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Pennsylvania Association for the  
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**START  
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# Building a Financially-Stable, High-Quality Child Care System for Pennsylvania's Children and Families:

Improving Subsidized Child Care Rate Setting

 **THE  
VOICE** OF EARLY CHILDHOOD IN PENNSYLVANIA

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# CONTENTS

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3	EXECUTIVE SUMMARY
4	INTRODUCTION
6	THE PRICE FOR FAMILIES
9	THE BUSINESS OF CHILD CARE
11	PENNSYLVANIA'S CURRENT SYSTEM
14	THE STATE OF PAYMENT RATES IN PENNSYLVANIA
15	THE COST GAP
20	THE SOLUTION: Cost Estimation and Alternative Rate Methodology
21	THE IMPORTANCE OF FULL ENROLLMENT AND FULL FEE COLLECTION
22	WHY THIS MATTERS
24	CONCLUSION AND NEXT STEPS
25	RECOMMENDED COMPONENTS OF COST ESTIMATION
29	ACKNOWLEDGMENTS
30	APPENDIX
31	ENDNOTES

## EXECUTIVE SUMMARY

In Pennsylvania the price of child care is high and a burden for most families, while child care programs operate on razor-thin margins and child care teachers and staff are paid poverty level wages. The current system fails our families, the teachers and staff and program owners and directors. Parents can't afford to pay more and providers can't afford to be paid less. Pennsylvania's payment rates to programs for children in Child Care Works do not cover the actual cost of care provided by programs. Child care subsidy reimbursement rates are based on market rate surveys conducted every three years that tell us what providers are charging parents and not what it actually costs programs to provide care and education services.



Pennsylvania children, families and early childhood educators deserve more effective child care policy that includes a payment methodology based on cost modeling that will lead to payments that reflect the costs of providing quality child care. A robust early care and education system rests on understanding the true cost of high-quality care. Recognizing the federal government allows states to set an alternative payment methodology, we recommend that Pennsylvania:

Conduct a cost estimation study using an approved modeling tool, which also reviews the sufficiency of current revenues, and continue to use this approach in the future.

Ensure all major factors driving program cost are considered in the cost estimation study, such as program type, quality level, geographic region, age of child, part/full-time child care, cost to compensate teachers appropriately, etc.

Ensure significant stakeholder engagement in the study. This includes holding targeted interviews and surveys to ensure representative data is captured.

Place the Office of Child Development and Early Learning (OCDEL) in charge of the study and responsible for all persons who will ensure deadlines are met, data is collected and consensus is achieved among all the stakeholder groups on assumptions made in conducting the study.

Have a study that is transparent, published and distributed to policymakers and the field.

Upon completion of the study, develop a new Pennsylvania payment methodology based on the information collected, along with a plan to fund the gap between current payments and the cost of providing high-quality child care.

## INTRODUCTION

Why Pennsylvania should conduct cost modeling to determine the true cost of child care and adopt an alternative payment methodology for child care subsidy.

The child care market in Pennsylvania mirrors the landscape across the United States, marked by issues of supply and demand in addition to a general failure to adequately invest in high-quality, affordable child care that meets families' needs and appropriately compensates the professionals and programs that provide it. The child care industry relies heavily upon families paying tuition rates and fees in order to operate, in addition to government funding used by many families. In Pennsylvania, the Child Care Works program provides government funds, using state and federal dollars, to pay programs for the child care services they deliver to eligible families.

Cost modeling is the process that Pennsylvania needs to undertake to estimate the true cost of care for child care programs providing high-quality child care. Cost modeling will help us understand the relationship between the expense of providing child care services and the revenue available to cover these expenses. A cost modeling process will allow Pennsylvania to identify the gaps, recognizing programming costs and revenue sources and showing how cost varies based on the ages of children served and other characteristics and policies of programs.

Determining the true cost of care is critical to addressing the underfunding in the child care system. Creating a cost estimation model will outline revenue and expenses to identify what it actually costs to meet certification standards, accounting for program variations, and additional costs related to high-quality child care and appropriate compensation for the workforce. The results of a cost estimation study can be used to inform subsidy reimbursement or grant allotment and other policy decisions, as well as establish the level of public investments needed to support a robust system for families.



**It is time for the market-based approach to setting tuition and subsidy reimbursement to be eliminated as it has exacerbated the inequities in the system, with provider revenue limited by the amount families can afford to pay.<sup>1</sup> Pennsylvania must estimate true costs of quality and build a rate structure based on that information.**

The purpose of the paper is to highlight the critical need for Pennsylvania to move to cost modeling to improve the financial stability and quality of our child care system by providing an overview of:

- The price of child care for families and the business of child care for providers
- The current Child Care Works subsidy system including the recent history and current context of subsidy payment rates
- The cost gap of the subsidy rates for programs
- The cost estimation and alternative methodology as the solution
- The importance of full enrollment and fee collection for child care operations
- Why this matters for high-quality child care and child development
- Recommendations for moving to a cost estimation model

PRICE OF CARE

*PRICE OF CARE means the tuition prices that programs set, which are usually based on local market conditions and what families can afford, ensuring that programs are competitive within their local market and can operate at as close to full enrollment as possible.*

COST OF CARE

*COST OF CARE means the actual expenses providers incur to operate their program, including any in-kind contributions such as reduced rent, and allocating expenses across classrooms and enrolled children based on the cost of providing service and not on what parents can afford.*

TRUE COST OF CARE

*TRUE COST OF CARE refers to the cost of operating a high-quality program with the staff and materials needed to meet quality standards and provide a developmentally appropriate learning environment for all children. Cost of quality is another term often used to refer to the true cost of care. The true cost includes adequate compensation to recruit and retain a professional and stable workforce.<sup>2</sup>*

## THE PRICE FOR FAMILIES

The price of child care for families with young children can be an overwhelming burden, particularly for families earning lower incomes and considering many adults with children under age five are early in their careers and have not yet reached their maximum earning potential.

