

Guidance on Estimating and Reporting the Costs of Child Care



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Contents

Introduction	2
Estimating the Cost of Care	3
Preparing the Detailed Report	10
Setting the Rates	11
Cost-of-Quality Resources	14
Appendix A. Child Care Cost Elements.....	16
Appendix B. Using the Provider Cost of Quality Calculator as a Cost Analysis Tool.....	21

Introduction

Under the requirements in the Child Care and Development Fund (CCDF) final rule at 45 C.F.R. § 98.45,¹ all states must consider some cost information when setting payment rates. Specifically, CCDF Lead Agencies are required to analyze the estimated cost of care in two areas: (1) the cost of child care providers’ implementation of health, safety, quality, and staffing requirements; and (2) the cost of higher quality care. States that choose to use a market rate survey (rather than an alternative methodology) to set payment rates are still required to comply with this provision. However, they may conduct analyses that are less rigorous and more narrowly focused rather than a full alternative methodology (e.g., cost estimation model), which would require states to look more broadly at costs.²

Each state is required to widely distribute a detailed report of the results of its market rate survey or alternative methodology. The CCDF Lead Agency’s detailed report must include the estimated cost of care, including any relevant variations by geographic location, type of provider, or age of child, to support the implementation of health, safety, quality, and staffing requirements. It also must include the estimated cost necessary to support higher quality child care at each level of quality, as defined by the Lead Agency’s quality rating and improvement system (QRIS) or other system of quality indicators.

This guidance aims to support Lead Agencies and their partners as they create cost estimates, prepare detailed reports, and use cost estimates to inform their rate setting. Specifically, this guidance outlines (1) factors that influence the cost of care, (2) sources of information that can inform cost estimates, and (3) methods of

¹ Throughout this document, references to the 2016 CCDF final rule and regulations are drawn from the Code of Federal Regulations at 45 C.F.R. § 98 (2016).

² Program Instruction CCDF-ACF-PI-2016-08, available at <https://www.acf.hhs.gov/occ/resource/ccdf-acf-pi-2016-08>, describes the timelines and requirements for market rate surveys and alternative methodologies. It also outlines the specific requirements pertaining to the required report and the rate setting process.

calculating costs. In addition, this guidance provides considerations for Lead Agencies as they set their goals, share their data, and make improvements to payment rates and policies.

Lead Agencies have significant flexibility in determining the approach and methodology for these cost estimates, and they may use existing information and data in order to limit the burden. This technical assistance brief outlines some potential options but is not an exhaustive inventory of possible approaches.

Estimating the Cost of Care

Lead Agencies must analyze the cost to provide care and consider both the base costs of operating a child care home or center and the costs of higher quality at each level of care. This section outlines the purpose of estimating costs and the components of these costs, offers guidance on how to identify the components and approaches for calculating the costs, and provides tools and resources that can assist states with these estimates.

Purpose

The purposes for estimating costs are consistent with the goals of CCDF outlined in the Child Care and Development Block Grant (CCDBG) Act of 2014, including:³

1. to improve child care and the development of participating children; and
2. to increase the number and percentage of children from low-income families in high-quality child care settings.

Estimating costs provides a way for states to assess the differences between the prices parents pay for child care, the subsidy payment rate, and the cost of providing child care. States may also have their own goals for estimating costs. For example, the Lead Agency may want to learn more about the costs of care for specific populations or geographic areas within the state in order to provide incentives for building or maintaining the supply of particular types of care or for certain ages. Developing clear goals and objectives early in the process can help Lead Agencies ensure transparency and focus as they estimate costs, develop detailed reports, and set rates. Working with stakeholders to identify the goals and objectives is important. This helps ensure meaningful factors and methodology for estimating costs are identified, and supports transparency throughout the process.

Factors That Influence Cost Estimates

Factors that influence cost estimates include personnel costs, such as ratios and group sizes that affect staffing patterns, salaries, and benefits. There are also nonpersonnel costs, such as supplies, food, and occupancy. Lead Agencies must include in their cost estimates “relevant variation by geographic location, category of provider, or age of child,” as well as variation at each level of quality in accordance with 45 C.F.R. § 98.45(f)(1). This means Lead Agencies could create multiple cost estimates. For instance, one estimate could cover the cost of infant care in a licensed center in an urban part of the state at the highest level of quality. Another might focus on the cost of care for rural family child care. A state may also be interested in including other distinguishing program factors, such as the size of the center or its for-profit or not-for-profit status.

³ 42 U.S. Code. § 9857(b).

Cost Drivers for Base-Level Care

Base cost drivers are the expenses incurred in operating a child care home or center that meets the Lead Agency's basic health and safety, quality, and staffing requirements. These personnel and nonpersonnel expenses are summarized in this section and described in greater detail in appendix A.

Personnel Expenses

Personnel cost drivers at the base level of care are influenced by the following factors:

- ◆ **Size of program:** The number of classrooms for centers, the number of children per age group in each classroom, the number of children for homes, and the total number of staff members.
- ◆ **Ratios and group size:** The number of teachers and teaching assistants needed per classroom.
- ◆ **Staffing:** Part- and full-time staff in addition to teachers and assistant teachers. Staffing should include the additional teaching assistants needed to cover the difference between a full-time work week and the hours the program is open per week, as well as time that teachers spend out of the classroom (for example, in training or planning). Staffing should also include substitutes.
- ◆ **Salaries and wages:** Includes the salaries of all center staff and substitutes, and (if necessary) teaching assistants in child care homes. This should also include compensation for family child care home owners.
- ◆ **Mandatory benefits:** Includes costs for workers' compensation, unemployment, and disability benefits. Information on required amounts is typically found on states' labor department websites.

Personnel expenses for child care centers typically make up 70 percent to 80 percent of the overall cost of care; however, these costs may vary. For example, urban areas often have larger programs and pay higher salaries. The personnel costs for child care homes include the provider's own compensation and, if applicable, the cost of an assistant's salary and benefits.

