Opportunities Exchange

# Using Early Care and Education Cost Modeling to Inform Policy

Alliance for Early Success
October 15 , 2014

Louise Stoney
*Alliance for Early Childhood Finance*
*Opportunities Exchange*

Opportunities Exchange

# What is Cost Modeling?

- A tool to estimate (model) the likely cost of providing early care and education services at varying levels of quality
  - Excel spreadsheets or online tools
  - Models a 'reasonable' budget given standards; does not reflect the actual budget of any specific center
- Design of the model depends on what you're trying to measure or learn about, for example:
  - Cost for a service provider to deliver ECE at various QRIS levels
  - Cost for a Shared Service Alliance (provider network) to deliver ECE
  - Cost for a state to provide subsidies or QRIS incentives under various scenarios; can also develop model for infrastructure costs if desired
  - How various revenue sources (HS/EHS, Prek, etc) impact cost
  - Implications of the Iron Triangle (full enrollment & fee collection, rates)

# Online Cost Models for ECE

- PCQC ("Provider Cost of Quality Calculator")
  - Web-based platform based on spreadsheets developed by Anne Mitchell (today's example based on same spreadsheets)
  - Designed to helps states and providers understand costs at different levels of quality, and degree of gap between revenues and costs
  - To be launched October 2014: www.ECEQualityCalculator.com
- CEM ("Cost Estimation Module")
  - Online tool designed to help state administrators determine costs of implementing all elements of a QRIS and explore phase-in and scale-up options
  - Can be used to estimate the cost per year of phasing in a QRIS, the cost of certain elements, or the overall cost of a full implemented QRIS.
  - Available on ACF website: http://www.acf.hhs.gov/programs/occ/resource/qris-cost-estimation-model-and-resource-guide

Opportunities Exchange

# Using Cost Modeling to Inform Policy

- Several States have used the cost modeling spreadsheets to understand the financial picture of center-based child care.
  - Developed with information from local providers and ECE organizations in the particular state
  - Informed by cost modeling spreadsheets developed by Anne Mitchell
  - Can apply revenues from multiple sources (HS/EHS, PreK, CCDF, etc)
- Model enables advocates to make the case with data and sophisticated fiscal analysis
- Model can also provides some guidance about how to address this challenge

Opportunities Exchange

# Understanding a Provider's Bottom Line

Center-focused cost modeling can help answer:

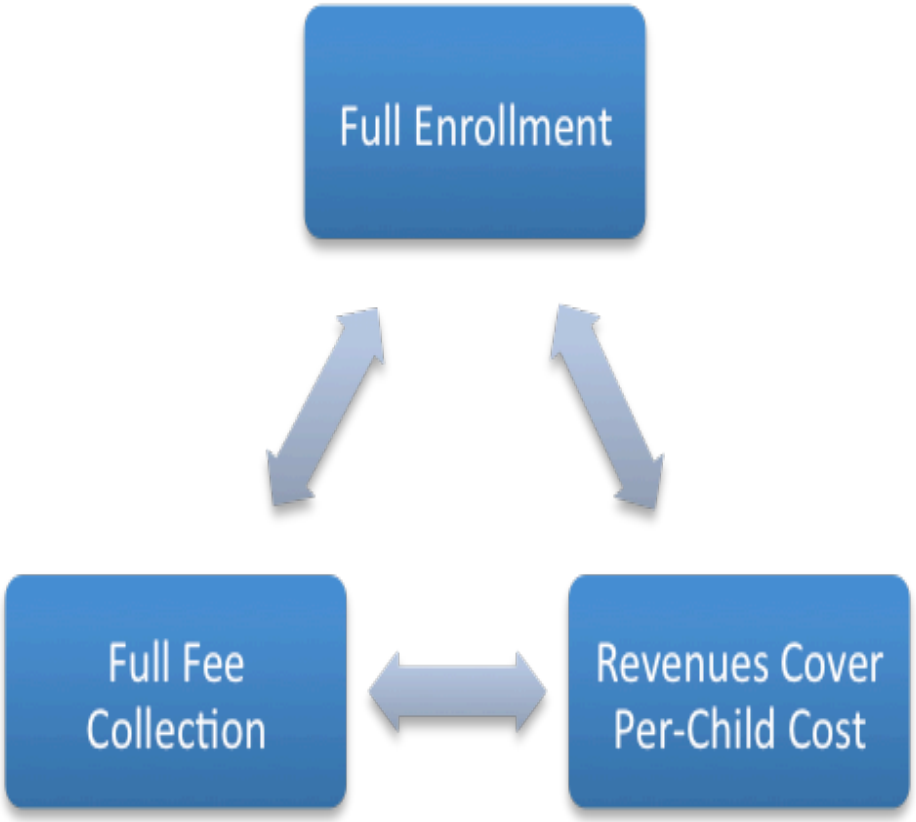
- Given reasonable assumptions, can a center at least break even?
- What is the impact on the bottom line of moving up the quality ladder?
- What are the factors that have a positive, or negative, effect on the bottom line?
  - Revenues
  - Expenses
  - Operating Model (staffing, age mix, family income mix, etc.)
  - Business practices

