



Modeling ECE Cost: Tools, Resources, Opportunities

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Alliance for
**Early
Childhood
Finance**



The Cost-Quality Conundrum

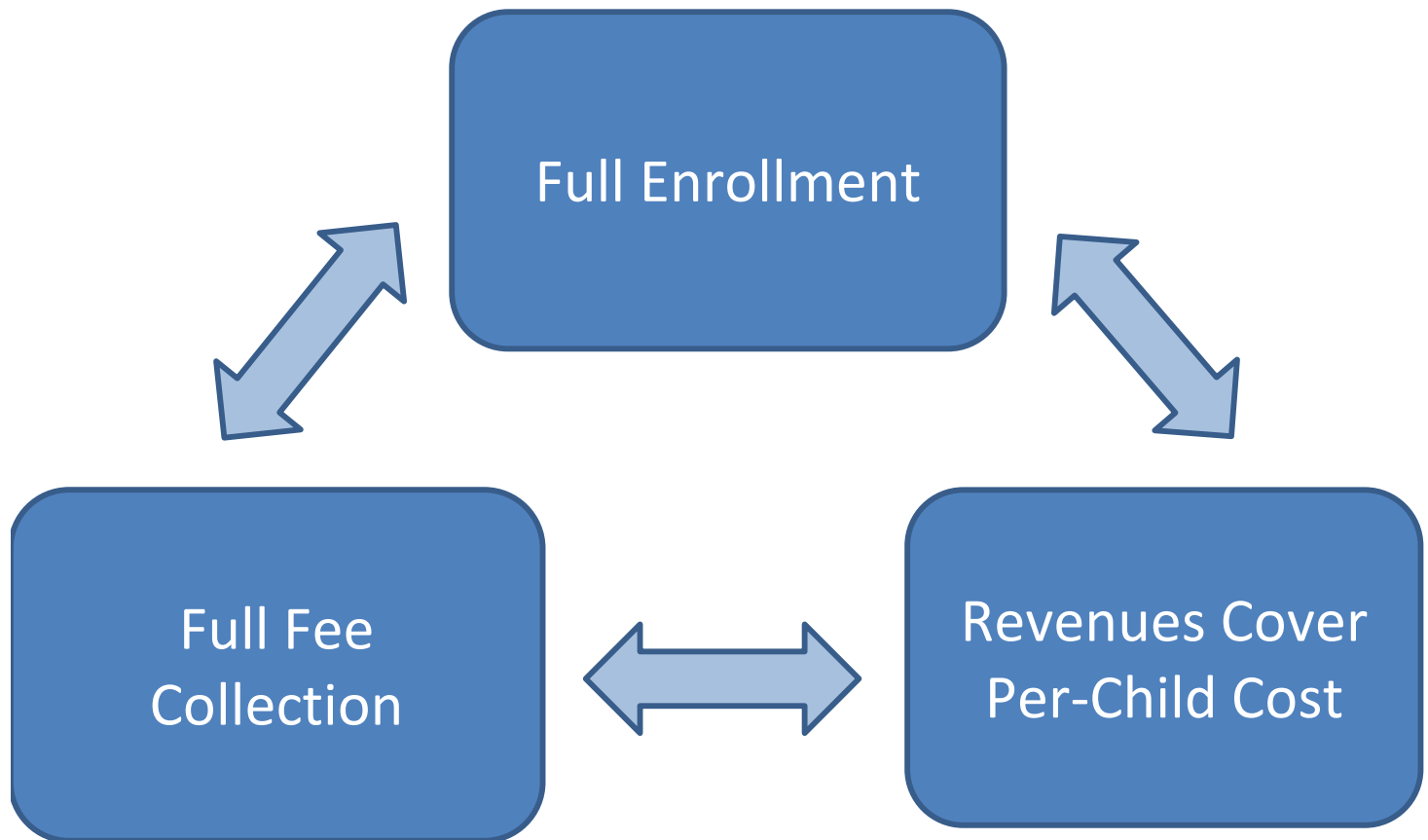
- Higher quality ECE costs more than most families can afford
- Market-based ECE encourages price competition – low tuition fees – and discourages investments in quality
- How much does quality really cost?



How much does quality cost?

