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Cost Modeling for Child Care

ILLUMINATING STATE POLICY STRATEGIES

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Introduction

OVERVIEW

This paper provides state policymakers with insights into how cost modeling tools can help answer some of the most pressing questions facing the early education field. It will focus on three key areas:

1. Identifying current challenges facing the early childhood sector and explaining how cost modeling can help answer critical questions about designing sustainable solutions.
2. Providing concrete examples of how cost modeling tools can help drive strategic initiatives.
3. Outlining a set of questions for policymakers to ask when they are developing cost models.

As states seek to invest in cost modeling tools, early education stakeholders must think strategically about how the tools can best be used to inform the field.

Cost models—a generic term for tools that help estimate expenses and expected revenue for businesses operating under certain conditions— can provide a significant amount of data to assess early childhood initiatives. Depending

on the design, cost modeling tools can inform a variety of investment and improvement strategies.

When a cost model is intentionally constructed, it can help policymakers solve the critical issues plaguing the early education field. However, to fully leverage this potential, states must begin by articulating goals for their early childhood sector. Although some states have used cost modeling to adjust their Child Care and Development Block Grant subsidy rates, the tools can be leveraged in many other ways. If better understood, cost modeling tools can provide states with valuable insights that can help them transform public investments in child care and early education.

As BPC previously discussed,[a] cost modeling aggregates the estimated costs of delivering early childhood services, under specific parameters, and identifies potential sources for revenue. These tools can better highlight and assess sustainability challenges across various types of child care businesses. For example, a cost model can look at the impact of increasing wages on a center's operating expenses and provide valuable analysis of the costs involved with delivering a high quality, equitable child care system run by a fairly compensated workforce.

However, the value of cost modeling tools for the early childhood field extends beyond assessments of cost. A well-designed cost model can also help determine the cost of a comprehensive early childhood system and the impact of different investment strategies on family affordability. Because a cost model can be adapted to include any type of service, an early childhood cost model can include school-based preschool, home visiting, or other priorities.

And because a cost model incorporates potential revenue sources, the tool can assess the efficacy of government investments in early childhood. The revenue included in an early childhood cost model, for example, might include preschool initiatives that increase access for 4-year-olds; tax incentives that encourage businesses to finance their employees' child care needs; and the Child and Adult Care Food Program (CACFP), which funds meals and snacks. A well-constructed cost model will incorporate estimated funding available from both public and private sources, allowing states to assess the cumulative impact of a variety of investment strategies.

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a Bipartisan Policy Center, *Using Cost Modeling to Design New Solutions for Child Care*, November 2022. Available at: https://bipartisanpolicy.org/explainer/cost-modeling-solutions-child-care/.

HOW DO OTHER INDUSTRIES USE COST MODELING?

Cost modeling estimates the cost for a provider to deliver a service or product, and it is common across industries to inform short- and long-term planning.

❤️ **Health Care Systems:** A hospital system can use cost modeling to help determine whether a new ER or outpatient facility is needed, based on the cost to deliver services and the expected demand to pay for that service over time. On a bigger scale, a state public health system can use cost modeling to help determine the grant levels needed to compensate a hospital system for serving a low-income community where services are vital but often more expensive to provide and where the system is reimbursed at lower rates.

🚌 **Public Transportation Systems:** Cost modeling can help officials estimate the expenses associated with increasing or decreasing the frequency of bus and train service. To most effectively operate a public transit system, officials want to maximize revenue from ridership to offset the costs of running the system. To efficiently allocate public funding, decision-makers must know the cost of operating each bus or train line, and compare that cost with the number of people expected to pay to use it.

✈️ **Airlines:** Airlines use cost modeling to project the cost of operating each flight and set ticket prices accordingly. Cost projections include such things as fuel, the labor costs of pilots and flight attendants, and airport fees. Airlines match the cost of operating each flight with the expected customer demand to set ticket prices and ensure adequate revenue.

