



Cost Estimation Study Executive Summary

PREPARED FOR THE MAINE OFFICE OF CHILD
AND FAMILY SERVICES

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Center for Early Learning Funding Equity

Center for Early Learning Funding Equity (CELFE) builds capacity for assessing adequacy and equity in early learning funding systems through research and transformative partnerships. We create innovative approaches and funding mechanisms that support the diverse needs of children and families. We bring decades of experience in developing and implementing early learning systems at the state and local levels and are driven by our deep belief in the power of early experiences to shape the trajectory of children's lives. To learn more about CELFE, please visit celfe.org

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This report was prepared by Center for Early Learning Funding Equity (CELFE) for the Maine Office of Child and Family Services. It does not necessarily reflect future proposals of the Department of Health and Human Services or convey support for specific legislation. The Department will continue to engage internally and with partners on specific initiatives as appropriate.



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The Maine Office of Child and Family Services (OCFS) is committed to supporting access to affordable, high-quality early education and care for children and their families throughout the state. The state made nation-leading investments to sustain child care providers through the COVID-19 pandemic and continues to explore effective approaches to supporting child care providers' ability to attract and retain a qualified workforce and provide high-quality experiences that meet children's and families' needs. Understanding the cost of early childhood education and care (ECEC) services—and the key cost drivers experienced by child care providers—is an essential first step in developing an overarching and effective financing strategy for Maine's child care system.

OCFS engaged an external consulting and research firm, Center for Early Learning Funding Equity (CELFE)¹, to 1) study and develop a model to understand the cost of providing child care in the state and 2) use this research to provide recommendations on the child care subsidy rate structure and other strategies for improving the child care funding system. This work aims to address ongoing challenges, such as improving child care affordability, raising compensation for the child care workforce, and ensuring access to high-quality child care across the state. Maine joins a small but growing number of states that are completing in-depth studies of the cost of child care to inform their child care funding policy.



A “Cost Model” refers to a comprehensive modeling tool to estimate the cost of providing child care.



A “cost estimation study” refers to an analysis completed with a cost model tool using a set of parameters, or assumptions, decided upon after data analysis and stakeholder feedback.

To estimate the cost of providing child care services, CELFE created cost models to study the cost of care and investigate to what extent there are revenue-expense gaps for typical providers under current market conditions. CELFE created separate cost estimation studies for two primary provider types in Maine—Center-Based and Family Child Care (FCC)—to capture the unique cost drivers for these different business models.

¹ Center for Early Learning Funding Equity. “Home | Center for Early Learning Funding Equity.” Accessed July 5, 2023. <https://celfe.org/>.



A cost model is a tool for states and system administrators to use to inform their overall financing strategy, including:



Understanding child care financial assistance reimbursement rates



Identifying and quantifying specific 'cost-drivers' in a child care program



Understanding the difference between the typical costs providers incur and the prices they charge (*prices are studied separately in a Market Rate Survey*)

A cost model is not a reflection of any individual child care program's costs nor is it meant to be used by providers as a reflection on their day-to-day costs in administering their programs. Instead, the cost model aggregates data from a wide range of child care programs, and—after refinement following stakeholder input and feedback—provides a systems-wide view of the cost of providing care given current conditions. The model further allows exploration of the likely cost of quality improvements, improved compensation, comprehensive services such as health and family engagement services, and other improvements to the child care system that states are interested in exploring. The models serve as an important tool for OCFS to develop an average per-child cost of care using extensive data, research, and provider feedback.

The cost estimation study leveraged the expertise of the ECE Business Collaboratory, an advisory body made up of advocates, provider representatives, and state agency staff that OCFS convened in 2020 as part of a technical assistance opportunity with First Children's Finance convened to promote coordination within child care systems.² To validate assumptions made in this cost estimation study, CELFE conducted multiple listening sessions and interviews with different types of providers and experts in early care and education (ECE) across the state to inform decisions on cost model inputs. CELFE also relied on OCFS Licensing and other program support staff to advise on licensing requirements and additional cost-drivers. The CELFE and OFCS teams, in partnership with the Governor's Office of Policy Innovation and the Future and Maine Department of Education Early Learning Team, reached a consensus on the inputs to the cost estimation study throughout the year-long development process.

