Cost Modeling Analysis & the Market Rate Survey - Why Child Care Needs Both

Monday, December 5 | 3 PM ET
Cost Model Analysis and the Market Rate Survey: Why Child Care Needs Both

December 5, 2022
Overview

• The Child Care Business Model
• Supply and Demand Interventions in Child Care
• Use of Cost Modeling Across States
• Why Child Care Needs Cost Modeling and Market Rate Surveys
• Recommendations
• Moderated Discussion with Theresa Hawley and Sara Mead
• Questions
What is the “Child Care Sector”?

All children from birth through age 5

59%
At least one weekly nonparental care arrangement

Children using nonparental care

- Center-based care: 62%
- Relative care: 38%
- Nonrelative care: 20%
What is the “Child Care Sector”? 

All children from birth through age 5

- Small Child Care Providers: 59%
  - At least one weekly nonparental care arrangement

- Non-Profit Provider

- Large Child Care Centers

- Family Child Care Home

- Faith-Based Provider
What is the Child Care Business Model?

Revenue

Expenses

Facility $1,000
Food $8/day
Supplies $100

Teacher $12/hour
Teacher's Aide $10/hour
What is the Child Care Business Model?

Revenue

Parent Tuition/Fees are HIGH

Expenses

Facility $1,000
Food
Supplies $10/week
Teacher $12/hour
Teacher's Aide $10/hour

Workforce Compensation is LOW
Child Care Market

**Demand**
- Families enrolling in child care

**Supply**
- Providers operating a quality child care facility
Supply and Demand for Child Care

**Demand**
Families enrolling in child care

**Supply**
Providers operating a quality child care facility

- Parent tuition
- Wages
- Fixed costs
Demand Side Interventions

**Demand**
- Families enrolling in child care

**Supply**
- Providers operating a quality child care facility

- Parent tuition
- Family subsidies
- Wages
- Fixed costs
Supply Side Interventions

**Demand**
Families enrolling in child care

**Supply**
Providers operating a quality child care facility

For example:
- Grants and contracts
- Operational subsidies
- Wage supplements
- Training

- Parent tuition
- Family subsidies
- Wages
- Fixed costs
- Supply side interventions
What is a Market Rate Survey?

- Family Child Care Home: $1,300/child
- Faith-Based Provider: $1,500/child
- Child Care Center: $3,500/child
- Non-Profit Provider: $3,900/child

Average Monthly Tuition = $4,500/child
What is a Cost Model?

Rent $800/month + Supplies and Food $500/month + Labor $10/hour $1,600/month

Average Monthly Expenses* = $2,900/month

*Not based on actual expenses. Not intended to represent actual cost of care.

Potential costs may include:
- Additional staff
- Staff benefits
- Administrative support
- Insurance
- Transportation
- Professional development
- Training
- Comprehensive services for families
What is a Cost Model?

Rent
$800/month

Supplies and Food
$500/month

Labor
$20/hour
$3,200/month

Training
$300/month

Average Monthly Expenses* = $4,800/month

*Not based on actual expenses. Not intended to represent actual cost of care.
What is a Cost Model?

Rent
$800/month

Supplies and Food
$500/month

Labor
$20/hour
$3,200/month

Training
$300/month

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Cost per child = $4,800/month

# of enrolled children*

*Best practice assumes 85% of site capacity enrolled.
What is a Cost Model?

Average Monthly Expenses = $4,300/month

Rent $800/month

Supplies and Food $500/month

Labor $20/hour $3,200/month
Training $300/month
Interventions During the Pandemic

$52.5 Billion

Demand Side Interventions
- Increasing Subsidy Rates
- Waiving Parent Co-Pays
- Reimbursing on Enrollment vs. Attendance
- Expanding Family Eligibility for Subsidies

Supply Side Interventions
- Stabilization and Operational Grants
- Workforce Compensation Supports
- Technical Assistance & Business Training
- Workforce Scholarships and Training Access
- Child Care Desert Grants
- Facility Renovations Grants
What Data Do States Collect?

CCDBG Regulations for Child Care Market Analysis

- **Market Rate Survey**: that documents the prevailing rates being charged to families in the private market across variations in geographic area, provider type, and age

- **Narrow Cost Analysis**: Very basic cost model, estimating of the cost of operations for the average provider to meet their state’s basic health and safety requirements and the higher cost of care at different levels of quality

OR

- **Alternative Methodology**: States can gain approval for a cost estimation model or a cost study, which requires more intensive analysis of the true cost of care than a narrow cost analysis
Cost Modeling Across States

- Narrow Cost Analysis per CCDF State Plan
- Other
- Narrow Cost Analysis and Other
- ACF Pre-Approved Alternative Methodology
- No Cost Model Identified

*Indicated they completed a narrow cost analysis in state plan but could not be located for this analysis
## Cost Modeling Across States

<table>
<thead>
<tr>
<th>Cost Lever</th>
<th>Number of States</th>
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<tr>
<td>Provider Type</td>
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<td>Quality Improvement</td>
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<td>Special Populations</td>
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<td>Unit of Analysis</td>
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<td>Cost per Child</td>
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<td>System Cost</td>
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<td>Cost vs. Market/Subsidy Rate</td>
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<td>Cost vs. Revenue</td>
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<td>Financial Sustainability</td>
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Why We Need Both: Cost Models and the Market Rate Survey

Demand
- Families enrolling in child care

Supply
- Providers operating a quality child care facility

Market Rate Survey
- Parent tuition
- Family subsidies

Cost Model
- Wages
- Fixed costs
- Supply side interventions
Why We Need Both: Cost Models and the Market Rate Survey

**Demand**
- Families enrolling in child care
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- Providers operating a quality child care facility
  - Wages
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**Market Rate Survey**

**Cost Model**
**Recommendations**

**Congress**
Broaden federal requirements beyond market rate studies

**State Government**
Use cost modeling more effectively

**Cost Modelers**
Develop industry principles to use in cost modeling strategies
Upcoming Webinars

**State Governance Report 2023 Updates**
THURSDAY JANUARY 12 AT 3:00PM ET

**Building Supply, Enhancing Quality, and Advancing Equity:**
The Early Head Start-Child Care Partnership Series
With Arizona State University and Start Early
MONDAY JANUARY 23 AT 3:00PM ET

**Parent Choice Surveys: What We’ve Learned**
TUESDAY FEBRUARY 21 AT 3:00PM ET