The more closely a cost model is built to reflect the local context, the more accurately the tool will be able to answer key questions for policymakers. When thoughtfully designed around a state's specific early childhood system, a cost model can provide decision-makers with powerful data to assess the impact of investment strategies on an average child care business, affordability for families, and even sustainability of the field as a whole.

Moving beyond the traditional ways the child care sector has employed cost modeling, this paper outlines the types of strategic questions states can use cost modeling to inform. By providing a deeper understanding of cost modeling tools, this paper will illustrate how states can use cost modeling data to both strengthen a fragile child care sector and expand affordable access to quality services for families. This paper also outlines the ways that states can use cost modeling data to help inform, test, and scale state solutions. Finally, BPC has provided a set of questions that states can use when planning for cost modeling in their state.

WHAT GOES INTO DEVELOPING A COST MODEL?

A cost model has two major components: 1) Estimated expenses to supply the service and 2) Potential revenue from all available sources to cover expenses.

Expenses

To create the building blocks of an accurate early childhood cost model, decision-makers must determine program characteristics and associated expenses. Initially done at the program level, cost models of programs with different characteristics (such as center-based facilities versus child care homes) can be aggregated to model a regional or state landscape. The more accurate the program-level data points are within a cost model, including the staffing needs, facilities costs, and other dynamics that drive program expenses, the more accurate the model will be.

Because these tools rely on business- or provider-level analysis, decision-makers must use data about the programs in their state to create the building blocks of an accurate early childhood cost model. For example, operational expenses differ for a rural or urban child care center, or a program for infants and toddlers, versus a preschool-only site. The size of the business also affects expenses. To create an accurate model of expenses, criteria must be set to determine the characteristics of programs and associated expenses. Although this is initially done at the program level, cost models of programs with different characteristics can be aggregated to model a regional or state landscape. These data points can then be used to estimate system-wide expenses or to compare expenses across program types or regions. The more accurate the program-level data points are within a cost model, the better the aggregated estimates will be. Understanding the staffing, facilities, and other dynamics that drive program expenses will all enhance the model's accuracy.

Revenue

The revenue available to each program includes public and private funding sources, such as parent tuition, child care subsidies, business partnerships, and grant programs.

To estimate the revenue, a cost model must make some assumptions about enrollment. For example, a program serving infants might have higher tuition rates than a program serving older children, or a programs serving low-income families could accept child care subsidies that come with additional requirements affecting program and administrative costs. Because the majority of revenue comes from parent tuition, many states have found the Market Rate Survey helpful in estimating tuition revenue in an early childhood cost model. Assumptions made about enrollment can dramatically impact the revenue outlook for a program.

Expenses and revenues for two center-based programs are below. Costs are higher in a center that serves infants and toddlers because of the need for more staff (to comply with staffing and safety ratios) and additional supplies, such as diapers. When planning, a center that serves infants and toddlers will likely need additional revenue streams or higher tuition to cover the additional expenses.

Program Annual Expenses	Preschool (5 classrooms, capacity for 100 students)	Infant, Toddler & Preschool (5 classrooms, capacity for 76 students)
Personnel		
Director ($100,000/yr)	1 FTE= $100,000	1 FTE= $100,000
Teacher ($60,000/yr)	5 FTE= $300,00	2 FTE = $120,000
Teacher Assistant ($40,000/yr)	5 FTE = $200,000	8 FTE = $320,000
Teacher Aide ($30,000/yr)	5 FTE = $150,000	8 FTE = $240,000
Other Personnel Costs (Administrative and Support Staff)	3 FTE= $180,000	3 FTE= $180,000
Supplies (incl. diapers)	$10,000	$15,000
Facilities Cost (rent/mortgage/ utilities)	$120,000	$120,000
Total Annual Expenses:	**$1,060,000 for up to 100 students**	**$1,095,000 for up to 76 students**

FTE= Full-Time Employees or the equivalent of staff working approximately 40 hours a week.[2]

1 Staffing models

One of the most important inputs to any cost model is an estimate of staff and their associated salaries. Personnel represents 70-80% of a child care program's operating costs.[3]

2 Compensation levels

Increasing or decreasing salary levels has a huge impact on business operations.

