

How to Shape a Cost Model Happening in Your State or Community

Introduction

If you're reading this, chances are you're invested in changing child care for the better—for you, children, families, and your community. You probably have lots of questions too: What is this resource about? What is a cost model? Why is my state or community creating a cost model? How will a cost model partnership process help me create positive change? You're in the right place to explore and shape these answers! This resource is designed for providers like you who want to learn

- how cost models can help us build sustainable and equitable child care,
- how to engage with your state or community in this important process,
- how to organize with others, and
- the collective actions you can take to be a part of the process.

Every community's journey toward creating a fully supported child care system is unique. Your community's specific details, needs, and goals for children will guide your direction—and they may differ from those of your friends in a neighboring city or state. This can range from identifying the appropriate salary for staff based on the cost of living in your town or expanding culturally relevant curricula in your program. These differences are what strengthen child care and help you develop personalized goals for your community.

But it's not enough to simply identify a set of goals for your community's children. You also need to identify how much it will cost to achieve them. This is where cost models can help.





What Is a Cost Model?

We can all agree our child care programs need more money; but it's important to understand why our programs are underfunded. For a long time, the child care reimbursement rates for the subsidies you receive as a provider have been set through market rate studies. That means a state designated lead agency, such as a department of human services or office of early childhood, completes a study that shows how much you and other providers in your state charge families for child care in your area (1) to be competitive within your geographic market and (2) to enroll as many children in programs as possible. Understanding how much you and other providers charge helps these agencies understand the market price of child care (how much families are willing to pay). But the market price does not accurately reflect what it actually costs you to provide care and education, which usually is a lot more! Consequently, Our programs become underfunded when the subsidy reimbursement rates providers receive do not keep up with the actual operating expenses for their programs.

Consequently, it is essential to highlight the *true cost* of operating your child care program—and any gaps in current funding—to address the burdens you're facing and bring equitable, high-quality child care to all families. A <u>cost model</u> is a tool that measures that true cost of equitably implementing, maintaining, or expanding a program or service. It also is an alternative way state agencies can collect valuable cost information to set sufficient reimbursement rates and identify gaps in funding child care.

In child care spaces, a cost model accounts for *all* the costs associated with operating a program. The model captures foundational factors like your licensing standards, curriculum and other programmatic requirements, teacher/child ratios and the staffing needs and number of classrooms that those ratios require, and estimates for the desired number of children to enroll. Cost models also include other budget expenses your program has like employee wages and benefits, a center or home's rent or mortgage, utilities, and all nonpersonnel costs (food, education materials, professional development, and maintenance, among others).

By including these real-world expenses, a cost model provides an estimate of the true cost of child care. The cost model can present these costs in different ways: by the age of the children enrolled, by classroom, for a program made up of several classrooms, or for a full system of multiple programs. Cost models also can include relevant revenue sources, such as child care subsidies, private pay tuition, and food program reimbursement. By showing both the difference in expenses and revenue, the cost model reveals any funding gaps that need filled.

A cost model alone, and the process of creating it, will not immediately produce equity or better funding. Throughout this resource you'll see



references to "high-quality" cost models. A high-quality cost model uses budget data from a range of providers' child care programs to ensure it reflects the reality for a given location and type of care. A high quality cost model also reflects your community's goals for the kinds of child care programs it wants to implement. For example, should the cost model use the state's median child care wage, minimum wage, or something higher? Should you base the model on zero copays to alleviate cost burdens on families and since they can be difficult for providers to collect? Should the model be based on full-time contracts for providers?

This distinction about high-quality cost models is critical–sharing this information shows your world as it currently is in the model **as well as what the world should be for providers when they receive sufficient program funding**. Communities can use cost model tools to address issues like these, and most importantly identify the added cost of increasing rates and compensation for staff and improving program quality. Then we can use this information to advocate for new funds to meet those goals.

Who Are the People Involved in a Cost Modeling Process?

