

From Models to Policy: A Cost Model Does Not A Strategy Make

June 15, 2022



Cost modeling can:

- Estimate what is costs to provide a program, a service, a set of services, or a full system of services and programs
- Inform the costs associated with quality standards that impact programmatic structure
- Illustrate the cost variation across ages, geographies, programs, quality levels, etc.

Cost modeling **CANNOT**:

- Create or ensure a funding strategy

Strategic public financing

picks up where strategic plans often leave off by:

putting a price tag on goals and policy priorities

and

identifying ways to cover the cost

From questions...

1. Current Funding:

How much funding supports our goals right now?

2. True Cost:

How much will it cost to fund our goals in full?


3. New Funding:

How do we fill the gap between current funding and needed funding?

To answers!



Fiscal mapping



Cost modeling
and estimation



Funding
Research

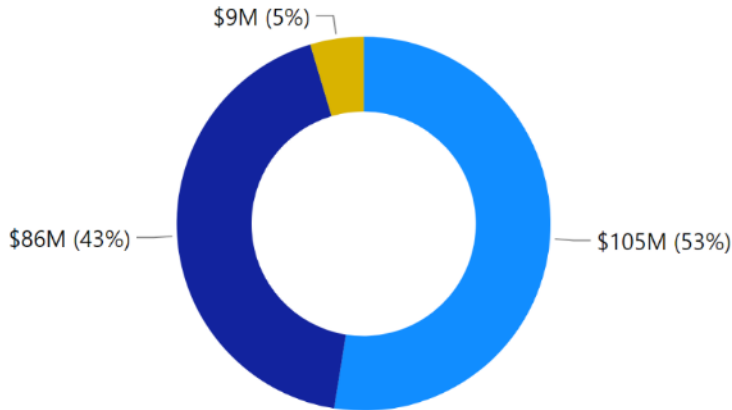
Sum of Current Investments

\$200M

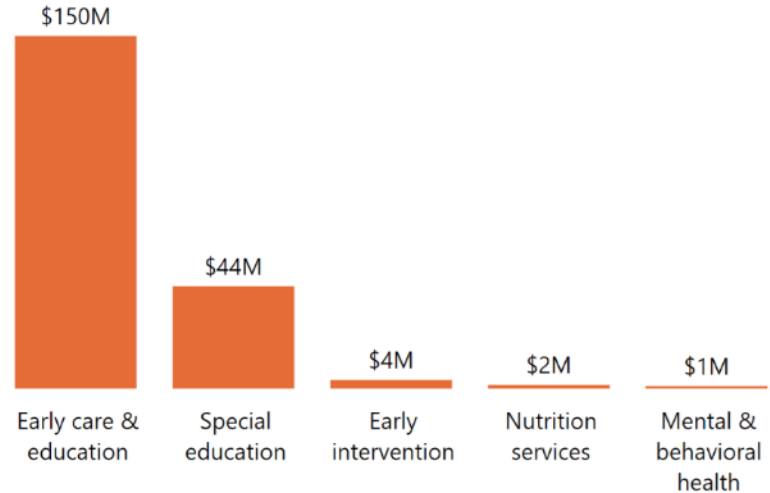
Data from 17 funding streams across 3 state agencies + public schools

Source of Funds

● State ● Federal ● Public School Districts & Charters



Intended Use of Funds



Largest funding streams include IDEA, Purchase of Care, CACFP, Head Start/ Early Head Start, ECAP, pre-k units, tiered reimbursements

\$200M in EC Spending in Context

		K-12	EC
Early Care and Education Costs More per child than K-12...	Day	7 hours	8-12 hours
	Year	9 months	12 months
	Adult: child ratio	1:16-30	1:3-18
	Consumable Costs	Food, technology, classroom materials	+ diapers, wipes, bibs, booties, cleaning costs, age specific furniture and additional manipulatives
...but Delaware Spends much less per child and covers fewer children	Per Child	\$16K+	Today: ~\$7K Cost of Quality: \$27k+
	Access	All	~20% with public funds Parents paying 20% median income per child