3 Capacity

Decisions about classroom configurations affect the maximum number of children that a program can serve. Programs rarely are enrolled at full capacity due to constant fluctuations in demand, limiting revenue.

4 Potential revenue sources to evaluate to cover program expenses:

- Parent tuition
- Subsidized tuition or grants
- Child and Adult Care Food Program
- Local business support

b Corporate Finance Institute, "Full Time Equivalent (FTE)," May 30, 2023. Available at: https://corporatefinanceinstitute.com/resources/management/full-time-equivalent-fte/.

c National Center on Early Childhood Quality Assurance, "Guidance on Estimating and Reporting the Costs of Child Care," January 2018. Available at: https://childcareta.acf.hhs.gov/sites/default/files/public/guidance_estimating_cost_care_0.pdf.

Section I: What Kinds of Strategies Can Cost Modeling Inform?

Cost modeling tools can be used to inform all sorts of strategic questions facing the early education field and ensure that public dollars are invested wisely.

State leaders around the country are engaging in a number of initiatives that both directly and indirectly affect the child care field, such as quality and workforce compensation or addressing parents' and caregivers' access to affordable care. If designed properly, a cost model can include as many or as few dimensions of the state landscape. This means a state can choose to only model licensed child care if its objective is to focus narrowly on interventions to the child care sector, or child care and school-based is it is looking to include investments in mixed delivery preschool system programs.

Given the flexibility of cost modeling tools, articulating key goals will help ensure they are designed to fully answer relevant questions. The list below encompasses a few early education and care initiatives being pursued at the state level and some of the potential applications. The list is not exhaustive, as data uses are potentially limitless.

- **Child Care Workforce Compensation:** Media reports highlight the low wages plaguing the child care sector and the impact this has had on staffing

post-pandemic. As other industries raise hourly wages to compete for staff,[d],[e] private child care providers generally cannot generate enough income to raise staff salaries because they are generally reliant on parent tuition. The child care industry's workforce crisis has ripple effects, limiting the options for working parents. In an effort to address these issues, states have begun investing in a variety of strategies to support wage increases for child care employees. For example, Maine has created the Early Childhood Educator Workforce Salary Supplemental Program, which offers a stipend to all child care employees, and Washington, DC, has passed the Early Childhood Educator Pay Equity Fund to boost child care employees' salaries after COVID. Although these new investment strategies are promising, it is vital that states use data to evaluate their true impact before deciding how to structure ongoing and future investments.

The different policy levers states that can use affects a child care program's sustainability. For example, if a state sets minimum salary standards for the sector, each business will need to find revenue to cover the higher costs. Cost modeling can help evaluate these effects and potential or unintended consequences.

- **Increasing Child Care Supply:** Child care is often considered fundamental infrastructure for local employers, so geographic gaps in service areas can impact the economic viability of jobs or investment in a community. Communities can find it difficult to attract and retain providers without a guarantee of adequate revenue to cover their expenses. States and communities need to find strategies to attract more child care providers to geographic areas with child care gaps.

  A cost model can provide a framework for estimating a program's operational costs and potential revenue available from parent tuition and government subsidies. Used together, information on costs and revenue can help determine the viability of a new child care program and identify operating deficits. This modeling can help policymakers develop targeted strategies to incentivize child care providers in specific regions.

- **Creating Universal Preschool:** Leaders across the country are striving to expand access to free preschool as a response to the ever-mounting body of research indicating the importance of early childhood education.[f] Expanding access to free preschool programs will have a dramatic impact on the revenue available to child care programs. To address this, many

d Jeanna Smialek, "Rising Wages are a Good Thing for Workers But Keep Pressure on the Fed," *The New York Times*, April 1, 2022. Available at: https://www.nytimes.com/2022/04/01/business/economy/jobs-fed-wages.html.

