Quality Costs How Much?! 
The Endless Possibilities of the Provider 
Cost of Quality Calculator and How One 
State Used It to Change Policy

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2015 QRIS National Meeting 
July 16, 2015
High Quality Child Care Costs *HOW* Much?!
Child care programs typically make more money at lower quality levels.
profits decrease
low ratios
qualified staff
time with parents
staff benefits
Net Revenue: Happy Kids Child Care Center

- Level 1
- Level 3
- Level 5

No financial supports
This trend can be reversed.
cost models
## EXPENSES

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salary Costs</td>
<td>$341,500</td>
</tr>
<tr>
<td>Mandatory Benefits</td>
<td>$35,092</td>
</tr>
<tr>
<td>Additional Benefits</td>
<td>$22,900</td>
</tr>
<tr>
<td>Substitutes</td>
<td>$4,524</td>
</tr>
<tr>
<td><strong>Total Personnel Expenses</strong></td>
<td><strong>$403,916</strong></td>
</tr>
<tr>
<td>Sum of Child-Level Costs</td>
<td>$73,652</td>
</tr>
<tr>
<td>Sum of Per-Classroom Costs</td>
<td>$102,554</td>
</tr>
<tr>
<td>Sum of Per-Provider Costs</td>
<td>$6,540</td>
</tr>
<tr>
<td><strong>Total Non-Personnel Expenses</strong></td>
<td><strong>$182,726</strong></td>
</tr>
<tr>
<td><strong>TOTAL EXPENSES</strong></td>
<td><strong>$586,642</strong></td>
</tr>
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</table>

## REVENUE

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidized Children</td>
<td>$111,488</td>
</tr>
<tr>
<td>Tuition-Based Children</td>
<td>$511,514</td>
</tr>
<tr>
<td>Tuition Total</td>
<td>$623,002</td>
</tr>
<tr>
<td>CACFP</td>
<td>$74,090</td>
</tr>
<tr>
<td>Bad Debt and Enrollment Inefficiency</td>
<td>-$80,923</td>
</tr>
<tr>
<td><strong>TOTAL REVENUE</strong></td>
<td><strong>$618,168</strong></td>
</tr>
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</table>

## NET REVENUE

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net Revenue</td>
<td>$29,527</td>
</tr>
<tr>
<td>Net Revenue As Pct. of Total</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Enrollment</td>
<td>52</td>
</tr>
<tr>
<td>Total Teaching Staff (FTE)</td>
<td>8</td>
</tr>
</tbody>
</table>

Please read the User Guide under the 'Resources' menu above, before you begin. You can use the PCQC to create and save scenarios representing different settings for the state’s child care system, as well as reflecting different types of providers. Some users may find it easier to work on centers and homes separately. Start by creating a...
Net Revenue: Happy Kids Child Care Center

- Level 1
- Level 3
- Level 5

No financial supports
- higher subsidy payments

Net Revenue:
- $(35,000)
- $(30,000)
- $(25,000)
- $(20,000)
- $(15,000)
- $(10,000)
- $(5,000)
- $5,000
Net Revenue: Happy Kids Child Care Center

No financial supports  higher subsidy payments  supportive subsidy policies
Net Revenue: Happy Kids Child Care Center

- Level 1: No financial supports
- Level 3: Supportive subsidy policies
- Level 5: Higher subsidy payments
- Better business

Net revenue levels at different subsidy supports.
https://childcareta.acf.hhs.gov/quality-improvement
Reauthorization provides a two-generational approach focused on the family as a whole, as well as helping parents support their children’s development and learning. **New language added by Congress includes:**

- Promoting involvement by parents and family members in the development of their children in child care settings;
- Delivering high-quality, coordinated early childhood care and education services to maximize parents’ options;
- Improving the overall quality of child care services and programs;
- Improving child care and development of participating children;
- Increasing the number and percentage of low-income children in high-quality child care settings.
Reauthorization and Uses of PCQC

Equal Access and Rates(658E(c)(4)): 

• Requires States to conduct a market rate survey, or use an alternative methodology, such as a cost estimation model, and describe how payment rates will be established based on results of the survey or alternative methodology, taking into account cost of providing higher quality services.

Payment Practices(658E(c)(2)(S)): 

• States must establish policies that reflect generally accepted payment practices for child care providers, including (to the extent practicable) paying for absence days, and timely reimbursement for child care services.
Supply-building (658E(c)(2)(M)):

- States must develop strategies for increasing supply and quality of services for children in underserved areas, infants and toddlers, children with disabilities, and children in non-traditional hour care—which may include use of grants/contracts and alternative payment.