Total EC vs. K-12 Investments



Total System Cost

TOTAL COST FOR FULL SYSTEM		
Type of Care	# of Children	Cost
Center (high quality)	32777	\$843,825,360
Family Child Care (high quality)	13824	\$559,208,448
Children w/Disabilities*	5595	\$229,429,788
Dual Language Learners*	9320	\$23,300,000
Non-Traditional Hour*	11654	\$74,527,459
Sub-Total		\$1,730,291,055
Infrastructure/Supports	8%	\$138,423,284
TOTAL COST FOR FULL SYSTEM	46,601	\$1,868,714,340

*These represent *additional* costs on top of the base rate.

Per child costs range of \$27,000 - \$170,000 per year (include highest per child cost with all needs built in)

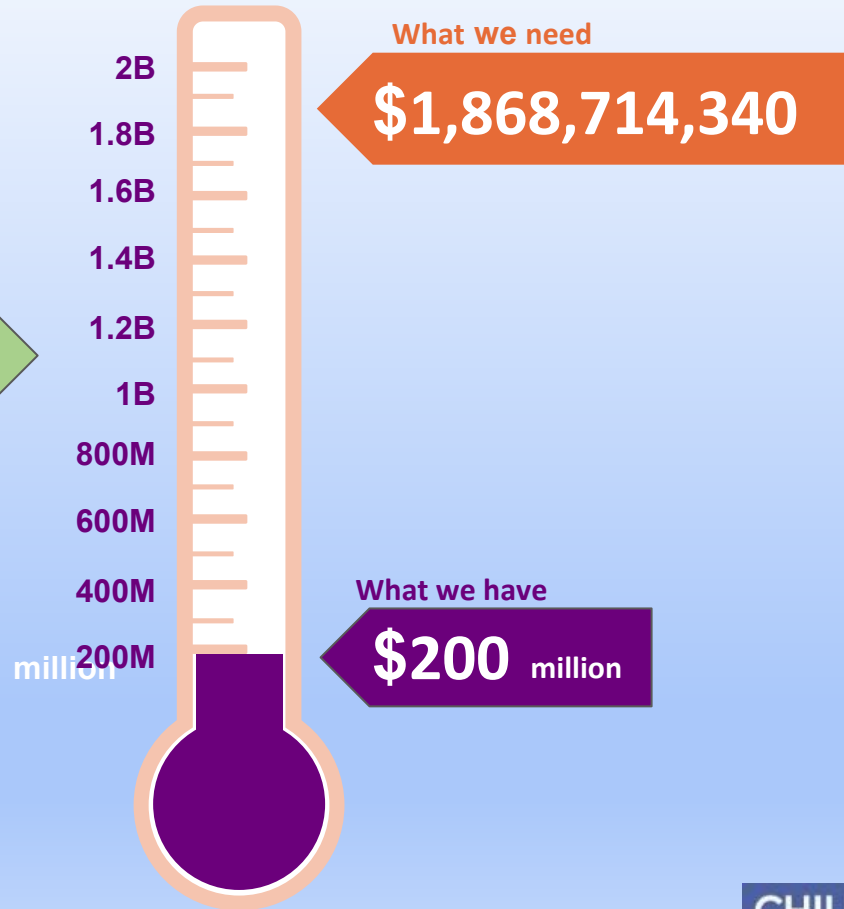
Filling the gap

\$1,668,714,340 to fill the gap

Funds may come from federal, state, and local sources

State can make choices for implementation over time, for example

- *Serving highest need kids first*
- *Sliding scale family fees at first*



GENERATE: Revenue Options & Funding Mechanisms

Common

City or County dollars

State dollars

Federal dollars

Local United Way