e Abha Bhattarai, "Worker Pay is Rising, Complicating the Feds Path," *The Washington Post*, April 28, 2023. Available at: https://www.washingtonpost.com/business/2023/04/28/wages-workers-inflation-fed/.

f National Research Council and Institute of Medicine, From Neurons to Neighborhoods: *The Science of Early Childhood Development* (Washington, DC: National Academies Press, 2000).

states and communities have invested in "mixed-delivery systems," offering services across both school district and private, community-based child care providers. However, such a strategy has required a big shift in the per-child per-day revenue model that most child care programs currently use. Cities such as Boston, Chicago, and New York have worked to develop contracts with child care programs to expand the delivery of free, quality preschool programs within community-based child care settings, not just in elementary schools. Each community took a different approach to estimating the expenses. The various cost models helped ensure community-based programs had sufficient revenue to cover required expenses and to offer a free service to parents.

Giving parents the option to enroll their children in full-day, full-year preschool in child care programs is also vital to keeping parents in the labor force. Additional free preschool options can change how parents choose to pay for child care programs. A cost model can help assess the impact of this change in parent demand on the overall child care landscape, for example predicting the kind of impact additional preschool funding could have on infant-toddler services. Armed with this information, officials can make thoughtful investments in universal preschool that can support the expansion of school and community-based programs.

- **Improving Program Quality:** An abundance of research shows the positive impact that quality early childhood programs have on the long-term outcomes for children and society.[g] The most important component of quality is a highly competent, well supported workforce. A cost model allows policymakers to see the impact of incentivizing higher quality by increasing the number and competency of the adults within a child care program on a program's operating budget. This can help inform what additional revenue a program will need.

  States have a variety of initiatives in place intended to raise quality through the federally incentivized Quality Rating and Improvement Systems (QRIS). Historically, the focus of QRIS has been on evaluating program quality. However, the field continues to struggle with a sustainable path to financing high quality program operations, particularly through staff compensation. Ultimately, one of the most important investments a program can make to improve its quality is to invest in their staff and provide teachers with the resources they need to succeed. To supplement QRIS, some programs attempt to reduce overhead costs so they can increase staff investments (i.e., shared services, family child care networks, child care partnerships). Other strategies incentivize quality by financially rewarding a program's up-front investment (i.e., quality add-ons or tiered reimbursement for subsidy rates).

g National Research Council and Institute of Medicine, From Neurons to Neighborhoods: *The Science of Early Childhood Development* (Washington, DC: National Academies Press, 2000).

By comparing the expenses needed to invest in quality with the revenue available to support those investments, cost models provide the basis for valuable analysis that can ensure enough resources are available for programs to deliver financially viable—and sustainable—quality care.

- **Child Care Subsidy Rate Planning:** Subsidizing private child care tuition costs for low-income working families through the Child Care and Development Block Grant (CCDBG) is the most common subsidy. Historically, CCDBG required states to use a "Market Rate Survey" to measure their subsidies,[h] meaning the amount paid to a child care provider was compared with the rate a provider could receive as tuition from a private-paying parent. However, many states have realized that this methodology leaves out two important pieces of information: the expenses needed to deliver services, and the revenue needed to support those services.

  As states work to incorporate cost modeling tools into their subsidy planning processes, an increasing number of states are requesting to use an "alternative methodology" to measure the adequacy of their subsidy levels. By using a cost model, some states have started to compare the level of the subsidy to the actual cost of delivering the care to a subsidized child. To ensure that the amount charged for a child's tuition covers the actual cost of providing the care, many assumptions must be made to determine a "cost per child" for services. As previously detailed by BPC, the resulting estimate will include the portion of the overall operations costs that is associated with each individual child. At least two places (New Mexico and Washington, DC) have used this approach as an "alternative methodology" for measuring subsidies.

  In addition, the federal government now requires states to perform a "narrow cost analysis," a limited cost model, to encourage enhanced comparisons of subsidy rates. Although many states still use waivers to bypass this requirement, integrating cost modeling methodology into state planning offers beneficial insights. Subsidy rates are certainly a critical component of the child care landscape, but these could be used as a launching point for a much more robust discussion around the use of cost modeling data in the early education landscape.

h Office of Child Care, "Equal Access and Market Rate Surveys," 2023. Available at: https://childcareta.acf.hhs.gov/equal-access-and-market-rate-surveys.