- Expense drivers:
 - Ratios
 - Group size
 - Staff compensation
- Revenue drivers:
 - Parent tuition fees/other revenue
 - Revenue collection
 - Enrollment efficiency

Provider perspective: Iron Triangle





Policymaker Perspective

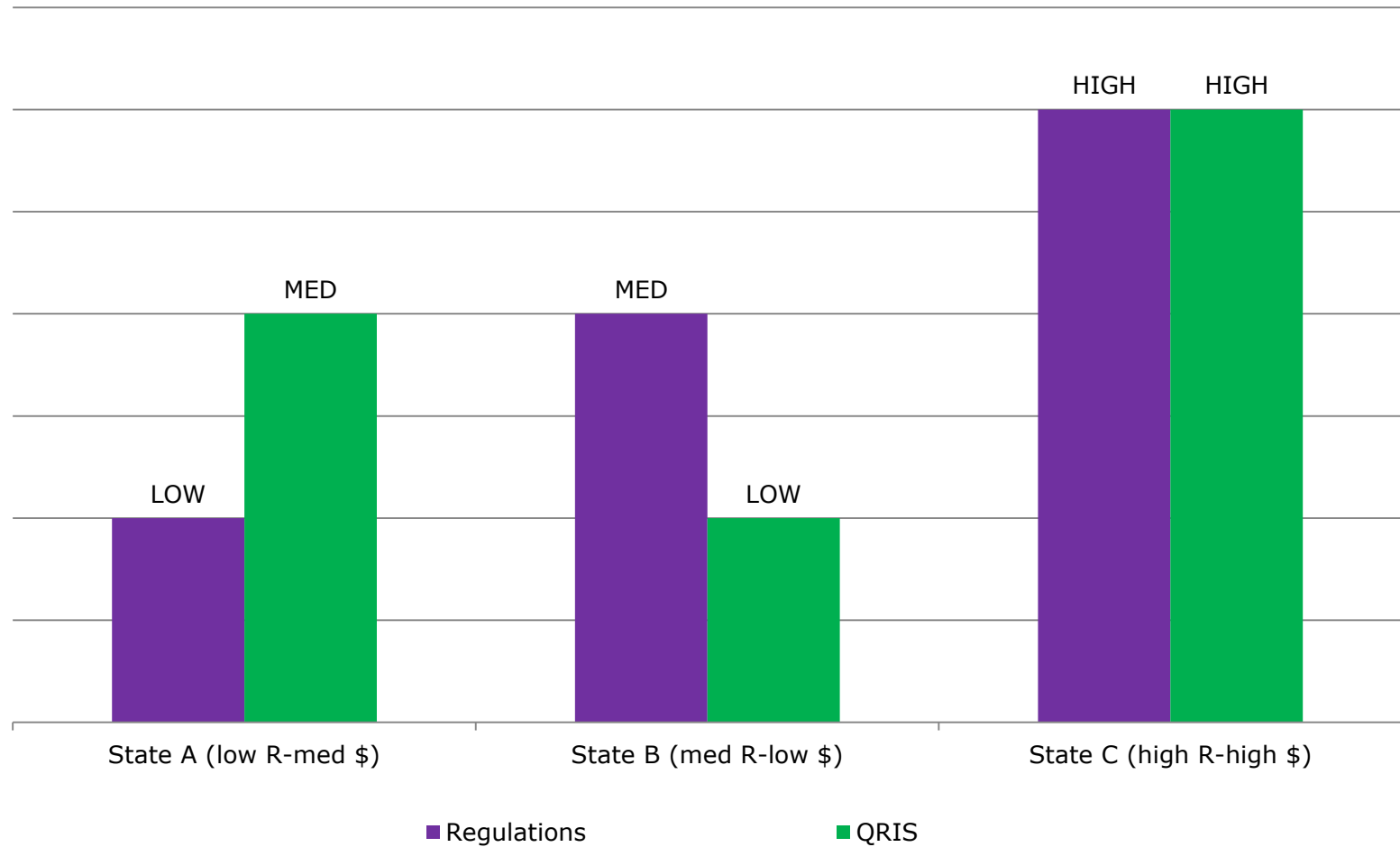
- Quality Rating and Improvement Systems are market intervention
- QRIS are means to deliver quality funds based on quality measured, independent of parent fees



