

Cost Models: Critical Tools for EC Financing





What is a cost model?

A cost model is a budget built with the capacity to answer critical questions that are relevant to operations and forecasting

What is the annual cost per child to serve infants, toddlers, preschoolers, and school age children?

What might happen to my center's bottom line if I converted some preschool classrooms to 2-yr old classrooms?

What percentage of this program's budget is going to the classroom vs to administrative costs?

How much more revenue per child (or per classroom) would I need to increase my teacher's wages to a competitive level?

A Cost Model starts with a basic budget

PERSONNEL COSTS		
Salaries/Wages		
Owner/FCC Educator	\$	48,880
Assistant	\$	-
Substitute	\$	3,205
Other	\$	-
Other	\$	-
Total Salaries/Wages	\$	52,085
Benefits/Payroll Taxes		
FICA	\$	3,985
Health Insurance	\$	1,064
Worker's Compensation	\$	21
Retirement	\$	-
State Unemployment Tax	\$	46
Federal Unemployment Tax	\$	192
Other Fringe	\$	-
Total Benefits/Payroll Taxes	\$	5,308
NON-PERSONNEL COSTS		
Food	\$	10,200
Legal/Audit/Accounting support	\$	700
Child Care Equipment Repair/Depreciation	\$	661
Supplies & Equipment (Incl. Office & Educational)	\$	1,070
Insurance: Liability/Business	\$	700
Staff training & education	\$	513
Telephone & Internet	\$	1,272
Rent/Lease/Mortgage	\$	7,133
Homeowner's Insurance	\$	288
Utilities (gas, electric) & general home repairs	\$	1,777
Repairs and Maintenance, cleaning for home	\$	317
Consultation Services	\$	500
Transportation for field trips	\$	306
Miscellaneous	\$	1,634
Total Non-Personnel Costs	\$	27,071
OTHER EXPENSES/RESERVES		
Reserves/Capital Recoup	\$	-
Indirect Administration	\$	-
Total Other Costs	\$	-
TOTAL HOME EXPENSES	\$	84,464

Costs can be allocated across age groups to produce per-child costs

Allocation of costs by age group						
Personnel	FTE	Salary	Total Expense	Infant/Toddlers	Twos	Preschool
Site Director	1	80,000	80000	16,410	12,308	51,282
Additional Professional Staff (out of classroom)/Assistant Principal	2.75	55,000	151250	31,026	23,269.23	96,955
PreK Lead Teachers	5	53,000	265,000			212,000
Birth - 3 Lead Teachers	6	43,000	258,000	172,000	86,000	
Teacher Assistants	11	35,000	385000	140,000	70,000	140,000
Classroom Aides	11	29,250	321750	128,700	64,350	128,700
Lead Floater teacher/sub	2.2	50,000	110000	44,000	22,000	44,000
Assistant floater teacher/sub	2.2	32,000	70400	28,160	14,080	28,160
Family Support Specialist	5	40,000	200000	41,026	30,769	128,205
Cook	1	28,000	28000	5,744	4,307.69	17,949
Administrative support	1	40,000	40000	8,205	6,153.85	25,641
Janitor/maintenance	1	28,500	28500	5,846	4,384.62	18,269

