

# Cost Studies in Child Care and Early Education

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## Existing Guidance, Best Practices, and Resources Needed

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# Context

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- Types of analyses
  - Narrow Cost Analysis
  - Larger-scale cost studies (e.g., state-initiated)
  - Cost-based alternative methodologies for child care subsidy rate setting
- Tools
  - OPRE guidance
  - CASP/IES standards

# Agenda

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1. Existing guidance on narrow cost analysis
2. Other cost study guidance in the field
3. Explore overlap and gaps in guidance
4. Discuss key nuanced challenges of cost study work in child care and early education
5. Identify resources needed to support high quality and impactful cost study analyses in child care and early education
6. Closing

# Equal Access and Cost

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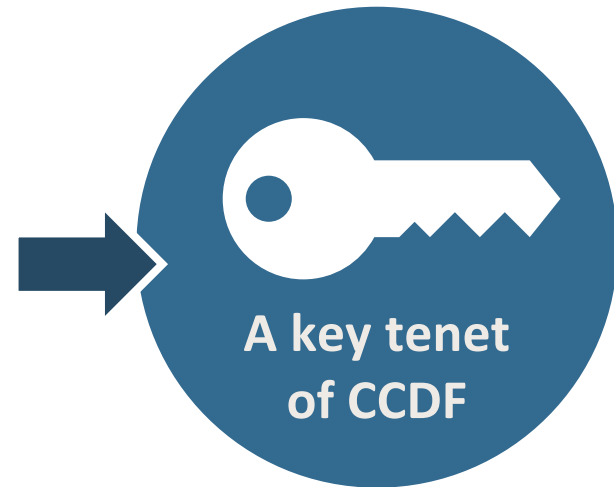
# Child Care and Development Fund (CCDF)

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## Equal Access Requirement

Ensure that families receiving CCDF dollars have the opportunity to choose from the full range of eligible child care settings

Provide families receiving CCDF with equal access to child care that is comparable to that of private-pay families to ensure parent choice



## Why does ACF prioritize equal access?

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- Advances equity for children and families served with federal child care subsidies
- Higher payment rates increase provider stability and supports increased wages for the workforce
- Shared goal with lead agencies to ensure all families have access to high quality child care

# Child Care System – “Market Failures”

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Price does not reflect the cost of providing care



Setting rates based only on price can perpetuate the underfunding of child care



Cost data can help break the cycle of low wages and low compensation



It can ensure that child care programs have the funds needed to provide basic health, safety and staffing.



It can ensure that child care programs can cover the cost of increasing quality care.



It provides an incentive for more child care programs to enroll children receiving subsidy.



Moving toward parents having equal access and reducing barriers

# Additional CCDF Requirements

## Lead agencies must certify that (45 CFR 98.45(b)(2-4)):

**Payment rates are adequate** and based on statistically valid and reliable data

**Providers can meet** health, safety, quality, and staffing requirements with subsidy amount

**Costs for higher quality**, at each level of quality, are addressed

## Required Data:

### Statistically Valid and Reliable Market Rate Survey or an Alternative Methodology

98.45(c)

- Within two years of CCDF Plan submission

### Narrow Cost Analysis

98.45 (f)(ii)(A-B)