Business Technical Assistance (658E(c)(2)(V)):

- Requires States to describe how they will develop and implement strategies to strengthen the business practices of child care providers to expand the supply, and improve the quality of, child care services.
Quality Costs How Much?
Provider Cost of Quality Calculator and Ohio Policy

July 16, 2015
Early Learning Financing Project

• Started in March 2014
• Anne Mitchell, early childhood financing expert
• groundWork Steering Committee
• Utilized the Provider Cost of Quality Calculator
• Also utilized other tools to gather data from school, center-based, and home settings
Leadership

- Led by groundWork Steering Committee/staff
- Lead organization in each selected county
- Providers from each setting in selected counties recruited by lead organizations
  - Offered several rounds of feedback/verification
- Statewide meeting held in final stage for feedback/verification
Goals

Use best available data to determine:
- Cost of early in all settings, all quality levels
- Create recommendations on the most effective early learning financing model for Ohio
- Estimate the cost of taking high-quality to scale
Provider Cost of Quality Calculator (PCQC)

• Six counties chosen as representative sample (3 urban, 3 rural, every market rate category)
• County-level PCQC scenarios created
• Input used:
  • Publicly available sources where possible
  • Feedback and validation from providers
  • Surveys to providers
# Ohio PCQC Process Overview

<table>
<thead>
<tr>
<th>Activity</th>
<th>Timeframe</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chose 6 representative counties; invited lead agencies to participate</td>
<td>March 2014</td>
</tr>
<tr>
<td>Assembled available public data from market rate study, workforce study, BLS data, state data for PCQC</td>
<td>March-May 2014</td>
</tr>
<tr>
<td>Lead county agencies invited quality providers from each setting (child care and Public Preschool) to day-long feedback session on cost of Step Up to Quality standards</td>
<td>May 2014</td>
</tr>
<tr>
<td>PCQC scenarios are refined based on feedback, shared with gW Steering Committee</td>
<td>June 2014</td>
</tr>
<tr>
<td>County meetings are held to share PCQC scenarios, gather feedback; hosted by neutral facilitator</td>
<td>July-August 2014</td>
</tr>
<tr>
<td>Survey to providers distributed to refine outstanding questions: bad debt, average enrollment, transportation costs, and additional revenue sources</td>
<td>August 2014</td>
</tr>
<tr>
<td>Statewide meeting held to share results, gather feedback from broader group and help shape policy recommendations</td>
<td>August 2014</td>
</tr>
</tbody>
</table>
Considerations for Estimating the Costs of Quality

Expense Drivers:
- Ratios and class size
- Staff salary and benefits
- Per-child costs: child assessments and family engagement activities.
- Per-classroom costs: time for additional planning, assessment, etc.
- Nonpersonnel (occupancy, supplies, materials, equipment, etc.)

Revenue Drivers:
- Parent tuition
- Subsidy payments
- Bad Debt (collections) and enrollment efficiency
- Child and Adult Care Food Program (CACFP)
Variables in the Cost Model

- Quality Levels
- Ages of Children
- Classroom Size
- Family Income
- Efficiency (Enrollment & Bad Debt)
- Quality Achievement Awards
Key Assumptions in the Cost Model

- Salaries increase with education and training
- Private tuition rates increase by quality level
- Providers utilize CACFP
- Optimal enrollment and timely collection of all revenue are essential to a program’s financial sustainability
Financial Stability: The Iron Triangle

- Full Enrollment
- Full Fee Collection
- Revenues Cover Per-Child Cost
### Impact of County Feedback & Survey: Changes!

<table>
<thead>
<tr>
<th>Initial Assumption</th>
<th>Revised Assumption</th>
<th>Adjustment to the Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Each county will be distinctly different from the other counties.</td>
<td>Mainly urban counties are distinct from mainly rural counties.</td>
<td>Instead of 6 counties, an Urban scenario and a Rural scenario.</td>
</tr>
</tbody>
</table>
| All centers have a similar staffing pattern.             | Urban and rural centers have different staffing patterns: only very large rural centers hire Ed Coordinators or Administrative Assistants | Urban: Ed Coordinator part-time moving to full-time when 100 children; full-time Admin Asst. for each 50 children  
Rural: Ed Coordinator full-time only when 200 children; full-time Admin Asst. for each 200 children. |
**Impact of County Feedback: Changes!**