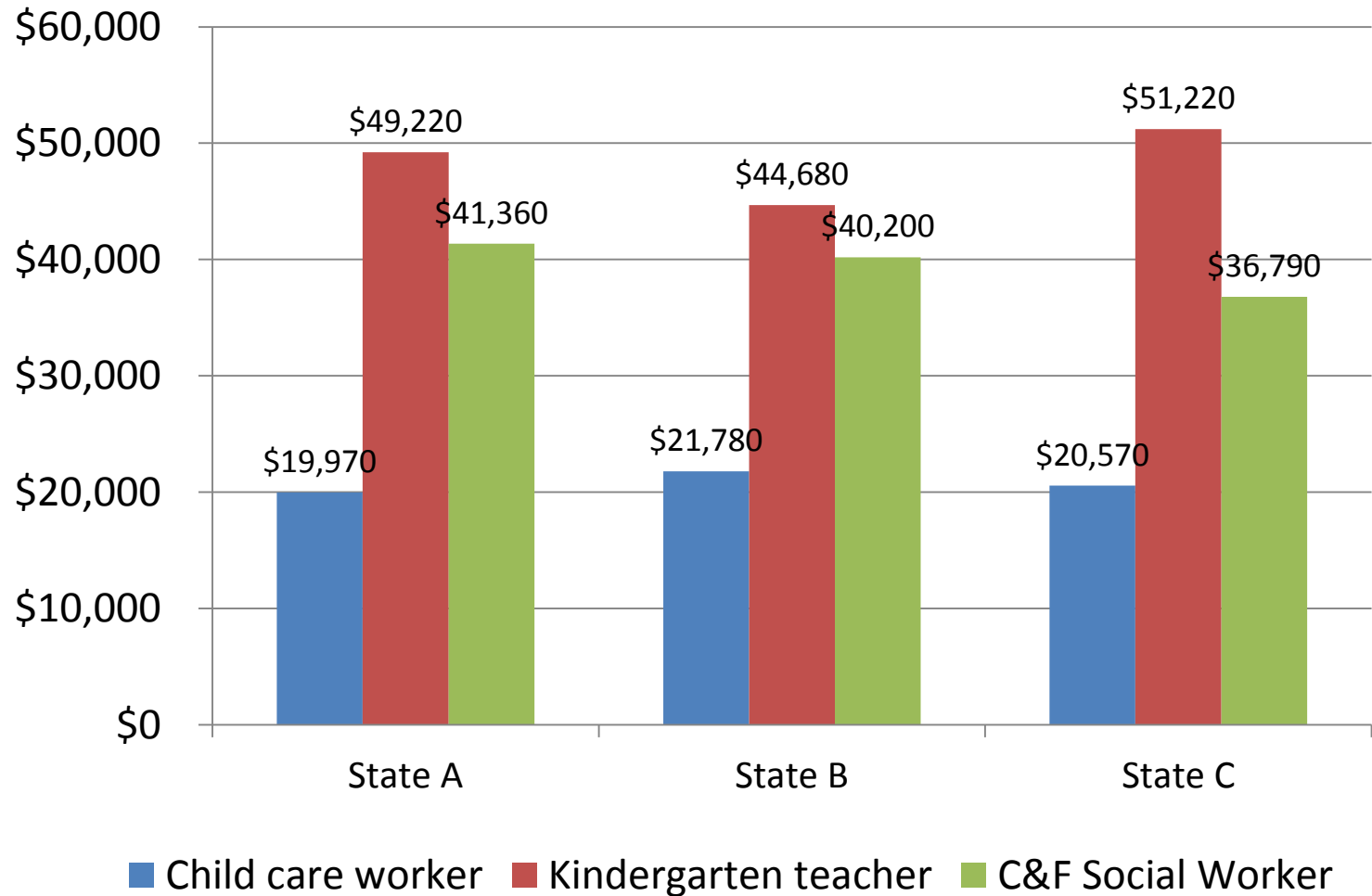
Modeling the cost of quality

- Mathematical models of ECE center operations
- Revenue & Expense budget for center at each level of state's QRIS
- Illustrate 'iron triangle' principles
- Quantify the cost-quality gap
- Strategize to fill gap

