

# Understanding Cost Models

## Funding Our Kids 101

May 2023 | Children and Youth

### What Is a Cost Model?

A cost model measures the *true cost* of equitably implementing, maintaining, or expanding a program or service for kids. It examines a program's requirements, staffing needs, employee wages and benefits, facility rent and utilities, number of expected participants, and other factors that influence costs to estimate how much money a state or community must spend to run a program. Depending on its format, the model also can provide cost variations based on policy changes and quality characteristics.

The cost model identifies

- the per child and total costs of providing a specific program or service, like child care or an after-school activity; and
- how changes in employee wages, program quality and structure, and/or geographic location impact those overall costs.

### Why Should a State or Community Create Cost Models?

Developing effective state or community cost models is critical for expanding equitable opportunities for children and youth. They are key for providing high-quality programs and services and improving employee wages. Most simply, state and local leaders need to know how much money it will take to achieve their goals.

Cost models also help state and local leaders compare the actual cost of administering a program with the market cost, or the amount people can afford to pay. For instance, while the market cost typically reflects what a child care center or out-of-school program *charges* its participants, the true cost reflects *all* expenses associated with running a program, which may be substantially higher. Understanding this



comparison enables state and local leaders to allocate sufficient funds to cover the full operating costs of a public program for kids. Likewise, it allows states and communities to set appropriate rates for subsidies that reduce program fees for families and offset excess program costs for providers. States and communities often develop multiple modeling tools to estimate the costs of different types of services.

### Who Develops a Cost Model?

State and local government agencies that manage comprehensive programs and services for children may lead the cost modeling process. In other cases, an [intermediary organization](#), like a state- or community-based nonprofit that advocates on behalf of kids, initiates and leads the process. A [children's cabinet](#) that includes the heads of relevant government agencies could oversee the cost model work as well. The lead organization also may collaborate with an outside financing expert like [Children's Funding Project](#) for training, guidance, and support when creating a cost model.

Regardless of who initiates or leads the process, an accurate cost model requires collaboration and input from multiple groups and individuals that may include the following:

- municipal and state departments that serve children and youth, such as departments of human services, education, health, parks and recreation, and other social services;
- 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.

## Get Started

To learn more, contact Children’s Funding Project at [childrensfundingproject.org/contact-us](https://childrensfundingproject.org/contact-us) to find out how we can help your community or state develop a strategic financing plan to fund children and youth services.

## Cost Model Examples and Resources

- [Out-of-School Time Cost Calculator](#)
- [Illinois Cost Model for Early Childhood Education and Care Services Updated February 2021](#)
- [Minnesota Cost Modeling Report](#)
- [The Cost of Quality Child Care Study: A Community Release and Recommendations \(Texas\)](#)
- [State-Level Strategic Financing: Bringing It All Together for Babies](#)



Children’s Funding Project is a nonprofit social impact organization that helps communities, states, and Native nations expand equitable opportunities for children and youth through strategic public financing. [childrensfundingproject.org](https://childrensfundingproject.org)

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