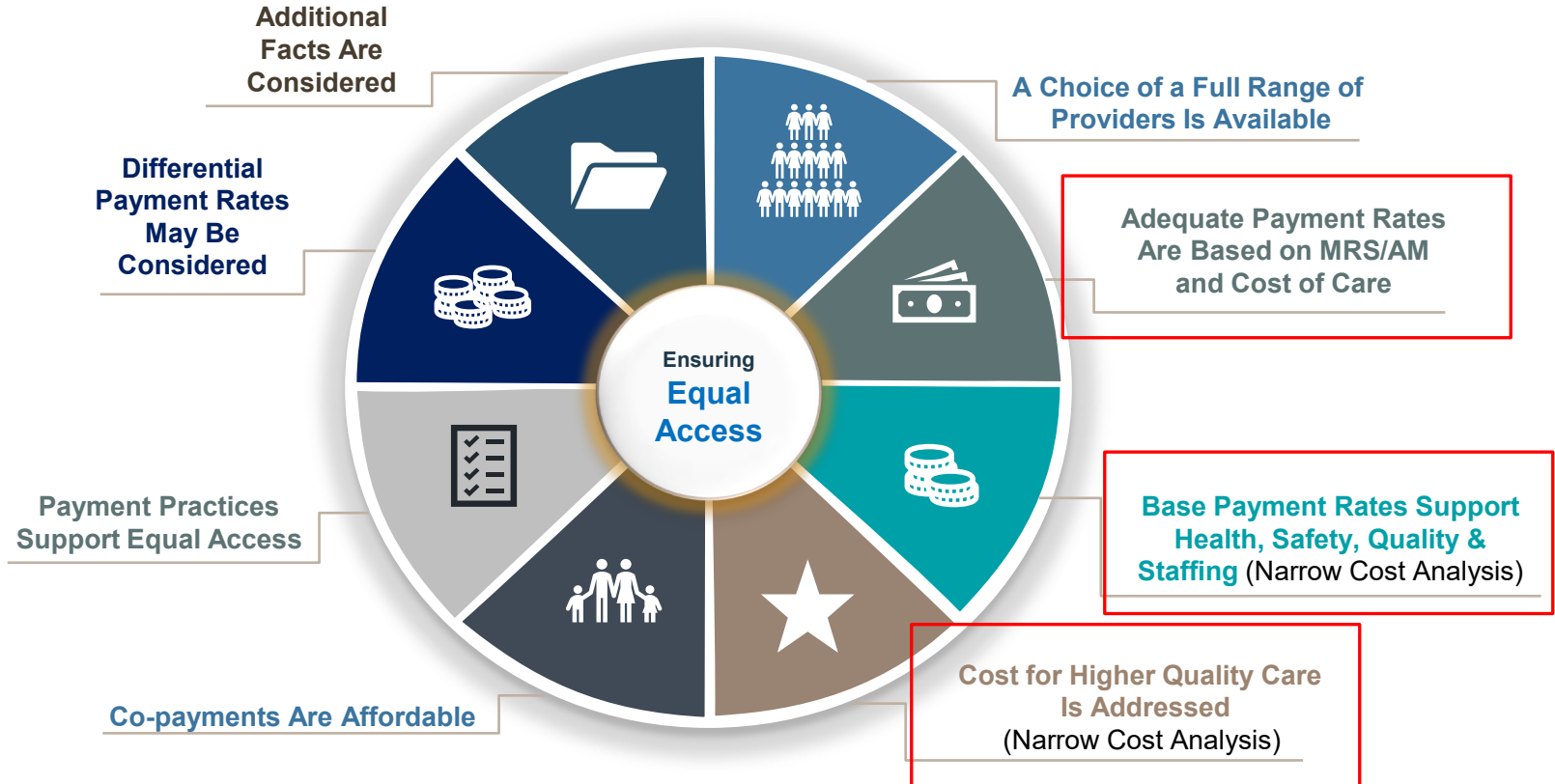
- Estimated cost of base-level and higher-level care

### Other

- Number or percentage of providers participating in subsidy programs and barriers to their participation 98.45(d)(2)(i)
- Providers' charges to parents beyond their parent co-payment 98.45(d)(2)(ii)
- Generally accepted payment practices 98.45(l)(3)
- Data on the supply and quality of child care 98.16(x)



# Equal Access Factors



# Equal Access and Cost of Care Methodologies

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- OCC has prioritized using cost-based alternative methodologies to inform payment rate setting and increase rates closer to the cost of care, rather than using a price-based MRS
- OCC will provide targeted TA for lead agencies who are considering a transition to a cost-based approach
- Stronger emphasis on understanding and using a narrow cost analysis for lead agencies who are not yet ready to move to an alternative methodology
- Increased payment rates help stabilize and support the child care workforce

# Terms

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## Price

The child care providers in the priced market typically charge parents for the care of children who do not receive federal or state government child care subsidies



## Cost

The value of all resources required to deliver child care services, including salaries, rent, utilities, equipment, insurance, supplies, and other personnel and non-personnel expenses

# Terms

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## Subsidy Rates

Is the amount paid to the child care provider or family through the child care subsidy program. Subsidy rates could be various amounts based on the Lead Agency's policies.

## Narrow Cost Analysis

A narrow cost analysis is a study or estimate of what it costs providers to deliver child care in your state or territory at two or more levels of quality, including the base level of quality that meets health, safety, staffing, and quality requirements, and one or more higher levels of quality as defined by your agency.

## Alternative Methodology

A preapproved, statically reliable, and valid method, in lieu of a market rate survey, to set the subsidy rates.