Nonpersonnel Expenses

Nonpersonnel costs generally fall into the categories of administrative expenses, program supplies, food, and occupancy. These costs are calculated by child, staff, classroom, or facility, as appropriate. A complete list of typical nonpersonnel expenses is included in appendix A.

Cost Drivers for Quality Improvements

Elements of enhanced quality that result in higher costs typically include the following:

- ◆ Lower child-to-teacher ratios and smaller group sizes;
- ◆ Increased staff qualifications, which may result in higher staff compensation;
- ◆ Additional staff, including coaches, education coordinators, health consultants, and others;
- ◆ Discretionary staff benefits, such as paid time off and health insurance;
- ◆ Coverage for additional teacher time spent outside the classroom on relevant activities, such as curriculum planning, child assessments, and meeting with parents;
- ◆ Staff training and professional development; and

- ◆ Some ongoing nonpersonnel costs, such as the per-child cost of a child assessment system (for example, Teaching Strategies GOLD or HighScope), additional classroom materials, and the cost of rerating or credential renewal.

Lead Agencies will need to consider the cost drivers in their quality indicator systems. Keep in mind that though the elements listed in this section may not be explicitly required in the quality indicator system, they may be necessary to meet the different levels indicating higher quality. For example, while lower ratios or staff benefits may not be a stated requirement to meet a particular QRIS level, the program may find it necessary to adopt them to meet higher QRIS levels and to retain qualified staff. The Office of Planning, Research and Evaluation’s publication *Assessing the Implementation and Cost of High Quality Early Care and Education: A Review of the Literature* (2016) includes a review of the factors that may contribute to the features of high-quality care and the cost of care. The publication is available at <https://www.acf.hhs.gov/opre/research/project/assessing-the-implementation-and-cost-of-high-quality-early-care-and-education-project-ece-ichq>.

Using Available Data Sources for Cost Drivers

Develop estimates that are informed by the best available data. Sources of available data for both the base-level and quality improvement data may include the following:

- ◆ **Licensing:** Licensing standards and data collected through inspections can provide data on average program sizes, typical age ranges, ratios, and group sizes.
- ◆ **Child care resource and referral or equivalent:** These agencies may collect program-level data, including the total number of programs in different geographic locations by category of care. They may have other data on cost drivers related to quality and revenue.
- ◆ **Provider associations or networks:** Child care and Head Start provider associations, including family child care associations, may have information about the average cost of care and prevailing wage rates for early care and education staff. Local Head Start programs are required to conduct wage comparability studies every 5 years and may be willing to share this information. When reviewing data, remember that Head Start wages may be different from child care wages.
- ◆ **Bureau of Labor Statistics (BLS):** The State Occupational Employment and Wage Estimates are available at <https://www.bls.gov/oes/current/oesrcst.htm>. Table 1 shows the relationship between common position titles in child care programs and BLS occupation titles. Lead Agencies can find wage data by state—sorted by occupation code—for the positions outlined in Table 1.

Table 1. Common Child Care Positions and Their Corresponding BLS Occupations

Common Positions in Child Care Programs	BLS Occupation Title
Director or Administrator	Education Administrators, Preschool and Child Care Center/Program (Occupation Code 11-9031)
Education Coordinator or Assistant Director	Education Administrators, Preschool and Child Care Center/Program (Occupation Code 11-9031)
Classroom Teacher	Preschool Teachers, with the exception of special education teachers (Occupation Code 25-2011)
Assistant Teacher	Child Care Workers (Occupation Code 39-9011)
Health Consultant	Licensed Practical and Licensed Vocational Nurses (Occupation Code 29-2061)
Administrative Assistant	Office Clerks, General (Occupation Code 43-9061)

- ◆ **Head Start data:** The *State(s) of Head Start* is an annual report published by the National Institute for Early Education Research (NIEER). It includes state-by-state Head Start teacher salary information, and is available at <http://nieer.org/headstart>.
- ◆ **Head Start collaboration office:** It is possible that collaboration office staff have access to, and will share, regional salary information for early care and education staff.
- ◆ **Workforce studies:** Some states have recent workforce study data that can be used to inform salaries. Workforce studies may link salary information with QRIS levels or with qualifications. For example, the Illinois Department of Human Services publishes a salary and staffing survey report every 2 years. The report includes information on capacity, benefits, staff turnover, education levels, and salary data. The most recent report (2015) is available at <http://www.dhs.state.il.us/OneNetLibrary/27897/documents/HCD%20Reports/Child%20Care/IllinoisSalaryandStaffingSurveyofLicensedChildCareFacilitiesFY2015.pdf>.
- ◆ **Economic impact studies:** Some states have recent economic impact studies data that can inform salaries, nonpersonnel expenses, and child care market trends. For example, the Georgia Department of Early Care and Learning conducted an economic impact study that the state commissioned in 2014 and completed in 2015. The Economic Impact of the Early Care and Education Industry in Georgia is posted at <http://dec.al.ga.gov/BftS/ResearchEconomicImpact.aspx>. The economic impact survey asked providers to describe their rates, revenues from other sources, and their expenditures. While the Lead Agency did not use the economic impact study to set payment rates, the rates reported in the study were compared to the payment rate data reported in the 2013 market rate survey; the rates were determined to be similar.
- ◆ **Professional development and scholarship programs:** Wage supplement data and professional development scholarship programs have information about salaries and qualifications that states can use to inform child care staff salaries and benefits.
- ◆ **Market rate survey:** Data from market rate surveys can help Lead Agencies and other stakeholders understand the gap between the cost of care and revenue. To learn more about how market rate survey data can help states understand the cost of care, refer to the “Setting the Rates” section of this brief.
- ◆ **Child care subsidy:** Data collected through the state child care subsidy program may in part quantify potential subsidy revenue or loss of revenue. Subsidy program data are valuable in evaluating potential gaps between expenses and revenue. Relevant subsidy program data include the number and percentage of children receiving subsidies by type of care, geographic designation, and age; payment rates; copayments; number of part-time placements; subsidy policies on attendance, enrollment, and eligibility; and how often clients switch providers or come in and out of the subsidy system.
- ◆ **QRIS or other quality indicator system:** Using a QRIS or other system of quality indicators (e.g., prekindergarten standards or Head Start performance standards) can inform states about the cost of care necessary to support higher quality child care services at each level of quality. The stringent standards for QRIS or other quality indicator system may include the cost of care to support staff salaries and benefits, training and professional development, curricula and supplies, group size and ratios, enrollment levels, and facility size. QRIS or other quality indicator system may include explicit ratio and group size requirements. Some child care programs may find it necessary to voluntarily lower ratios and group sizes to meet more stringent quality standards at each level of quality.

