



Child Care Cost Modeling Analysis and the Market Rate Survey: Why We Need Both

Understanding the True Cost of Quality Child Care

There is an acute shortage of quality child care in the U.S., which has been worsened by the pandemic, labor shortages, and changes in work patterns. This is especially true for infants and toddlers and children from low-income households.

Child care is a market-based system which operates on razor-thin margins. Providers lack the capital to invest in increasing either the supply or quality of care without increasing tuition. It is widely understood that quality child care already costs more than most parents can afford to pay.

Developing solutions requires a better understanding of the true cost of providing care. This will require a more business-like approach to child care, something that has been lacking in the past.

Current Use of Market Rate Survey and Cost Modeling

Market rate surveys have been required by the Child Care and Development Block Grant (CCDBG) for decades. States must conduct an analysis of the current rates providers charge families for care in the state, which must include variations in rates by geographic area, type of provider, and age of child, in order to be eligible for CCDBG funding.ⁱ CCDBG further requires states to publish their findings publicly and describe how the state intends to set payment rates for children eligible for CCDBG subsidies based on market rate findings.ⁱⁱ

CCDBG also allows states to conduct an alternative methodology, such as cost modeling, in place of a market rate survey.ⁱⁱⁱ Cost modeling is a common business practice used to analyze the cost of producing a product, identifying cost levers, and helping businesses determine how to set the price of their products. Twenty-six states have implemented a cost modeling analysis (AL, AK, DC, DE, FL, ID, IA, KS, KY, LA, MD, ME, MI, MN, MT, NM, ND, OH, OK, OR, PA, RI, SC, UT, VT, WA), and two (NM, DC) formally use a cost estimation model to meet CCDBG eligibility requirements.

Cost Levers in Child Care

- Compensation
- Benefits
- Geography
- Provider Type (center- or family-based care)
- Quality Improvement Measures (facilities, professional development, etc.)
- Infant and Toddler Care
- Subsidy Density Fluctuations (private vs. public pay families)
- Special Populations (students with disabilities, dual language learners, etc.)

Why Require Both Market Rate Surveys and Cost Modeling in the Child Care and Development Block Grant?

Maintaining the status quo by using either the market rate survey or cost modeling analysis perpetuates a historically unstable child care market. When used together, the market rate survey and cost modeling analysis paint a more complete understanding of the cost of providing quality care than what most policy makers have been using.

Market Rate Surveys and Cost Modeling:

- Are well-established tools used by governments and businesses;
- Allow states to understand the impact of their policy decisions (such as increasing pay or changing ratios);
- Inform how states and businesses to prioritize limited investments; and
- Inform innovative interventions that strengthen the child care market.

i <https://www.law.cornell.edu/uscode/text/42/9858c>

ii Ibid.

iii Ibid.