E3: Cost Modeling for Child Care Policies: What Data Are Needed and How Can States Deliver?

Thursday, June 29, 2023
1:45 p.m. – 3:00 p.m. | *Mt Vernon*

1. Descriptive Information

E3: Cost Modeling for Child Care Policies: What Data Are Needed and How Can States Deliver? States and territories are moving toward cost modeling as a tool for supporting policymaking related to child care and early learning programs, but how can we best position states to have the data needed to accurately and comprehensively conduct cost analyses and inform decision making? This session will explore the data elements and tools needed to develop a cost model and provide recommendations on how states can build systems and procedures to gather those data with maximum accuracy and minimum burden. This session will feature examples of states that have developed cost models, review recent developments in the collection and use of cost data, and illustrate the range of issues that can be addressed using cost modeling as a foundational tool.	**Presenters** Sascha Mowrey, Early Education Division, California Department of Education **Simon Workman**, Prenatal to 5 Fiscal Strategies **Lynn Karoly**, RAND Corporation **Scribe** Hannah Reutter **Number of Attendees:** 15

2. Documents/Presentations Shared (Please list any electronic documents, PowerPoint presentations, or web links used during the session.) ***Collect presenter PowerPoints or other documents on the flash drive provided.***

3. Brief Summary of Presentations

Summary of Presentation #1: Simon Workman - Cost modeling for child care policies: What data are needed and how can states deliver?

- Difference in Rate Setting Approaches
  - Different approach requires different level of data collection.
  - Old approach, market rate survey. Purpose is to collect data on the prices provider charge to families. THEREFORE, need information from across the market, need statistical analysis.
  - Cost-model based approach is different. Can be used to understand current <u>cost of care</u> – what it actual costs, regardless of families' ability to pay. Or <u>true cost of care</u> what it really costs to meet the needs of children and families.
    - For this, data collection requirements are different – use primary data (e.g., provider survey, focus groups or interviews) and secondary data – requires some interpretation of data, assumptions, moving away from scarcity model.
- What is a cost model?
  - Tool to understand the cost of providing services with variations for different program and child characteristics
  - Uses multiple data sources and points, which are driven by the selections that the user makes in running the tool
  - Can identify the gap between the costs and the revenue sources
  - Answers vary based on selection points chosen
- Key steps in developing a cost model
  - Engage Constituents
  - Collect Data
  - Develop Model
  - Run Scenarios & Report Results

- Opportunities for data collection and provider input

- o Data collection efforts must promote accessibility
  - Language
  - Reading level
  - Platform
  - Timing
- Focus data collection on largest cost drivers
  - o Personnel
    - Salaries
    - Benefits
    - Ratio/Group size
    - Additional staff
  - o Non-personnel
    - Rent/lease/mortgage
    - Utilities
    - Supplies and equipment
    - Transportation
    - Food
    - Administrative
- Tracking data responses
  - o Important to make sure collecting data from all the different areas care is provided, and from types of programs.
  - o Less about statistical numbers – what percentage did you reach? And more about do you cover all the relevant places and provider types
- Uses of cost modeling results
  - o Subsidy rate setting
  - o Grant or contract setting
  - o Costing out specific initiatives
  - o Quality improvement incentives
  - o Systems change planning
  - o Advocacy
- Cost based approach to public funding
  - o **Direct Service**
    - Child Care
    - PreK
    - Home Visiting
    - Early Intervention
  - o **Systems Modeling**
    - Quality supports
    - Infrastructure
    - State and local systems building
- Areas of policy impact
  - o Building capacity for higher quality
  - o Addressing compensation needs of child care workforce
  - o Paying on enrollment not attendance
  - o Incentivizing delivery of care:
    - Infants and toddlers
    - Underserved areas
    - Family child care setting
  - o Using alternative methodology to inform subsidy rate setting
  - o System-wide planning

  - o Funding Mechanisms

- - - **Contracts**
      - Effective strategy for increasing the supply of infant and toddler care and care for other underserved populations
      - Offer more stability to providers
      - Increase quality
      - Use cost of quality to inform contract amounts
    - **Tiered Reimbursement**
      - Strategy to provide incentive to operate at higher level of quality
      - Set as a percentage of base subsidy rate, or set dollar amount
      - To be effective, important to understand the cost of quality and set tiered rates accordingly
- New Mexico Change in Action
  - Child Care Model
    - Changed rates to address inequity in funding family child care
    - Increased infant and toddler rates to cover cost of care
    - Increased compensation levels used
  - Home Visiting Model
    - Increased rates paid for home visiting services by 50%
    - Used model to address inequities in Medicaid rate setting across HV types
  - System Model
    - Supported increase in child care eligibility ceiling and elimination of parent co-pays
    - Budget and planning for use of Trust driven by quality, access and associated infrastructure needs for the system
- Resources
  - www.prenatal5fiscal.org