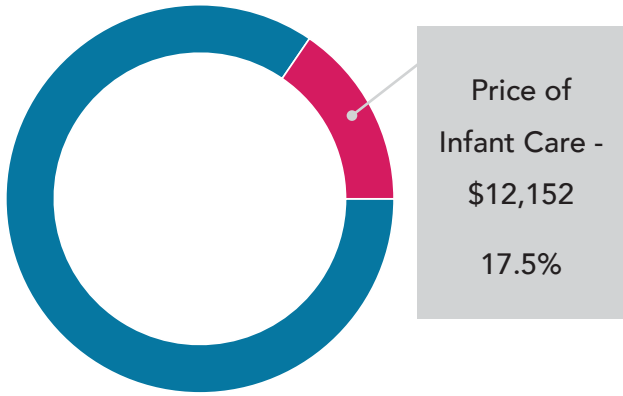
THE AVERAGE ANNUAL PRICE OF CHILD CARE						
	Child care center - infant	Child care center - toddler	Child care center – four year old	Family child care home - infant	Family child care home – toddler	Family child care home – four year old
<b>National Average<sup>3</sup></b>	\$12,377		\$9,715	\$9,974		\$9,036
<b>Pennsylvania Average<sup>4</sup></b>	\$12,152	\$11,557	\$10,150	\$8,960	\$8,499	\$7,894

While the U.S. Department of Health and Human Services’ (HHS), Office of Child Care recommends that families pay no more than 7 percent of their income on child care, in order for it to remain affordable, infant care in Pennsylvania comprises 17.5 percent of the median family’s income. Following this recommendation, only 10.9 percent of Pennsylvania families can currently afford child care for their infants.<sup>5</sup> Based on 2021 data, 160,978 eligible children under 5 or 80% of children under 5 in Pennsylvania are unserved by Child Care Works. There is an even higher percentage of infants and toddlers unserved by Child Care Works, 99,793 infants and toddlers or 84% of infants and toddlers. A large percentage of the annual incomes of the families of unserved children under five and infants and toddlers are paying for child care, while they earn the least. Even in a household where there are two adults in the workforce, at state median income level, the cost of care is close to 12% of their income. This is nearly twice the federal recommended level of 7% of paying no more than a family’s income on child care.



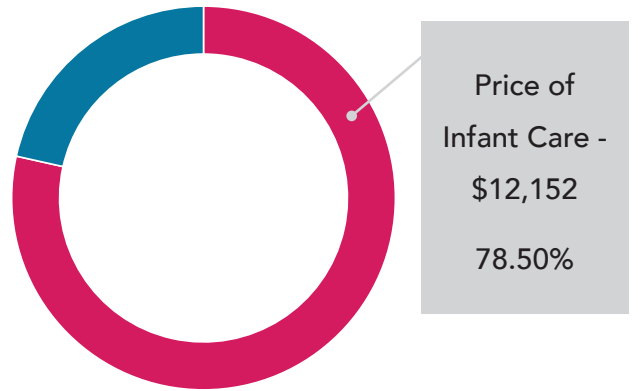
### PA MEDIAN FAMILY WITH CHILDREN <sup>6</sup>

Income \$67,828



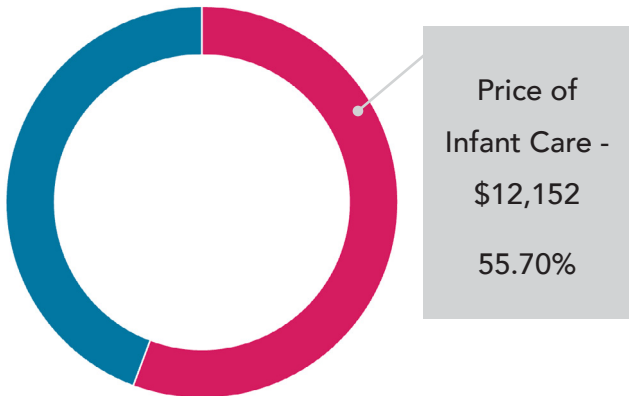
### PA MINIMUM WAGE WORKER <sup>7</sup>

Income \$15,080



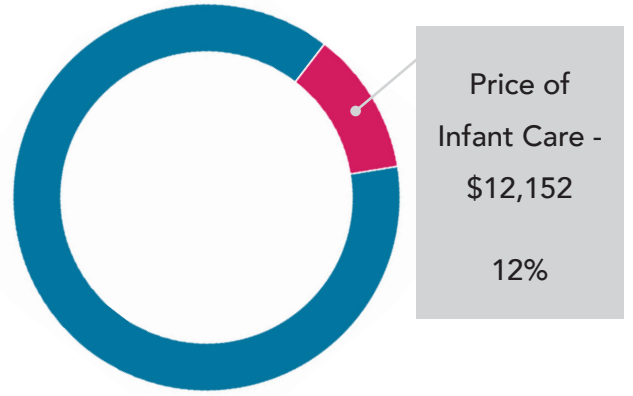
### PA CHILD CARE WORKER

Income \$21,270



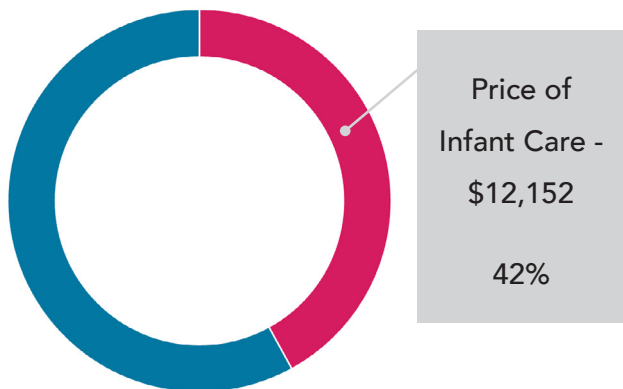
### PA MARRIED COUPLE <sup>8</sup>

Median Income \$105,032



### PA SINGLE PARENT FAMILY <sup>9</sup>

Median Income \$29,017



PRICE IN CENTER-BASED PROGRAM	COMPARED TO PA TUITION AND HOUSING	
Infant care	18.93% less than the average tuition and fees at an in-state, four-year university	
Two children	98.13% more than the average annualized rent cost	24.40% more than the average annualized mortgage cost <sup>10</sup>

ANNUAL COST IN PA	
College	\$14,534
Housing	\$10,879
4-year-old child care	\$9,773 <sup>11</sup>
Infant child care	\$12,152 <sup>12</sup>

These average prices for families do not reflect the cost of providing high-quality child care. For instance, the price for center-based infant care in Pennsylvania would be \$31,248 for the year. This price does not include the components of a high-quality program such as, fewer children per teacher, increased physical space in classrooms, expanded educational materials and time for teacher planning; critical features of workforce compensation including wages commensurate with work (kindergarten teacher parity) and health and retirement benefits. A center-based preschool-aged classroom with the same criteria is priced at \$18,828 for the year.<sup>13</sup>







## THE BUSINESS OF CHILD CARE

Many child care programs operate on razor-thin margins. Even a minor disruption – such as lower than expected enrollment or a teacher resigning - can have a major impact on a business’s ability to stay operational as we’ve seen play out on a larger scale during the pandemic. It is important to note that this is not a new fact due to the COVID-19 pandemic. It was also true previously and operating on these margins means that child care providers have slim profits, usually less than 1 percent.<sup>14</sup> As a result, according to OCDEL data, since March of 2020 through January 2023 over 1,900 child care programs closed during the pandemic, with program closures occurring prior to the pandemic over these razor-thin margins.