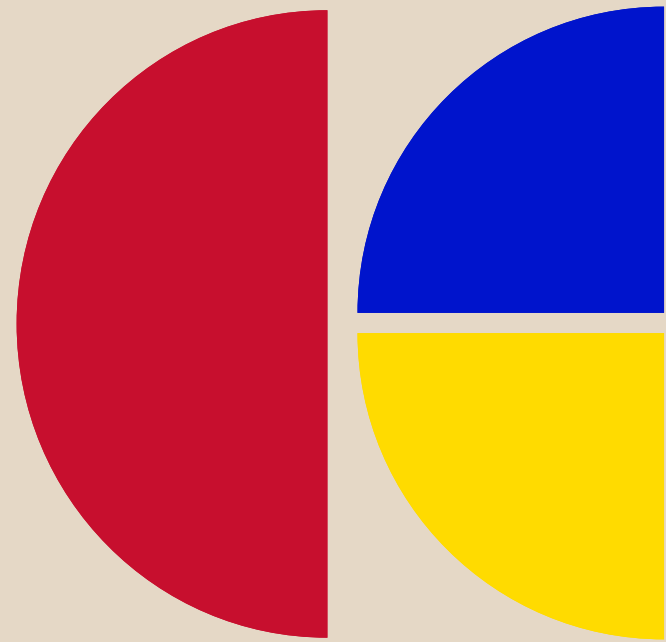
A cost model uses variables and formulas to answer key “what if” questions

Instead of building a budget with static numbers, a cost model uses Excel formulas

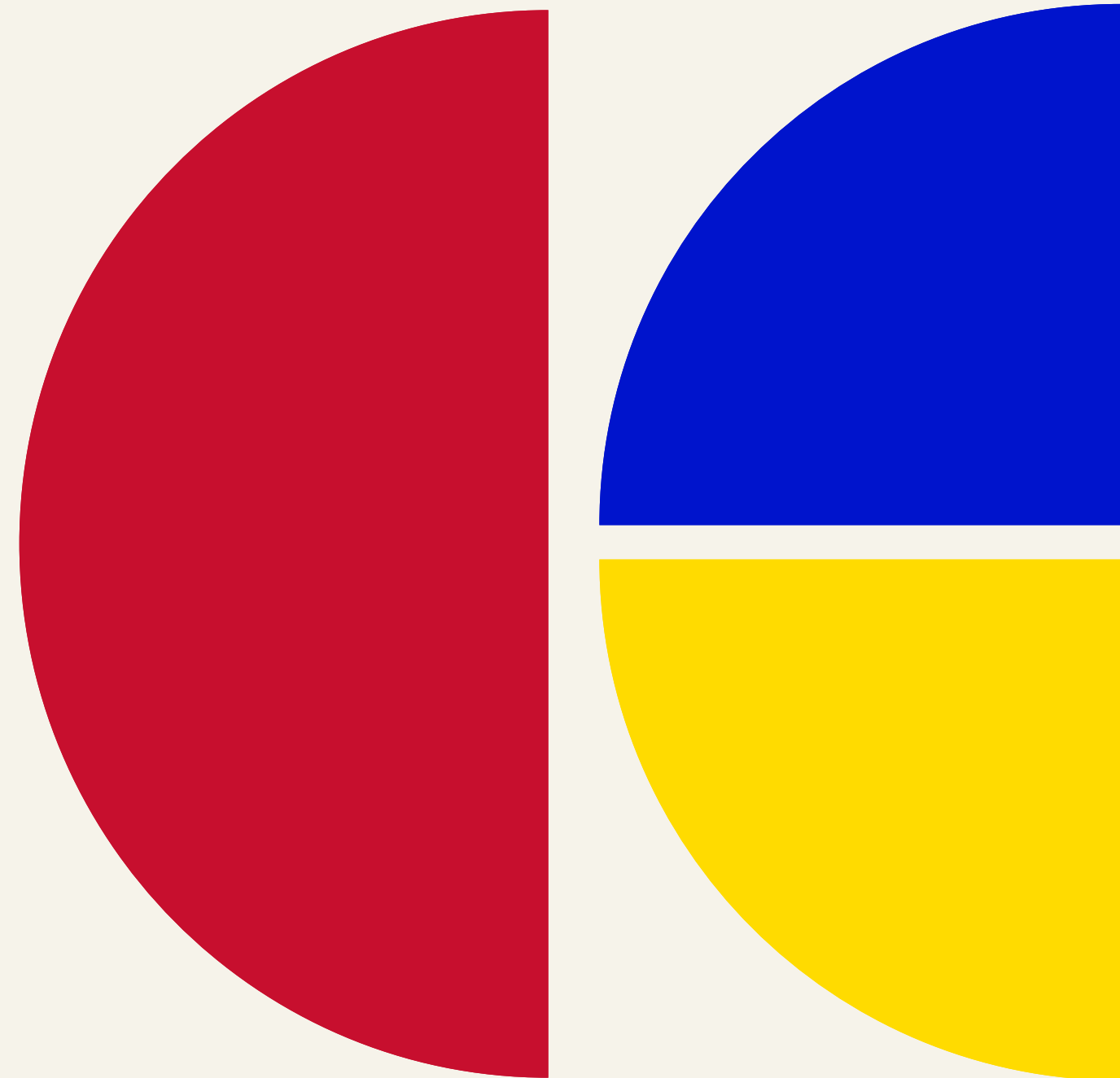
Examples:

- The total cost of educational supplies = (per-child cost) x (# of children)
- Total lead teacher salaries = (# of classrooms) x (#FTE lead teachers per classroom) x (lead teacher average salary)

In a cost model, each of these variables can be changed to discover what the impact would be on overall cost and program financial viability



Live Demo of Program Cost Model



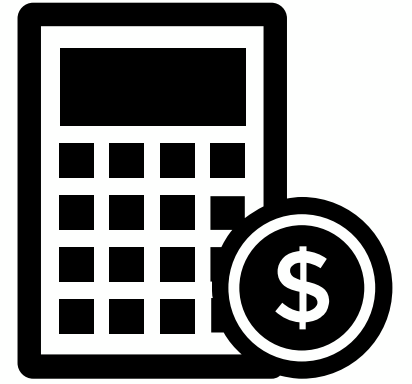
Cost Modeling for Policy

How states are using cost modeling to design
child care financing strategy



Historically, the federal Administration for Children and Families (ACF) has guided states to focus on comparing reimbursement rates to market **prices**.



Goal: 75th percentile of market rates



Now, federal regulations also require states to look at the **cost** of providing services.

Goal: Meeting the “true cost of care” for high-quality services

Prices and **Costs** are two primary sets of information needed to set subsidy rates and overall funding policy for child care

	Prices 	Costs 	
Tool used	Market Rate Survey	Basic Cost Analysis	“Cost of Quality” Analysis
What it answers	How much are providers charging private-pay families for care?	How much does it cost providers to operate their programs while meeting required health and safety standards?	How much does it cost providers to operate their programs with high quality and adequate compensation?
Why we use it	To understand the extent to which subsidy rates allow parents to access the full market of available care	To understand the extent to which subsidy rates and market rates allow providers to cover the current cost of care	To understand the funding that will be needed to sustainably implement high quality services

Prices and costs together give an understanding of how well the child care market is functioning

How we know whether the market is functioning well

Rate setting implication



The child care market is functioning well when:

Providers are able to charge private-pay families sufficient fees to cover their full costs

Subsidy rates should focus on ensuring families have access to the largest proportion of the market possible



The child care market is NOT functioning well when:

Providers are NOT able to charge parents high enough fees to cover the cost of providing high quality services

Setting subsidy rates to match market rates will not be enough to support the viability of the child care market

