Using the PCQC to develop cost of quality estimates for a State (or other jurisdiction)

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Introduction
The Provider Cost of Quality Calculator (PCQC)\(^1\) is an online tool that computes the cost of quality at the program level. It is designed to help you understand the cost of operating centers or family child care (FCC) homes at different levels of quality, usually as defined in a Quality Rating and Improvement System. The PCQC has been used in several states to answer policy questions such as: are the current child care subsidy reimbursement rates sufficient to support the costs of operating at each level of quality in our QRIS? What is the magnitude of the gap between current revenues and the cost of quality in different areas (e.g., urban, rural) or for different settings (e.g., centers, homes, schools)? Or what would it cost if every young child using a child care subsidy was in a high quality setting? The 2014 Child Care and Development Fund reauthorization “…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.”\(^2\)

The advice following mainly reflects the experience in Ohio, a state that chose to take a collaborative approach in 2014-15 to using the PCQC to estimate the cost of quality.

Define the goals and the scope
State the goal of the effort clearly and concisely; distinguish the process of estimating based on the best data available from conducting a research project that undertakes original data collection from representative samples of providers. State how the results will be used, for example to create recommendations on the most effective early learning financing options for the state.

For example, the goal might be to create an estimate, based on the best available data, of the cost of delivering early learning in all settings and every level of the state’s tiered quality rating system, from non-rated through the top level of quality. The scope needs to be defined to guide data collection efforts and focus the work. Scope means both settings and ages of children. Settings could include public school preschools, child care centers, and home-based child care (both large and small family child care homes). Including public schools may present some data challenges as may homes. The ages of children to be included matters because many costs differ by age. The PCQC is not well-suited to doing estimates of school-age programs; it was designed for understanding the cost of serving children birth to age five.

Establish a structure to carry out the work: overall and local
Broadly there are two major tasks: guide the overall work and develop the actual cost estimates. Having a lead organization or established group of stakeholders to design, manage and guide the overall work is

\(^1\) The PCQC is available online now at [http://ecequalitycalculator.com/](http://ecequalitycalculator.com/) It was officially launched by the US Office of Child Care in a webinar on March 10, 2015

necessary. This group\textsuperscript{3} benefits from having the perspectives of advocates, community leaders, state leaders and trusted provider leaders. One of their key roles is to test assumptions over time as they evolve, for example, how much variation in occupancy cost is there between urban and rural counties? Is it a meaningful difference that needs to be reflected in the estimates or not? Having a diverse group of trusted leaders and good communicators leading the work builds trust in the overall process.

The overall effort also benefits from being informed by the differing realities of early childhood providers across the state. In a geographically large diverse state, county teams can be established to inform the overall process, collect local data, communicate with providers and extend the credibility of the effort. Choose partners that represent the variety of the state: urban/rural/suburban, small/large, geography and demographics of state. Also focus on ones that express the desire to be a partner, have connections with providers already and are willing to reach out to providers as needed. Other factors to consider are distribution across the state, representation of key political districts, requests to participate, existence of active provider networks, and representation of however many distinct market clusters exist (based on the most recent market rate study). This may result in 4-10 county partner teams; resist the urge to have more unless there are very compelling reasons.

County partners organized meetings (county feedback meetings once a draft cost estimate was completed) to vet the assumptions made by the leadership team, add data, reach out to schools, find FCC providers, etc.

Plan for interaction between the county team leaders and the state team as the work proceeds. This back and forth dialog improves accuracy of the estimates, increases credibility of the output, and is a vehicle for wider communication during and after the process.

**Assign one person to manage the cost estimating**

Both the state team and the county partner teams work together to establish the data to be used to develop the actual cost estimates. While having each county manage data entry for the PCQC to produce the estimate for its market cluster may seem reasonable, that proved to be highly unwieldy in practice (variation in skills, difficulty of tracking decision points in multiple sites, etc.). One person needs to manage the data entry for the PCQC centrally. This requires keeping track of the data sources, decisions over time about which sources to use and why, decision on what adaptations are made, and how output is to be reported. This person needs to be well-organized, comfortable with numbers and have skills in producing charts and graphs in Excel.

**Learn about the PCQC and cost of quality in general**

Do an introduction to the PCQC for key players so they understand what it can and cannot do. Some will want to use it themselves, to ‘run their own’ numbers, especially the providers on the state and county teams. Encourage all partners who want access to the PCQC to get login credentials and use it. This will help participants understand the PCQC and increase believability in it as a tool. Everyone can read the PCQC User Guide for a thorough introduction to what it is, how it works and what its limitations are. There will be a video introduction to the PCQC online soon.