Opportunities Exchange

# How the Model Can be Used

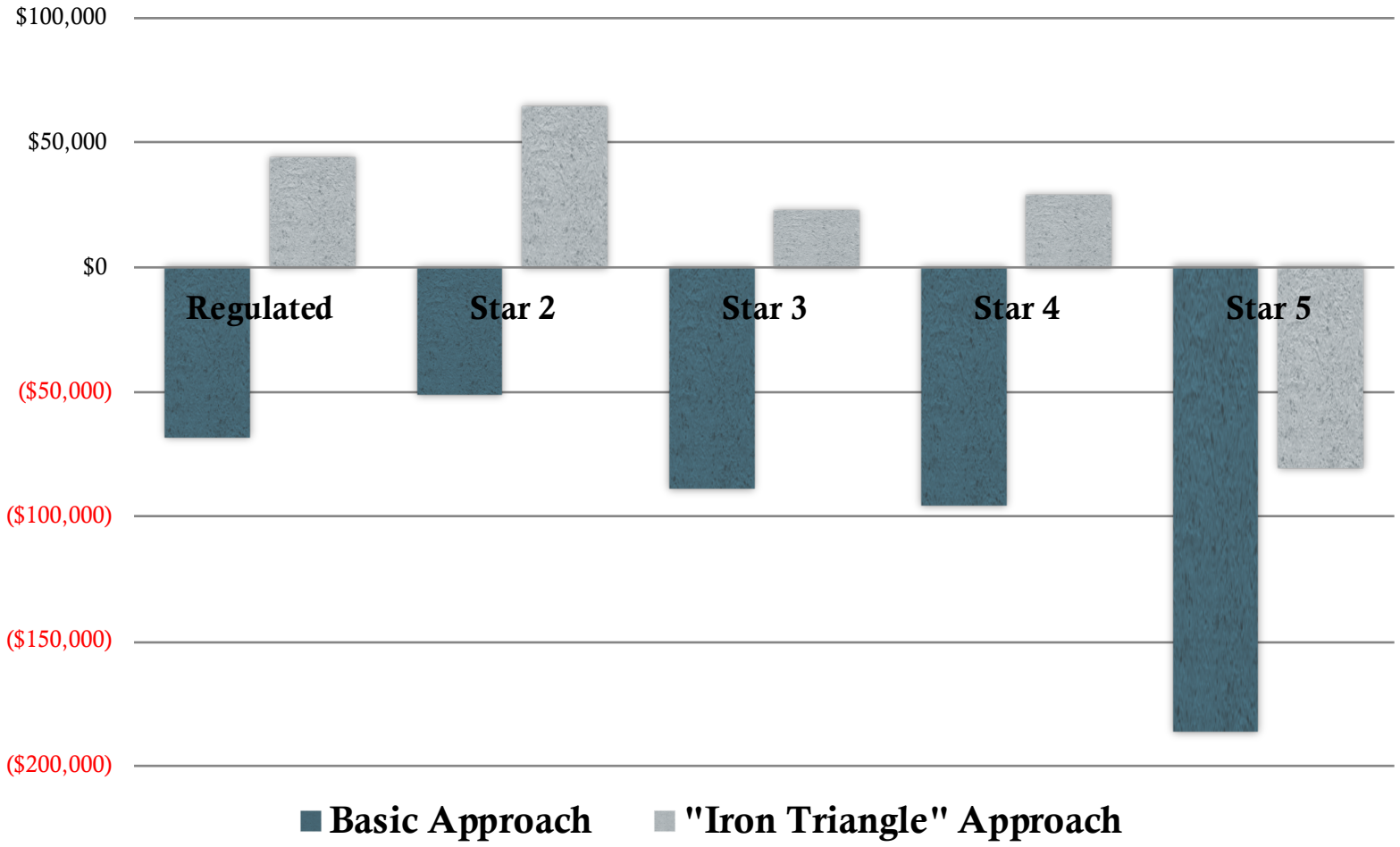
- Enables exploration of how various factors can affect profit or loss, e.g.:
  - Increased scale
  - Income mix of families served
  - Enrollment levels
  - Fee collectability
  - Subsidy policy changes
  - Revenue sources, e.g. state-funded PreK or QRIS
- Enables modeling budget for a proposed center or group of centers