Methods for Estimating the Cost of Care

Remember, if states conduct an alternative methodology then they will be expected to use more rigorous methods to determine costs. If states conduct market rate surveys, they can choose less rigorous options for estimating costs since the cost estimate is a supplement to the survey. Cost estimates are based on the best available data and professional judgement. This section includes suggestions for estimating the costs of both basic and higher quality care at the classroom level for centers and at the program level for both centers and homes.

Methods for Estimating the Cost of Care for Centers and Homes

The following are several methods that can be used for estimating the costs of care. The first method can be used to estimate the costs of care at the program level for both child care centers and family child care homes. The next method can be used for program or classroom level expenses. The last method, “rough estimate,” is based on the assumption that approximately 70 percent to 80 percent of child care centers’ program-level expenses are related to personnel costs. For those wanting to use the rough estimate for family child care homes, assumptions of the ratio of personnel to nonpersonnel costs should be validated by consulting with the state’s early childhood advisory board or other stakeholders.

Provider Cost of Quality Calculator (PCQC): This tool, accessible at <https://www.ecequalitycalculator.com>, allows users to model annual cost and revenue for a home or center at five levels of quality. The PCQC models the cost and revenue for full-time care at the program level.

Appendix B includes information on using the PCQC to estimate the cost of care. In addition, the National Center on Early Childhood Quality Assurance’s *Increasing Quality in Early Care and Education Programs: Effects on Expenses and Revenues* (2016) includes an analysis that compares costs at three levels of quality (including the base level). This issue brief is available at <https://childcareta.acf.hhs.gov/resource/increasing-quality-early-care-and-education-programs-effects-expenses-and-revenues>.

Excel spreadsheet: Program-level expenses and revenue for center-based or family child care homes can also be calculated through an Excel spreadsheet tool, such as the Alliance for Early Childhood Finance’s Cost Modeling Tool (2012). Guidance on using the tool is available at <http://www.earlychildhoodfinance.org/downloads/2012/2012GenericCostModelMemo.docx>. The Excel spreadsheet is available at <http://www.earlychildhoodfinance.org/downloads/2012/2012GenericCostModel-center.xlsx>.

Rough estimate: A less comprehensive method of estimating program-level cost in centers entails calculating personnel costs—assuming that those costs account for 70 percent to 80 percent of total costs—and using a simple equation to estimate the total. For example, if annual personnel costs are approximately \$800,000 and personnel costs account for approximately 75 percent of total costs (x), then $0.75 \times x = \$800,000$. Then x , the total annual cost, is approximately \$1,066,667. Dividing this total cost by the number of full-time children enrolled will yield an approximation of cost per child, undifferentiated by age of child. Keep in mind that this method will result in a much less accurate estimate.

Simplified Method for Estimating the Per-Child Cost of Care in Centers by Age Group

Estimating the cost of care at the classroom level allows Lead Agencies to separate per-child cost by age group. This is because each classroom is staffed to meet (if not exceed) the required ratio and group size for its respective age group. Because ratios and group sizes dictate the number of teaching staff required and the number of children who can be cared for, they are a significant contributor to the cost of care.

Step 1: Estimate the Average Operating Costs Per Classroom, Excluding the Compensation of Classroom Teaching Staff

A Microsoft Excel spreadsheet accompanies this step-by-step guidance and includes default values and built-in calculations to help users estimate the per-child cost of care in centers by age group. The file is available by emailing the National Center on Early Childhood Quality Assurance at qualityassurancecenter@ecetta.info or calling 1-877-296-2250.

These expenses are distributed across the center and do not differ by classroom.

- ◆ This includes all nonpersonnel expenses, such as administrative overhead, program supplies, food, and occupancy. It also includes personnel costs at the center level, such as the director, administrative staff,

kitchen staff, janitorial staff, and substitutes (while substitutes are classroom staff, for budgeting purposes, their salaries are often estimated in center-wide expenses and should be included here).

- ◆ A list of expenses is included in Appendix B of this document. The Provider Cost of Quality Calculator includes default values for these elements and can be used to calculate these costs. It is advisable to consult with providers to ensure that the values are reasonable.
- ◆ An average operating cost per classroom can then be calculated by dividing the total centerwide costs by the number of classrooms. For example, $\$200,000/4$ classrooms = $\$50,000$ per classroom.

Step 2: Estimate the Classroom-Level Personnel Costs

These costs include compensation for classroom teaching staff, including assistant teachers or aides. These personnel costs do not include the cost of substitutes, which are included in the average operating costs per-classroom noted in step 1.