Finally, CELFE recommended next steps for research on the cost of child care in Maine and suggested implications OCFS might consider as they use the results of this current research to inform the future development of their funding system for early childhood education and care. CELFE will provide OCFS with focused training and documented use cases so that OCFS can use the cost models effectively in the future as conditions change and updates are needed.

² Strategic Action to Change Child Care Forever!" <https://ecccollaboratory.org/>. Accessed June 10, 2024.

CENTER-BASED MODEL

The Center-Based cost model is structured as a set of “profit and loss statements” that generate estimates of the cost of providing child care services in a center-based setting at the program, classroom, and per-child levels. The categories of assumptions built into the model include staffing patterns (e.g., number of full time staff, FTEs, per classroom), personnel costs (e.g., salaries, health insurance, retirement, etc.), and non-personnel costs (e.g., food, occupancy costs, educational supplies, insurance/liability, etc.). The model breaks out cost by age group and provides estimates for each region for three different operating scenarios.

Operating Scenarios

1

Model 1
Star 2 (Current Salaries)

2

Model 2
Star 4 (Current Salaries)

3

Model 3
Star 4 (Target Salaries)

Our review of licensing and Rising Stars for ME regulations shows that a program that meets licensing standards will be rated as a Star 2 program. A Star 4 program has curriculum, assessment, and administrative requirements that support a higher quality setting for children and merit modeling costs for these separately. Additionally, a Star 4 program is required to have at least 50% of all regular staff at least a level 5 or above on the MRTQ Direct Care Lattice, which corresponds to at least a CDA or Maine state approved credential and 6 years of experience.



In light of the challenge of low early care and education workforce compensation (and resulting staffing shortages) in Maine and nationally, OCFS was interested in understanding what the cost of care would be if salaries and benefits were high enough to attract and retain an adequate workforce. CELFE developed a set of “desired” salary inputs for each geographic region that were anchored by estimates of a “living wage” (for entry-level assistants) and parity with public school teachers (for BA-level teachers) to illustrate the resources that would be needed to raise compensation across the field. While the desired salaries are not intended to be directly included in policy at this time, they help inform the “north-star” vision for the early childhood workforce while also recognizing the current compensation (and related recruitment and retention) challenges that the early childhood field faces. For the methodology used to develop our target salaries, see [Appendix E](#).

FAMILY CHILD CARE

The Family Child Care cost model is structured as a series of aggregate “profit and loss statements” for two types of FCC programs to account for the common staffing and enrollment patterns with which FCC homes typically operate. The categories of assumptions built into the model include staffing patterns, personnel costs, and non-personnel costs. For FCC providers, the cost estimate is based on a target “salary” (or small business profit) for the FCC Educator/Owner that is equal to the current median salary of a center assistant director. The available data on market prices, enrollment patterns, and FCC operational costs suggest that most FCC Educator/Owners currently earn significantly less than this, but OCFS was interested in understanding the cost of an adequate level of compensation rather than current conditions. Like the Center-Based model, the FCC model generates an estimate of the cost of providing child care services in a family child care home by region and by age of child. Unlike the Center-Based model, where costs can be attributed to age-specific classrooms, the FCC model allocates costs evenly across all children enrolled. The model then provides cost estimates for each region for three different FCC provider staffing/enrollment patterns. The staffing/enrollment patterns are as follows:

Staffing and Enrollment Patterns Studies for Family Child Care



**Pattern 1:
FCC Educatory Only**

Capacity of 8 that assumes six children under age six plus 2 school-age children



Pattern 2: FCC Educator with Full-Time Assistant

Capacity of 12 that assumes eight children under age six plus 4 school-age children

The model creates a weighted average of the costs produced for the above staffing/enrollment patterns to generate an overall estimate of the cost of care for family child care programs in each region. CELFE developed the weights for the average cost across the FCC models by analyzing data from the 2024 Market Rate Survey on staffing patterns and enrollment of FCC providers, which showed that approximately 60% of providers match Pattern 1, and 40% match Pattern 2.

For more detailed information on the model assumptions and process to vet the models with providers and other key stakeholders, please see the full report.