Different people and organizations can lead and coordinate the cost model process while others provide critical input. In some cases, key people and organizations serve multiple roles. If you are reading this document, your state or local government agency that manages comprehensive programs and services for children is likely leading the cost modeling process. It is not uncommon for these agencies to coordinate all the people involved and contract with a consultant or university to build the actual cost model. (The organization that builds the cost model is the one that will need your input and real-world costs!) Regardless of who initiates or leads the process, an accurate cost model requires collaboration and input from multiple groups and individuals, including providers and organizations representing them, as well as

- municipal and state departments that serve children and youth, such as departments of human services, education, health, parks and recreation, and others;
- state or municipal budget office;
- state and local nonprofits that advocate for programs and services for kids;
- intermediary organizations that represent networks of providers that offer children- and youth-serving programs;
- foundations and other philanthropies that fund programs for children and youth;
- colleges, universities, and other postsecondary institutions; and
- families and community members.



Why Is My State or Community Developing a Cost Model?

Cost models are not a magical silver bullet. On their own, they cannot solve the problem of underfunding that leaves too many families behind and undervalues the work of child care providers. But developing a cost model will supply your state or community with data to demonstrate what it needs in order for providers to offer quality child care for families. A high-quality and comprehensive cost model will use data that quantifies *your* lived experiences.

Typically, cost models show that child care programs do not receive enough funding to fully cover the costs of care, which places a heavy burden on both providers and families. This data illuminates the challenges child care programs face such as low employee wages, lack of benefits, high staff turnover or lack of qualified staff, and transportation barriers.

Recognizing these challenges and funding gaps will help you and your community, territory, or state clarify your vision for an equitable, high-quality child care system and find out how much money you'll need to reach those goals.





Why Is Input from Providers and Parents Important for Cost Models?

It's clear that high-quality cost models can provide the foundation for new policymaking. However, any cost model will only be as accurate and useful as the information that it reflects. When it comes to the expenses involved in providing high-quality child care, providers and parents are the true experts who have an essential role in making sure that expenditures are captured comprehensively and accurately.

When child care providers offer input for a cost model, you reveal the true costs of operating your programs, highlight any imbalances between those costs and the funds you actually receive, and establish a foundation for adequate funding for a robust child care system. Additionally, you can use the cost model as an outreach tool to organize other providers to advocate with you. You know best the ins and outs of your programs and the daily lived experiences of your employees and families. It is crucial that you and other child care providers offer an active voice in the cost modeling process to ensure child care programs receive adequate funding.

But a cost model can also be used as an advocacy tool to educate and mobilize supporters to expose the shortcomings of the current child care system and argue for new investments. For a cost model to be used effectively for advocacy, it needs to be constructed with input from a wide range of stakeholders who are invested in its development. This will help eliminate biases or information gaps. It also can help generate buy-in from the broader provider community. And, most importantly, engaging other providers about a cost model can help build a larger base of providers ready and willing to take action to secure the new funding that we need to improve access, affordability, and compensation.

Having a wider base of advocates is key to holding child care officials and elected leaders accountable to using the cost model to drive improvements to the child care system in ways that are equitable and impactful. It's often easier for officials to dismiss one or two voices calling for change. But a whole workforce united around a common vision and demand is much harder to ignore!

Preparing to Participate in the Process

Depending on how far advanced the cost model process is in your state or community, there may already be public education or outreach opportunities scheduled to collect input from providers. Start by reaching out to the lead agency to ask what process and timeline the agency has planned for developing the cost model.



If you haven't been in touch with anyone from your lead agency before, now is a good time to start. Every lead agency should have a website with contact information, so start with a Google search and take it from there. It may take persistence to connect with the right person and some patience to get a meeting scheduled so hang in there!



If the agency already has a process in place, you'll want to do two things:

Prepare to participate. Gather information that you want to share. Typically, this will include all the costs associated with running your program. (You can see a list of costs that are commonly factored into a cost model in the sidebar "Costs Commonly Included in an Early Childhood Cost Model"). Some of this information may be on your tax forms or, if you have a contract for services, with paperwork you submit to the state. If you receive in-kind support (like donations of food, books, or other materials) don't forget to include those, too. Ideally, you would have the resources you need to make donations unnecessary, so it is important to consider them as part of the actual costs of providing services.

As you do this, don't forget to think about costs you absorb, like letting parents skip a payment or reducing their fees when they are going through a hard time, and also about costs that you forgo but would ideally be able to cover to build your program. If you are a teacher or assistant, consider not just your wages or salary, but also the kinds of benefits you DON'T have (like paid sick leave or time off), and how you cover those needs in other ways. Also, if you receive public benefits, as many child care providers do, those are important things to note, because it means that the state is covering the costs associated with underfunding child care in other ways.