Three States A B C: Regulations and QRIS



Mean Annual Wages, BLS 2010





Key Revenue & Expense Features of the Cost Models

- QRIS expectations increase by tiers
- Primarily ***better qualified staff*** as quality increases (slightly higher wages)
- ***More staff time*** for assessment, family activities and conferences, curriculum planning, staff meetings



Key Revenue & Expense Features of the Cost Models

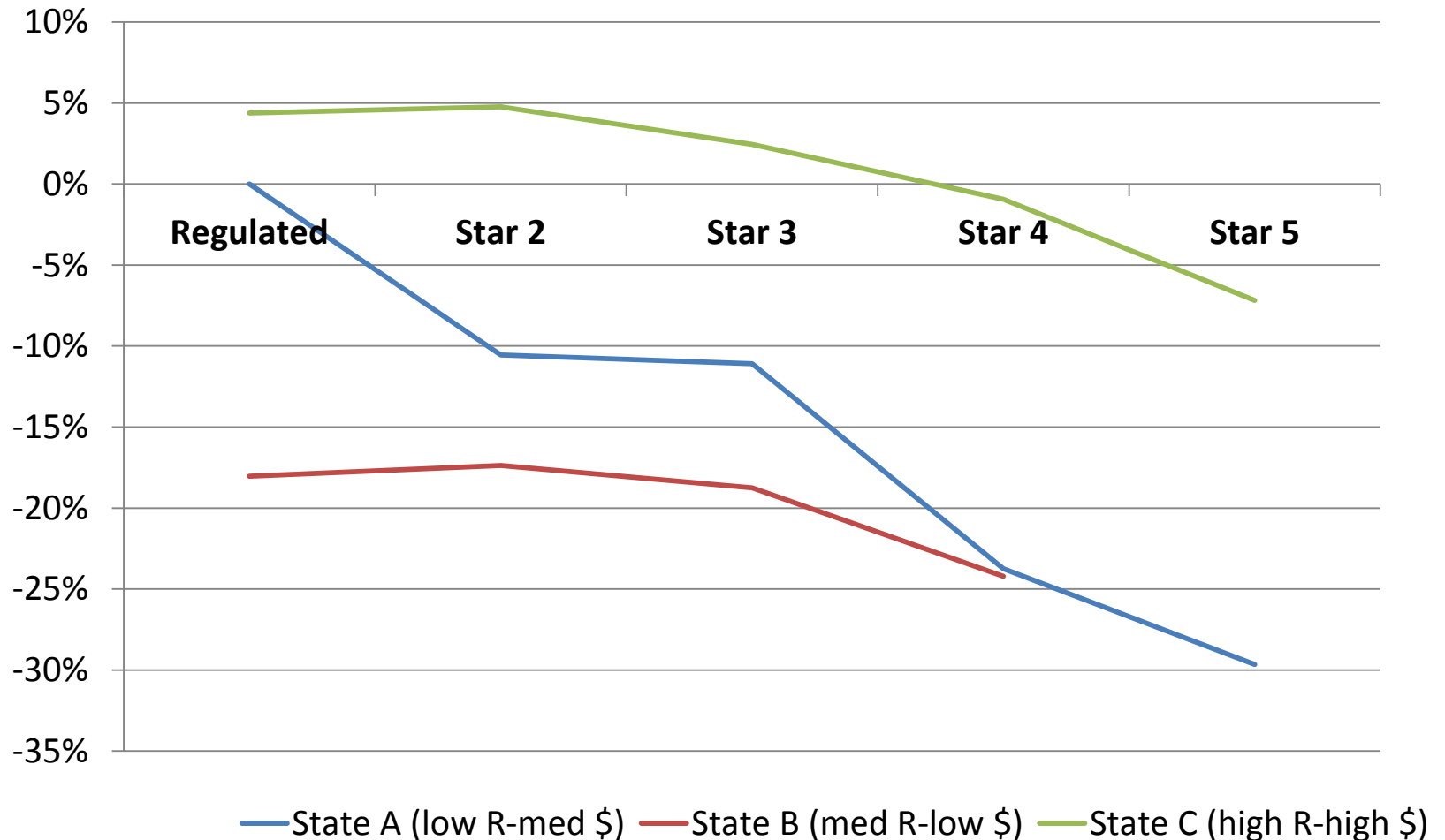
○ Expense

- Staff wages from BLS, 2-5% increase for top 3 tiers
- Mandatory benefits, 5 paid holidays/5 days paid leave, no health insurance at lower tiers/20% employer contribution at upper tiers
- 85% enrollment, minimal bad debts