Providing child care requires a certain number of staff per the number of children served to maintain the health and safety of the children and provide care, which makes this sector unique. There are specific ratio requirements per age group and number of children to maintain compliance with Pennsylvania child care regulations. In addition, Pennsylvania’s child care regulations require an early childhood professional to be titled as an assistant group supervisor to be left alone with children. As early learning programs move up in STAR levels, educators must meet career lattice requirements to meet Keystone STARS

Performance Standards, Pennsylvania’s system to improve, support and recognize continuous quality improvement efforts. Recruiting and maintaining staff to adhere to regulations and maintain high-quality practices contributes to labor costs, which is one of the highest expenditures in the business of child care. While wages account for 60 percent to 80 percent<sup>15</sup> of a provider’s total program expenses, labor accounts for an even higher portion of their businesses expenditures when it comes to caring for infants and toddlers, as the teacher-to-child ratios are necessarily more stringent.

Pennsylvania’s child care regulations, such as ratio and qualification requirements, reflect what we know about children’s safety and development and provide important safety protections<sup>16</sup> for children and uphold the quality<sup>17</sup> of early education and care. Pennsylvania’s strong regulations reflect the importance of children’s development in the early years. Early childhood education is a labor-intensive field, and providing high-quality early childhood education is not a cheap endeavor, however our regulations—based on what we know about child and brain development to promote health, safety, and quality—should not be blamed for those costs. The other primary components that drive costs include rent and utilities, materials and equipment, administration and food.

Child care businesses rely upon families' tuition for income, but recognize private pay families can only pay so much. So, child care providers are forced to keep their prices as low as possible to remain somewhat affordable to families and to keep their enrollment as close to capacity as possible. An August 2020 study conducted by Penn State Harrisburg Institute of State and Regional Affairs' documented a median cost for personnel at [70 percent of a program's budget](#).<sup>18</sup> Setting prices lower by calculating them in relation to the tuition rates families can afford creates a dynamic where child care professionals receive abysmally low wages. In Pennsylvania, the average hourly wage of a child care worker is [less than \\$11 per hour](#).<sup>19</sup> This means that nearly half of the Commonwealth's child care professionals are eligible for public benefits. Despite their low wages, child care professionals have degrees and credentials that make them highly skilled, providing critically important and intensive work.

The result is a system where child care is unaffordable to families, child care programs aren't bringing in enough revenue to sustain their businesses, and child care professionals are not paid livable wages. Parents can't afford to pay more for high-quality care and providers can't afford to be paid any less to provide high-quality care. The current system fails our children and families, teachers and staff, business owners and program directors which has a rippling effect to the large community, workforce and economy.

Anne Mitchell and Louise Stoney developed the concept of "The Iron Triangle" to describe what child care programs need to be viable. Foundational work on understanding core operations of a successful child care program outlines an 'iron triangle' of needs. Programs need full enrollment, full fee collection and revenue that covers the per child cost. Under the current market based approach to child care subsidies, the price of care, not the cost of the service, is being used to set publicly-funded subsidy rates.



# PENNSYLVANIA'S CURRENT SYSTEM:

## Child Care Works Program Payment Rates

State and federal funding allow Pennsylvania to offer the Child Care Works subsidized child care program to eligible families to make child care affordable. The federal Child Care and Development Block Grant Act (CCDBG) authorizes the Child Care and Development Fund (CCDF) program. CCDF is administered by OCDEL in Pennsylvania. CCDF outlines how federal funds can be used to provide financial assistance to low-income families to access child care. States develop plans to specifically outline how they will provide financial assistance to low-income families to access child care so they can work or attend a job training or educational program. States also must provide a match for a portion of their CCDF dollars and may allocate additional funds for child care through their state budgets.

OCDEL, through the Early Learning Resource Center (ELRC) network, makes payments directly to providers which are called "base subsidy payments" to help support the cost of providing subsidized care to individual children. The base subsidy payments are determined through a market rate survey process conducted by OCDEL, which is completed every three years. A market rate survey examines the fees that child care providers typically charge and parents typically pay per unit of care in the priced child care market. (see more in the Appendix on market rate survey, parent copayments and provider payments and understanding the 75th Percentile)



The objective of the market rate survey process is to understand what the general population is being charged for child care services by providers, so that payment rates can be set to allow child care subsidy eligible families equal access to the full range of child care available to private pay families. States are required by CCDBG to provide eligible families the ability to enroll their child in any child care program type. The market rate survey, however, reflects the price that families can afford to pay. This private pay price still does not cover the actual cost of care provided by those providers.

Pennsylvania is still serving only a fraction of eligible children and Pennsylvania still struggles to pay for the cost of quality. For eligible children under five, 80% are unserved and for eligible infants and toddlers, 84% are unserved in the child care subsidy program. As a result of under investments in child care, providers pass costs on to middle class families who struggle already to afford the price of care. Middle class families cannot shoulder the burden of the child care sector due to the deep need for increased investment.

The federal Office of Child Care recommends that subsidy rates be set at the 75th percentile or higher of the current market rate to allow for equal access to child care for families in the child care subsidy program if using this method of reimbursement. This federal benchmark is a proxy for equal access but is insufficient. Most states, including Pennsylvania, do not meet even this insufficient benchmark. The Commonwealth's rates are only now at the 60th percentile as a result of investing one-time American Rescue Plan Act funds that will only last through September 2024.

The 75th percentile, as identified by the Market Rate Survey, is tied to a broken market that does not reflect the true cost of offering high-quality child care provided by well-compensated teachers and staff.



In summary, the market rate survey tells us what providers are charging parents in the private market based on regional geography, age of the child, type of child care and whether children are in care full or part-time. It does not tell us the cost providers are actually incurring to provide care or what it would cost to appropriately compensate professionals or to meet high-quality standards. It does not account for programs that charge what families have the ability to pay out of a sense of moral obligation to provide essential services for their community.

The market rate surveys are not effective in setting rates and will further deepen inequities in the system if they remain as the tool used to calculate the payment rate for subsidized child care. Market rates are the price charged to families, not the cost to provide care. Therefore the market rate survey is a broken cycle.