As you prepare to participate, assess the steps your state or community is taking to make the cost modeling process inclusive and accessible to maximize input from providers and

Costs Commonly Included in an Early Childhood Cost Model

Personnel Costs

- · Number of staff and titles
- Salary/wages for every staff member
- Required and discretionary benefits
- Turnover rate (sometimes)

Nonpersonnel Costs

- Food
- Kitchen supplies
- · Office supplies
- Office equipment
- Education supplies
- Education equipment
- Child assessments
- · Marketing, printing, and postage
- · Rent. lease, or mortage
- Utilities (gas, electric, etc.)
- · Maintenance, repairs, cleaning
- Fees, permits, licenses
- Background checks (if applicable)
- Accounting/legal/audits
- Staff training and education
- Consultation services (ex. mental health consultant, nurse, etc.)
- IT support
- Insurance
- Telephone and internet
- Transportation (if applicable)

Additional Information

- Licensed capacity and current enrollment
- Number of classrooms (if applicable)
- Ages of children
- Revenue sources and amounts
- Number of children receiving subsidies and/or assistance from the Child and Adult Care Food Program



parents. Did the state provide guidance for you on the kinds of information to gather or how to weigh in? Are there multiple dates and times scheduled for providers to share their input? Are these dates scheduled in different communities and across all parts of the state or community? Has the state offered other readily accessible ways for providers to provide input, such as by email or participating virtually? Are translation services, transportation, child care and other supports available?

If you think there are ways to make the process more accessible, collect some ideas to propose and then share them with the lead agency or advisory panel.

Most importantly, if you haven't heard of any events planned, it's likely that others don't know either! Look for ways to spread the word and organize others to ensure a diverse group of providers can participate and make the cost model as comprehensive and responsive as possible.

As we noted above, every lead agency should have a website with contact information, so start with a Google search and take it from there. It may take persistence to connect with the right person and some patience to get a meeting scheduled so hang in there!

Organizing Other Providers and Parents to Participate

Just as you are reading this to learn about cost modeling—perhaps because someone passed this resource on to you and you were curious and wanted to learn more—it will be important to spread the word and **educate** other providers about what cost models are and why they can be an important tool to transform your child care system.

- Start with your colleagues or other providers who are friends. If your interest is excited by the idea of a cost model, theirs might be, too! Share this resource and talk together about the challenges you each face because of the current system and how a cost model can support solutions to fix them. Having a few solid allies can make the next steps more fun and manageable, and you can help hold each other accountable as you advocate for changes to your child care system.
- Brainstorm together about other ways to get the word out more broadly. Are there affiliation groups where child care providers get together and share updates? Are there listservs, online forums, or social media groups where you can share a post? Do you plan to attend any conferences or trainings where providers will gather, or educational institutions where current and new child care workers might come together, like your local community college? Share what you've learned and ask people to reach out to you if they want to learn more together.



• Collect other resources that might be handy to have and to share. You can find more materials that describe cost models on Children's Funding Project's website (childrensfundingproject.org/state-and-local-cost-models) along with case studies of states that have done a cost model, PowerPoint presentations, and news articles and blog posts that might be helpful. "Cost modeling" can sound jargony and wonky, but educating parents and providers to feel more comfortable with the idea can strengthen their enthusiasm to reach out to others and organize!

Organize

You don't need to be a rock star and assemble hundreds of providers on your own. Instead, think about this in a "distributive model" kind of way, like the old

telephone trees—start with two people, and ask them to talk to two people, and then ask each of them to talk to two

Although if you can, go for it!

people, and so on and so on. You get the idea. While the concept of "organizing"

can seem formal and daunting, organizing is about building power through relationships, and everyone should be able to identify two new people to contact. This way, your ranks keep growing and everyone shares the responsibility There's no magic to the number 2. If you want to set a higher goal, please do!

for expanding the circle; has relationships with others in the group; feels a sense of purpose, belonging, and accountability to the whole; and is directly tied to its success. You know, solidarity!

As your numbers grow, this will take some coordination. From the outset, set up a sign-up sheet or spreadsheet (or other database) where everyone tracks your outreach and people's responses. (This is important because some people might be skeptical at the beginning, but as their friends and colleagues join in and they start to hear about the effort repeatedly, they might come around to joining too.)