# Policy Implications: Modeling the Iron Triangle



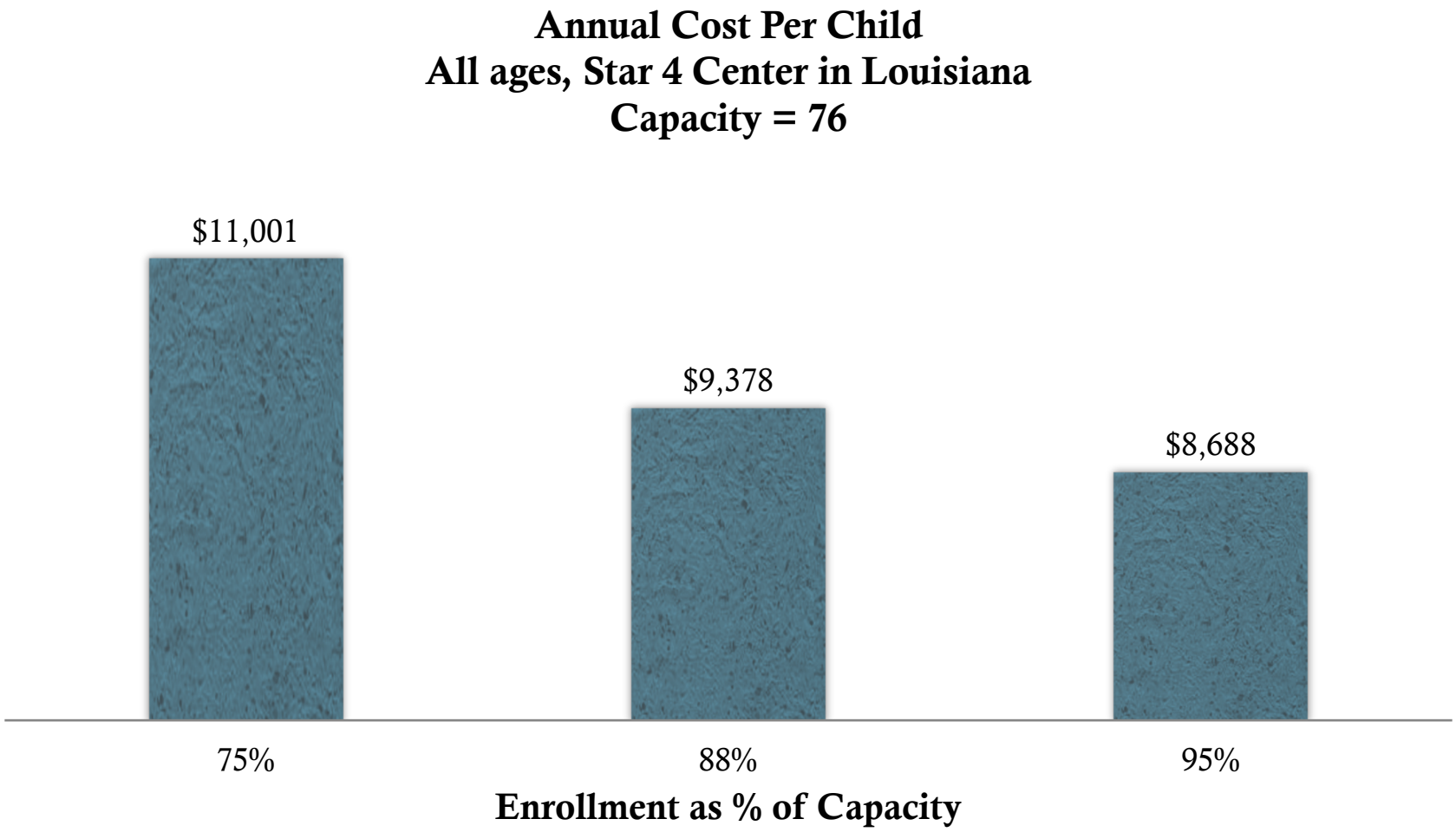

- Ensure full enrollment – every day, in every classroom
- Collect tuition and fees – in full and on-time
- Revenue covers per-child cost (tuition, fees + 3rd party funding)