- ◆ Centers employ enough staff to ensure that staff-to-child ratios and classroom group size limits are met throughout the entire day, including time when teaching staff are out of the classroom for nonteaching responsibilities or breaks. Be sure to calculate full-time equivalent (FTE) staff to ensure classroom coverage throughout the entire day. Keep in mind that to achieve higher quality, teachers may spend more time outside the classroom on activities such as curriculum development and parent conferences. Therefore programs will require additional staff coverage. As described in the “Using Available Data” section, Bureau of Labor Statistics wage estimates or other data sources can inform this value.
- ◆ As an example, an infant room has one teacher and one assistant teacher. In addition to these two teaching staff, another teacher or assistant teacher is likely needed to provide coverage during breaks, planning time, or at the beginning or end of the day. To find the total compensation for the infant room, multiply the number of FTE teachers (1) by annual earnings, including wage and benefits ($\$35,000 \times 1 = \$35,000$). Multiply the number of FTE assistant teachers (1.25) by annual earnings, including wage and benefits ($\$30,000 \times 1.25 = \$37,500$). The total compensation for this classroom is $\$72,500$. Note that in this case, the FTE includes a full-time assistant teacher as well as a 0.25 assistant teacher to account for additional coverage needed throughout the day.

Step 3: Calculate the Per-Child Cost by Age Group

This includes average operating costs per classroom (estimated in step 1) and classroom-level personnel costs (estimated in step 2).

- ◆ Add the average operating costs per classroom and the classroom-level personnel cost to arrive at the cost for the classroom modeled in the previous scenario ($\$50,000 + \$72,500 = \$122,500$).
- ◆ Divide this by the number of children enrolled in the classroom. The number of children may be the staffed capacity (the number of children for which the staff can provide care, according to ratio and group size requirements), or it may be the number of children actually enrolled in the classroom. The resulting figure is the annual per-child cost for this classroom ($\$122,500/8$ children in care = $\$15,313$ per child for this classroom).
- ◆ The annual per-child cost may be converted to a monthly, weekly, or daily cost.

Step 4: Repeat This Process for Each Age Group and Quality Level

In addition to age groups and quality level, Lead Agencies may be interested in estimating the per-child cost in centers that are in different locations within the state, centers of different sizes, or programs with other specific characteristics that define child care submarkets within the state.

Converting Cost Estimates to Pricing Units

Lead Agencies can use standard formulas to convert cost estimates to subsidy payment rates. The following table provides a list of the most common factors for converting costs to subsidy pricing units.

Table 2. Methods for Converting Cost Estimates to Subsidy Pricing Units

Conversion Needed	Most Common Conversion Ratio
Annual cost to monthly subsidy unit	Divide by 12 months per year
Annual cost to weekly subsidy unit	Divide by 52 weeks per year
Monthly cost to weekly subsidy unit	Divide by 4.33 weeks per month
Weekly cost to daily subsidy unit	Divide by 5 days per week

Converting Program-Level Costs to Per-Child Costs

Home-based child care: Program-level costs for homes can be converted to an average per-child cost by dividing the total cost by the number of children enrolled or by the maximum number of children a home-based provider can accommodate.

Center-based child care: Program-level costs can be converted to an average per-child cost by dividing the total cost by the number of children enrolled or by the staffed capacity (the number of children the center is staffed to accommodate).

An approximate per-child cost by age group can be converted from an annual cost as follows:

- ◆ Estimate the average per-classroom cost by dividing the total cost by the number of classrooms.
- ◆ Estimate per-child cost within each classroom by dividing the average per-classroom cost by the number of children for which the classroom is staffed.

Keep in mind that converting the cost at the program level to the per-child cost for each age group will likely result in a less accurate estimate than directly estimating the cost at the classroom level (see “Simplified Method for Estimating the Per-Child Cost of Care in Centers by Age Group”).

Consulting With an Advisory Committee

Lead Agencies must consult with the state early childhood advisory council or similar coordinating body, local child care program administrators, local child care resource and referral agencies, organizations representing child care caregivers, teachers and directors, and other appropriate entities before conducting a market rate survey or alternative methodology as required by 45 C.F.R. § 98.45(e)(2). Consider reviewing the estimates with an advisory group that has insight into whether the cost drivers used appear generally accurate. This group might include representation from the previously listed entities, as well as subsidy and licensing agencies, Child and Adult Care Food Program sponsors, representatives from family child care networks and associations, and—most importantly—providers (a mix of urban and rural homes and centers). Directors and program administrators from large centers will often have a sound understanding of budgets and can be valuable sources of information. Also, keep in mind that Lead Agencies must include responses to stakeholder input in their detailed reports in accordance with 45 C.F.R. § 98.45(f)(1) as described in the next section. Involving stakeholders early in this process can assist in obtaining valuable input on the key factors that impact the cost of providing care.

Preparing the Detailed Report

The detailed report must include the results of the market rate survey or the alternative methodology, as well as the estimated cost of care, by category, to support “child care providers’ implementation of the health, safety, quality, and staffing requirements; and higher-quality care, as defined by the Lead Agency at each level of quality” in accordance with the provision at 45 C.F.R. § 98.45(f)(1). The detailed report must also include the Lead Agency’s response to stakeholder views and comments as required by 45 C.F.R. § 98.45(f)(1)(B)(iii). This section includes additional considerations for preparing the detailed report.

Articulating Your Goals

It is important that Lead Agencies and other stakeholders understand the purpose of the cost estimation and factors that impact the cost of providing care. For this reason, states should clearly articulate both the federal and state-driven goals and objectives of performing a cost estimation when seeking feedback from stakeholders. It is also essential to include these goals and objectives in the final report, which states will post on their websites for public view.

Comparing Cost Data to Other State Data

Current and historical subsidy data can help identify providers’ barriers to subsidy participation and where improvements can be made. It may be useful to include these comparisons in the report to convey contextual information to stakeholders. Current subsidy data and trends may include the following:

- ◆ Total regulated providers statewide;
- ◆ Number of providers participating in CCDF by region or county;
- ◆ Number or percentage of facilities at various quality rating levels by region;
- ◆ Number of children enrolled at a point in time by provider type, age, and region or county;
- ◆ Number or percentage of children enrolled in quality programs;
- ◆ Enrollment and participation percentages by quality, type of care, and child age (as defined by licensing);
- ◆ Number of providers charging parents more than their subsidized copayments;
- ◆ Market price data; and
- ◆ Payment rates and practices.