Inequities are seen when child care providers in communities where families cannot afford a high price receive lower subsidy reimbursement rates than child care providers in other communities where families can afford the higher price. This then can result in lower teacher compensation and lower teacher retention in these communities, perpetuating these low wages. The impact of the market rate survey exacerbates low quality and low wages and disproportionately affects people and communities of color.<sup>20</sup>

States can help ensure equal access by making sure that child care programs are willing to participate in Child Care Works, but payments rates need to be set high enough that more child care programs would be willing to accept and participate in the program. If Child Care Works payment rates are significantly lower than what the program

charges private pay families, there is then no market-driven reason for a child care program as a business to use that slot for a family eligible for subsidy when they have a private pay family who will pay significantly more. This has a disproportionate impact on eligible Black, Indigenous and children of color as they are less likely to be enrolled in a high-quality program. In June 2022, 1 in 4 eligible infants, toddlers and preschoolers who are Black, Indigenous and children of color participated in Child Care Works, with only 39% of them enrolled in a high-quality child care program. For the 11% of eligible non-Hispanic white infants, toddlers and preschoolers participating in Child Care Works, 51% of them were enrolled in a high-quality child care program.<sup>21</sup> In October 2021, there were 5,020 providers out of 6,795 providers with Child Care Works enrollments. There are providers with Child Care Works agreements but do not have active enrollments, which are not captured.

## **COST ESTIMATION AND ALTERNATIVE RATE METHODOLOGY**

Traditionally, Pennsylvania and many other states have set subsidy rates based on an assessment of the private market rates that parents are able to pay. However, the U.S. Department of Health and Human Services allows states to use an alternative methodology to set their subsidy rates.<sup>22</sup>

# THE STATE OF PAYMENT RATES IN PENNSYLVANIA

Due to level funding, base rates for providers did not increase **between 2008 and 2017**, frozen at the rates reported during the 2008 market rate survey. Therefore, providers who reported private-pay rates lower than the MCCAs in the 2008 survey and whose private pay rates later exceeded those maximums were significantly compromised in their ability to provide high-quality child care.

In **August 2018**, OCDEL increased base rates for all levels of care, lifted the base rate freeze that began in 2008, for STAR 1 and STAR 2 providers, and applied a general MCCA base rate increase of 2.5% across all counties, provider types, STAR levels, and care levels. This was accomplished using \$66.5 million in funds Pennsylvania received in increased federal child care investments.

In a commitment to support high-quality child care, in **January 2018**, OCDEL increased base payment rates to the MCCA for STAR 3 and STAR 4 child care providers whose private rates meet or exceed the MCCA. All STAR 3 and STAR 4 child care providers who are being paid less than their published rates received a rate increase up to the MCCA if the published rate meets or exceeded the MCCA.

In **March 2021**, base rates were regionalized and increased utilizing Coronavirus Response and Relief Supplemental Act funds. This increase was a step to give providers a sustained equitable foundation to provide high-quality care and to recruit and retain high-quality staff and teachers. Rates were increased to the 40th percentile based on the 2019 market rate survey, up from approximately the 25th percentile. Relative provider rates were also regionalized and increased by \$2 per day.

As noted prior, in **January 2022**, base rates were increased to the 60th percentile compared to the private pay market. Utilizing \$213.7 million of American Rescue Plan Act funds this increase will continue to September 2024. Although this base rate increase is close to where the federal Office of Child Care recommends rates be set, at the 75th percentile or higher, this subsidy rate is temporary unless these one-time dollars are backfilled with state or permanent federal funds. The nature of the market rate survey process does not allow for response to emergencies, such as COVID-19. In the case of COVID-19, many states have increased their subsidy rates using federal relief funds to cover the increased costs to child care programs. These increases are arbitrary additions to subsidy payment rates that are already too low.

## THE COST GAP

The gap between the current child care subsidy rate and the true cost of care for high-quality care is great and even greater for infant and toddler care. In a highly functioning child care market where parents could afford the true cost of care, setting rates based on price would allow subsidy-eligible families equal access to child care as private pay families. Since most families cannot afford the cost of high-quality child care, child care programs are disincentivized to serve children where the gap between the price that families can afford and what it costs to provide care are the greatest. Child care providers might be able to have some financial stability if they only serve preschoolers or only meet basic health and safety standards, however, if they serve infants and toddlers or meet high-quality standards in Keystone STARS, they will no longer have financial stability.

Providing care for infants and toddlers is more expensive than caring for older children. These higher costs are driven by the required ratio of children to adults for infant care. Again,

early childhood education is a labor-intensive field and our regulations are based on our knowledge of child and brain development to promote health, safety, and quality. Despite the low-wages for child care workers, hiring one adult for every four infants is much more expensive than hiring one adult for every 10 four-year-olds. Many child care programs rely on a mixed-age program to balance these costs and expenses. Without the ability to offset these costs, child care programs charge parents more to care for their infant or toddler or choose to not provide care for infants and toddlers at all, leaving families with the inability to find infant and toddler care. This is reflected in the market rates reported in the market rate survey. Different subsidy rates are then set by age. Subsidy rates based on distorted market rates increase the gap between the true cost to provide child care and what a state reimburses to child care programs.

Lastly, the market rate survey process does not include or capture all child care situations, such as informal arrangements in unregulated care. With the exclusion of them in the market rate survey process, this can further reinforce inequities in the child care market.



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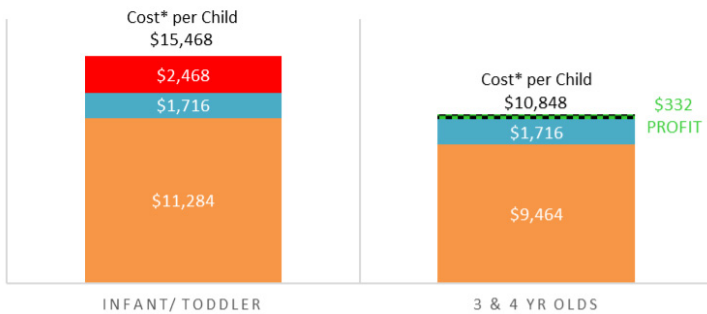
The following charts highlight the gaps in the cost of preschool age child care and infant and toddler care in Allegheny, Blair, Centre, Columbia, Lancaster, Lehigh, Mercer, Philadelphia, Westmoreland and York counties for a parent with a child and earning \$30,000 per year. Charts are provided for programs meeting minimum licensing standards and those that have reached the highest levels of quality. With the exception of preschool care at minimum licensing in Allegheny and Centre Counties, these visuals show clearly that subsidies fall short in each of those counties, highlighting to which extent they fall short and the inequities in the system when it comes to age group and region. The gaps between the true cost of care and subsidy rates are larger for infants and toddlers and for programs that have reached the top levels of quality standards.