You'll also want to come up with a way to easily and quickly communicate with each other. You can start with a group text/chat, for example, but a Facebook or WhatsApp group can be handy here as the group expands).



Remember, education and organizing will be a continuous part of the outreach cycle. As the cost model process progresses and people hear about it, you'll need ways to get them up to speed and bring them on board with your campaign. As the group grows, think about whether there are people who are particularly good at explaining cost modeling and see if they want to take leadership over these efforts. Contacting Community Change could help you expand your ranks with tools to communicate, track and support the growth of your group.





Ways to Provide Input

Your input is vital to build a comprehensive and accurate cost model. How you give your input will vary based on where your community or state is in the cost modeling process, but there are always ways for you and other child care providers to participate.

When a community or state begins its cost model planning, the coordinating organization often releases a request for proposals. This announcement describes the project and solicits bids from organizations and consultants who could *build* the cost model. You can ask the coordinating organization to help review proposals from prospective contractors and help select the final applicant.

If your community or state does not issue a formal request for proposals, you and other child care providers can still help co-design a cost model. You can request a meeting, town hall, or forum with the cost modeler to get an overview of the project and provide input about what factors a model should include.

Remember, cost models can represent both your world as it is now and the world you envision for child care. To be most useful, the input you and the providers you organize share should not just be based on current program budgets. Those only reflect providers' ability to make do with the resources they have. Especially when it comes to compensation and benefits, those budgets severely undercount what the child care sector should provide to workers and owners given their essential value to children, families, and our economy.

Instead, consider what funding you think it would *really* take to recruit and retain terrific staff (or if you are a child care worker, to remain in this line of work), and to operate your program in the best way possible for children and families. Would having a substitute pool improve the stability of your programming for parents? Would paid time off enhance the emotional well-being of staff so they have energy to devote to the children in their care?



Try to think expansively about how you wish child care programs were designed. Given that child care workers have been devalued for so long, it may be hard for you and others to define what you are worth! We've been conditioned to connect child care to the idea of sacrifice and scarcity. But if we continue to let those ideas take hold, it will undermine the value of the cost model. If this is a struggle, it might be helpful to look to external sources, like worthy wage or living wage models or the salary scale for K-12 teachers. Child care has always operated on very slim margins, where profit generally equals an owner's salary, so think about what salary targets are appropriate for the industry.





Once the process is underway, you can influence a cost model by providing data through:

Surveys. These should be available in both paper and electronic (online) forms. A high-quality cost model process will involve providers in developing and/or reviewing the survey tool to ensure that it is easy for providers to understand and complete independently.

Because of chronic underfunding, providers—especially smaller family child care providers—may not be in the regular practice of tracking all the extra expenses they absorb or have financial information readily available. Consider requesting whether the state/agency will provide a stipend for providers to track expenses for a discrete period, perhaps a month or so, as part of the information gathering process.

- Focus groups. These smaller gatherings can be helpful to spur reflection and creative brainstorming about what the child care system should look like.
- Public meetings. These are usually open (hopefully large!) gatherings where people are allotted a designated (that is, limited) amount of time to share their ideas and opinions. If they are well attended, they can be a way to gauge how the broader community feels about an issue. Especially for setting goals for the cost model, you can use turnout at a public hearing in a strategic way to
- a. highlight the hardships providers commonly experience from current underfunding and

Like around wages and benefits for child care providers,

b. to show support for reworking standards.

These opportunities supply the critical data that forms the cost model's foundation and a comprehensive cost model will include these processes. Your experiences versus another provider's experience will not be the same, so cost models usually are based on an average of *all* the provider data collected. That means the more providers who complete surveys or participate in cost modeling interviews/focus groups, the better the data the cost modelers will have about the true costs of child care in your community.

During this data collection phase is the perfect time to inform cost modelers about the nuances and challenges that surface when you are trying to run your program effectively. If you are not receiving enough funding to meet licensing requirements or achieve certain quality standards, this is the time to share that information with the cost modeler. Also, it's important to highlight any other costs, even if the cost modeler does not ask about them, to make sure all operational costs appear in the final cost model. You also can provide feedback during a briefing about the draft cost model to correct any mistakes or inaccurate assumptions.