Considering the Audience

The detailed report must be widely distributed and posted on the Internet within 30 days of completion. Consider the audience when preparing the report; for example, parents, child care providers, policymakers, legislators, and advocates. It is beneficial to use easy-to-understand terminology that is meaningful to a broad audience. Diagrams, charts, and tables will help the audience better understand the information. Responses to stakeholder views and comments must be included in the detailed report. Therefore, it is important to present information in a clear way.

When states conduct more comprehensive analyses of the cost of care, they typically include policy or funding recommendations in cost-of-quality reports. For example, Arkansas’s 2014 report *Making Quality Ends Meet* provides specific recommendations based on cost analysis findings. The report is available at

<http://humanservices.arkansas.gov/images/uploads/dccece/QRIS%20Making%20Quality%20Ends%20Meet-highlights%20-%202014.pdf>.

Among the recommendations included in Ohio's 2016 cost-of-quality report *The Dollars and Cents of Early Learning: Investing in Success* by groundWork is to "simplify the base rate structure and increase the lowest rate" (p. 24). The analysis presented in the report includes a comparison of urban and rural providers that reveals key differences. The report is available at www.earlychildhoodfinance.org/dev/wp-content/uploads/2016/03/Dollars-and-Cents-FINAL-031416.pdf.

Setting the Rates

Lead Agencies must establish payment rates that consider the cost of providing higher quality child care services, including the costs associated with each level of quality as required by 45 C.F.R. § 98.45(f)(2)(iii). Rates must be sufficient to enable child care providers to meet health, safety, quality, and staffing requirements and must be responsive to variations in geographic location, age of children in care, and type of care.

Lead Agencies may consider both market prices and the cost of care as they set their rates. However, if a Lead Agency bases its payment rates on a market rate survey, the Lead Agency must also conduct some form of supplemental cost analysis.

Many child care providers are not able to charge prices that reflect the full cost of providing services because parents would not be able to afford the costs. This means that market prices are often lower than the actual cost of providing child care services. For this reason, using price data obtained from market rate surveys alone to set rates does not guarantee that costs to provide care will be covered. Lead Agencies may consider evaluating both the prices charged by providers and the estimated costs to provide care. Inadequate rates may violate the statutory requirement for equal access because base rates that are too low in relation to costs may keep providers from participating in the subsidy program and thereby restrict access. In addition, low rates simply do not provide sufficient resources to cover costs associated with the provision of high-quality care or to attract and retain qualified caregivers, teachers, and directors.

Establishing Base Payment Rates

Using Market Rate Survey Data

Though the prices providers charge do not always cover the full costs of providing care, market rate survey data identify the price of care charged to families who do not receive subsidies, which is critical for determining CCDF families' ability to purchase child care that is comparable to care purchased by families not receiving CCDF subsidies.

The preamble to the final rule (81 Fed. Reg. 67,440) reaffirms that payment rates set at the 75th percentile of the most recent market rate survey remains an important benchmark for gauging equal access. The survey must capture price data across a diverse group of child care settings that provide care at varying levels of quality and in different geographic locations. It should also consider the ages of the children and the type of care. A 2008 technical report funded by the Administration for Children and Families, *Study of Market Prices: Validating Child Care Market Rate Surveys*, available at <http://health.oregonstate.edu/sites/health.oregonstate.edu/files/sbhs/pdf/Validity-Study-FINAL-1-27-09.pdf>, provides thorough guidance on conducting market rate surveys and analyzing and using market rate data.

Using Cost Estimates Along with Market Rate Survey Data

Considering costs estimates along with market rate information offers Lead Agencies an opportunity to better understand how to set their base rates. Lead Agencies can compare their base subsidy rates that are linked to their most recent market rate survey, by the age group, provider settings, and geographic area to the corresponding base cost estimates—expenses incurred when operating a child care home or center that meets basic health, safety, quality, and staffing requirements. The cost and base rate payment units (e.g., weekly or monthly) should be the same. The results of the comparison may indicate that the base payment rates exceed the cost estimates for certain populations or quality levels, or that the base payment rates are lower than the estimated costs. Lead Agencies can incorporate strategies in their CCDF Plans that move the payment rates to levels that promote affordability and provide equal access.

Comparing the Cost of Quality to Quality Incentives and Supports

Do quality incentives adequately support the costs associated with quality improvement? Though a thorough cost analysis can accurately inform a response to this question, understanding the factors that influence costs at higher quality levels—as described in the “Cost Drivers for Quality Improvements” section—provides critical information needed for evaluating tiered quality rate differentials.

New Mexico used the PCQC to help determine the payments needed to offset the costs that providers absorb as their quality increases. These analyses were done for specific age groups and QRIS levels. New Mexico has historically set tiered payment rates so the rate increases by a set dollar amount for each QRIS level. By better understanding cost increases—and potential lost revenue—by age group and quality level, New Mexico can differentiate rates not only by quality level, but also by the age of the child. This rate structure ensures that programs will have the financial support necessary to meet the lower staff-child ratios required in levels four and five of the QRIS.

Using Market Rate Data and Cost Estimates to Set Payment Rates

Setting payment rates at sufficient levels to support equal access requires consideration of multiple factors and perspectives—affordability for parents purchasing child care, adequacy for providers to support the costs to provide care, and availability of funding in the state budget. Analysis of prices charged along with cost estimates is an ongoing process that can offer key information for prioritizing resources to address costs and increase quality. Data obtained through cost estimates and market rate surveys offer an opportunity to create a sustainable long-term plan to meet the cost of care, including care at higher levels of quality.

By analyzing cost and market rate data by market subsets—including quality levels, ages of children, type of care, and geographic areas—and then comparing the analyses to both base rates and tiered rates, Lead Agencies can better understand where specific rate increases should be targeted. For example, a Lead Agency might prioritize rate increases for infants or family child care providers. Or, for example, the Lead Agency may invest funds in a specific quality level upon seeing that current payment rates do not support moving from level three to level four of the QRIS.