### MINIMUM LICENSING-ALLEGHENY

SINGLE PARENT+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap

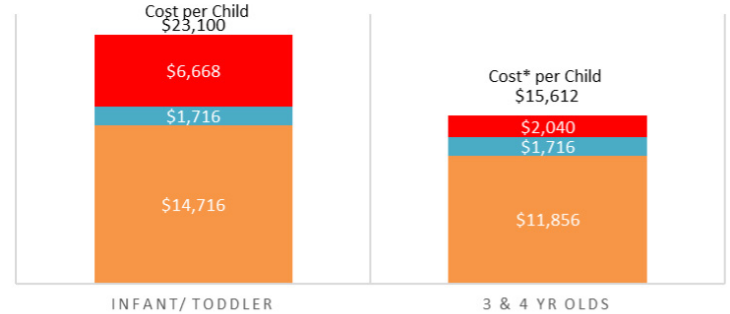


\*Cost per child from Center for American Progress <https://costofchildcare.org/>

### TOP QUALITY-ALLEGHENY

SINGLE PARENT+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap

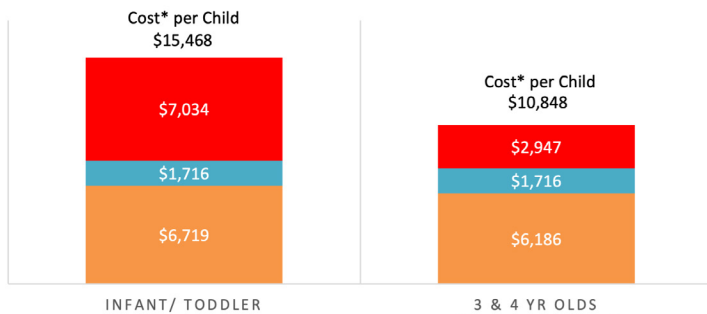


\*Cost per child from Center for American Progress <https://costofchildcare.org/>

### MINIMUM LICENSING-BLAIR

SINGLE PARENT+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap

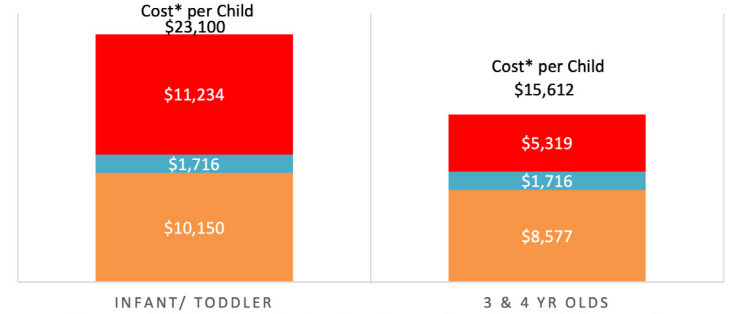


\*Cost per child from Center for American Progress <https://costofchildcare.org/>

### TOP QUALITY-BLAIR

SINGLE PARENT+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap



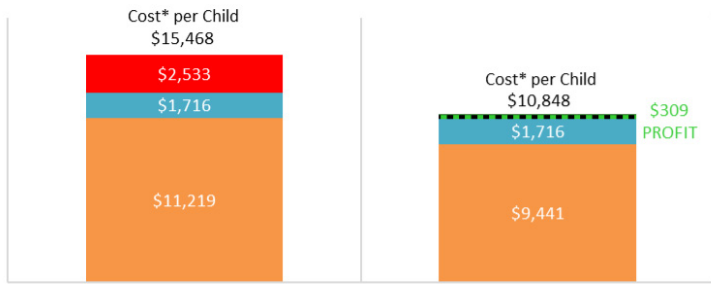
\*Cost per child from Center for American Progress <https://costofchildcare.org/>



## MINIMUM LICENSING-CENTRE

SINGLE PARENT+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap



\$309 PROFIT

INFANT/ TODDLER

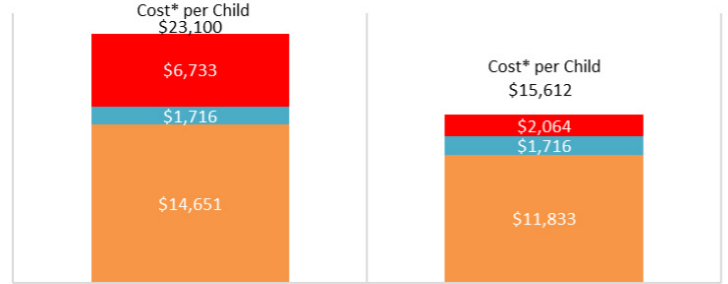
3 & 4 YR OLDS

\*Cost per child from Center for American Progress <https://costofchildcare.org/>

## TOP QUALITY-CENTRE

SINGLE PARENT+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap



INFANT/ TODDLER

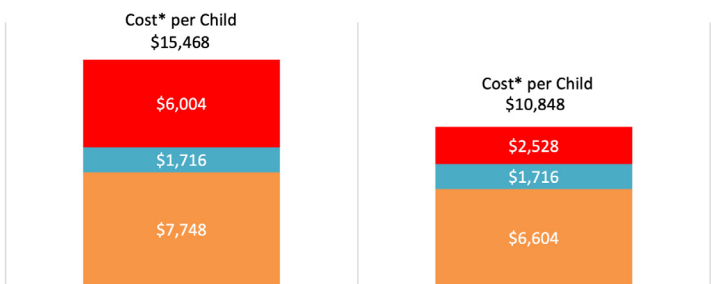
3 & 4 YR OLDS

\*Cost per child from Center for American Progress <https://costofchildcare.org/>

## MINIMUM LICENSING-COLUMBIA

SINGLE PARENT+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap



INFANT/ TODDLER

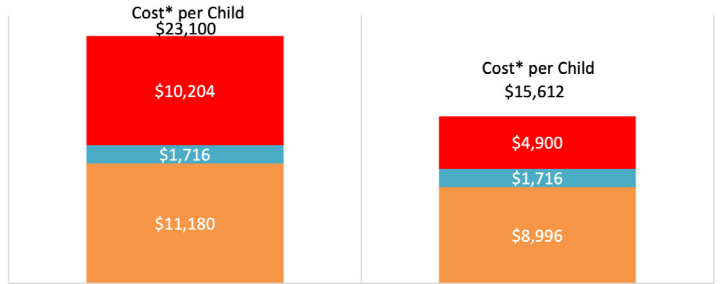
3 & 4 YR OLDS

\*Cost per child from Center for American Progress <https://costofchildcare.org/>