# Flexibility in Regulations

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## Narrow Cost Analysis — (Guidance on Alternative Methodologies and Cost Analyses for Purposes of Establishing Subsidy Payment Rates, 2018)

- No advanced approval needed
- Flexibility in choosing a narrow cost analysis approach
  - Developing a cost model using tools such as the Provider Cost of Quality Calculator (PCQC)
  - Doing a “small-scale cost survey or study”
  - Use existing information and data to limit burden (e.g., from existing cost studies; per-child funding in state contracts, prekindergarten grants, or Head Start grants)

# Understanding Narrow Cost Analyses and Alternative Methodologies

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**Note: AM can incorporate all the elements of NCA**

## Narrow Cost Analyses

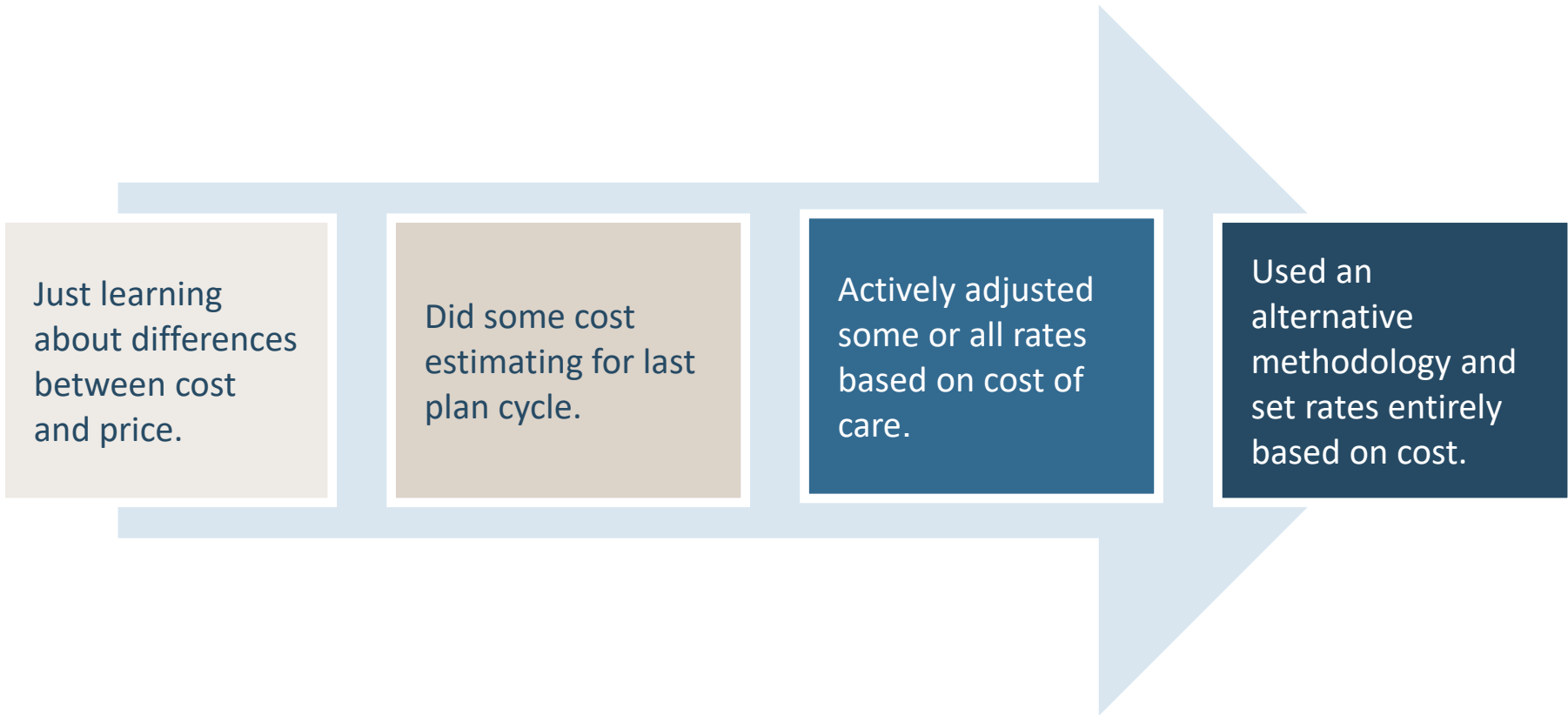
- Required for all Lead Agencies
- Do not require preapproval
- Address different ages of children served, types of providers, and geographies
- Lead Agencies have flexibility in method and rigor used for cost estimate
- Analyze and report on gaps between rates and costs for base and higher-quality care
- Rates set using the market rate and cost of care information

## Alternative Methodologies

- Optional: Used instead of the Market Rate Survey (MRS) to set rates
- Approval required of proposed AM prior to conducting
- Address different ages of children served, types of providers, and geographies
- May include information on the gaps between subsidy rates and costs for base and higher-quality care (as required in the narrow cost analysis)
- Must meet benchmarks for statistical validity/reliability
- If using a cost-based alternative methodology, rates will be set using cost of care data

# Continuum of Cost Data Collection

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# Other Available Cost Study Guidance