Local Foundation

National Foundation

Individual Donors

Corporations

Fee Based Services

Emerging

Voter-approved Children's Funds

Community Benefit Agreements

Individual or Business Tax credits

Pay for Success

Medicaid reimbursements

Community Reinvestment Act agreements

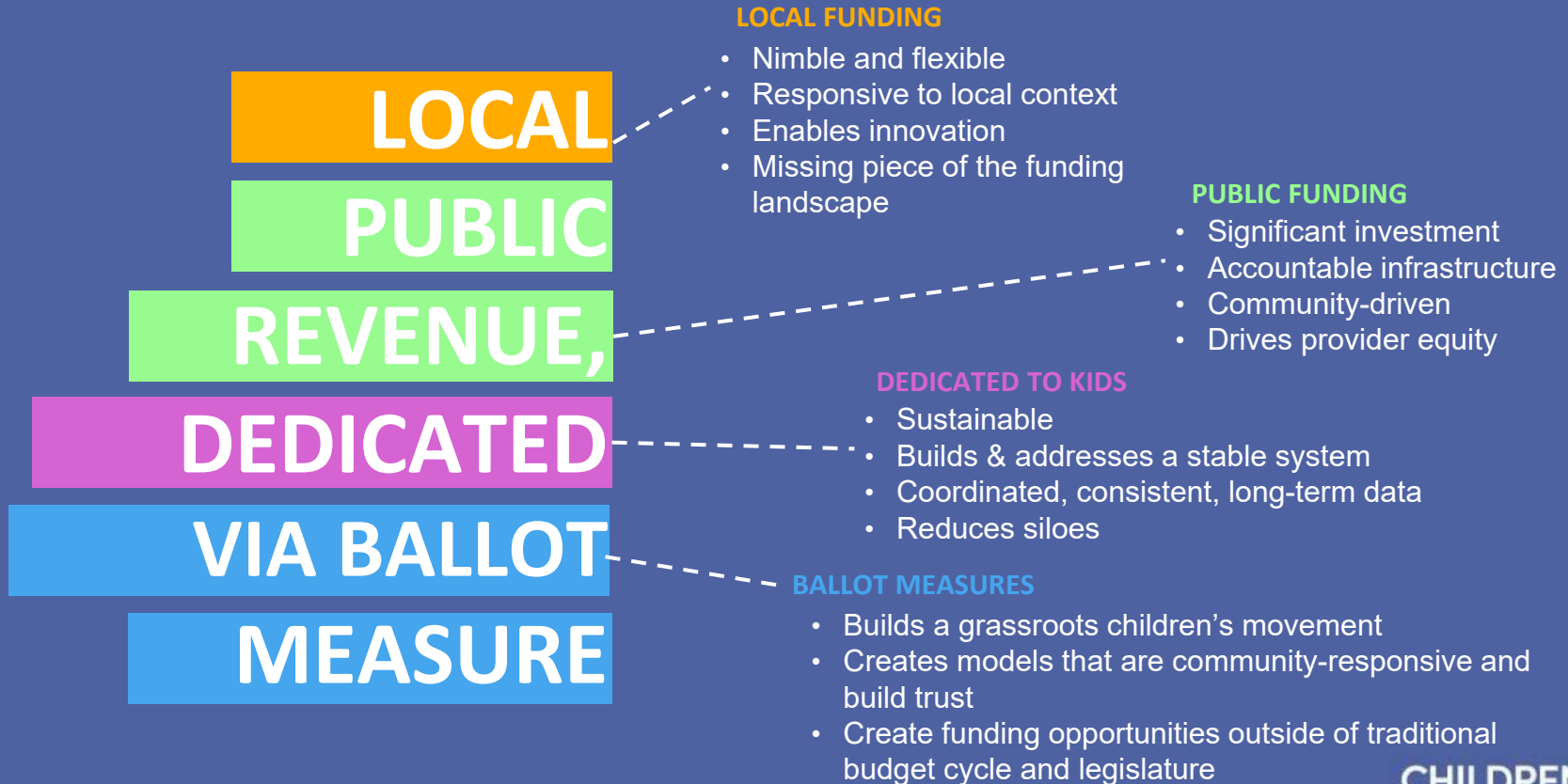
Profits from publicly held assets

Reforming tax exemptions

PILOT recapture

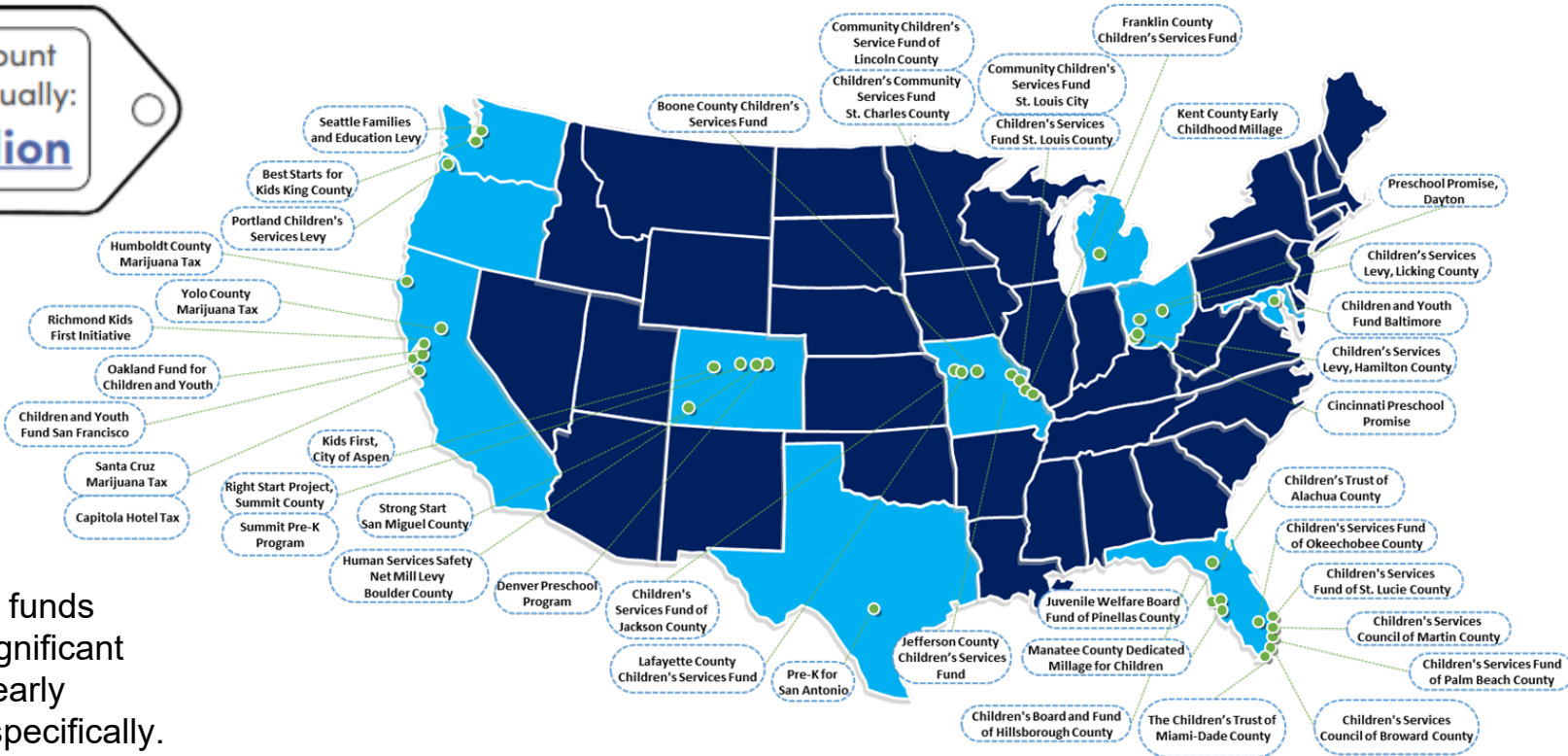
In kind facilities usage

What is a *voter-approved children's fund*?