## TOP QUALITY-COLUMBIA

SINGLE PARENT+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap



INFANT/ TODDLER

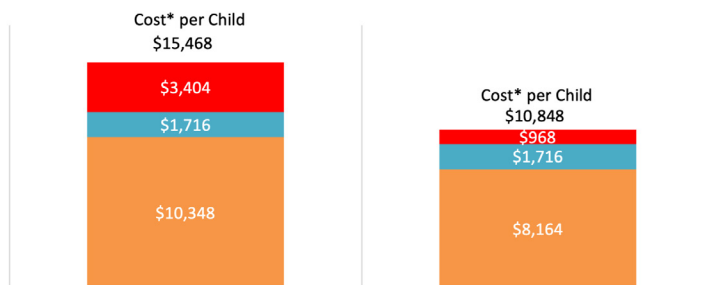
3 & 4 YR OLDS

\*Cost per child from Center for American Progress <https://costofchildcare.org/>

## MINIMUM LICENSING-LANCASTER

SINGLE PARENT+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap



INFANT/ TODDLER

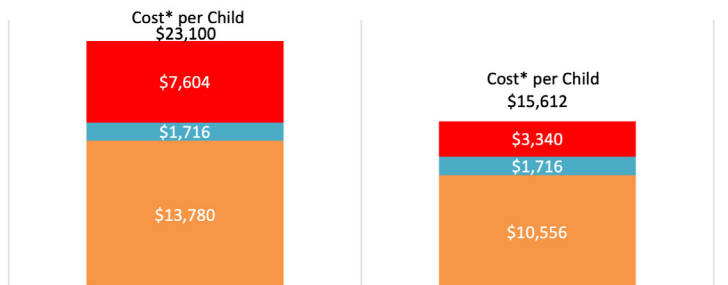
3 & 4 YR OLDS

\*Cost per child from Center for American Progress <https://costofchildcare.org/>

## TOP QUALITY-LANCASTER

SINGLE PARENT+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap



INFANT/ TODDLER

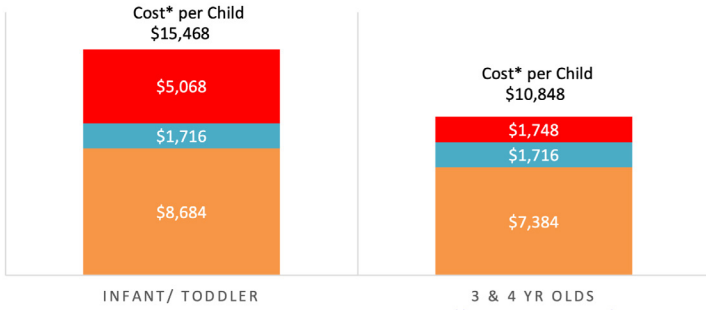
3 & 4 YR OLDS

\*Cost per child from Center for American Progress <https://costofchildcare.org/>

## MINIMUM LICENSING-LEHIGH

SINGLE PARENT+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap

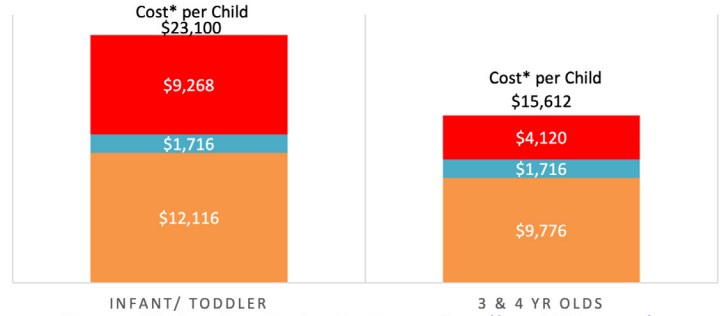


\*Cost per child from Center for American Progress <https://costofchildcare.org/>

## TOP QUALITY-LEHIGH

SINGLE PARENT+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap

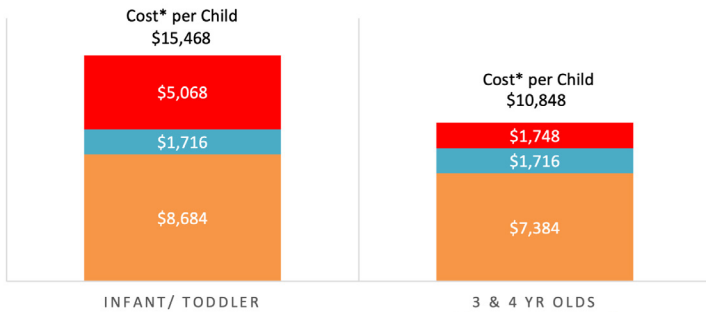


\*Cost per child from Center for American Progress <https://costofchildcare.org/>

## MINIMUM LICENSING-MERCER

SINGLE PARENT+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap

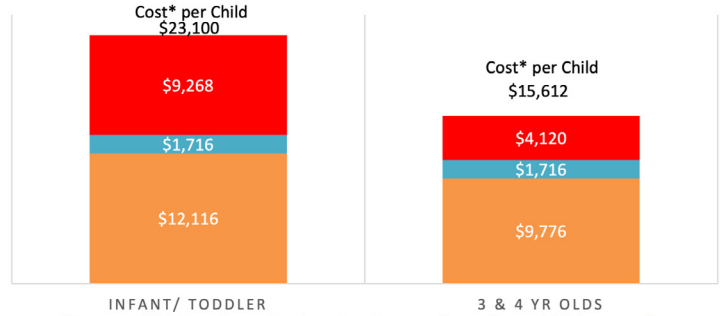


\*Cost per child from Center for American Progress <https://costofchildcare.org/>

## TOP QUALITY-MERCER

SINGLE PARENT+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap

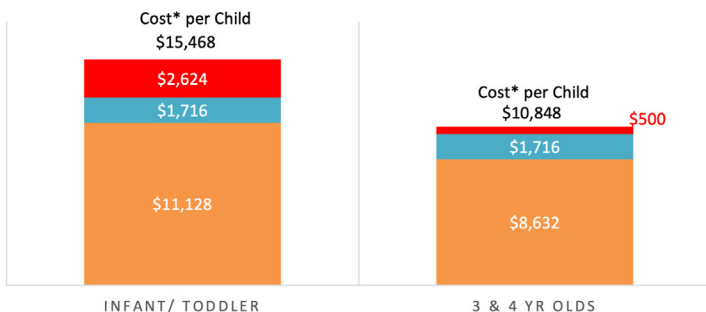


\*Cost per child from Center for American Progress <https://costofchildcare.org/>