Demographic and economic data may be useful in evaluating the alignment of payment rates with costs or market rates in different areas of the state, and then targeting rate increases to support providers in areas with high poverty rates or priority school districts. Lead Agencies can demonstrate their commitment to a long-term and sustainable plan for targeted rate increases by outlining their priorities in timelines and prioritizing funding accordingly.

Considering Additional Provider Supports

Providing adequate payment rates to child care providers is critical to ensuring parents have equal access to quality care. In addition to evaluating payment rates, Lead Agencies should consider other methods to support providers, which further parents' access to quality care. This section outlines several options for providing additional support.

Adopting Supportive Financing Policies

Comparing prices paid by private paying parents to the cost of quality can inform understanding of the cost-quality gap, especially for providers who care for a high proportion of children who do not receive subsidies. Additional tools for supporting providers include quality grants, bonuses, merit awards, wage supplements, scholarships, loans, and tax credits.

“Section 6: Provider Incentives and Support” of the *QRIS Resource Guide* describes these options and provides specific state examples. The guide is available at <https://qrisguide.acf.hhs.gov/index.cfm>. In addition, the BUILD Initiative 2017 report *Finance and Quality Rating and Improvement Systems* offers innovative strategies for supporting high-quality care. This report is available at <http://buildinitiative.org/Portals/0/Uploads/Documents/Resources/QRIS%203/FinanceQRIS.pdf>.

Supportive Provider Payment Practices

Lead Agencies must establish policies that reflect generally accepted payment practices for child care providers, including (to the extent possible) paying for absence days and reimbursing providers for child care services in a timely manner. Such practices support providers of high-quality care.

Shared Services

The practice of sharing services allows small child care centers and homes to operate as larger—and more financially sustainable—child care programs by sharing essential operating costs. These small child care programs offer child care services at their own sites, but they benefit by sharing information, professional development, and services, including child assessments, curriculum development, payroll, billing, fee collection, marketing, purchasing, maintenance, repair, and other services. Programs work together to improve quality and achieve financial stability while maintaining their separate businesses. Louise Stoney offers additional information on shared services in *Quality at Scale: Supporting Sustainable, High-Quality Early Care and Education* (2017), which is available at <http://opportunities-exchange.org/wp-content/uploads/Quality-at-Scale.pdf>.

Educating Providers on Sound Business Practices

Lead Agencies must provide technical assistance that strengthens the business practices of child care providers to expand the supply and improve the quality of services. Price and cost are not the same, and budgeting is not a universal skill set among child care providers. Both state and provider policies and practices influence provider revenue. Lead Agencies should examine their payment rates and policies, and make training and resources on business practices available to providers (including training and resources on accessing all available revenue and decreasing bad debt and enrollment inefficiency).

Cost-of-Quality Resources

As Lead Agencies estimate the cost of care and consider financial supports for providers, they may be interested in the following cost estimation tools, states' cost analyses, and additional resources.

Cost Tools

- ◆ Cost Estimation Tool for Early Head Start–Child Care Partnership Services, Early Childhood Learning and Knowledge Center, available at <https://eclkc.ohs.acf.hhs.gov/local-early-childhood-partnerships/learning-module/cost-estimation-tool>.
- ◆ Out-of-School Time Cost Calculator, Wallace Foundation, available at <http://www.wallacefoundation.org/cost-of-quality/Pages/default.aspx>.
- ◆ Provider Cost of Quality Calculator, National Center on Early Childhood Quality Assurance, available at <https://www.ecequalitycalculator.com/Login.aspx>.

State Analyses

- ◆ **Arkansas:** University of Arkansas Medical Sciences. (2014). *Making quality ends meet*. Retrieved from <http://humanservices.arkansas.gov/images/uploads/dccece/QRIS%20Making%20Quality%20Ends%20Meet-highlights%20-%202014.pdf>.
- ◆ **San Francisco, California:** Capito, J., Mitchell, A., & Workman, S. (2016). *San Francisco comprehensive fiscal analysis: Analysis and recommendations*. Retrieved from <http://sfoece.org/wp-content/uploads/2016/04/CFA-Report.pdf>.
- ◆ **Delaware:** Mitchell, A. W. (2013). *Modeling quality costs for Delaware Stars: Interim report on program costs of quality in centers*. Retrieved from the Alliance for Early Childhood Finance website: <http://www.earlychildhoodfinance.org/dev/wp-content/uploads/2016/03/DE-Cost-of-Quality-Study-Centers-Final-2013-07.pdf>.
- ◆ **District of Columbia:** District of Columbia Office of the State Superintendent of Education. (2016). *Modeling the cost of child care in the District of Columbia*. Retrieved from http://osse.dc.gov/sites/default/files/dc/sites/osse/publication/attachments/Modeling%20the%20Cost%20of%20Child%20Care%20in%20the%20District%20of%20Columbia%20-%202016_0.pdf.
- ◆ **Southwest Florida:** Augenblick, Palaich and Associates. (2017). *Early Childhood Education Cost Study*. Retrieved from <http://futurereadycollier.org/wp-content/uploads/Florida-ECE-Costing-Out-Study-Report-Final-with-Cover.pdf>.
- ◆ **Maryland:** APA Consulting & Early Childhood Policy Research. (2016). *A comprehensive analysis of prekindergarten in Maryland*. Retrieved from <http://marylandpublicschools.org/Documents/adequacystudy/MDPreKComprehensiveAnalysis011316.pdf>.
- ◆ **New Jersey:** Advocates for Children of New Jersey. (2017). *Quality costs how much? Estimating the cost of quality child care in New Jersey*. Retrieved from http://acnj.org/downloads/2017_04_25_Quality%20Costs%20How%20Much_reduced.pdf.
- ◆ **North Carolina:** North Carolina Department of Health and Human Services. (2017). *Study Child Care Subsidy Rate Setting*. Retrieved from <http://www.ncga.state.nc.us/documents/sites/committees/JLEOC/Reports%20Received/2017%20Reports%20Received/Study%20Child%20Care%20Subsidy%20Rate%20Setting.pdf>.