The PCQC incorporates basic principles of financial sustainability: efficiency in revenue collection, setting tuition rates to cover expenses and enrollment efficiency. These three are the “Iron Triangle” and likely will generate discussion among providers about what degree of efficiency is reasonable and

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\textsuperscript{3} The groundWork Steering Committee in Ohio had about 20 members.
the effects of subsidy policy on revenue collection. Participants who do not operate programs may need ECE Finance 101, an introduction to market practices, financial realities, understanding why the market doesn’t naturally produce quality, as well as the PCQC itself. ⁴

When providers use the PCQC to ‘run the numbers’ for their own programs, they understand and trust the tool, know it can be adjusted and how. It is best to recruit financially savvy, sophisticated providers to do this since the PCQC is not obvious in some respects, e.g., how to enter franchise fees or represent atypical staffing patterns. If these providers are recognized leaders in the state, and/or their county/region, they can be politically helpful in getting other providers to trust the process and the tool.

**Gather the data that does exist**
Almost all states have relevant data that reflects differences: urban/rural, higher income/lower income areas, differences in tuition rates (from market rate studies), workforce studies that show salary differences among school-based, not-for-profit, for-profit, religious and other settings. Licensing data is useful for understanding the average size of centers and typical age ranges. Knowing the subsidy system is essential and including the subsidy administrator on the team can be helpful. Confirm policies on payment and what factors affect payment such as attendance, enrollment, co-pays (sliding scale fees) and the rates by age and setting. Get the most recent market rate study to understand the tuition fees charged by providers. Find the most recent data and enlist the state agencies as partners in identifying data sources. Depending on your goals, you may need subsidy expenditure’s parsed by child age, geography, quality level, setting and other factors.

Except in small population states, the Bureau of Labor Statistics (BLS) data for different regions of the state can be used to augment the state average BLS data that is contained in the PCQC. Early childhood workforce studies may have information on salaries and benefits parsed by the typical setting types. The providers on the county teams and the state leadership group are invaluable sources of information about current practice. Recognize that each provider will have a tendency to see the entire ECE market through their financial lens, rather than the full range. Determine what is a typical scenario for each setting (center, home): size, age mix, typical proportion of subsidy versus tuition-paying children, etc. and how many ‘typical scenarios’ are needed. Generally urban and rural are necessary, as well as each of the QRIS quality levels.

**Determine what additional data to collect**
Gathering data about family child care providers’ revenues and expenses is necessary as there are no data sources. This will probably require cooperation from family child care associations or other organizations, contacts the county and state team have, etc. Some aspects of typical center practice may need to be explored via survey: staffing patterns, actual enrollment efficiency and revenue collection efficiency. Several surveys have been developed and can be adapted. ⁵ Centers are usually willing to provide data – especially multi-site ones (whether not-for-profit or for-profit) as they tend to have a better handle on their operations, financials and metrics.

**Data challenges**
Collecting accurate data on the financial situation of family child care providers is a challenge. The first challenge is finding ones who are willing to participate and share their revenue and expense data. They

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⁵ [hyperlink to surveys to come...](http://groundworkohio.org/resources/early-childhood-financing-project/)
must be guaranteed confidentiality (their name and any other identifying data will be removed; only one
person will see the data, etc.). States that have tried, report having to over-recruit “if we want 15 solid
responses, we probably need to reach out to 75 homes providers.” When a $25 gas card incentive was
offered in Ohio, participation overall increased but the proportion of responses that were usable did
not. One county proposed bringing the providers together to explain the reason for the project (inform
state of true cost of their operations and improve the subsidy rates) and explain how the PCQC works
and then do it together in a computer lab, but weren’t able to pull it off for logistical reasons. They think
it might not have been successful since many providers do not have good recordkeeping methods that
are transportable and there is a sense of competition among providers in the same area. It’s possible
that timing matters and FCC data collection in the spring just as federal tax returns are filed might work.
The PCQC follows very closely the format and data reported on federal IRS Form 8829 and Schedule C.

Estimating the cost of public preschool is also a challenge as preschool is not separate in school district
budgets. Surveying districts provided useful data on teaching salaries and benefits expenses, but not on
other personnel or most nonpersonnel expenses except classroom materials and supplies.

**Determine the cost-drivers of quality – facilitated meeting**

Accurate estimates of the cost of quality depend on knowing what the ‘cost drivers’ are in each standard
area in the QRIS at each level of quality and how much each contributes to overall cost of quality. One
way to approach this task is to have the county teams help assemble a group to do it. The group needs
to be a manageable size, composed of knowledgeable providers and organizations that work with
multiple providers. The task is to carefully analyze the standards and indicators in the quality rating
improvement system and any other standards that pertain such as preschool requirements for teacher
qualifications. These individuals have to be both intimately familiar with the QRIS itself, other quality
standards and with common/typical practices in the early childhood market. Determining the real cost
drivers of quality is an essential part of the process to produce credible cost estimates.

