>.
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- 11 Linda Smith and Victoria Owens, “Survey Results: What Keeps Employed Parents out of the Child Care System?” Bipartisan Policy Center, August 8, 2022. Available at: <https://bipartisanpolicy.org/blog/survey-results-what-keeps-employed-parents-out-the-child-care-system/>.
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- 13 Bipartisan Policy Center, *Building Bipartisan Support for Child Care Toolkit: 2021 Update*, April 22, 2021. Available at: <https://childcare.gov/consumer-education/head-start-and-early-head-start>.
- 14 U.S. Bureau of Labor Statistics, “Childcare Workers,” September 8, 2022. Available at: <https://www.bls.gov/ooh/personal-care-and-service/childcare-workers.htm#tab-1>.
- 15 Marcy Whitebook, et al. *Early Childhood Workforce Index 2018*, University of California, Berkeley, Center for the Study of Child Care Employment. Available at: <https://www.earlychildhoodworkforce.org/Early%20Childhood%20Workforce%20Index>.

- 16 NAEYC, "SURVEY: Four in five child care centers in the U.S. are understaffed," July 27, 2021. Available at: <https://www.naeyc.org/about-us/news/press-releases/survey-childcare-centers-understaffed>.
- 17 Linda Smith, Anubhav Bagley, and Ben Wolters. *Child Care in 35 States: What we know and don't know*, Bipartisan Policy Center, October 26, 2020. Available at: <https://bipartisanpolicy.org/report/child-care-gap/>.
- 18 U.S. Department of the Treasury, *The Economics of Child Care Supply in the United States*, September 2021. Available at: <https://home.treasury.gov/system/files/136/The-Economics-of-Childcare-Supply-09-14-final.pdf>.
- 19 Ibid.
- 20 Bipartisan Policy Center, "The Limitations of Using Market Rates for Setting Child Care Subsidy Rates," June 3, 2020. Available at: <https://bipartisanpolicy.org/report/the-limitations-of-using-market-rates-for-setting-child-care-subsidy-rates/>.
- 21 U.S. Department of the Treasury, *The Economics of Child Care Supply in the United States*, September 2021. Available at: <https://home.treasury.gov/system/files/136/The-Economics-of-Childcare-Supply-09-14-final.pdf>.
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- 23 James Heckman and Jorge Luis Garcia, et al., *The Dynastic Benefits of Early Childhood Education*, University of Chicago, Becker Friedman Institute for Economics Working Paper No. 2021-77, June 30, 2021. Available at: <http://dx.doi.org/10.2139/ssrn.3877620>.
- 24 Federal Register, "Child Care and Development Fund (CCDF) Program," September 30, 2016. Available at: <https://www.federalregister.gov/documents/2016/09/30/2016-22986/child-care-and-development-fund-ccdf-program>.
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