What a Policy-Focused Cost Model Is, and What it is Not

A cost model is

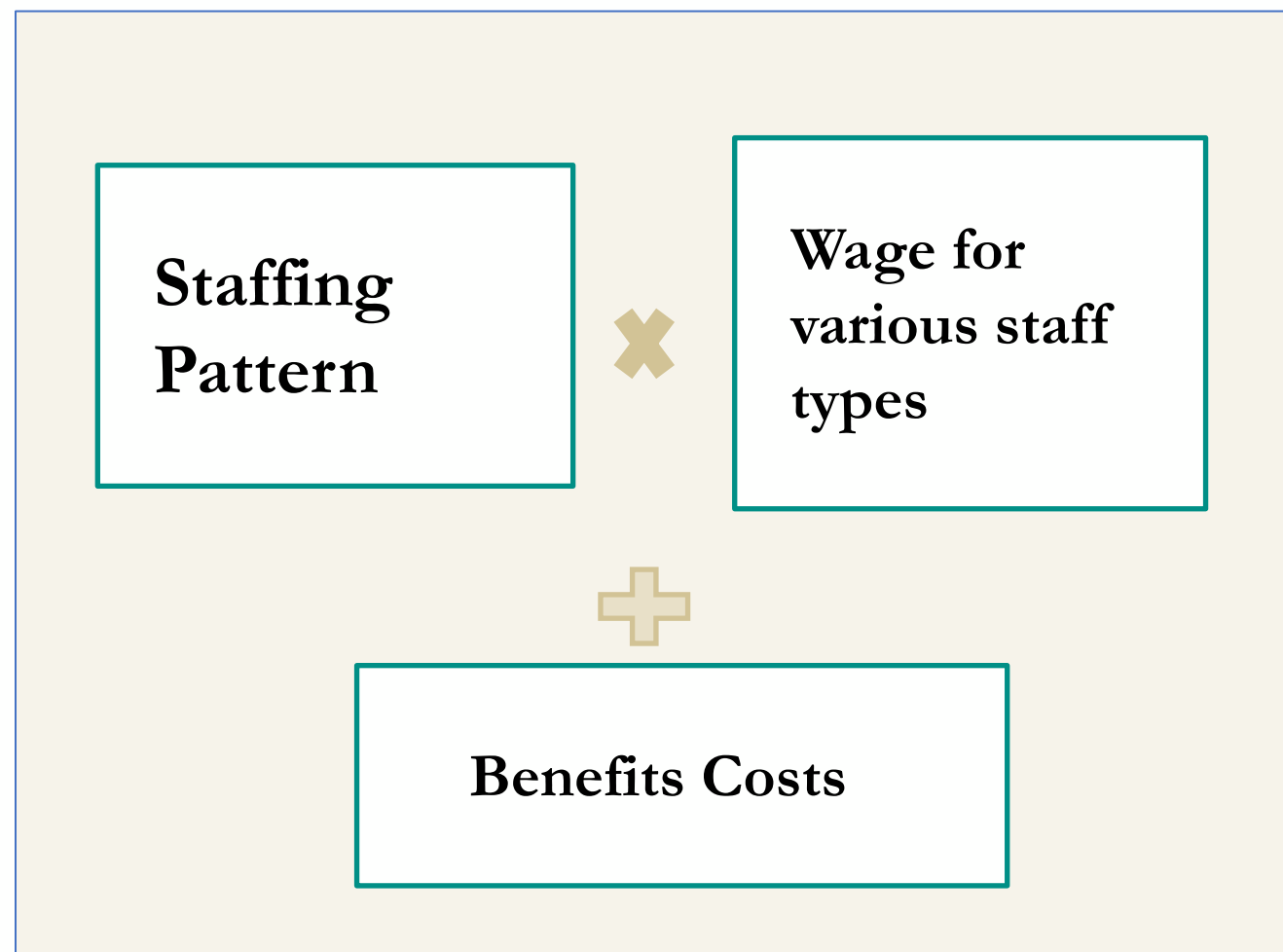
- A representation of a 'typical' child care center or home-based program using strong business practices
- Informed by extensive data collection and analysis of the state's ECEC data and other publicly-available data
- 'Pressure-tested' by providers, state administrators and other state-based experts
- Aligned with the Provider Cost of Quality Calculator (PCQC) data points
- Meant to inform state funding and policy decision-making