Cost modeling tools can provide vital information to guide decision-makers and help avoid unintended consequences when policy changes occur. But cost modeling is not a tool to determine the best policies to implement, to dictate subsidy rate increases, or to set workforce compensation levels. Once states must determine their own clear objectives, decision-makers can use cost modeling to provide more information on how to allocate funding to meet those objectives.

WHAT DATA DOES A COST MODEL USE?

Publicly available data can be used to help build a state-specific cost model. In addition, administrative early childhood data can also help provide great insights into existing sector conditions. Below are some data sources.

Early Childhood	Family and Community	Workforce and Business
• State Child Care Licensing Data and CCDBG subsidy data • State Market Rate Survey data • Budget and staffing information collected by any state grants • Enrollment in other public benefits (WIC, SNAP, etc.)	• Census Data • American Community Survey • Regional birthrate data • Local education agency (school district) enrollment • Social Vulnerability Index • National Database of Child Care Prices	• U.S. Department of Labor, Bureau of Labor Statistics • Regional salary and wage data • Industry-level data on hour and benefits • Economic Census

Section II: Cost Modeling Tools in Action

In addition to identifying the questions a state can ask, it is also important to think about the ways to analyze the data to answer these questions. A good cost model can be designed to provide the information to analyze policy changes, public investments, or financial incentives the state might be considering.

A cost model can evaluate the efficacy of a single grant program or create a road map for large-scale investment in children and families. The fundamental mechanics of the cost model remain the same—the tool will measure the costs associated with implementing an average program and potential revenue available—but the ways data gets aggregated can depend on the types of analysis to be performed. Regardless of a state's initial plans for a cost model, a good model will allow decision-makers to revisit and build upon the initial analytics without needing to start from scratch.

Below are three types of early education analyses. A state can choose one or all of them to help address its policy or program design questions. The list is not exhaustive, and states should think carefully about the types of data needed before investing in developing a cost model.

- **Program-Level Analysis:** This type of analysis involves using a cost model to compare individual program types to understand how program design affects the cost of delivering care. It requires standardizing information

across program models so that data can be compared easily. For example, this type of comparison might be used to estimate the difference in average costs for a program serving infants and toddlers versus one that serves only preschoolers. Because these two programs use very different staffing structures, the cost model could compare "Full-Time Equivalent" employees across models—even though some of the actual staff might be part time. This data would allow for decision-makers to compare staffing costs across programs and make decisions about funding levels accordingly.

Such data is especially useful when decision-makers are targeting program funding to achieve a common goal. For example, many states have dedicated grant programs that seek to increase workforce compensation. With this type of analysis, decision-makers can see the estimated cost difference to implement the higher salary standards across different staffing models.

EXAMPLES OF PROGRAM-LEVEL ANALYSIS

Here are two examples of a cost model that is used to perform program-level analysis.

In Texas, Child Care Associates is working to pilot a new funding stream to help quality programs meet minimum salary thresholds. As a starting point, business consultants met with each qualifying program to understand the current staffing model used to deliver full-day services; economists then aggregate data from the program budgets to create a data-driven cost model. They will use this cost model to develop a formula for equitably investing in salaries in a variety of programs.

When investing in preschool expansion in child care programs, New York City took a similar approach. First, New York City Public Schools created a baseline staffing model. Grant levels were set by program, and a cost model was used to estimate the amount each program needed to achieve the expected staffing requirements.

- **Comparisons Across Communities:** This type of analysis compares programs in different contexts, such as rural versus urban communities or different geographic regions of a state. Community comparisons can help identify gaps in services or evaluate the equity of funding distributions. It can also help assess investments across different funding streams, providing a lens on whether the total investment in programs is adequate to serve the families within a community. This type of analysis would help officials understand how multiple funding streams function together to improve services across communities.