Strategies to Provide Input If There's No Formal Process

Most people conducting a cost model recognize that it will only be accurate and useful with input from providers.

As we mentioned previously, because providers' situations differ, it's important to ensure that a wide range of providers from diverse settings and communities are enlisted to participate.

To make sure this happens, partner with the state or community lead agency to create a broad input



At this point, using a cost model to determine payment rates is optional and states that are interested in using a cost model rather than a market rate study are likely to want a robust final product. There has been proposed legislation at the federal level that would require states to conduct a cost model for rate setting purposes. If this proposal gains traction, it will be even more important to ensure that states follow a thorough input process.

process that includes some of the <u>opportunities outlined previously</u>. If that proves challenging, you also can try some of these approaches:

- **Reach out to a champion.** This could be someone higher up in state government or an ally in the state legislature. Flag your concerns and request that person's help in ensuring a broad and equitable process.
- Generate media attention for the cost modeling process. Emphasize how the cost model will provide accurate data about the cost of child care in your state or community, which ultimately will help families. Media coverage is also free publicity to get the word out to other providers and encourage their input, which can help your organizing efforts.
- Stage an action. This could be your own version of a public hearing or focus group in a prominent location to generate testimony from providers

This could be tough, since the media is typically less enthusiastic about reporting on processes like this. Try stressing how an effective process is good governance and a responsible use of taxpayer dollars

and highlight any voices that have been overlooked. This also can help generate media coverage if your other efforts to enlist the press don't succeed.





How to Provide Feedback

Putting together a cost model should not be a one-time process. Once information from providers is incorporated into the model, there should be a public process to review the findings of the model, and to provide further feedback to refine them.

After completion of the cost model, you can provide input by reviewing the aggregated costs included in the model for accuracy. For example, the final model may have a per child cost that seems too low to you or should also reflect a different enrollment percentage, both of which can impact future funding decisions for child care. Make your voice heard if the numbers aren't correct! Wages, ratios, and staffing models used in the cost model also can impact the final reflected costs. This information is usually pulled from your data on salaries, staffing, and state or community licensing standards and regulations. Communities also can adjust for factors like inflation, increasing wages, and unique quality costs. The cost modelers can investigate what factors impact the model and adjust as needed. By providing feedback throughout the process, you ensure that the cost model accurately depicts your costs and that the policy or program decisions influenced by the cost model are designed to benefit you, other child care providers, and families.

Another powerful way you can provide feedback is by commenting on the impact of policy decisions the community or state makes as a result of the cost model. The cost model will include a lot of assumptions based on goals for the program. This can include goals and limits around

- 1. wages,
- 2. benefits.
- 3. profit margins,
- 4. cost-of-living increases,
- 5. enrollment targets,
- 6. group or class sizes,
- 7. health and safety requirements, and
- 8. credentials and professional development requirements.

These are all policy choices that have financial impacts for policymakers and for providers. What seems reasonable may vary from state to state, and even within a given state. As you organize, talk with providers about your opinions on these factors. See if you can develop a consensus about what you want to recommend and see the cost model reflect.

This feedback can highlight how your day-to-day program activities change because of new policy decisions, explain family experiences, or showcase child outcomes. Your input can reveal whether your community should continue new actions influenced by the cost model (because they benefit families and providers, including you!) or whether your community should alter its policies to better meet the needs of the community. Since changes happen





frequently in child care, it is important to envision the cost modeling process as a continuous cycle that includes your feedback as a critical component. Ultimately, this will strengthen the model and its beneficial outcomes for you, children, and their families.

How Can Cost Models Help Efforts to Reform Early Care and Education?

Cost modeling is a helpful early step in securing strategic and sustainable public financing for early childhood care and education. It shines light on the gap between the funding currently invested and the true cost of quality programs and services to give a clear goal of the investment needed to fill that gap.

Once you and your community know the full cost of care, you can work toward closing that gap and build collective momentum toward an equitable and proactive approach to children's funding. The reliable data you'll get from the cost model is a perfect way to spark action within your community by bringing them together to share the data and what it means for the community. Hosting a town hall is a fantastic opportunity to share what you found from the model. When you share the power of your voice through a cost model process, you can challenge your community and state to explore new revenue sources or innovative funding and to dedicate more funds already available to make the vision of a robust, adequately funded system a reality.

