

Children's Funding Project

Cost Modeling to Inform Revenue Strategy

EC Cost Modeling Technical Network

December 1, 2022



Early Childhood Cost Modeling Technical Network

The **Early Childhood Cost Modeling Technical Network** brings together practitioners who build policy-focused early childhood cost models to share best practices.

1

This is a “safe space” to share our experiences, including our challenges.

2

We will work towards developing best practices and building a “field” of EC cost modeling.

3

We welcome those who are new to this work and will think together about how to support new entrants to the field.

Children's Funding Project

Through our hands-on technical assistance and collection of resources, we

- **help** local and state leaders and public agencies understand the multiple sources that fund services for children and youth;
- **coach** policymakers on aligning existing funds with local and state priorities and implementing strategies to maximize their impact;
- **equip** advocates with the skills and resources to build public and policymaker support for children and youth services and to generate new and sustainable revenue sources;
- **collaborate** with communities and states to develop customized financing solutions tailored to their needs and goals; and
- **build** collective momentum toward an equitable and proactive approach to children's funding.



Strategic Finance Planning

Strategic finance planning picks up where strategic plans often leave off. It identifies:



Fiscal Mapping

Current Investments

How much money, if any, is currently invested in key parts of the strategic plan?



Cost Modeling

Actual Cost of Services

What will it cost to scale currently funded activities? What will it cost to fund activities that do not currently exist or are not yet funded?



Revenue & innovative financing options

New Revenue Sources to Fill Gap

What revenue streams can we use to pay for identified costs?



Narrow Cost Analysis

Purpose: To evaluate gap between costs and payment rates. Cost information should be used to narrow difference between costs and rates.

The purpose of a narrow cost analysis is to provide additional information for states to consider when setting payment rates, but states can determine how much weight to assign its outcomes in the rate-setting process.

Per the Administration for Children and Families (ACF), "While Lead Agencies do not need to set rates based on the analysis, states are expected to evaluate the gap between costs and payment rates as part of their strategic, long-term approach to setting rates that support equal access."

State Example: Infant and Toddler Child Care Investment Gap

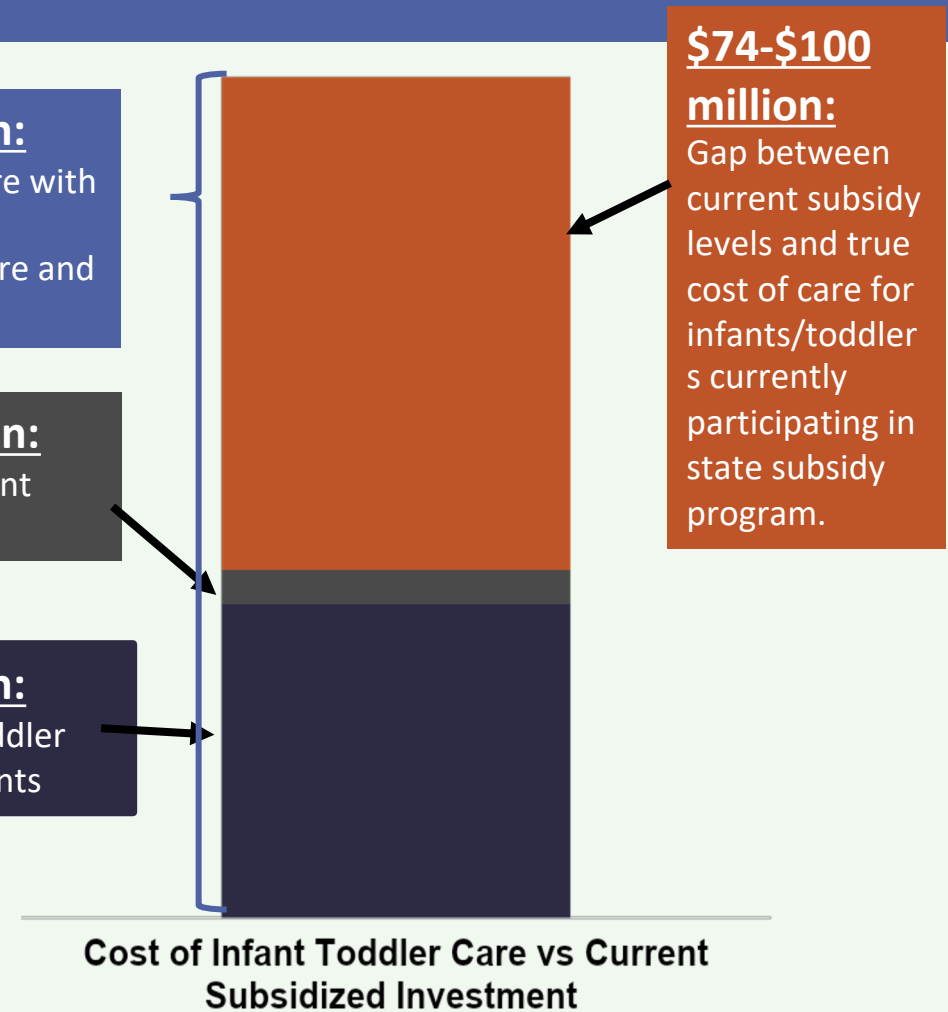
Goal: Every low-income family with an infant and/or toddler will have equitable access to affordable, high quality, culturally and linguistically responsive early care and education.

