



How to Initiate a Cost Model 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? 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 start this important process and pay for it,
- 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 locality 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! 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 [cost model](#) is a tool that measures the true cost of equitably implementing, maintaining, or expanding a program or service. It also is an alternative way state and local 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 non-personnel 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 to be filled. When providers' expenses are more than their revenue, many child care and education programs operate at a deficit.

Often providers are the ones who must decide how to manage these deficits, by cutting costs (like wages) or seeking additional revenue (like increasing tuition for families).

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. State and local government agencies that manage comprehensive programs and services for children may lead 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!) 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.

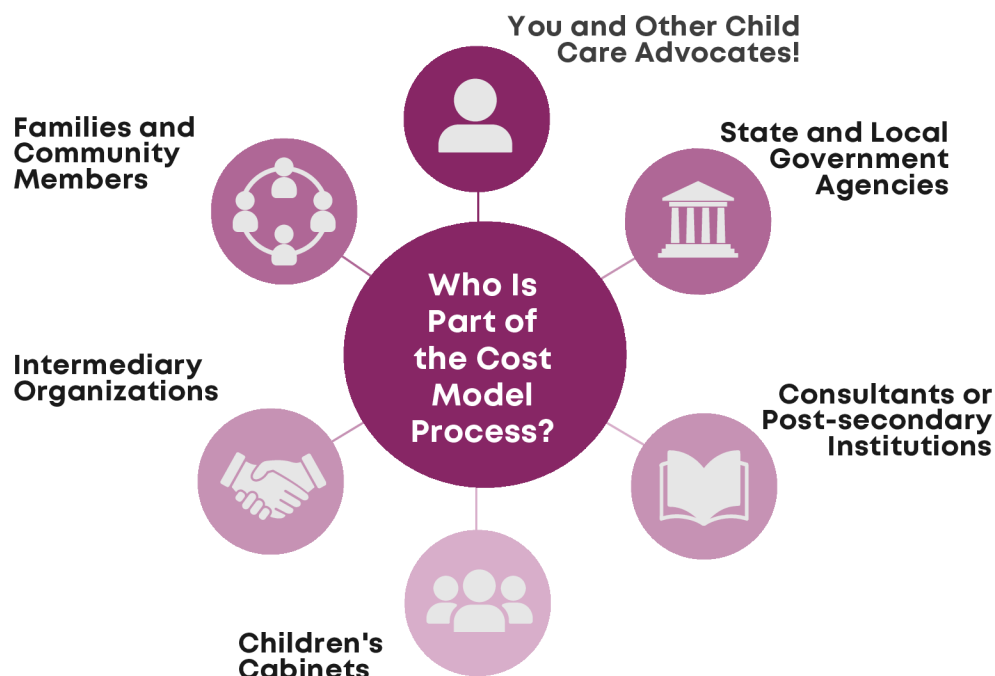
Providers like you also can advocate for a cost model and form a coalition with others to lead the process. In Wisconsin, the Wisconsin Early Childhood Association formed a coalition with community partners to explore ways to increase public funding for child care in the state. As part of its work, [the coalition worked with Children's Funding Project](#) to create a cost model to find out how much it would cost to make child care accessible, affordable, and high-quality statewide.

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 units that serve children, 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 child care;
- foundations and other philanthropies that fund programs for children;
- colleges, universities, and other postsecondary institutions; and
- families and community members.

As you can see, you could interact with many different organizations! Here are some key questions child care providers can ask to learn more about who is part of the cost model process in their state or community:

- What government entity sets child care reimbursement rates in the state and who has completed its market rate studies in the past?
- Is the agency planning to develop a cost model?
- Is there a children's cabinet in my state?
- Who are other child care advocates in my community?
- Does my community have child-focused goals or a strategic plan for ways that local government can support children?



Why Should States and Communities Develop 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 give you data to demonstrate what your community 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.

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.

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. When you share the power of your voice through a cost model process, you can challenge your community and state to dedicate funds from new revenue sources and [innovative funding](#) mechanisms or prioritize the use of existing funds to make the vision of a robust, adequately funded system a reality.