Summary of Cost Estimation Results

CENTER-BASED COST ESTIMATE RESULTS

For center-based child care, the full cost study produced a daily cost per child for each age group, county group, and model scenario type. We found:

- Infant and Toddler weekly costs per child are substantially higher than Preschool and School-Age weekly costs across all county groups and all model scenario types.
 - | Compared to serving Preschoolers, the cost of serving Infants is approximately 73-85% more in all county groups, and the cost of serving Toddlers is 43-54% more. This is mainly because serving Infants and Toddlers in centers requires higher staffing levels than serving older children.
- The higher salaries in Model 3 resulted in 13% to 15% higher costs per child across the various age groups and county groups compared to Model 2.
- Costs in County Groups 3 and 4 (Sagadahoc, York, and Cumberland) were the highest across scenario types and age groups.
 - | These higher costs align with the higher cost of living in this region and were primarily driven by the higher wages in these counties.
 - | Compared to the lowest-cost region (County Group 1), the highest-cost region (County Group 4) was 3-4% more expensive for children under age 5.

In addition to our cost study, CELFE modeled revenue to understand how the Child Care Affordability Program's subsidy rate compares to the cost of care. CELFE analyzed the per-child and center-level revenue with the current subsidy rate (set at the 75th percentile of the 2021 MRS) and found that:

- 2021 Reimbursement rates varied widely across Maine's 16 counties.
 - | The weekly rate for full-time center-based care for infants in Cumberland was 64% more than in Aroostook, Piscataquis, and Somerset and approximately 80% more for toddlers and preschoolers.
- The adequacy of the current subsidy reimbursement rate to meet the cost of care varies across geography.
 - | In most cases, the current (2021) OCFS child care subsidy rate was lower than the estimated current cost of care for Star 2 programs (Model 1). The exception to this was preschoolers in Kennebec and Cumberland Counties, where the current subsidy rate is higher than the estimated cost.
 - | The current OCFS rate is lower than the estimated per-child cost for programs meeting Star 4 standards with current wages (Model 2) or target wages (Model 3) at every age group in every county.
 - | The 2021 rates were closest to meeting the cost of care in Cumberland and York counties.

Setting payment rates to the 75th percentile based on the 2024 Market Rate Survey would only widen disparities between rural and poor counties and between Cumberland and York counties.

- Setting the subsidy rate at the 2024 Market Rate 75th percentile would give a much larger rate increase to the counties with the highest rates, whose rates were already the closest to the cost of care.
- For several counties, using the 2024 75th percentile to set the subsidy rate would bring the rate near the Model 1 cost of care for all age groups. Other counties would be left far behind, with a marginal increase that would not approach the cost of care for any age group.
- Increasing rates to the 75th percentile would bring Cumberland and York counties far above Model 1 cost. Sagadahoc, Knox, Waldo, and Hancock’s revenue would be near Model 1 cost, and the rest of the state would have revenue below cost.
- Increasing rates to the 75th percentile would still bring Cumberland’s revenue far above Model 2 cost. York’s revenue would be near Model 2 cost, and revenue for the rest of the state would be far below cost.
- Model 3 cost would only be met in Cumberland County by increasing rates to the 2024 75th percentile of the market rate.

FAMILY CHILD CARE COST ESTIMATES

For Family Child Care, the cost study produced a weekly cost per child for each age group and subsidy region using a weighted average across the three staffing/enrollment patterns that were studied.

Key highlights from the cost estimation results include:

- Across all age groups, the weekly cost per child is highest in County Groups 3 and 4 (Cumberland, Sagadahoc, and York). These higher costs align with the higher cost of living in this part of the state.
- The cost difference between the highest- and lowest-cost regions for all ages was approximately 10%. In contrast, the current reimbursement rate for the Cumberland region is 50% higher for infants and toddlers and 80% higher for preschoolers than counties with the lowest reimbursement rates.
- The cost for serving Infants, Toddlers, Preschoolers, and School-Age is similar in this cost study because of how costs were allocated across age groups. However, it should be noted that costs would be significantly higher per child if a home only served Infants and Toddlers, as per-home costs would remain nearly the same but would be divided across fewer children because licensing regulations limit the number of young children served (see [Sensitivity Analysis section on page 32](#)).
- The cost per child varied across scenarios, with Pattern 2 (Full-time assistant and 12 children) resulting in a total that is approximately 11% higher than the cost of care in Pattern 1 (no assistant).
- In both Scenario 1 and 2, the total cost of an FCC was higher than the revenue generated by the current OCFS reimbursement rate for child care subsidy in all county groups and age groups compared.
- The revenue increase from updating rates to the 2024 75th percentile of the private market rate would approach the cost of care in Cumberland and York counties but would widen inequities among the rate structure.