One state accomplished this in an all-day facilitated meeting in which four teams simultaneously
reviewed one of four standards areas in the QRIS. The key questions: does this item have an additional
cost beyond what is necessary to meet legal regulations? Is the cost one-time or ongoing? Does it take
more time (more staff) or is the current staff using their time differently? If it is considered standard
practice for a basic regulated program it is not a cost of quality. Having the full group first analyze one
area together in a facilitated discussion illustrated the process. Then the small groups worked on their
own to analyze the section each group was assigned.

This process may generate heated discussions especially about what is and is not typical practice, as well
as demand for better data on the actual cost of items, e.g., employee benefits. A common challenge is
which sources of salary data to use. The BLS data may be accurate, but does it represent the correct
occupational categories? If there are state workforce studies with more accurate staff categories, do
they have large enough samples? Ultimately, this team along with the management team has to
consider all the data sources, sort out credibility, decide what will be used and why. The county team
interacts with the management committee to make these decisions.

**Relying on professional judgment**

This is where the concept of professional judgment enters the process. The cost of quality is informed by
data that exists and what can be readily collected and relies on the wisdom of informed professionals in
discussion. The approach to understanding and estimating the cost of operating early learning programs
is similar to methods used in K-12 education cost studies to determine the adequacy and/or equity of
school funding. The two major methods used to determine the cost of education are “professional judgment” and “successful school” approaches. The first method asks educators to review the standards to be met by schools and then to specify the resources they believe are needed for different size schools and districts to educate students to meet those expectations; this method works for both current and future (projected) expectations. In the second method, schools that are successful in meeting current student expectations are identified and their actual costs are analyzed. If feasible, both methods are employed in K-12 cost studies.

Early learning programs are somewhat more complicated than public schools, since expectations are multi-level, e.g., QRIS have multiple levels of quality rather than one set of expectations; the focus is on program and practitioner standards, rather than student test scores. The PCQC approach is informed by both the professional judgment and successful school models. We review the standards to be met, the anticipated costs, and combine this, where possible, with existing data on actual costs of current programs meeting the various levels of quality.

If the QRIS relies in whole (or partially) on points, the cost-driver discussion has to address whether it is possible to earn sufficient points to achieve a given level with low-cost items. If there are data on the actual items that providers earn points for, use it. It may also be true that there are cost drivers that are not articulated in standards but are nonetheless necessary to achieve high quality. While a QRIS may not specify ratio reduction, it may still be necessary to reduce ratios to be able to achieve certain quality requirements such as child assessment informed curriculum planning. These decision points will arise as the process unfolds and need to be determined: the role of the leadership team.

Support during the process
The role that the developers of the PCQC as consultants have played in states ranges. In some cases, the consultants do most of the work, including communicating results in written, electronic (PPT) and in-person presentations. Other states used the developers in the kick-off phase, as support during the process to troubleshoot data sources, adapt data collection tools and advise on the presentation of results.

Communicating Results
The end results of the cost of quality exploration can be presented a variety of ways, depending on the goals and the audience. Typically, the output is a PPT briefly explaining the cost estimating process followed by bar graphs showing net annual revenue for each typical setting at each level of quality. There number of graphs depends on the number of variations that need to be addressed. To answer policy questions such as whether current subsidy rates and quality bonuses are sufficient to support centers (or homes) at each level of quality, the output will use a typical size center (or home) with 100% subsidy, which is unlikely in practice, but useful to model the adequacy of rates and bonuses. The key questions on results are the level of detail needed for different audiences, who best to communicate with each audience, and whether a full report and/or several briefs are best.

Related Benefits
Using the PCQC to inform policy development in a cooperative manner with open discussion among the various constituencies can build trust within a state. The process can highlight ways to improve

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6 For a discussion of the range of financial incentives, see http://www.qrisnetwork.org/sites/all/files/resources/gscobb/2012-05-24%2015:13/Approaches%20to%20Financial%20Incentives%20in%20QRIS.pdf and LA SRTC NWLC
management practices of providers as they share knowledge, data and discuss financing challenges. The discussion improves everyone’s understanding of the issues and challenges of supporting the cost of quality. It provides an opportunity to consider together the multiple perspectives of providers, state and local public agencies, the legislature and the Governor in developing viable solutions. Informed policy is better policy.

About the Author
Anne Mitchell is President of Early Childhood Policy Research and co-founded the Alliance for Early Childhood Finance. She has written widely on early care and education policy, finance reform and system-building. She was an Associate Dean at Bank Street College of Education and directed child care centers in Massachusetts and Vermont. She has worked with more than half of U.S. states and dozens of foundations, as well as with federal agencies and national organizations. Anne was a long-term elected member of the Greenville (NY) Board of Education and is a Past President of the National Association for the Education of Young Children.