- ◆ **North Carolina:** North Carolina Department of Health and Human Services. (2017). *Study Costs and Effectiveness Associated with NC Pre-K Slots*. Retrieved from <http://buildthefoundation.org/wp-content/uploads/2017/02/Costs-Associated-with-NC-PreK-Study.pdf>.
- ◆ **Ohio:** groundWork. (2016). *The dollars and cents of early learning: Investing in success: A summary of findings from groundWork's Early Childhood Financing Project*. Retrieved from the Alliance for Early Childhood Finance website: <http://www.earlychildhoodfinance.org/dev/wp-content/uploads/2016/03/Dollars-and-Cents-FINAL-031416.pdf>.
- ◆ **Rhode Island:** Mitchell, A. W. (2013). *The cost of quality early learning in Rhode Island: Interim report*. Providence, RI: Rhode Island Early Learning Council. Retrieved from https://grisnetwork.org/state_resource/2014/cost-quality-early-learning-rhode-island-interim-report.
- ◆ **Tarrant and Dallas Counties, Texas:** Mitchell, A. W. (2017). *The cost of quality child care study: A community release and recommendations*. Workforce Solutions for Tarrant County and Workforce Solutions Greater Dallas County. Retrieved from <http://workforcesolutions.net/wp-content/uploads/2017/05/Cost-of-Quality-Study.pdf>.
- ◆ **Washington:** Mitchell, A. W. (2013). *Modeling the cost of quality in Early Achievers centers and family child care*. Retrieved from https://del.wa.gov/sites/default/files/imported/publications/elac-gris/docs/Cost_of_Quality_Mitchell_2013.pdf.

Other Resources

Alliance for Early Childhood Finance. (2010). *Lessons from cost modeling: The link between ECE business management and program quality*. Retrieved from

<http://www.earlychildhoodfinance.org/downloads/2010/Lessons%20from%20Cost%20Modeling7.27.10.pdf>

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National Center on Child Care Quality Improvement. (2014). *Early care and education program characteristics: Effects on expenses and revenues*. Retrieved from

https://childcareta.acf.hhs.gov/sites/default/files/public/241_1411_pcqc_ece_characteristics_final.pdf

National Center on Child Care Quality Improvement. (2014). *Increasing quality in early care and education programs: Effects on expenses and revenues*. Retrieved from

https://childcareta.acf.hhs.gov/sites/default/files/public/240_1411_pcqc_increase_quality_final.pdf

Stoney, L. (2015). *Financing high-quality center-based infant-toddler care: Options and opportunities*. Retrieved from

<https://earlyeducatorcentral.acf.hhs.gov/sites/default/files/public/resources/Financing%20High%20Quality%20Center%20Based%20Infant%20Toddler%20Care%20Options%20and%20Opportunities.pdf>

Stoney, L., & Poppick, N. L. (2010). *Shared services, strengthening early care and education*. Retrieved from http://www.bostonfed.org/commdev/c&b/2010/fall/Stoney_Poppick_early_education.pdf.

Appendix A. Child Care Cost Elements

Common expenses for operating child care centers and family child care homes are provided in the following tables. In each table, the expenses are divided into nonpersonnel and personnel costs. These tables may help Lead Agencies understand all the elements that influence cost, including those related to higher quality.

Table A1. Nonpersonnel Cost Drivers for Child Care Centers

Cost Element	Notes
Food purchase and preparation	These costs need to be calculated or converted to per-child costs since the values will increase as more children are enrolled. If you gather this information from providers, keep in mind that providers may not construct their budgets in this way. You can, however, gather the total annual budget for an item and divide by the number of children.
Kitchen supplies	
Education supplies	
Education equipment	
Office equipment	
Insurance	
Postage	
Advertising	
Child assessment system	
Rent	Per-classroom costs are expressed in dollars per square foot. The general rule for figuring out classroom size is 50 square feet per child for a classroom with adequate storage, plus an extra 30 square feet per child to account for hallways, bathrooms, office space, and so forth. Keep in mind that rent may vary greatly from one jurisdiction to another. Maintenance, repairs, and cleaning can include janitorial service, landscaping, and the like.
Utilities	
Building insurance	
Maintenance, repairs, cleaning	
Consultants and training	This can be calculated as the average amount per staff member.
Telephone and Internet	These are fixed costs.
Audit	
Fees and permits	
Miscellaneous	

Note: Default values for nonpersonnel data are included in the Provider Cost of Quality Calculator (PCQC). Larger child care centers often keep detailed budgets that include these data.

Table A2. Personnel Cost Drivers for Child Care Centers

Cost Element	Notes
Staffing	<p>This includes full-time and part-time staff, such as directors, education coordinators, teachers, assistant teachers, administrative assistants, health consultants, and others.</p> <p>The cost of substitutes should be factored in to account for staff leave (including staff training and time off). The PCQC factors in 20 hours per year for professional development and 40 hours for leave.</p> <p>Child care resource and referral, quality rating and improvement system, and licensing staff may better understand the typical staffing patterns in centers by quality level, size, and location.</p>
Salaries	<p>Bureau of Labor Statistics (BLS) data can be used to model salary increases by quality level. For example, you can use the mean BLS wage for a position in a midrange quality level program, reduce it slightly for lower quality levels, and increase it slightly for higher quality levels.</p> <p>The PCQC attributes minimum wage for substitutes.</p>
Mandatory benefits	<p>This includes workers' compensation, unemployment, and disability. Mandatory benefits should be calculated for all staff and substitutes. Information on required amounts is typically found on states' department of labor websites.</p>
Discretionary staff benefits	<p>This may include health insurance paid leave, discounted child care, and other benefits.</p>
Additional staff time	<p>Staffing should consider the additional teaching assistants needed to cover the difference between a full-time work week and the hours the program is open each week, as well as time that the teacher spends out of the classroom (e.g., time spent on training or planning). The number of additional assistant teachers required is calculated by multiplying all teaching staff (teachers plus assistant teachers) by the percentage of additional staff time. For example, 12 teaching staff * 20% = 2.4 assistant teachers. The assistant teacher salary is multiplied by the number of additional assistant teachers needed.</p>
Ratios and group size	<p>Ratios and group sizes are used to calculate the total enrollment and the number of staff needed per classroom.</p>
Ages of children	<p>Ages of children influence ratios and group sizes.</p>