Summary of Presentation #2: Lynn Karoly - Cost Modeling for Child Care Policies

- Uses of cost analysis for ECE policy
  - Cost data collection and estimation and cost modeling at provider level
    - Understanding cost variation
    - Understanding cost drivers
    - Setting reimbursement rates
    - Setting individual provider contracts
  - Cost modeling at system level
    - Understanding system-level cost
    - Considering stakeholders that would cover cost
      - Private contributions (families, employers, philanthropy)
      - Public sector contributions (federal, state, and local levels)
- Application: VT cost and financing study
  - In recent years, Vermont has expanded access to and the quality of ECE
    - Increasing the income eligibility for ECE subsidies
    - Expanding the pre-K program to reach universality
    - Using the Step Ahead Recognition System (STARS) to define and incentivize quality
  - Further investments raises two key policy questions:
    - How much will it cost?
    - How can it be paid for?
  - Vermont legislature requested cost and financing study
    - Cost with expanded subsidy access for high-quality ECE with a well-compensated workforce (Study 1)
    - Identify stable, long-term funding sources (Study 2)
- Study 1 involved 4 components
  - Estimate the cost of high-quality ECE with a well-compensated workforce
  - Estimate the family contribution based on alternative sliding-scale fee schedules

- Estimate the public funding in the current system
- Compute the funding gap between the system cost and the funding that would come from families and the public sector
  - Study 1 concluded the funding gap was about $258 million assuming families with income up to 150% of poverty have no contribution and the family contribution for those with income up to 350% of poverty is no more than 10%
- Key Assumptions about the program quality in centers and FCCHs
  - Ratios and group sizes: Same as licensing which are consistent with accreditation standards
  - Lead teacher education: Bachelor's degree in early childhood field
  - Assistant teacher education: Associate's degree in early childhood field
  - Professional development: Paid time for professional activities and other support resources
  - Other quality features:
    - Evidence-based curriculum
    - Use of developmental screeners
    - Use of child formative assessments
    - Independent classroom/home quality assessments
- Study 2 Approach: Address questions from macro-level
  - Build on Study 1 - Identify feasible and sustainable sources of public revenue
  - Model fiscal and economic impacts, 5-year time horizon
  - State net revenues, economic output, employment
- Methods: Modeling approach and data
  - Modeling will account for three sources of policy change
    - Increased compensation to the workforce
    - Increased subsidies to families
    - Fiscal financing (taxes, etc.)
- Funding source options
  - Option 1: New Payroll Tax
  - Option 2: Increase Sales and use Tax
  - Option 3: New Limited Service Tax
    - (Personal Services and Equipment)
  - Option 4: New Extended Service Tax
    - (Limited Service Tax + Broadcasting and Publishing)
  - Option 5: NEW Soda Tax
    - Increase Hospitality Tax
    - New Payroll Tax
  - Option 6: New Soda Tax
    - Increase Hospitality Tax
    - Increase Sales tax
  - Options 1 – 4 are single-source options that rely on one type of tax to produce the needed revenue
  - Options 5 and 6 are options composed of bundles of different taxes, meant to minimize increases in any one type of tax
- Funding estimates takeaways
  - Funding the smallest gap estimates that maintain the status quo of funding families up to 3.5x the poverty level could be accomplished with single sources of revenue
    - 0.9 percent payroll tax OR
    - 2.0 percentage point increase in the sales tax OR
    - A new limited services tax of 9.9 percent OR
    - A new expanded services tax of 7.1 percent
  - Bundling sources can lower the increases in any one tax source
  - The larger gaps generated by expanding subsidies to higher-income families cannot be funded by a single revenue source without increasing the magnitude of the tax to a rate not typically seen in other states
  - Tax increases are expected to have a small impact on household economic well-being
- Other considerations

- o Use 2019 data because last full year of data before pandemic, but present figures in 2022 dollars
- o Estimates are state-level
- o Our results indicate what a long-run, stable ECE system would look like
- o Added cost for children with special needs are not included
- o We do not explicitly model after school care for school-aged children
- o Downstream benefits to children and society are expected from increased ECE investments, but they would accrue beyond our 5-year time horizon
- • Epilogue
- o Vermont legislature in June 2023 overrode the Republican governor's veto of historic increase in ECE funding (HR 217)
- o State's expanded investment of $76M in FY 2024 ($125M in FY 2025):
  - ▪ Expand coverage and generosity of child care subsidy
    - • No contribution up to 175% FPL (from 150%)
    - • Maximum eligibility increases from 350% to 450% (FY 2024) and 575% (FY 2025)
- o Increase workforce compensation, especially direct care staff
- o Increase provider reimbursement up to 35% over current rates
- o One-time readiness funds for providers to improve quality
- o Commitment for further funding to reach universal full-time preK
- o Funding through general revenues and a new payroll tax
- • Report available at www.rand.org/t/rra2213-1

4. Brief Summary of Discussion

Q: Are you considering in your current model, the cost of the current workforce?
A: The assumption was that the increase in wages was going to drive people toward the workforce.

Q: Do you have any idea what parental leave might pay instead of infant child care?
A: We have not solidified looking at that, but we do want to look into it.