Local Dedicated Funds – the reach

Total amount raised annually:
\$1.1 billion



18 of these funds dedicate significant funding to early childhood specifically.



- On April 30th, voters in New Orleans successfully passed a new **property tax** that will generate **more than \$21 million annually** for early childhood programs in the city.
- Revenue will fund **more than 1,000 high quality seats for children ages 0 – 3 years** from low-income families.
- Revenue is **aligned with state funding**, allowing the state of LA to contribute matching funds that will create over 2,000 new seats (5x current amount)

Current ex: NM Land Grant Permanent Fund Distribution for Early Childhood Education Amendment

- NM Funding for Early Childhood Programs Amendment is on ballot as a legislatively referred constitutional amendment
- Measure allocates 1.25% of Land Grant Permanent Fund (LFPF) to early childhood education (60%) and public education (40%)
- In FY2023, an estimated \$126.9 million would be allocated for early childhood education
- LGPF come from leases & royalties on non-renewable natural resources (oil & gas)

Contact Information

About Us

Children's Funding Project is a nonprofit social impact organization that helps communities and states expand equitable opportunities for children and youth through strategic public financing. Through our hands-on technical assistance and collection of resources, we help advocates, policymakers, public agencies, and funders identify and align existing funding, generate new revenue, and implement strategies to administer funds in ways that maximize their impact.

Get In Touch

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A Cost Model
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Traditional child care subsidy strategy

- Rates are set to provide access to as much of the child care market as possible for as many families as possible, without exceeding the appropriation
- Primary tool for understanding the level of access provided: Market Rate Survey


Assumptions with this approach:

- The market will set prices at levels that at least cover providers' net costs (otherwise, the businesses will fail)
- The state doesn't need to worry about actual costs—its function is to off-set tuition for families who cannot afford to pay



QRIS & Tiered Reimbursement disrupted this strategic paradigm

- States created tiered program standards that had meaningful implications for operating costs
 - Increased staff qualifications
 - Reduced group sizes
 - Costs for assessments, curriculum, etc.
- Cost modeling in child care was initially used to highlight the disparities between these increased costs and the increased reimbursements



The cost-estimation-as-solution fallacy

There is a tendency in the advocacy world to see cost estimation models as a “cure-all” for the challenges in the funding model for the child care system

There is an assumption that we need to “Just set rates by using a cost estimation model”

That might meaningfully address existing challenges if the state were essentially becoming the sole purchaser of child care services

BUT, in current system, an ECEC funding strategy needs to be much more complex

Different parts of the EC system use different funding mechanisms and strategies

Head Start—individualized grants

- Grantees propose budgets based on program and anticipated costs
- Federal regions negotiate these budgets with grantees
- Result: Wide variation in the amount of funding each grantee receives