Cost Element	Notes
Number of classrooms	Number of classrooms for each age group influence total cost and revenue.
Staffing	<p>This includes full-time and part-time staff, such as directors, education coordinators, teachers, assistant teachers, administrative assistants, health consultants, and others.</p> <p>The cost of substitutes should be factored in to account for staff leave (including staff training and time off). The PCQC factors in 20 hours per year for professional development and 40 hours for leave.</p> <p>Child care resource and referral, quality rating and improvement system, and licensing staff may better understand the typical staffing patterns in centers by quality level, size, and location.</p>

Table A3. Nonpersonnel Cost Drivers for Family Child Care Homes

Cost Category	Cost Element	Notes
100% business use	Advertising Vehicle expenses Depreciation (equipment) Insurance (liability, accident) Interest on business debt Legal and professional fees (accountant, payroll service, tax prep, etc.) Office supplies Repairs and maintenance (including cleaning and exterminating fees) Other supplies Food Telephone and Internet Training and professional development Professional membership dues and subscriptions License and permits Child assessment system	This includes the information that family child care providers would enter on their annual federal income tax returns (Schedule C: Profit or Loss from Business, and Form 8829: Business Use of Home).
Shared use of the home for personal and business expenses	Mortgage interest and property taxes or rent or lease Home owner’s or renter’s insurance Repairs and maintenance Utilities Other supplies	The share of the expenses that is attributable to the family child care business is calculated by comparing the percentage of time and space used for child care to the personal use of the space. This calculation takes into account the hours worked per week, the space in the home used for child care, and the total space in the home. The PCQC automatically calculates these elements. Instructions for Internal Revenue Service Form 8829 include specific guidance for computing shared use for home child care facilities. Instructions for Form 8829 for 2016 are available at https://www.irs.gov/pub/irs-pdf/i8829.pdf .

Table A4. Personnel Cost Drivers for Family Child Care Homes

Cost Element	Notes
Provider compensation	Provider compensation can be factored in before net revenue is calculated—as a cost—or it can be subtracted from net revenue.
Assistant salary	Family child care providers will have an assistant if they provide care for more than a specific number of children.
Assistant benefits (mandatory and voluntary)	Mandatory benefits include unemployment and workers' compensation.

Appendix B. Using the Provider Cost of Quality Calculator as a Cost Analysis Tool

The Provider Cost of Quality Calculator (PCQC) is an easy-to-use, web-based tool that calculates the cost of quality (based on provider type) to help state policymakers understand the costs associated with delivering high-quality early care and education. Anyone can set up a PCQC account. A tutorial and resources to support use of the tool are available at <https://childcareta.acf.hhs.gov/pcqc>. The PCQC generates cost estimates for full-time, year-round child care in centers and family child care homes.

PCQC Data

Default values are included for all nonpersonnel costs for center- and home-based care. The default amounts are based on average annual expenditures across varied sizes and types of programs in several states. Reference-point values are included for other costs, including average Bureau of Labor Statistic salaries by staff category. PCQC users can decide—using professional judgement, the best available data, and provider input—whether the default values accurately or reasonably represent in-state providers. If desired, they may change the defaults to better reflect their situations. Guidance on each data point is included in the tool itself and in the user guide. It is essential to ensure the validity of the PCQC’s assumptions in order for the resulting calculations to be meaningful and accurate.

Creating PCQC Scenarios

The PCQC includes an expense and revenue statement that reflects annual personnel and nonpersonnel expenses at the program level, as well as revenue. Users can download an Excel file that lists each of the values entered and resulting expenses and revenue.

Though the PCQC includes data points for revenue and expenses, users can focus on only the expense portion of the tool. The PCQC automatically calculates the average cost per child, which is generated in the “export results” spreadsheet under the “reports” page of the tool.

Many scenarios can be created in the PCQC. When creating scenarios, users might consider submarkets on which subsidy payments are based; for example, homes, centers, quality levels, and geographic location. Additionally, users might be interested in looking at centers of different sizes and those serving different ages of children. A user can save each scenario under a separate name or work from just one scenario.

Users also have the ability to hold base costs constant and adjust the quality drivers for each quality level to generate incremental costs.

Typically, PCQC users create scenarios that include mixed-age groups (for example, a center or home with infants, toddlers, and preschoolers). The PCQC does not generate separate costs for each age group. A cost per age group can be estimated by creating a scenario for a center that only has classrooms for one age group and then estimating the average cost per child.

Additional information on using the PCQC is included in the PCQC User Guide, which is accessible on the Resources tab of the PCQC. The tool is available at <https://childcareta.acf.hhs.gov/pcqc>.

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The National Center on Child Care Subsidy Innovation and Accountability (SIAC) provides technical assistance to Child Care and Development Fund programs in developing child care subsidy systems that are child-focused, family-friendly, and fair to providers. SIAC works with grantees to help them reach goals related to subsidy eligibility, integrating quality and subsidy, strengthening program integrity, payment rules, rate setting, and other policies and practices that support providing high-quality care to more children from low-income families.

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The National Center on Early Childhood Quality Assurance (ECQA Center) supports State and community leaders and their partners in the planning and implementation of rigorous approaches to quality in all early care and education settings for children from birth to school age. The ECQA Center is funded by the U.S. Department of Health and Human Services, Administration for Children and Families.



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