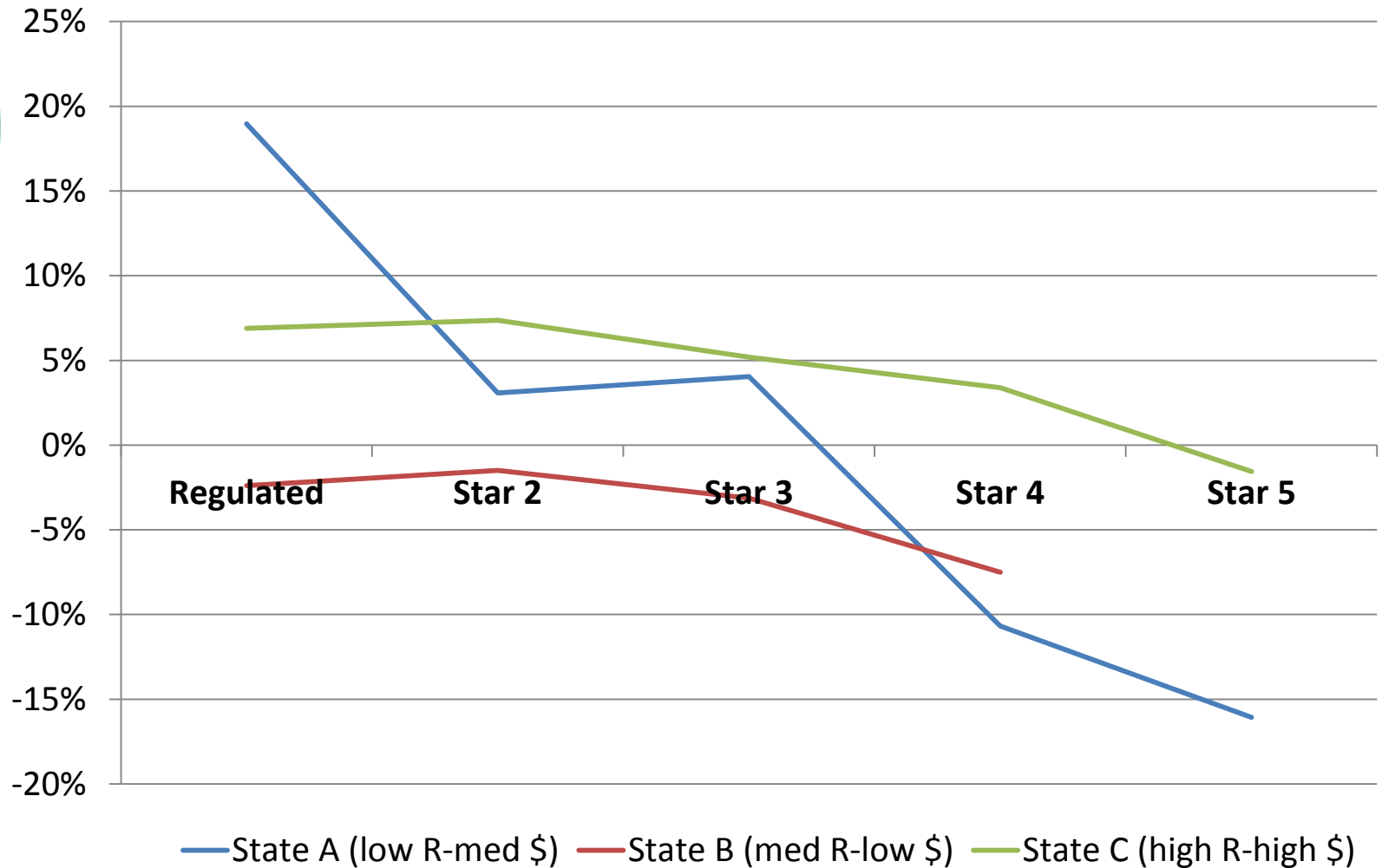
○ Revenue

- Subsidy at MR ceiling or parent tuition at same rate
- All possible QRIS financial awards
- Prekindergarten funding, if possible

