The Impact of Cost Models

Research Brief #4

Allison Comport, Predoctoral Researcher

Overview

This Research Brief is designed to highlight the lessons learned and the impacts of having completed a cost model in states and communities. This Research Brief has been informed by the leader's responses to a survey, as well as a series of Focus Groups. Thirteen local and state leaders across ten distinct localities responded to the survey in addition to five participants, across two states who participated in Focus Groups. This Research Brief will highlight the findings from these engagements.

Survey Findings

Goals for Commissioning Models

Survey respondents, including state and community leaders, were first asked where in the continuum of Strategic Public Financing[1] work they were. The first step in this sequence is often to complete a Fiscal Map, six survey respondents reported having commissioned a Fiscal Map prior to conducting their cost model, three were not sure whether their state or community had, and four did not respond.

[1] **Strategic public financing** is a process that allows states and communities to assess their current spending, assign a cost to their goals and policy priorities for children and youth, and, ultimately identify ways to cover those costs. Source: First Children's Financing (2024). Strategic Public Financing. [Strategic Public Financing - Children's Funding Project]

The next step in the sequence is often developing a cost model. Respondents indicated multiple goals for commissioning their cost models, including:

- To estimate the cost of meeting child care licensing requirements
- To estimate the cost of quality across different levels of the QRIS
- To drive livable wages for educators
- To inform the updating of child care subsidy reimbursement rates
- To support concrete steps aimed at addressing the child care crisis
- To support post-pandemic child care sector recovery.

Who Defined the Approach?

Respondents indicated that a variety of individuals and groups were involved in defining the approach to their cost model. These included the cost modeling vendor, the local university, the state subsidy administrator, state agency leadership, Governor's office staff, and community partners. Multiple models utilized Focus Groups to inform the initial approach, as well as to understand whether their values for the specific parameters in the model were estimated correctly.

Respondents indicated that when submitting a request for Alternative Methodologies from ACF, they went to their Office of Child Care (OCC) representative for approval after developing a well-thought-out plan and approach informed by numerous stakeholders. Respondents indicated the process for gaining approval on their approach and method was simple and that the ongoing communication with OCC staff assisted this process.

Recommissioning and Updating Cost Models

Periodically, cost models need to be updated to account for changes such as those due to inflation as well as policy changes. Four respondents spoke of having updated their cost models since they were first commissioned, with another 5 stating that they had plans to do so in the near future. When asked if agency staff felt that they would be able to update their models on their own, results were mixed with 4 stating "probably not," three stating "yes," and six not responding.

Cost Models' Impact

When cost modelers were asked about the impact their cost models have had, most indicated success in implementing subsidy rate increases (6), specific rate increases for Pre-K (1), and adjustments to tiered quality rating and improvement (TQRIS) rates (1). Similarly, respondents indicated being able to use results to inform how they may need to braid and blend funding streams to meet their goals. For example, once they determined what subsidy rate adjustments needed to be made, they could then discuss the need for additional allocation of general revenue funds, business, and philanthropic funds to meet their goals.

They also were able to support work related to equitable pay adjustments, promoting improved collaboration and planning, reducing the number of rate regions, increasing child eligibility, and increasing funding for priority populations (1 each, respectively). In one specific example, a state indicated their cost model helped to direct increased resources specifically to programs serving infants and toddlers in recognition that their rates were set far too low for the cost of this care. They were also able to track the ways that programs compensated infant and toddler educators after receipt of the increased rate. Anecdotally, it was reported to these leaders that this encouraged more providers to stay in the field and to serve these youngest children.

State leaders spoke to the benefit of having a requirement for cost modeling in statute because it maintained the momentum of the work and actions informed by the results. It allowed them to continue to collaborate with the support of legislators and the governor's office, which led them to take action on new legislation for their systems. One survey respondent indicated they were able to use their results to facilitate discussions with their legislature to develop a multi-year plan.

One state shared that the results of their model allowed them to adjust rates across provider types, geographic regions, and by age in a way that was more equitable given costs. They were also able to use their model to adjust rates to account for inflation, for example by adjusting the parameters used to model costs for food, materials, and space/occupancy costs.

All states participating in Focus Groups indicated that they were able to directly impact compensation through their cost model, by increasing the resources for wages. One respondent stated they were able to enhance support initiatives and were able to increase educator compensation by $2-$3 per hour, by informing the design of grants made to programs to support these compensation increases.

All states and communities who responded indicated how helpful it was to learn from communities and states that have gone before them in this work. These exchanges were inspired by a desire to learn more about cost modeling, as only 2 of the 13 survey respondents indicated attending professional development regarding cost modeling. Some of these peer-sharing opportunities occurred through Office of Child Care Regional Office support and national Training and Technical Assistance opportunities. State leaders also reached out informally to neighboring peers for guidance and support.

Only one state indicated that their model wasn't published because the state was still determining whether they were going to act on the recommendations and they weren't ready to release results to stakeholders until they had a clearer plan.

Case Study 1: Driving system-wide change

- The increased pandemic American Rescue Plan Act (ARPA) funding supported increasing provider payment rates informed by the Cost Model. As a result, the state was able to significantly increase the number of programs participating in its subsidy program, and the number of children participating in subsidy from 20,000 to 50,000. The pandemic relief funding coupled with an increase in state allocations allowed them to remove all wait lists and increase provider capacity.

- They were able to make these policy changes with the support of their General Assembly, and informed by peer states who had already shifted from a Market Rate Methodology to an Alternative Methodology.

- They stated their Cost Model also supported rate increases among their primarily rural communities which had long been underfunded and where a disproportionate number of child care businesses were owned by minority women. Their cost model showed that subsidy rates in affluent areas were equal to the cost of care, so only minimal rate changes were made in these areas.