  This analysis is especially useful for states that have multiple funding sources to support early education and care programs. Examples of funding available for child care programs include the state education agency; early intervention; local education agencies (school districts); and other funding streams that are not incorporated into the state's child care authority. A cost modeling would take into account a program's operational costs and provide a full estimate of the necessary costs to maintain compliance with standards.

  Community-level comparisons could also help officials understand where additional investment may be necessary to incentivize and sustain early childhood programs in underserved communities. With this data, public funding can be targeted to the revenue streams needed to incentivize providers in a more equitable manner across communities.

EXAMPLE OF COMMUNITY-LEVEL ANALYSIS

Illinois has used extensive community-level analysis to help ensure coordination across multiple funding streams. Pre-COVID, the state compared community demographics to the funding being targeted to each community across early childhood funding streams. Through this analysis, it was able to use a cost model to assess where additional funding was necessary to achieve adequate level of services. This cost model became extremely important when the state began to explore strategies to support community recovery after the pandemic.

- **State-Level Analysis:** This type of analysis can help policymakers understand the financial impact of changing standards or structuring large-scale investments statewide. By adapting the cost model tool to include all program types a state is interested in analyzing, the analysis can be a vital strategic planning resource. To estimate the needed services across communities, a more inclusive cost model relies on estimates of how many parents will use the services if they are given the option. After building a model of the average program, this type of analysis will calculate the number of programs needed across communities to meet an estimated demand.

  For example, many states are seeking to assess the impact of increasing workforce requirements. A statewide cost model would help gauge this change on the business' bottom line as well as the longer term costs to sustain the changes. Using a cost model, states can ensure that investments are adequate to offset increased program costs. By using a statewide lens, decision-makers can look at the effects of investments across program size, type, and demographic, ensuring that small businesses receive priority, and parents continue to have a robust set of options for care.

EXAMPLE OF STATE-LEVEL ANALYSIS

Massachusetts used cost modeling to design and evaluate statewide investments in child care. Having collected data to inform a cost model before COVID, the commonwealth was able to use that data to inform a funding formula that distributed more than $900 million to support child care operations through its C3 Grant program. The C3 grants are non-competitive grants available for eligible child care providers in Massachusetts and may be used to help support a variety of operational expenses.[i] Now using an updated cost model, Massachusetts is working to develop an alternative measurement for assessing the adequacy of its child care subsidy levels.

i Mass.gov, "C3 Grants." Available at: https://www.mass.gov/info-details/c3-grants.

Section III: Toolkit to Help Effectively Leverage Cost Models

Given that there is no universal way to design or use a cost model, states must intentionally design their cost model to provide targeted information to further policy goals and data-driven decision making.

"Plug-and-play" resources have limited utility in informing state-specific solutions. States have a variety of governance systems, financing structures, and desired policy outcomes that can influence their most useful approach to cost modeling. The U.S. Department of Health and Human Services' recent Preschool Development Grant investment shows the myriad of ways that states are integrating cost modeling strategies into state-level planning. To help states get started, BPC has developed a set of questions for building a cost model.

- **Define the Goals:** Thinking through all of the intersecting programs that affect child care will ensure that investment in a cost model is maximized from the start.

  Informing Existing Initiatives:

  - What is the existing initiative that this cost model is being used to inform? Which programs will benefit? What are the requirements for programs that participate? What other funding sources do these programs rely on?

- What types of decisions are being made about this existing initiative? Is it evaluating something that exists, or is it trying to design something new or is an enhancement?
- What are the short- and long-term goals for this initiative? How are you tracking progress toward those goals?

Developing a New Initiative:

- What is the new initiative that this cost model is being used to inform? What is the existing landscape that this initiative is building from?
- What are the long-term goals of this initiative? What are the short-term indicators that will be used to evaluate impact? Will the initiative have an impact on programs outside its target audience that must be evaluated to minimize unintended consequences, and how?
- Are there any other existing investments that will affect the same programs? How do these intersect, and what is the intended outcome of this intersection?