# State Example:
# Modeling the Impact of the Iron Triangle

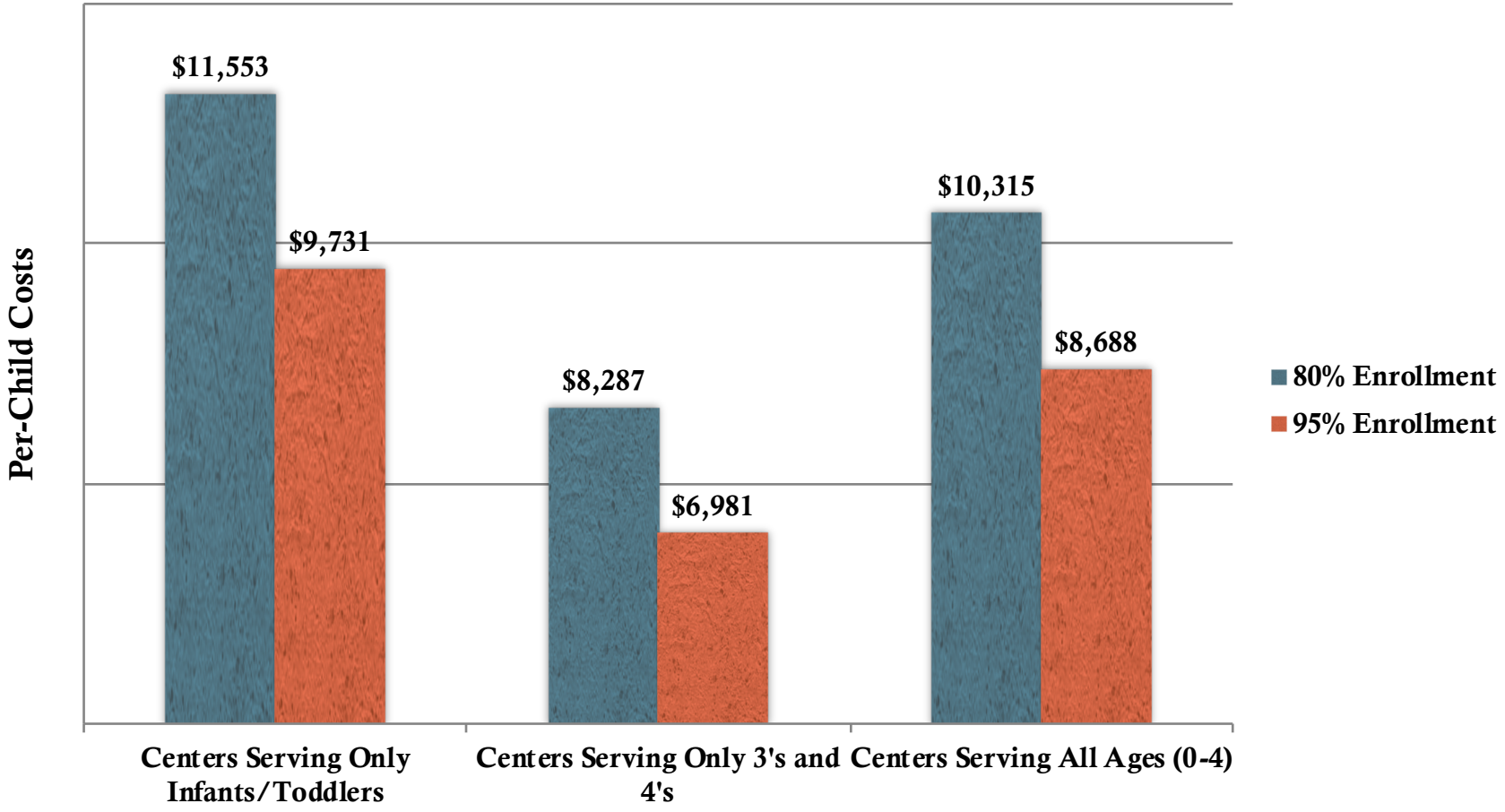



Iron Triangle approach boosts enrollment to 95% & lowers bad debt to 2%

# State Example:
# Impact of Enrollment on Cost-per-child

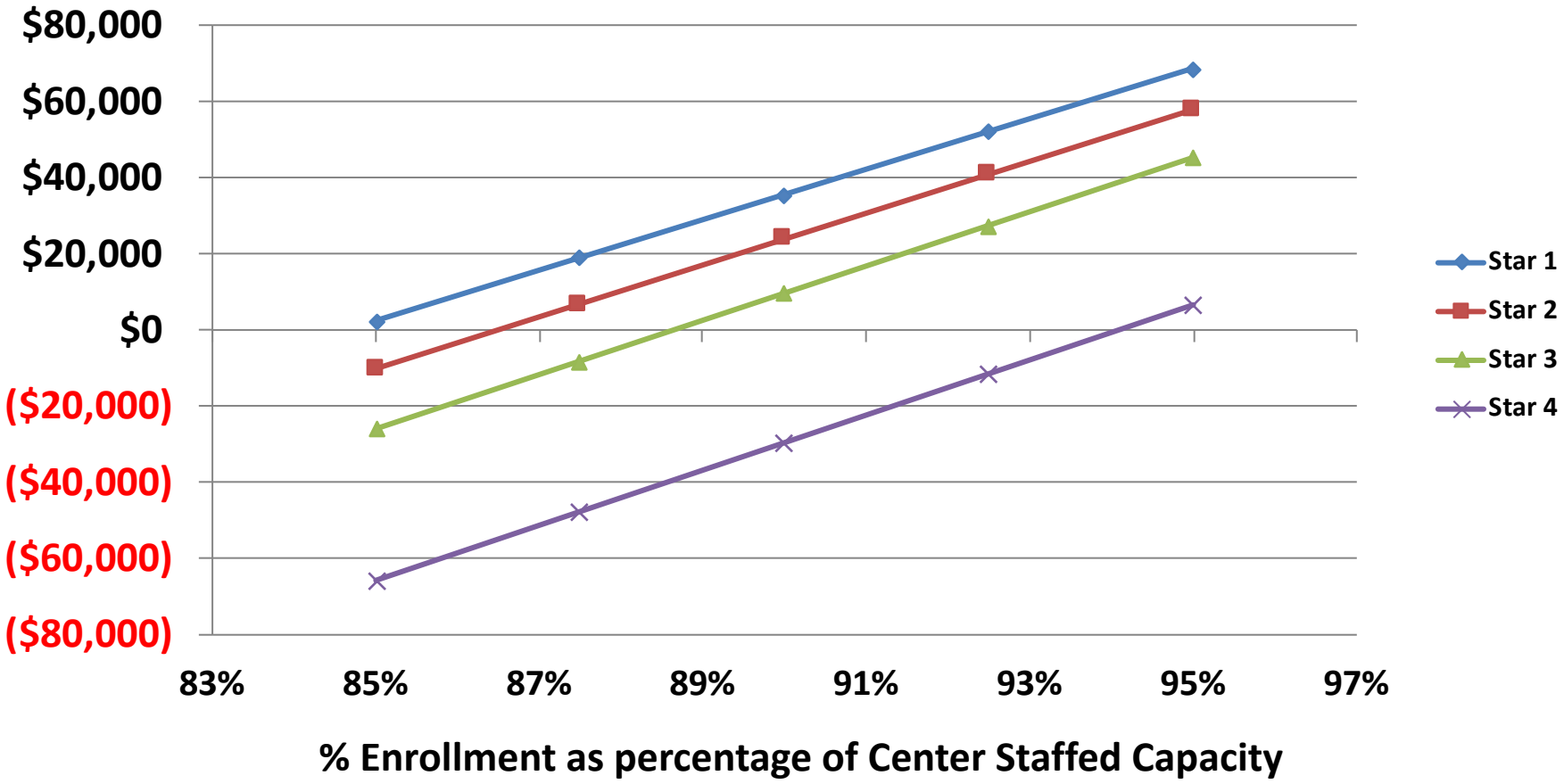


# State Example:
# Per Child Cost by Age and Enrollment



# State Example:

## Impact of Increasing Enrollment on Revenue Needed for Higher Stars



Opportunities Exchange

# State Example: Co-Payments Based on Cost of Care

**Family of 4, parents earn minimum wage, annual income $30,160**
**(New Orleans, LA)**

| Weekly Rates | Infant | 3-year-old | Total |
|---|---|---|---|
| Private Tuition | $150 | $135 | $285 |
| Child care subsidy rate ceiling | $92.50 | $87.50 | $180.00 |
| CCAP reimbursement after co-pay | $37.00 | $35.00 | $72.00 |
| *co-pay for this family = 60% of "cost" of care (e.g. of the state rate ceiling)* | | | |