AGE	Cost with Current Salaries & Staffing	Cost with Recommended Salaries & Staffing	Average Current Subsidy	% Rate Increase Needed to Fill Current Gap	% Rate Increase Needed To Fill Recommended Gap
<i>Infants & Toddlers</i>	\$16,530	\$20,630	\$10,588	56%	95%
<i>2-year-olds</i>	\$11,808	\$14,814	\$9,300	27%	59%
<i>3-year-old preschool</i>	\$8,891	\$11,221	\$9,300	NA	21%
<i>4-year-old preschool</i>	\$7,496	\$9,502	\$8,483	NA	12%

\$251 million:
True cost of care with recommended staffing structure and salary levels

\$17.5 million:
Estimated parent copay

\$159 million:
FY20 Infant Toddler Subsidy Payments



System-Level Cost Modeling

Purpose: To determine the total cost of providing high-quality early education and care services to families and children, based on the parameters set by state rules and regulations.

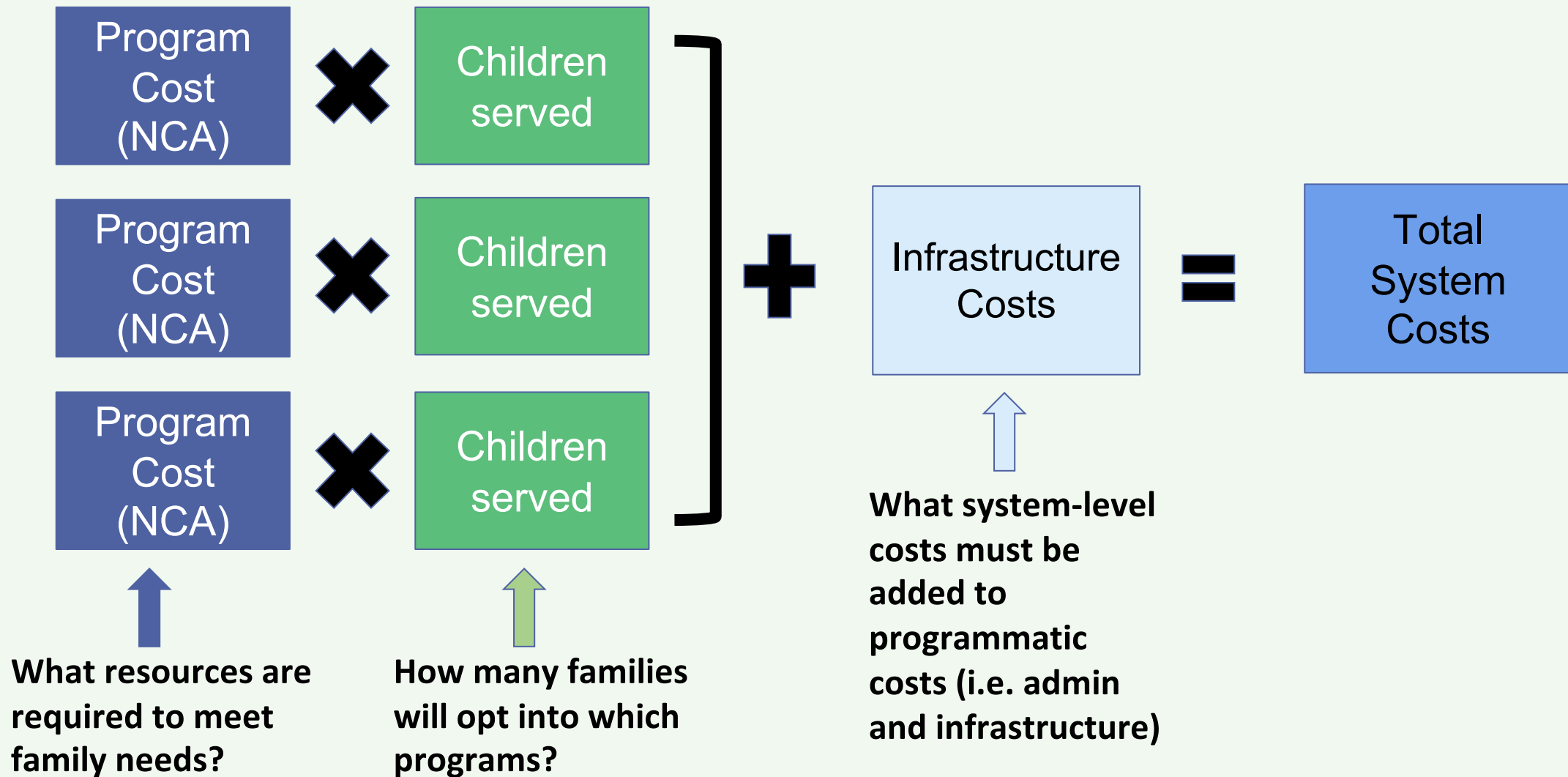
System-level cost models commonly assess the cost of:

- universal access to early education and care services
- minimal or no parent contribution
- adequately supported workforce

Common additional components:

- Dual language learners
- Children with disabilities
- non-traditional hour care
- infrastructure/administration
- facility expansion/capital costs

Simplistic Formula for System Cost



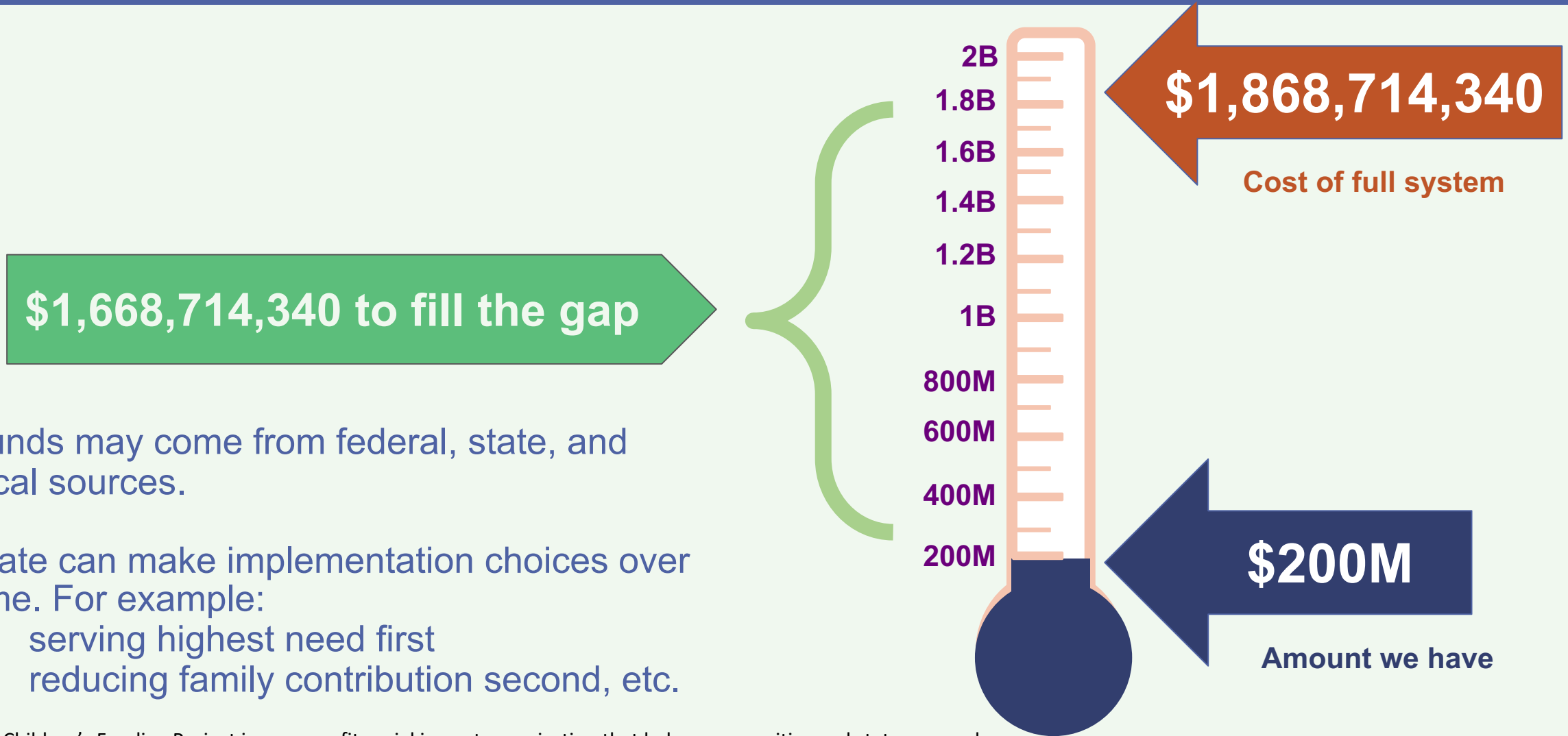
Example: System-Level Cost Estimate



Issue	Policy Recommendations	Research & Considerations	Cost Estimate
Who	<p>Universal, Voluntary (available to all) – 71% total participation</p> <ul style="list-style-type: none"> • Ages 2-4: 85% of families choose to participate (similar to private) • Ages 0 and 5: 50% not included (at home or in public Kindergarten) <p>Available to all at no cost over time (initial sliding scale/co pay)</p>	<p>Based national and state data, early childhood and K-12</p> <p>Pre-K / NIEER</p>	\$1.4B
Where	<p>Mixed Delivery settings with family choice</p>	<p>Best Practice– group recommendations</p>	
Staffing & Compensation	<ul style="list-style-type: none"> • Compensation scale and recommended ratios in Cost of Care Quality • Includes quality enhancements for additional professional development supports and educational materials. • Staffing patterns include family engagement specialists, health consultants, curriculum specialists, and coaches. 	<p>Cost of Care Model</p> <p>Compensation scale</p>	\$327M