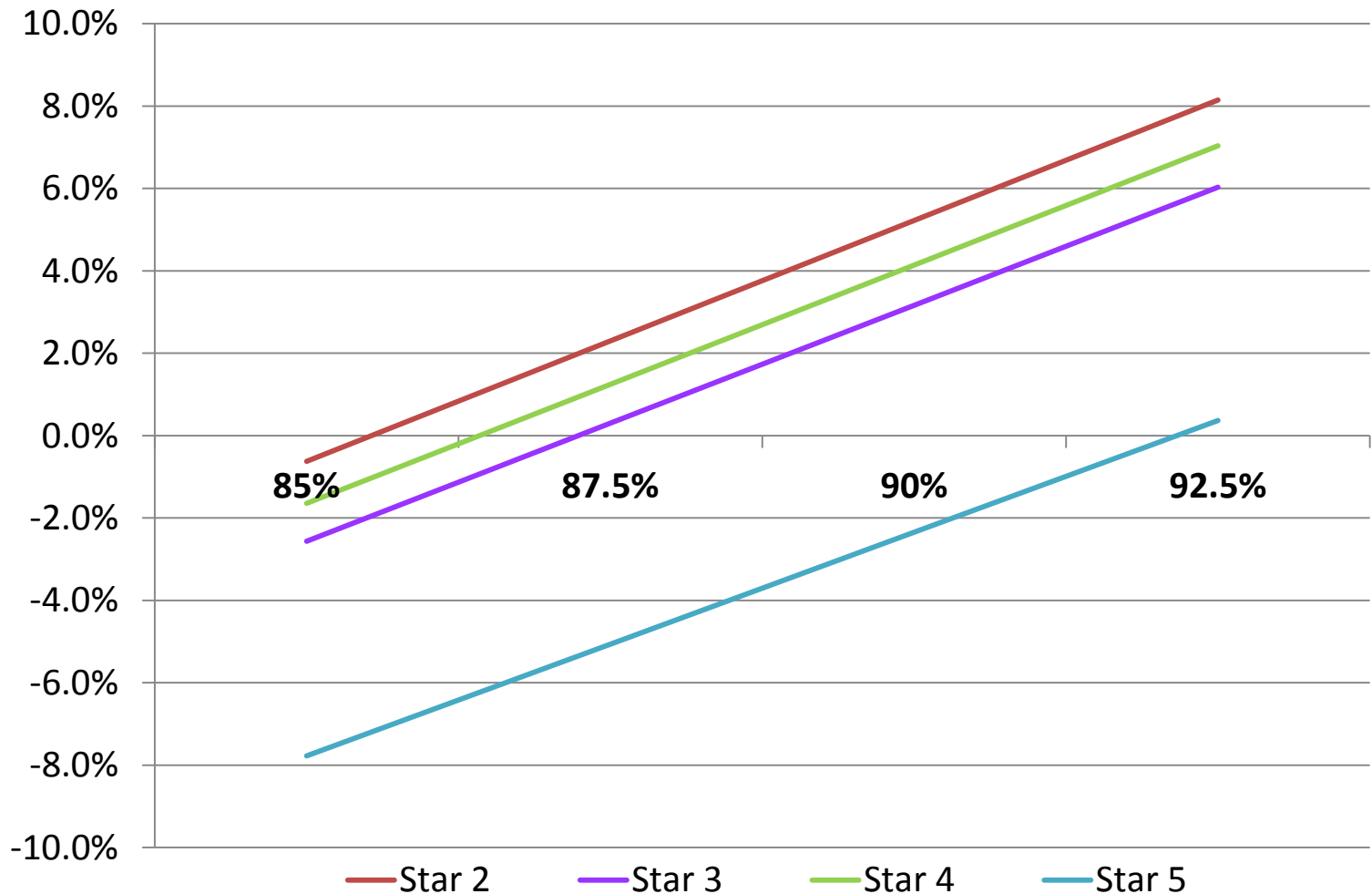
Percent Net Income by Quality Level (large center, children ages 0-5)