A cost model is not

- A program-by-program representation of actual daily costs of any one child care center or home
- Meant to be used by providers for budgeting purposes
- Meant to be used as the sole driver of reimbursement rates paid to providers by the state
- Only relevant for understanding child care—preschool funding systems need cost models, too!
- Only representative of subsidized child care—rather it is meant to *model* the entire ECEC system in your state

Cost for Centers

Personnel Costs



Non-Personnel Costs

- Occupancy Costs
- Food
- Supplies
- Contacted Service

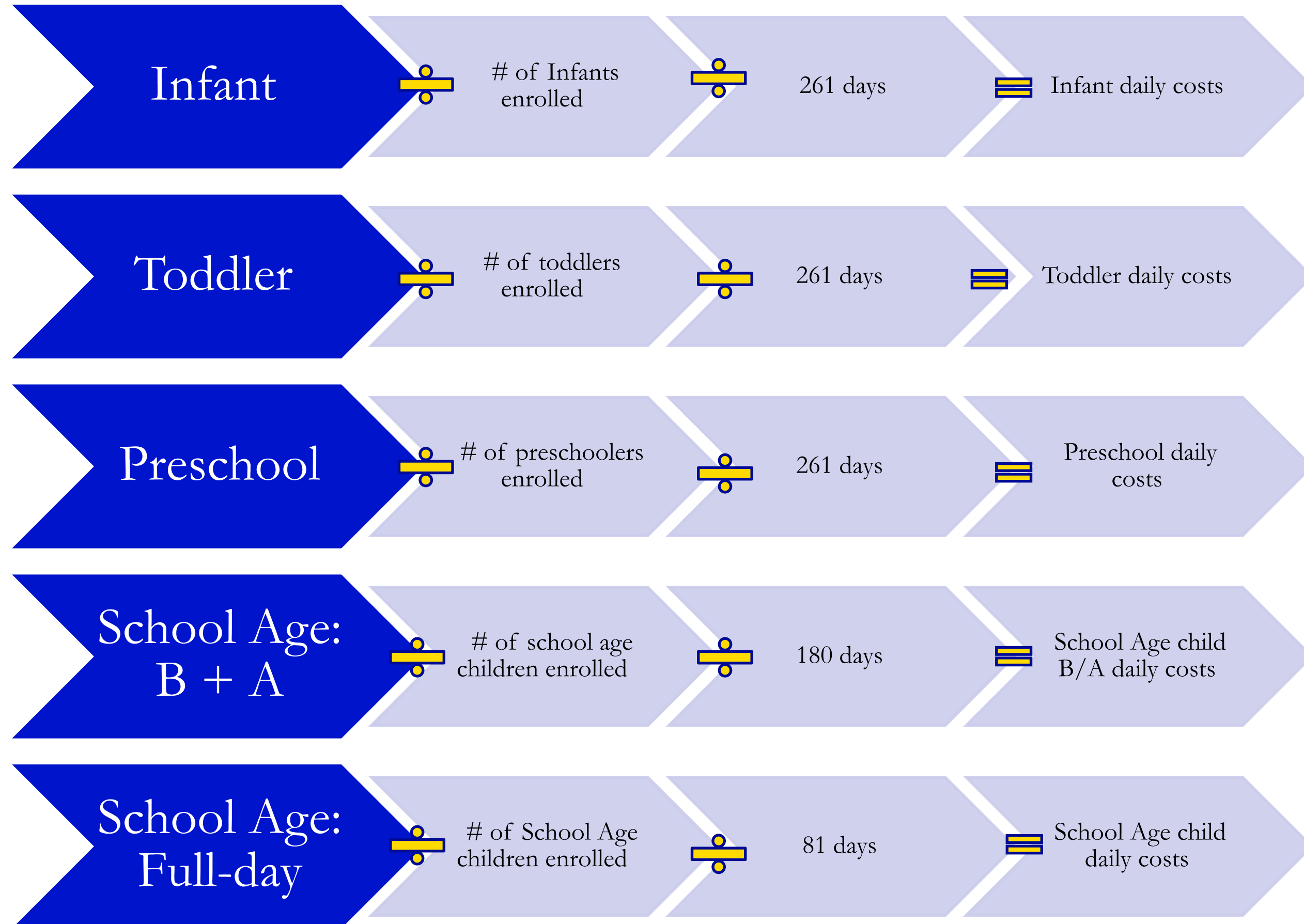
Total Costs

Total Program Costs*

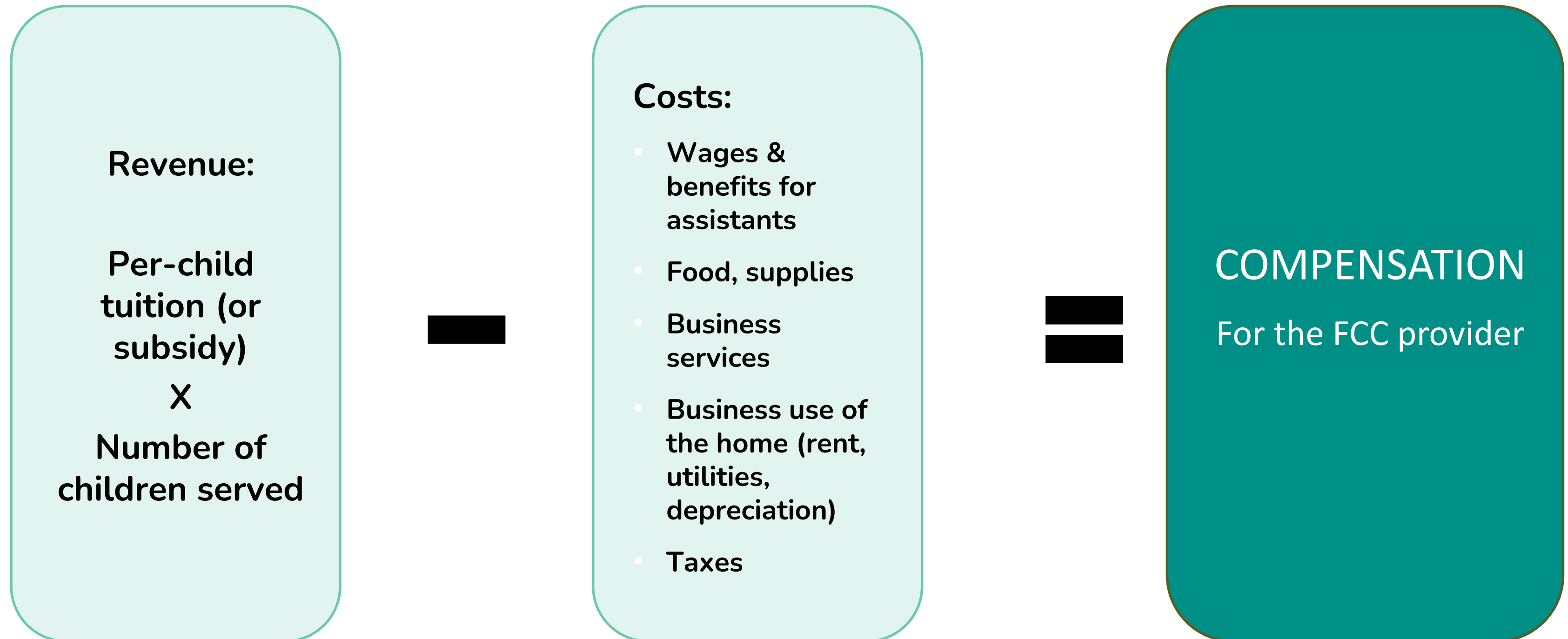
* Includes 5% "reserve" of "profit" and 3% uncollectable allowance

Calculating Daily Costs Per Child

Total Costs is approximated by age group



Business Formula Used for Family Child Care Cost Model



Calculating Cost in FCC