Recommendations and Next Steps

The full cost estimation study provides OCFS with important information about the cost of providing child care services in various regions of the state. The cost estimates produced by the study can be used with other information sources, such as the Market Rate Survey, to design and inform the early childhood financing strategy. Based on information gathered through this study, CELFE presents the following recommendations for consideration:

Simplify the Subsidy Rate Structure to Better Align with Economic Indicators

At the time of this study, Maine had ten different subsidy regions with a wide range of reimbursement rates paid for child care financial assistance across those regions. Specifically, center-based rates in Cumberland County were 64% higher than rates in Somerset, Piscataquis, and Aroostook County for infants and 80% higher for toddlers and preschoolers. In contrast, the estimated cost in Cumberland County was only 3-4% more than those counties for children under 6.

While economic diversity exists and should inform the child care reimbursement rate, the cost estimate data does not support having ten rate regions. This finding provides OCFS with the opportunity to simplify the reimbursement rate structure by reducing the number of regions. OCFS should also consider giving larger rate increases to communities whose current rates are the furthest from meeting the cost of care.

Use Cost Information to Inform Rates

The results of the cost estimation study are just one part of the information that OCFS can consider as it sets rates. Simply setting reimbursement rates to the cost estimate developed through this cost estimation study could have the unintended consequence of driving up the cost of care for infants and toddlers well beyond the level that most parents could afford. The results of the cost estimation study should be considered alongside information about prices in the private-pay child care market as OCFS develops its rate structure.

Continue to Help Providers Maintain Enrollment

The cost models quantify the significant economic impact that under-enrollment can play on a program's overall financial viability. As OCFS considers strategies to support the provider workforce, supporting providers to maintain full enrollment can be an important strategy for improving providers' financial viability. OCFS should continue to focus on infrastructure support and investments to connect families needing care with providers with current openings.

Consider Child Care Subsidies as Just One Part of an Overall Early Childhood Funding Strategy

Children need stable, high-quality early education and care to thrive, and providers need stable sources of revenue to operate the programs families rely on. Child care subsidies can play a critical role in providing low-income families access to care but are not the only strategy for ensuring an adequate supply of quality care. Innovative financing strategies like grants that support operational costs separate from voucher-based subsidy payments can address the gap between the prices the market will bear (to avoid out-pricing private pay families) and the actual cost of operating a high-quality child care program.

The current cost estimation study reflects conditions as of Fall 2023. The cost estimates can be kept current by updating the assumptions for staff salaries and non-personnel costs, and CELFE recommends conducting such an update annually, or as new cost data becomes available. In addition, if changes are made to key child care regulations or subsidy rate regions, a revised cost estimations study should be completed to align with these new policies. Finally, OCFS could consider developing a more robust model of child care provider revenues to better understand the resources that providers do and could access to meet the cost of providing care.

The cost estimates developed through this participatory process represent the collective wisdom of hundreds of child care providers and other early education professionals about the resources needed to effectively meet the needs of children and families across the state. The customized cost model tools developed for this project will enable OCFS to:

- Analyze the impact of various potential changes that may impact the cost of care, such as an increase in the state minimum wage, changes in regulatory requirements, and/or initiatives aimed at helping providers maintain higher enrollment or recruit and retain educators.
- Use the cost models to inform the design of additional investments to support a stable early education and care sector, such as the ECE Workforce Salary Supplements.
- Use the findings from this study, together with the recent Market Rate Survey findings that documented the current prices charged for child care throughout the state, as it continues to develop its transformative financing strategy to support access to high-quality early education and care throughout Maine.

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