- The entire process helped them advance equity goals by paying for the true cost of care, compensating educators appropriately, and ensuring family choice when selecting care.

Case Study 2: Building state capacity

Another state shared that they have become comfortable with using their model to inform specific policy questions. Informed by their model, they have been able to:

- Understand where the biggest gaps were between their rates and costs. They have been able to adjust rates based on program type (center, family child care home, and school-age), the ages of children served, and geographic location.
- Demonstrate how much costs had gone up for programs due to inflation.
- Build internal capacity related to understanding costs and developing an alternative methodology for setting reimbursement rates. They stated that having a recorded training and manual with documented assumptions and citations allowed them to go back and revisit concepts, as well as onboard new staff.

Work in a coordinated manner with legislators, the governor's office, and stakeholders to refine and become clearer about their goals.

Innovations

States shared innovations that have been implemented in conjunction with or driven by the results of their models, including engaging businesses more in supporting child care as well as working to pilot innovations that can make participation in subsidy less administratively burdensome. For example, one state determined through its cost model results, that there could be opportunities to learn from other sectors, such as businesses, as they worked to pilot improvements to their administrative mechanisms associated with provider payments.

Lessons and Challenges

Among community and state leader survey respondents, one respondent indicated that while their cost model helped to inform the state's understanding of cost, it did not help them to understand the revenue that child care providers are currently receiving. They realized the next iteration of work requires them to develop a better understanding of private and other funding sources within their systems. A second respondent also indicated needing a stronger understanding of revenue and subsequently commissioning another study to evaluate this.

Cost Modeler survey respondents indicated challenges in helping stakeholders and other agency staff understand the complexities of a cost model. They found that there was a fine balance between providing a level of information that is digestible for stakeholders and going too in-depth to provide details of the models, which could lead to it being overwhelming. They also shared that when discussing the calculations the model provided, there could be "sticker shock." Community partners and state leaders were shocked by how much money was needed in the system to fund the actual cost of care, and the huge discrepancy between this amount and the market rate. This sticker shock fostered conversations and a request to understand the methodology and calculations further. It prompted leaders to begin to brainstorm potential solutions informed by this data. For example, states reported coming together to formulate a plan for additional revenue, one fiscal year at a time. All stated that the information from their models was informative, even if the state was still working through the next steps without a solid path forward yet.

States and communities spoke about the challenges they are now facing as pandemic relief funding ends. One state shared that even while they increased their rates informed by their model, the pandemic relief funding had allowed them to grow their caseload in an unlimited way and to have no waiting list for subsidy. However, this has since changed, and while their state allocates considerable state funds to child care, their waiting lists are increasing without these additional federal resources. Others encouraged their peers to "think smarter about the ways to use their models," more specifically to think about their policy goals and what is achievable given their context. They shared that models can open doors for inter-agency coordination and for conducting cost modeling more broadly across programs within the system. Multiple states shared that they are planning to make updates to their model in the near future, to account for inflation and personnel costs, including retirement allocations.

In Brief

Impact

- Administrators, state and local leaders and policymakers have been able to use cost models to increase subsidy rates, the number of programs participating, and increase compensation for educators.
- They have been able to use the results of their model for revenue asks, to maintain and/or increase the number of children enrolled when rates increased.
- Administrators, state and local leaders and policymakers shared that cost models have brought together state and local leaders, legislators, and staff at the Governor's office to work collaboratively on shared policy goals. Together, these leaders have been able to create and revise within statute, additional resources and support for child care.
- Governance structures within states such as Commissions and Steering Committees, proved to be a *"vehicle that enables the conversation to take place between advocates, providers, parents, the state agencies, and our elected officials to kind of incubate some creative solutions."* State leader focus group participant
- Cost modeling also increased community and state agency staff capacity and understanding of costs.
- Cost modeling allowed communities and states to make connections with peers, and they reported great value in learning from those who had gone before them.
- State and local leaders spoke to the importance of community engagement and communication, stating "*Our ability to make positive policy change is dependent on folks in the field trusting and knowing what's going on and on the sort of assumptions that we have in there.*" State leader focus group participant

Recommendations

This fourth and final Research Brief in this installment sought to bring forward the voices of state and local leaders and cost modelers to highlight lessons learned, the impact, and next steps informed by their cost models. There are several recommendations moving forward which include:

1. *Need to Think about Revenue:* States indicated a desire to conduct fiscal maps in order to learn about local, philanthropic, and other sources of revenue for their systems outside of state Pre-K and child care. They recognized that informing policy goals requires understanding both cost and existing revenue.
2. *Desires to Take Models to The Next Level:* States who commissioned models were proud of the work they had accomplished informed by their models and were looking ahead to updates and revisions of their models. There was a strong desire to continue innovating and to think more broadly about cost across their system, including programs and services that impact young children outside of child care and Pre-K. Specifically, states articulated goals for learning more about how programs were braiding and blending funding and what that could mean for their early childhood funding design.

3. *Capacity Building:* There was interest in building internal staff capacity to better understand cost modeling and alternative methodology. While there are new and emerging opportunities for professional development, for example through the Federal Training and Technical Assistance Centers and Children's Funding Project, there was also recognition that professional learning needed to be context-specific.

This is the fourth and final Research Brief in this series, summarizing a review of 25 states' cost modeling approaches.

Overview Brief – An Analysis of Cost Models

Research Brief #1 – How Greater Transparency Can Further Support Equity

Research Brief #2 – Scope, Structure, and Data Collection Methods

Research Brief #3 – Parameters and Details Provided Within Reports

Research Brief #4 – The Impact of Cost Models

This research was conducted by Allison Comport while serving as a visiting Predoctoral Fellow with CELFE in 2024. To learn more about this Research Brief series and to view the other briefs in this series, please visit celfe.org.