Home Visiting—mostly individualized grants

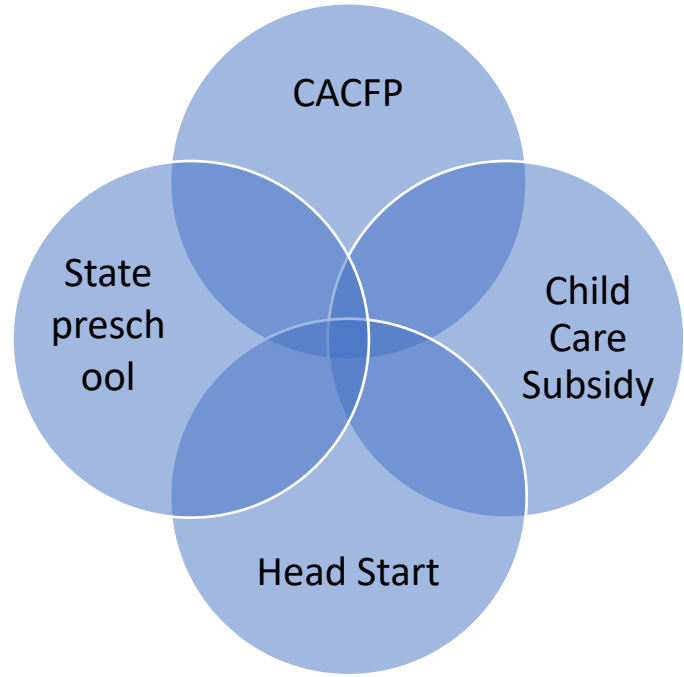
- States may vary in whether they individualize amounts of funding or they provide a standardized amount per participant/caseload/program

State preschool—many approaches


- Integrated into K-12 school funding formula
- Per-child or per-classroom funding formula outside of K-12
- Competitive grants (with individualized or standardized funding)

.....

In the real world, funding strategies overlap



Programs that are providing essentially the same services can be funded by one, two or many public funding streams, often in addition to tuition and fees from families



Cost modeling can estimate what it costs to provide a given set of services or to build a system of services, meeting a given set of structural quality standards

This informs the development of a funding strategy—it doesn't dictate the strategy

Example from Illinois: High-quality, comprehensive, full-day, year-round ECEC

- Cost model has identified the cost of this service:

	Chicago Metro Area	Balance of State
Infant/Toddler	\$33,095	\$28,439
Preschooler	\$20,715	\$17,970

- The State has to develop a strategy to ensure that programs receive this level of funding from whatever **combination** of funding streams they access (e.g., State education funding, Early/Head Start, Child Care Assistance, CACFP, etc.)

A black and white photograph of two young children, a girl on the left and a boy on the right, both wearing denim overalls. They are looking down at a white, scalloped-edged crown that the girl is holding. The background is a bright, slightly out-of-focus indoor setting.

New Mexico System Approach: 4-Year Finance Plan

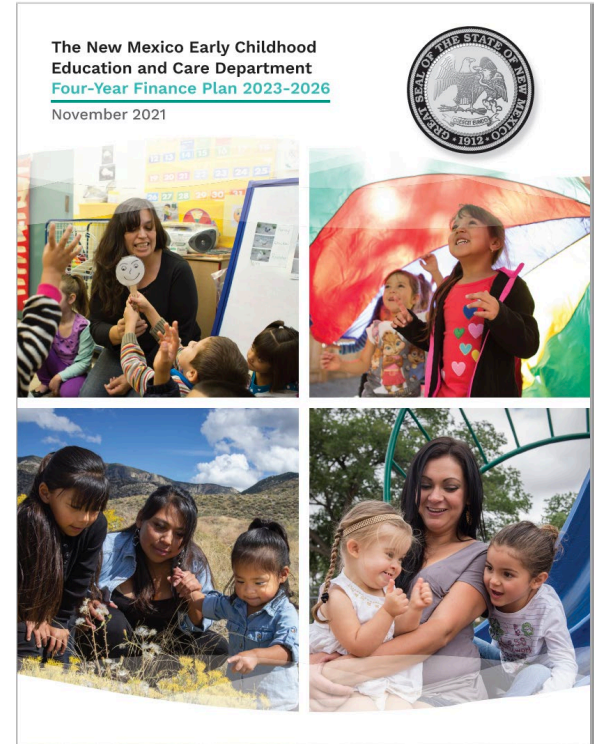
Jeanna Capito
Simon Workman

The logo for P-5 Fiscal Strategies is located in the top right corner. It features a stylized bar chart with five bars of increasing height from left to right, positioned above the text 'P-5 Fiscal Strategies'. The 'P' and '5' are large and bold, with a play button icon integrated into the '5'. The text 'Fiscal Strategies' is in a smaller, sans-serif font below it. The entire logo is enclosed in a light blue rounded rectangular border.