## MINIMUM LICENSING-PHILADELPHIA

SINGLE PARENT+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap

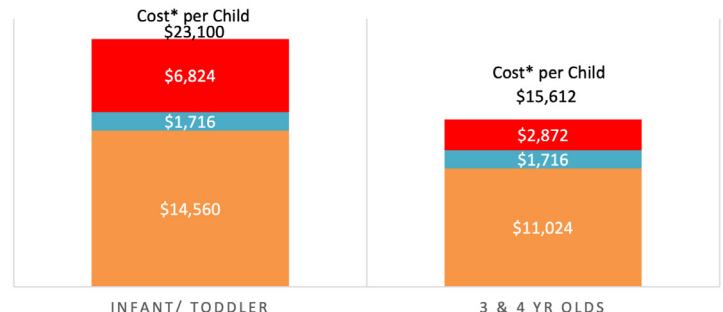


\*Cost per child from Center for American Progress <https://costofchildcare.org/>

## TOP QUALITY-PHILADELPHIA

SINGLE PARENT+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap

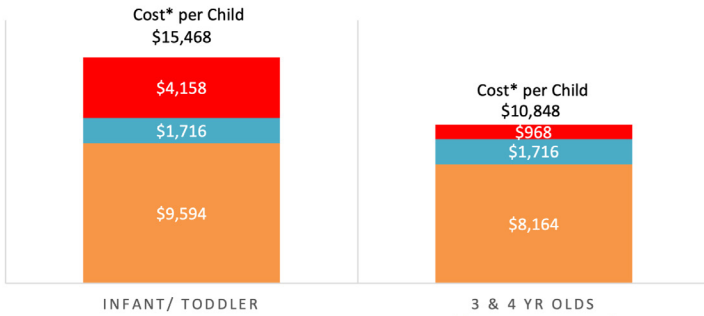


\*Cost per child from Center for American Progress <https://costofchildcare.org/>

## MINIMUM LICENSING-WESTMORELAND

SINGLE PARENT+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap

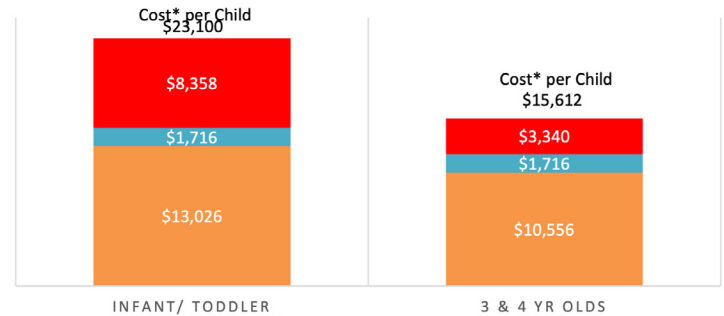


\*Cost per child from Center for American Progress <https://costofchildcare.org/>

## TOP QUALITY-WESTMORELAND

SINGLE PARENT+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap

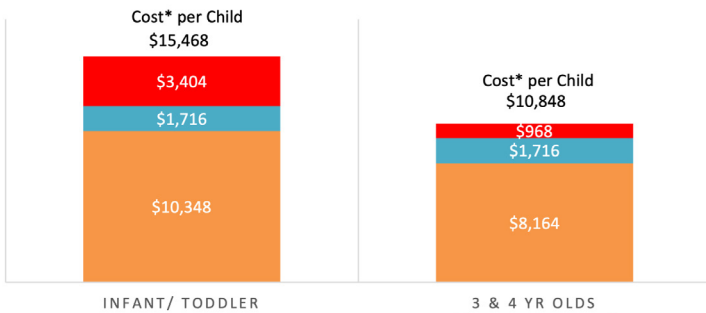


\*Cost per child from Center for American Progress <https://costofchildcare.org/>

## MINIMUM LICENSING-YORK

SINGLE PARENT+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap

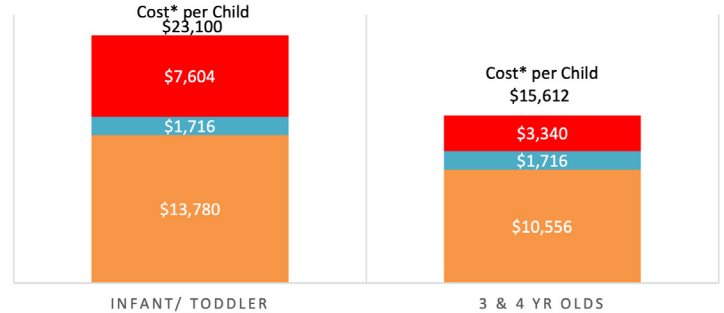


\*Cost per child from Center for American Progress <https://costofchildcare.org/>

## TOP QUALITY-YORK

SINGLE PARENT+CHILD @\$30K

State Share Parent subsidy co-payment Cost Gap



\*Cost per child from Center for American Progress <https://costofchildcare.org/>



# THE SOLUTION

## Cost Estimation and Alternative Payment Methodology

Brain science research on children birth to five that has been established over decades shows that child development is a foundation for a prosperous and sustainable society.<sup>23</sup> Brains are built over time, with more than 1 million new neural connections formed every second during the first few years of life. We want children to have a sturdy foundation for which all their learning, health and behavior follow, and high-quality early learning experiences does that for young children. The interactive influences of genes and experience shape a young child's developing brain, which is where parents, teachers and other caregivers come in. These facts highlight the importance of and need to fully fund the child care system. Therefore without adequate cost of care estimates, an underfunded system cannot fully serve children. The absence of a balanced approach to emotional, social, cognitive, and language development causes the brain's architecture to not form as expected, which leads to disparities in learning and behavior.<sup>24</sup>

A robust early learning system rests on understanding the true cost of high-quality care. The price that providers charge and parents pay in a particular region does not ensure that the proper policies are developed to increase equitable access to high-quality care. Basing the subsidy rate on an already depressed market rate instead of the true cost of providing child care forces child care programs into a perilous business model and reinforces low compensation for staff and lowers quality, even when the program committed to high quality.

A cost estimation model will help Pennsylvania understand the cost of providing child care in all program types, for all ages served, at all levels of quality, in all regions of the commonwealth. A cost estimation model incorporates both available data and certain assumptions to estimate expected costs associated with running a child care business.<sup>25</sup> The assumptions used in a cost estimation model often relate to the structure of a program. This can include the number of children, the facility size, the group size, and teacher-to-child ratios, in addition to labor, materials and supplies, food service, administration and transportation.

A payment methodology based on the modeling will lead to payments that reflect the costs of providing quality child care likely resulting in a market-driven reason for providers to participate in CCW as a provider or to serve more subsidy eligible children. We must not continue to perpetuate the broken child care market. A key piece to beginning with a better foundation is child care worker compensation and the policies and mechanisms implemented to reimburse child care programs. For details around offering grants as an approved method of payment, see *Recommendations for Infant and Toddler Contracts in Pennsylvania: A Model to Strengthen and Stabilize the Child Care System*.