<table>
<thead>
<tr>
<th>Initial Assumption</th>
<th>Revised Assumption</th>
<th>Adjustment to the Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries in the most recent Workforce Study for rural and urban counties are representative of Star 2, with set % increases or decreases by Star level above or below Star 2.</td>
<td>Rural salaries start lower than urban salaries. Urban salaries rise more as quality increases than rural salaries. Education Coordinators are paid less than Directors.</td>
<td>Adjusted all salaries. Set Ed Coordinator at 90% of Director salary.</td>
</tr>
<tr>
<td>Ratios set at maximum allowed in regulation for each age group.</td>
<td>Urban centers reduce ratios to meet the higher Star levels. Rural centers follow regulated staffing patterns (but effectively have lower ratios because rural enrollment is lower).</td>
<td>Lowered preschool ratios for urban centers at Star 4 and Star 5.</td>
</tr>
<tr>
<td>Enrollment efficiency set at typical level of 85%.</td>
<td>Rural centers have lower enrollment efficiency (more vacancies) than urban centers.</td>
<td>Set enrollment efficiency at 85% for urban and 80% for rural</td>
</tr>
</tbody>
</table>
Impact of County Feedback: Changes!

<table>
<thead>
<tr>
<th>Initial Assumption</th>
<th>Revised Assumption</th>
<th>Adjustment to the Model</th>
</tr>
</thead>
<tbody>
<tr>
<td>The proportion of subsidized children is on average 25%</td>
<td>The proportion of subsidized children is different in urban and rural counties. The proportion of subsidized children varies most widely in urban counties.</td>
<td>Urban scenarios: one with 15% subsidy and one with 75% subsidy</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Rural scenario: 50% subsidy</td>
</tr>
<tr>
<td>Bad debt set at typical level of 3%.</td>
<td>Bad debt is reported to be higher in rural areas. Bad debt is higher in centers with higher proportion of subsidy in both rural and urban areas.</td>
<td>For the urban center with 15% subsidy, set bad debt at 5%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>For the urban center with 75% subsidy set bad debt at 15%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>For the rural center with 50% subsidy set bad debt at 10%.</td>
</tr>
</tbody>
</table>
Annual Net Revenue

The cost of quality model (PCQC) produces an annual revenue and expense statement showing net revenue in dollars and percent. The following slides show the Annual Net Revenue for urban and rural centers at each of the five quality levels of SUTQ.
Annual Net Revenue Cont.

• A financially healthy center ends each year with ‘positive net revenue’ ideally equal to between 7% and 10% of its total annual revenue.

• This revenue may be used in several ways, such as:
  • Put into a reserve fund to cover unforeseen future expenses
  • Used to cover a known current expense for necessary required items, e.g., buying buses to replace vans that are no longer permitted for child transportation
  • Distributed to shareholders/owners
  • Given as bonuses to staff
  • Used to cover uncollectible subsidy payments
Ohio Urban, 100% Subsidy, Current Base Rate (Category F), Reduced Preschool Ratios at 4 & 5-Star, Current Tiered Reimbursement: 79% v. 85% Enrollment

* Net revenue as a percentage of total revenue.
+ Calculated as positive annual net revenue equal to 10% of total annual revenue
Ohio Rural, 100% Subsidy, Current Base Rate (A/B, C), Reduced Preschool Ratios at 4 & 5-Star, Current Tiered Reimbursement: 79% v. 85% Enrollment

* Net revenue as a percentage of total revenue.
+ Calculated as positive annual net revenue equal to 10% of total annual revenue
Summary of Ohio PCQC Results

• Ohio is not funding the cost of quality for 3-5 star settings in urban settings and any level of quality in rural settings
• Majority of programs that are high-quality have supplemental revenue streams
• Major contributing challenges:
  ◦ Overall child care rate/quality incentives don’t match cost of quality
  ◦ Attendance policy contributing to major “bad debt”
Resulting Policy Tools

- Identification of structural improvements needed
- Creation of more precise funding recommendations to support the cost of quality
  - Percentage increase for tiered quality reimbursement
  - Baseline increase needed for rural centers

- Data-driven understanding of Ohio’s early learning financing system!
Lessons Learned

- Define the goals and scope clearly
- Structure matters
- If outside government, gather administration feedback upfront
- Assign one person to manage the creation of PCQC scenarios
- Offer PCQC training to partners involved
- Plan for gathering data this is not readily available
- Set expectations: best available data, scenarios reflect average cost model
- Verify
Advocacy “Asks” in 2016-2017 State Budget

• Increase eligibility and eliminate co-pays for low-income children in subsidized care.