P-5
Fiscal
Strategies

- Comprehensive system wide approach
- Pieces of this approach:
 - Child care Revenue and Expense Model
 - Home Visiting Cost Model
 - System Revenue and Expense Model
 - System Action Plan
 - Funding to work on this approach

Legislatively mandated Finance report served as an opportunity to do what is needed for good system change.



System Plan and Model encompass:

- Governance and Shared Leadership
- Financing and Fiscal Strategies
- Assessment and Planning
- Professional Development and Technical Assistance
- Continuous Quality Improvement and Implementation
- Monitoring and Accountability

Cross Sector Focus:

- Early Care and Education
- Home Visiting
- PreK
- Early Intervention

*Department supporting these
and other infrastructure for
the prenatal to five period in
New Mexico*



Four-Year Finance Plan: Background

- Rolling four-year finance plan statutorily required by SB22, the 2019 bill that created ECECD
- Developed in partnership with national experts at PN-5 Fiscal Strategies
- Creates a funding framework to fulfill legislature's vision of creating a world class PN-5 system of programs and services for New Mexico



ECECD Four-Year Finance Plan: Key Findings

- Funding for prenatal to five (PN-5) early childhood services is too often linked to available funding, not actual cost of services, resulting in low wages and compensation;
- Quality supports for PN-5 are not resourced at the level truly needed to provide ongoing professional development, capacity building, and access to staff mental health that is needed for the type of trauma-responsive, relationship-based work these services present; and
- Partners at all levels can support investments in the PN-5 system, including local communities, sovereign nations, the federal government, business and philanthropy.



Four-Year Finance Plan: Expected Outcomes

- Ensure all families and young children have access to programs and services, more choices
- Higher quality services delivered by a well-compensated and credentialed workforce
- Short and long-term improvements in educational and health outcomes
- Widespread economic and societal benefits



Four Year Summary of Projected Expenditures

	FY23	FY24	FY25	FY26
Child Care	\$213,092,489	\$373,951,403	\$416,304,137	\$533,509,927
PreK	\$107,500,540	\$112,419,370	\$120,667,566	\$125,622,136
Home Visiting	\$49,526,657	\$92,585,705	\$100,276,042	\$108,713,168
FIT	\$63,049,652	\$73,338,093	\$77,844,070	\$85,463,022
Quality Supports and Infrastructure	\$72,714,582	\$74,261,341	\$82,713,432	\$89,981,220
Total	\$505,883,920	\$726,555,912	\$797,805,247	\$943,289,474

Four Year Summary of Projected Revenues

	FY23	FY24	FY25	FY26
Child Care	\$221,785,298	\$156,110,300	\$156,110,300	\$156,110,300
PreK	\$109,161,500	\$104,057,400	\$104,057,400	\$104,057,400
Home Visiting	\$50,422,394	\$45,116,900	\$45,116,900	\$45,116,900
FIT	\$64,253,656	\$67,888,649	\$70,592,235	\$75,163,606
Quality Supports and Infrastructure	\$78,460,113	\$56,430,398	\$57,141,831	\$57,857,493
Total	\$520,643,888	\$429,603,647	\$433,018,666	\$438,305,699

Projected Revenue Gap

	FY23	FY24	FY25	FY26
Revenue Needed	-\$14,759,969	\$296,952,265	\$364,786,581	\$504,983,775

Child Care Model

- Changed rates to address inequity in funding family child care
- Increased infant and toddler rates to cover cost of care
- Increased compensation levels used

Home Visiting Model

- Increased rates paid for home visiting services by 50%
- Used model to address inequities in Medicaid rate setting across HV types

System Model

- Supported increase in child care eligibility ceiling and elimination of parent co-pays
- Budget and planning for use of Trust driven by quality, access and associated infrastructure needs for the system