| Total cost to parent | $113.00 | $100. | $213.00 |
| Parent cost as % of weekly income | 19.5% | 17.2% | 36.7% |

Opportunities Exchange

# State Example: Co-Payments Based on Family Income

**Family of 4, parents earn minimum wage, annual income $30,160**
**(Charlotte, NC )**

| Weekly Rates | Infant | 3-year-old | Total |
|---|---|---|---|
| Private Tuition | $200 | $175 | $375 |
| Child care subsidy rate ceiling | $185 | $168 | $353 |
| CCAP reimbursement after co-pay | $153 | $136 | $289 |
| *co-pay = 11% of income; $32 wk per child* | | | |
| Total cost to parent* | $32 | $32 | $64 |
| Parent cost as % of weekly income | 5.5% | 5.5% | 11% |
| Parent cost if provider charges differential | $47 (8%) | $39 (6.7)% | $86 (14.8%) |

**Note: 24% of NC centers elect to collect additional fee to cover difference between subsidy ceiling & private rate; in this case parent fee would be higher*

Opportunities Exchange

# Potential Challenges

- ECE cost modeling typically demonstrates that a high-quality, market-based program with less than 100 children can rarely break even.
  - But most ECE programs in the US are this small….so how can we explain that more programs haven't closed?
- ECE cost modeling often reveals that programs at base level of QRIS (e.g. Star 1 or 2) that are fully enrolled do not need higher rates; the largest inequity is with programs that meet higher star levels.
  - This can be a challenging finding from an advocacy perspective
- Can inform rate-setting for programs that tap multiple funding streams
  - IF funders are willing to collaborate on accountability/monitoring

# For more information…

Louise Stoney

Consultant to the Alliance for Early Success

louise.stoney@gmail.com

Alliance for Early Childhood Finance

http://www.earlychildhoodfinance.org/

Opportunities Exchange

www.opportunities-exchange.org