Why Do We Need a Cost Model?

For most child care providers, the greatest challenge is running their programs on the fees parents can afford to pay and the reimbursement rates that states provide for children with subsidies—meaning not enough money. Inadequate funding makes it impossible for child care owners to pay competitive wages, reward workers for steps they take for professional development, and even pay themselves a living wage to support their own families.

Rather than trying to stretch dollars from parent fees and reimbursement rates as far as possible, cost modeling turns the question of funding around to ask, “What does it *really* cost to provide child care in the kind of system that actually works for parents, children, and providers?”

That is, if we adopted a wage scale that compensated workers and owners for the essential value of their work, if we limited parent copayments to what families who need care could really afford, and if we offered resources to providers to support quality programming—how much money would it take?

Answering these questions is critical to fighting for transformational funding: public investments that are a solution, not a Band-Aid. It allows us to declare our vision for child care and the funding we need to make it a reality, instead of settling for an annual allotment and then arguing about how to stretch it to meet competing demands.

A cost model also gives us a way to quantify the inadequacy of current public funding and address the gap in a holistic, solutions-oriented way. Usually when we make the case for more funding, we talk about the number of families that don't have assistance, or how much families are required to pay, or how low providers' wages are. A cost model lets us see how addressing those problems together changes the bottom line.

Adopting a cost model is also a terrific opportunity to talk with—and organize—other providers around the impact of underfunding on their programs and to build understanding and solidarity across child care settings. Most importantly, it helps to position providers as experts in an area that is fundamentally important to creating a child care system that works.

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.

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!

How to Get Started

So how do we get there?

Educate

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 and parents 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 hold each other accountable as you advocate to change 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, internet 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 people, and so on and so on. You get the idea. While the concept of "organizing"

 *Although if you can, go for it!*

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 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!

 *There's no magic to the number 2. If you want to set a higher goal, please do!*

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 as your group expands. If you want help with this, reach out to the ChildCare Changemakers team at Community Change at childcarechangemakers@gmail.com.

 *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.*



Ask

Once you've organized a band of supporters ready to participate in the cost model process, it's time to get the official campaign going. Be clear about what you want—**a comprehensive cost model process that is inclusive and driven by people who are directly affected** (that's you)! It's also important here to identify any long-term objectives you have that you want to see the model reflect. For example, if you want child care sector wages to be the same as the wages of K-12 workers (called “salary parity”) or to limit parent copayments, be explicit about those aims. Here's a [resource](#) that might be helpful to define your big goals.

Depending on your state or community, securing a cost model might require legislation enabling the relevant public agency to undertake the process and allocate funds for the project. Find a champion in your state legislature or city council to introduce legislation requiring a cost model. Since local government agencies sometimes partner with outside organizations or consultants to prepare the cost model, your local policymakers also may need to identify some funding to support the agency's time and to pay any consulting fees. In other cases, the agency might be able to initiate the process on its own, using administrative funds it already has budgeted. You also can approach a local foundation to commission the process.

In any event, you'll want to make sure that some funding is set aside for community outreach as part of the cost modeling process. It will be important not just to publicize that the effort is happening, but also to come up with ways to make it easier for providers to participate. This could include providing stipends, and/or covering the cost of transportation, meals, child care and other supports, especially for participation in hearings or other events if they take place after the normal workday, or for substitute teachers if sessions are scheduled during working hours. These supports should be publicized widely to encourage providers and parents to take part.

Strategies to Secure Funding to Develop a Cost Model

Actually developing a cost model requires two things:

1. financial resources to build the tool and
2. identifying who will oversee the cost model work.

As you explore how to find the financial resources to support a cost modeling process, it is important that you, other providers, and families mobilize to identify who coordinates child care in your community or state. Having this knowledge and building these relationships can help you identify how your community or state can pay to develop a cost model.