- **Identify the Needed Data:** It is essential that data used in the cost model is accurate and reflective of the targeted landscape. In addition, drawing on relevant data sources from outside the early education and care field can be a great way to align the cost model with the state context. For example, looking at state-specific sources for wage or business licensing data can help create a more accurate representation of child care providers at the local level. Use the following questions to begin thinking about what data already exists and what data will need to be collected:

  - What data can be easily leveraged to begin constructing the parameters of the cost model? Think about program data, workforce data, and family/child level data that could help paint a picture of how child care providers operate and how families make child care decisions:
    - State child care licensing data;
    - State child care subsidy data;
    - State education agency data/school district data;
    - Child care sector or comparison wage data;
    - Information on child care program hours or staffing models;
    - State employment data to understand parent demand.
  - How reliable is each source of data? Is there a way to vet less reliable data with relevant programs or stakeholders?
  - How will you collect any additional data? Does it exist, or will you be asking for new calculations? What education will be needed about the cost model before asking stakeholders to contribute to the data collection?

- **Plan for Utilization:** Thinking through the goals across stakeholders will ensure that the cost model will be effective from the start. For example, if a state wants to evaluate the impact of a policy targeting workforce compensation, detailed data on existing salaries and the number of individual employees each provider has will be important for the cost model to track. If the state wants to target access or affordability goals for parents, information on parents served by each program might be vital data to evaluate. Use these questions to help ensure that the initial design of the cost modeling data aligns with the goals of policymakers:
    - What are the main outcomes of the initiative(s) being targeted for the cost model?
    - What metrics will you use to evaluate the success of the desired outcome for the initiative being informed by the cost model?
    - Are there categories that need to be separated out to evaluate impact (i.e., family demographics, communities, Family Child Care Homes)?
    - If the initiative has long-term goals, how will incremental steps lead to the desired outcome? What unintended consequences will need to be monitored?
- Engagement: Cost modeling offers a unique opportunity to understand the business mechanics within child care programs. State leaders must think carefully about transparently engaging stakeholders at all different levels during the development of a cost model. This engagement can be an educational opportunity to vet assumptions embedded within the model. Through a robust engagement plan, cost model developers can learn nuanced information about program implementation that can improve the model. In addition, ensuring stakeholder engagement occurs throughout conceptualization will also ensure buy-in. The following questions are designed to help state leaders begin preparing an engagement plan around a cost model:
    - What is the current understanding of the child care business model among stakeholders in the state? Can the cost model be used for education on how child care programs operate?
    - Are there entities that represent the perspective of small businesses, nonprofit child care, or family child care that can be engaged during the development of a cost model? Where do faith-based early childhood programs fit into the child care landscape?

- What is the public's current understanding of the initiative being informed with the cost model? Do all stakeholders have the same understanding of the short- and long-term objectives of the initiative?
- Is there agreement on the metrics being evaluated with the cost model? Should there be education or engagement around those metrics with stakeholders?
- What existing groups can help advise officials on developing the cost model? Do those groups have representation from all necessary stakeholder groups?
- Where do community-level stakeholders get information from? Who are the trusted sources for communication? How can the state partner with those entities to help translate and disperse cost modeling information more broadly?
- What types of education and engagement are necessary for stakeholders to have a baseline understanding before states begin asking for data?

Conclusion

Cost modeling tools are a valuable evaluation asset. Utilizing cost modeling tools is essential to developing data-driven policies and mitigating unintended consequences. However, the intent of cost models is to provide data. The current trend of states using cost modeling to measure child care subsidy levels is but one way to utilize the tool. States should leverage the full range of uses for these adaptable tools to solve the sector's most entrenched problems – cost, access, and workforce development.

By using a cost model of child care operations, states can make more informed decisions that will bolster the long-term sustainability of essential child care resources. Fully understanding the strategic questions that states are asking and thoughtfully designing the tools to answer them will ensure a sustainable investment in our children and their futures.

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