• Increase early childhood mental health counseling and services for families.

• Ensure full day/full year care is available for working families.

• Support, sustain, and increase access to high quality early learning and development programming for Ohio’s economic disadvantaged children <130% Federal Poverty Level (FPL).
Ohio’s Commitment to Early Childhood – Year 3 Update

• Ohio’s Goals for the Race to the Top Early Learning Challenge Grant & Tiered Quality Rating Improvement System (TQRIS)

  • 1,300 newly rated, high quality settings
    ◦ Target = 2,085; Actual = 1,630 (-28% Below Target)
    ◦ Of 1,630 rated programs, 861 or 52% are highly rated: Star 3, 4 or 5

  • 37,000 additional high needs children in highly rated programs
    ◦ 9,895 children served in highly rated programs

  • Closing the kindergarten readiness gap by 5% for high needs children
    ◦ New Kindergarten Readiness Assessment administered for the first time in fall 2014 for all Ohio kindergarten students statewide.

• By 2020, Ohio will only purchase services in rated settings
Ohio’s Commitment to Early Childhood (2015)

Governor John R. Kasich’s Fiscal Years 2016-2017 Budget

• Increase Slots for High Quality Preschool
• Improve Quality of Early Child Care Services
• New Behavior Health Resources for Young Children
• Removing Barriers to Moving Up
  ◦ Covering Copays
  ◦ Ending the Childcare “Cliff”
Fiscal Year 2016/2017 Budget As Enrolled

- Early Childhood Funding Increases = $113 Million
  - Increase Slots for High Quality Preschool
    - $40 Million = 6,125 Additional Preschool Slots
  - Improve Quality of Early Childcare Services
    - $40 Million = Support Smaller Communities & Highly Rated Programs
  - New Behavior Health Resources for Young Children
    - $5 Million = Support Early Childhood Mental Health Counselors & Consultation
  - Removing Barriers to Moving Up
    - Covering Copays = $14 Million
    - Increasing Income Eligibility from 200% to 300% FPL = $8 Million
    - Increasing Intake Eligibility 125% to 130% FPL = $6 Million
Successes

• $32 million added for ECE in mid-biennial review budget

• $113 million added for ECE in FY2016/2017 budget
  ◦ Increasing preschool expansion slots
  ◦ Increasing early childhood mental health services
  ◦ Improving quality of ECE services
  ◦ Covering copays
  ◦ Increasing income eligibility from 200% to 300% FPL
  ◦ Increasing intake eligibility 125% to 130% FPL
New Statewide Goals

- New staggered goals set for number of programs to be high-quality through 2025
- Goal is to fund only high-quality programs by 2025
- PCQC work will allow Ohio to accurately project costs associated with that goal
Opportunities

• Adequately finance “quality” learning & development programming
• Create demand for highly rated programs for all children, all settings
• Increase highly-rated programs supply
• Incentivize programs to open in underserved areas
Next Steps

• Continue analysis of Public Preschool and Family Childcare costs in future phases

• Continue discussions with the Departments to better understand the PCQC findings and explore potential changes
PCQC Learning Lab

Log into the PCQC:

www.ECEqualitycalculator.com

We will be available to assist as you explore the tool.

Some questions you can try to answer using the PCQC include:

- What is the impact of increasing teacher salaries and benefits at higher quality levels?
- What is the impact of accepting CACFP, or not?
- How do changes in enrollment efficiency and bad debt alter the net revenue?
- How is net revenue impacted by different size programs (number of children and number of classrooms)?
- Does tiered reimbursement cover the additional cost of higher quality?

If you do not have an account, you can access the tool with one of the demo accounts and scenarios we have set up. Use the username and passwords listed below:

<table>
<thead>
<tr>
<th>Username</th>
<th>Password</th>
</tr>
</thead>
<tbody>
<tr>
<td>BUILDDemo1</td>
<td>demo1</td>
</tr>
<tr>
<td>BUILDDemo2</td>
<td>demo2</td>
</tr>
<tr>
<td>BUILDDemo3</td>
<td>demo3</td>
</tr>
<tr>
<td>BUILDDemo4</td>
<td>demo4</td>
</tr>
<tr>
<td>BUILDDemo5</td>
<td>demo5</td>
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</tbody>
</table>
Additional Contact Information

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