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- The Cost Analysis Standards Project (CASP) developed the *Standards for the Economic Evaluation of Policies and Programs*
  - Defines best practices for conducting cost study work within the context of an evaluation.
  - Funded by AIR and listed on the IES Standards for Excellence in Education Research (SEER).
- Intended to inform researchers, funders of research, and consumers of research about the key qualities of rigorous cost study work.
- Information can inform decisions



# Summary of CASP

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- Covers cost analysis, cost-effectiveness analysis, cost-benefit analysis
- Encourages the use of the ingredients approach (Levin et al., 2018)
- Encourages primary data collection done in collaboration with simultaneous evaluation and/or implementation studies.
- Can inform decisions around policies and potential trade offs.
- Can be intensive and require extensive data collection.
- Information from a cost study should be interpreted in the context of its limitations.

# Comparing Narrow Cost Analysis and Cost Study Guidance

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Key elements that overlap

# Narrow Cost Analysis and Cost Studies

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- How is a narrow cost analysis being used in the field and what information does it yield?
- What are the key similarities and differences between these two sets of guidance? How do those apply to the child care and early education field?
- How can each of these approaches support decisionmaking around subsidizing child care?
- What are other examples of policy decisions that can be supported by each approach?

# Narrow Cost Analysis and Rigorous Cost Studies

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- Key overlapping elements
  - Primary data collection
  - Engagement of communities of interest
- Similarities in limitations
  - Results should be interpreted within the study's limitations
  - Capture only a moment in time, but can speculate on other implementation structures
- Utility for consumers of this research
  - Both approaches can be tailored based on needs of the consumer

# Challenges with Studying the Costs of Child Care and Early Education

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Nuanced challenges of calculating costs of child care and early education programs

# Challenges with Estimating Costs of Child Care and Early Education

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- What are the key challenges you encounter when estimating the cost of child care and early education
  - How are those unique to this field of study?
- What solutions have you employed to overcome these challenges?
- What data systems have you leveraged to collect cost information?
  - How have those data systems been helpful?
  - How have they fallen short?
- What information is the most challenging to get when conducting cost studies in this space?

# Challenges with Estimating Costs of Child Care and Early Education

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- Primary data collection requires the time of providers, which is difficult to get given staffing arrangements.
- Historically under resourced respondents can struggle to identify resources used and/or resources needed to provide care.
- The ratios required through licensing regulations can make it challenging to estimate costs and build buy-in behind findings.
- The cost of child care compared to the subsidized rate can sometimes appear to be an insurmountable gap.

# Resources to Support Rigorous Cost Studies

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Materials and guidance that can support the application of rigorous cost studies in child care and early education



# Resources Needed for Cost Studies of Child Care and Early Education

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- What resources are needed to conduct high-quality cost studies of child care and early education?
  - Needed by researchers?
  - Needed by state decisionmakers?
  - Needed by state administrators?
- What would be the best way to make those resources available to the audience who needs them?
- How can researchers collaborate to improve how cost studies are conducted in this space?



Advancing Evidence.  
Improving Lives.

## THANK YOU FOR YOUR TIME AND INPUT!

### Cost Studies in Child Care and Early Education: Existing guidance, best practices, and resources needed

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# Pocket Slides

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# Economic Evaluations

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- Cost Study
  - What is the cost of all the resources used to implement a program?
- Cost-Effectiveness Study
  - What is the cost of one additional unit of outcome?
- Cost-Benefit Study
  - How do the monetized benefits of a program compare to its costs?

# What are Economic Evaluations?

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- Cost Study
  - What is the cost of all the resources used to implement a program?
  - What does it cost?
- Cost-Effectiveness Study
  - What is the cost of one additional unit of outcome?
  - What do we get?
- Cost-Benefit Study
  - How do the monetized benefits of a program compare to its costs?
  - Was it worth it?

# Costs $\neq$ Budgets

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- Budgets lack information about how resources are shared across multiple programs.
- Budgets do not account for donated resources, including people's time.
- Budgets do not show how resources are spread across program components.
- A budget is a plan.
- Budgets typically include only one payee perspective.

# Data Needed for an Economic Evaluation

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- Rich information about the resources used to implement a program
  - Personnel, equipment, materials, facilities, training, other
- Information about qualities and characteristics to select an appropriate price
- Information about quantities help us calculate costs

# What is Needed for an Economic Evaluation?

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$$\text{Price} \times \text{Quantity} = \text{Cost}$$



# Data Collection for an Economic Evaluation

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- Review of program documentation
  - Identify program components, understand the theory of change
- Primary data collection to understand the resources used for program implementation
  - Interviews, surveys, time logs, informational discussions with program leaders/vendors
- Accurate pricing information to value resources
  - Salary database, descriptions of staff responsibilities and qualifications, descriptions of materials/equipment used