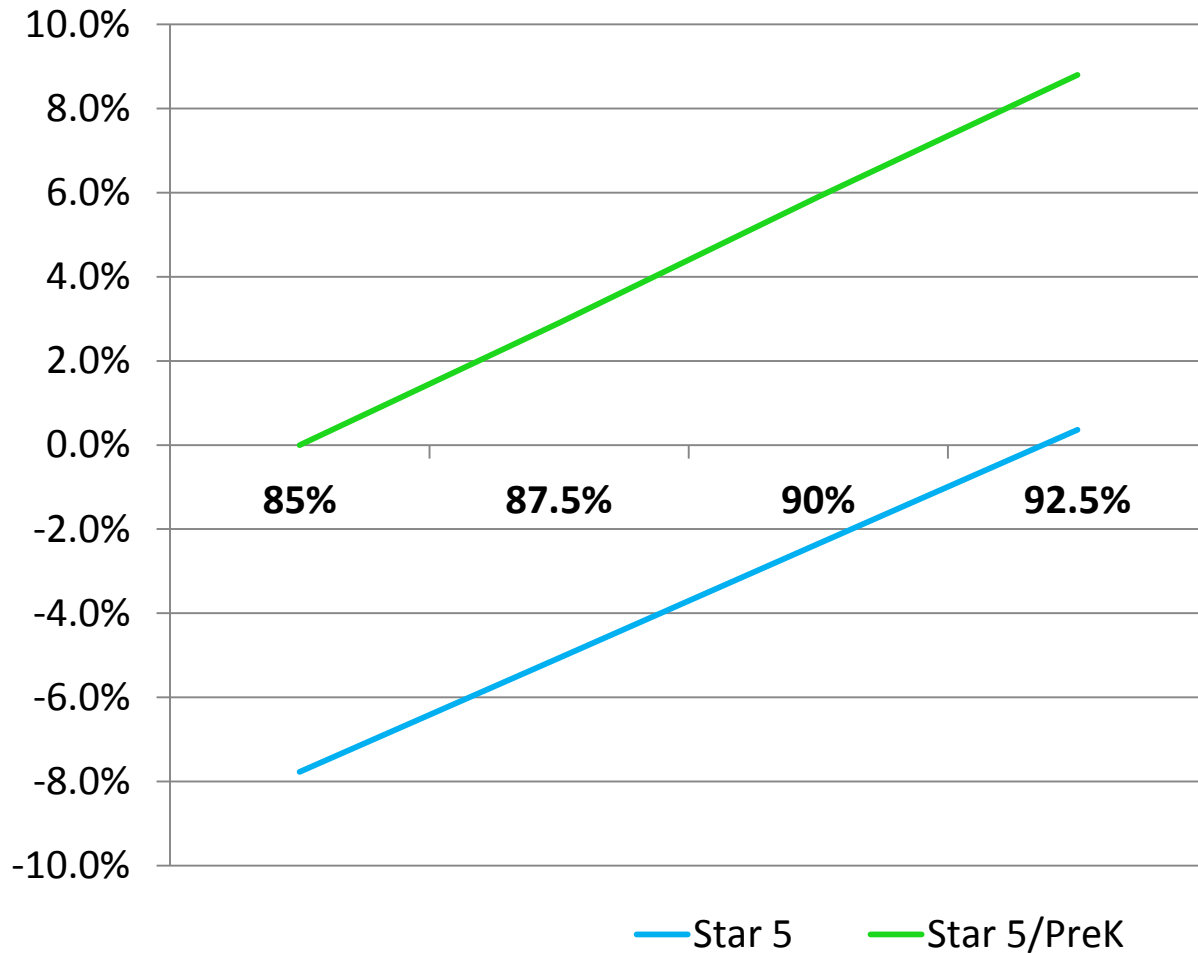
Percent Net Income by Quality Level (large center, children ages 2-5)



Impact of Increasing Enrollment on Percent Net Income (small center)



Impact of PreK Revenue on Star 5





Targeted Compensation Approaches

- Pay employer
 - *Direct award* (e.g., Pennsylvania Ed & Retention,
- Pay employee
 - *Direct award* (WAGE\$, Illinois Great START)
 - *Indirect award* (refundable tax credit, e.g., Louisiana School Readiness Tax Credits)



Quality awards via QRIS

- Half of QRIS offer quality awards related to levels/tiers
- Half of them are modest, one-time
- Half are modest annual
- Pennsylvania's and Ohio's are large, annual

How can policymakers and funders use QRIS to improve compensation?



For more info...

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