Start by partnering with the state lead agency that is required to submit Child Care and Development Fund plans, which set provider payment rates. (This may be an office like a state department of human services.) When states develop these plans every three years, they must assess the cost of child care in their state. Under federal rules, states can do this in one of two ways:

1. through a market survey or
2. by using cost estimation models.

Additionally, the regulations for the Child Care and Development Fund require the state lead agency to consult with their state advisory council on early childhood education and care, which includes representation of child care providers, when it develops and conducts its rate-setting study. This requirement offers providers an important opportunity to advocate for a cost model to ensure the study accurately reflects the total costs of providing quality child care. Illinois offers one example of how a state can do this. In the [Illinois Child Care and Development Fund plan](#), the state department of human services outlines how it consulted with the state's Child Care Advisory Council, which includes child care provider representatives, for input.

If the lead agency doesn't know what a cost model is or how it works, educating other state and local advocates for children and youth about the benefits of a cost model can support your advocacy efforts with the agency to fund one. At the local level, think about bringing together [policymakers](#), [intermediaries](#), [funders](#), and [business leaders](#) who can help you make the case that existing public funds for child care are insufficient. Cultivating these relationships can build support for a cost model and also help your community or state identify and track the goals and objectives the cost model will highlight. Sharing your work experiences and challenges with these groups can show them why a cost model is necessary. For additional information, check out [Funding Our Kids 101: Understanding Cost Models](#) from Children's Funding Project.

You also can initiate a cost model process on your own! You will have to be persistent, and it will be even more important to build relationships and organize with other providers, families, and child care advocates. Consider partnering with a nonprofit advocacy group focused on early childhood issues, such as an early childhood or child care association. Groups like this may be able to help you secure funding for a cost model or help you find a partner who can build one for your community.

You can reach out to local foundations, philanthropists, and business leaders for financial support as well. Be sure to explain how cost modeling serves as a powerful tool that puts defensible data at your fingertips to support the child care system. Postsecondary institutions and cost modeling consultants can also be valuable partners to design and build a cost model that reflects the world of child care you want to see.

Develop and Institute an Advisory Panel to Guide the Process

As we described previously, cost models are their strongest when they include input from a wide variety of center and home-based providers like you! While that input is important during the data collection stage, it also is essential throughout the planning process to identify goals that reflect the needs of the broader community.

One way providers can influence all stages of the cost model is by partnering with your state or local child care agency to create an advisory panel to inform and monitor the process. There's no prescription about the right size or number of advisors the panel should include, but the panel will be most effective if it benefits from a diverse set of perspectives. Mapping different child care settings and ensuring representation of both parents and providers from those programs is one way to start. Consider also if there are any associations or other stakeholders, like unions or workforce development experts, that you want to include who can help with both accuracy and buy-in down the road. Participants should be compensated for their time and receive other support (like transportation and child care) to enable them to attend.

If you encounter any resistance to the idea of an advisory council, remind everyone involved—from providers, to families, to agency staff and elected leaders—that there will be greater community buy-in for the cost model, greater accuracy in the cost model tool, and greater support once it's adopted if the process is inclusive and community driven.

Considerations for Implementation

Cost modeling provides a much needed—and reliable—estimate of how much money states or communities need to achieve their goals for supporting programs and services for children. To many people's surprise, the gap between their state or community's [existing funding](#) for a set of programs and services and the true cost of those services can be dramatic and raise questions about where to find funding to fill the gap. These reactions are valid and important to honor as a pivotal starting point toward realizing that it is entirely possible to find funds to meet a community's needs.

Once your community, territory, or state completes a cost model, what it does next with the model often depends on the current political climate and what policymakers think they can accomplish. As a child care provider, you may be eager to advocate for more funding to cover the costs highlighted in the final model. Fortunately, there are [multiple and innovative funding sources](#) that you can champion to push against a long-held scarcity mindset that many in the

early childhood care and education community have. [Creating actionable steps to seek these funding sources](#) will require a coordinated political strategy and partnerships beyond those you built to create the cost model. This new strategy must help local leaders and other community members who did not participate in the cost model process understand the benefits of increasing public funding for early childhood care and education and meeting 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.