Holding Officials Accountable

Once the model has been developed, its real value lies in being used as the basis for revising provider payments and policymaking. The lead agency will need to get approval from the federal child care agency, the Office of Child Care, to use the cost model to set reimbursement rates for its subsidized child care program. (If you want to see the plan your state has already submitted, you can find it here).

A high-quality cost model will show that much more public revenue is needed to accomplish your state or community's goals for child care. Securing that revenue will take political will—and political will is driven by public pressure.

You can use the cost model as a driver for a campaign to secure needed revenue and reform the publicly funded child care system. It also can serve as a benchmark to evaluate elected officials' commitments.



To hold them accountable to it will require a campaign that includes the following:

- Organizing. We can't say it enough—people are power. The more providers and parents organize for change, the more political power you will generate. Parents, early educators, and child care providers all benefit from using a cost model, so talk to parents and early educators about that overlapping self-interest and encourage them to take action with you on the issue. Try to think strategically about where you are organizing, too. For elected officials in key positions (that is, they hold a leadership post or sit on a committee responsible for early care and education) you'll want to build a base of their constituents who can establish a relationship with them.
- Champions. Funding for child care requires money in the state and/or local budget. Moving the budget will require champions who support the goals of the cost model and will prioritize child care investments to implement it. Once you've built a base, start reaching out to elected officials, including your governor and legislators, to determine who is on board and will move the cost model forward.
- Secure Votes. Other elected leaders who are not champions need to hear from parents, providers, and early educators about why this is so important. These stakeholders do not need to communicate the intricacies of how a cost model works. They only need to express their own lived experience and how the legislation supporting cost modeling would improve their lives. Your champions will help you tally support from other elected officials, because in order to win, you need yes votes from a majority of officials in all legislative chambers. You cannot be sure elected leaders will vote yes unless they tell you they will, preferably in public.
- Attention. The squeaky wheel gets the grease. Mobilizing your base into action and generating press coverage will help build public awareness and support for your campaign. Bringing your issues to the public and getting their support puts the votes of elected officials in the public light. Your champions will want to promote their support and those who are undecided, or are no's, will not want the attention. The more attention you can create by lifting up the voices of parents and providers who need change, the more pressure you can create to shape the outcome in your favor.

What's Next: Advocating for More Funding

In all likelihood, your community or state's cost model will highlight what you and other providers already know: our child care programs need more public funding! Acknowledging that this funding will need to come from each level of government can launch communities to plan and advocate for the additional





funds. <u>Creating actionable steps to seek these funding sources</u> requires the development of a political strategy that balances an ambitious vision with the fiscal, political, and operational realities for any new financing approach:

Fiscal realities: Be sure to ask, "Are the funds we are seeking sustainable?" To succeed with a new and sustainable funding approach, you'll need to identify which method fits best in your community. Financing approaches that are tied to consistent funds are a great way to make sure they are sustainable. For instance, in New Orleans, LA, advocates succeeded in passing an early childhood education millage to generate new revenue.

Political realities: Be sure to ask, "Which policymakers can effectively champion new investments in children and families in my community or state?" Be sure to engage any champions in your work early. It also is important to know when key policymakers are up for re-election to see who you can enlist to include children's needs in their campaign messaging. See how Louisiana Policy Institute for Children worked with state legislators to champion policies for child care and early education.

Operational realities: Be sure to ask, "Who will coordinate the new funding our programs receive?" Are there organizations that can convene meetings, organize partners, and secure kick-off funds? This entity should be willing to donate the time of its members or staff to manage these first steps and lead initial meetings. See how a group of advocates in Leon County, FL, worked to establish a Children's Services Council.

There are many types of <u>innovative financing methods</u> that come with their own unique challenges. Political strategy and partnerships are critical in helping you and other leaders and advocates develop a coordinated plan and communicate the benefits of increasing public funding for early childhood care and education to meet the needs of children and families.

Community Change is connected to amazing state-based organizations that focus on child care. We would love to connect you to them to see if they can help advance your goals. If you live in a state where Community Change does not have a partner, please consider joining Childcare Changemakers. To learn more, visit communitychangeaction.org/childcare/.

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. To learn more about our work, visit childrensfundingproject.org.