Children & Families' Needs	<ul style="list-style-type: none"> • 12% of children with special needs: 25-300% additional funding per child to cover personnel and materials, with 3 levels of intensity • 20% of children dual language learners: \$2500/dual language learner child • 25% of families needing non-traditional hours care: 20% financial incentive for non-traditional hours care, majority in FCC 	<p>National data</p> <ul style="list-style-type: none"> • SPED: NCES and NWLC • New America • Urban Institute <p>State K-12 Funding Allocations</p>	
System Costs	<ul style="list-style-type: none"> • 8% for State administrative increase 	<p>National Academies</p>	\$138M



Example: System-Level Cost Estimate



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

Funds may come from federal, state, and local sources.

State can make implementation choices over time. For example:

- serving highest need first
- reducing family contribution second, etc.



Cost Modeling at the System Level



Discussion questions

- Who is doing system-level cost models? What do you call this type of cost model?
- What do you feel are/would be the biggest/hardest/most important decision points?
- The large price tag associated with system-level cost models can be shocking. How have places you've worked with presented this gap and approached closing it?
- How do you/would you incorporate equity challenges into system-level cost modeling analyses?

Thanks

Kate Ritter and Sarah Eicher
kate@childrensfundingproject.org
sarah@childrensfundingproject.org

CHILDREN' 
FUNDING PROJECT