## THE IMPORTANCE OF FULL ENROLLMENT AND FULL FEE COLLECTION

In addition to providers getting reimbursement that covers the cost of care, full enrollment and full fee collection are needed pillars for child care programs to be financially viable.<sup>26</sup> Child care program budgets include income and expenses and balancing the two so that a provider's business thrives is difficult. If you focus on a child care program's rate, the price that they charge parents, or the child care subsidy reimbursement rate, then you also examine enrollment and fee collection, which significantly influences income.

The process of a child care business setting its tuition or fee, involves many factors, and some of those factors are outside the control of the business. For example, what families can afford to pay for child care is based on their income and the cost of living in the community. The tuition or fee charged to families and the child care subsidy reimbursement rates must both equal the true cost of care, otherwise the child care business is losing money. Enrollment and fee collection impact the true cost of care. When programs are not at full enrollment, the true cost of care increases.




## WHY THIS MATTERS

Each and every child, beginning at birth, should have the opportunity to benefit from high-quality, developmentally appropriate, safe, affordable and reliable child care staffed by an effective, diverse, well-prepared and professionally compensated workforce. Child care teachers must be well-compensated in line with the complex and demanding work they perform, as a part of a system that recognizes the true cost of care and finances that system.

Access to high-quality child care not only benefits children and families but also our economy. With the majority of families having both parents working and with the majority of all mothers in the labor force, they need access to high-quality child care to participate in the labor force. Despite the high price of child care, not all child care is considered high-quality. In Pennsylvania, only 43 percent of child care capacity meets high-quality standards.<sup>27</sup>

### High-quality child care programs:



Offer safe, nurturing, and responsive environments where children grow, learn, and succeed;

Allow families to work knowing children are with qualified and caring professionals; and

Foster the physical, social, emotional, and cognitive development of young children.

Because access to high-quality child care has benefits to children, families, and the economy, Pennsylvania needs to follow a cost estimation model process to inform policies for rate setting and increasing access.

Child care programs are key to growing the economy. When the child care supply is available and affordable, parents can participate in the workforce. The rising demand for child care has not translated to a rise in the supply of affordable, high-quality care. Investments in early care and education can fuel Pennsylvania's economic growth now and in the long term. This impact on the economy can be seen when insufficient child care options can prevent parents from working. Women are impacted more due to the lack of child care and their employment outcomes have suffered. Women's labor force participation is significantly associated with Gross Domestic Product growth.<sup>28</sup> To build child care availability and quality greater investment must occur in covering the true cost of care and resources to assist providers in reaching high quality. Investing in Pennsylvania's children is one of the smartest investments that policymakers can make.





Underinvestment of the child care sector erodes quality and as a result impacts the realization of long-term gains. This lack of investment in child care is costing our country \$57 billion each year in lost earnings, productivity, and revenue.<sup>29</sup> Public dollars invested during these early years lead to substantial fiscal returns over generations, estimated at up to \$16 for every \$1 invested. This is predicated on infants, toddlers, and preschoolers being served in high-quality child care that maximizes their development and learning while their parents work. Investments that support a high-quality, accessible child care and early education system will pay long term dividends for the economy. Making priority investments in early childhood care and education and its workforce is the key driver of increased quality.

Teachers are the center of a high-quality program. Successful recruitment and retention of teachers largely depend on the level of compensation. We know that a high-quality program expects and demands a child care professional that is knowledgeable and credentialed. With median wages so low, below \$11 per hour on average, a child care provider crisis is occurring with the recruitment and retention of child care teachers leading to empty classrooms across Pennsylvania. Low compensation has been cited as the top reason for the difficulty in recruiting teachers to create a safe, nurturing, and responsive environment for children on their waiting lists. Children without access to high-quality child care can be negatively impacted in the areas of growth of their social, emotional, physical, and cognitive skills.

A teacher's knowledge comes through experience and credentials. Experience working with young children deepens a teacher's ability to establish and maintain relationships that support young children's growth. As they advance in their careers, professional development and education strengthen the quality of their relationships and teaching.

## CONCLUSION AND NEXT STEPS

Pennsylvania children, families and early childhood educators deserve more effective child care policy.



Recognizing this, the federal government offers the ability to use an alternative payment methodology to set subsidy payment rates, which is allowable under CCDBG. There are a handful of states that have moved to or are in the process of moving to an alternative payment methodology. For the FY2019-2021 CCDF state plan period, the District of Columbia was the only entity that applied for and received approval to conduct an alternative methodology to set its subsidy payment rates.<sup>30</sup>

The District of Columbia completed a cost modeling process that examined the cost of providing child care at each level of the District's QRIS in center and home-based child care programs that serve children of various ages and needs. The District of Columbia model is an interactive cost modeling approach adapted from the Provider Cost of Quality Calculator<sup>31</sup> and found that a child care program's estimated cost of delivering child care services was more than the revenue available to the program at the different levels of quality. The gap was the largest for those that served infants and toddlers. The market rates do not capture or account for the other sources of revenue child care programs may have through grants and donations, that are used to further subsidize child care subsidy and private pay rates.

New Mexico was the first state to implement a cost estimation model and one of few states that have fully engaged in the process and possibly the only state to pursue approval for an alternative methodology with their Child Care Development Fund plan for 2022–24.<sup>32</sup> Several themes that New Mexico discovered in using their cost-estimation tool related to their current subsidy rates and policy. Their current subsidy rates do not cover the cost of care for any age group from birth to age five, at any quality level or type of setting. The cost-estimation model demonstrated instances where state policies were misaligned with the reality of program operations. The model resulted in a large increase for family child care providers, with a built-in salary for these providers. New Mexico now has new information and analysis to support their efforts to increase child care subsidy rates to align with the cost of quality and increase access to high-quality settings for low-income working families.

Alaska completed a market rate survey and an alternative methodology to set subsidy payment rates. Alaska combined information from its market rate survey for each type of child care and information from a geographic differential study.<sup>33</sup>

Arkansas completed a market rate survey and an alternative methodology to set base payment rates and a cost model study differentiating between rural and urban areas to set a tiered payment structure.<sup>34</sup> Maryland was in the planning phase of developing a hybrid methodology using the market rate survey and actual cost of care to determine the true cost of providing high-quality child care within the state.



## RECOMMENDED COMPONENTS OF COST ESTIMATION

Cost estimation models can be used by Pennsylvania to inform policies for rate setting and increasing access to high-quality child care for all Pennsylvania children.



## TWO RESOURCES TO HELP ESTIMATE THE COST OF CARE:

### THE CENTER FOR BENEFIT-COST STUDIES OF EDUCATION (CBCSE) COST TOOL KIT

- Includes a cost-ingredient worksheet that allows the user to identify program “ingredients” and assign pieces for each.
- Users can calculate full costs, per-participant costs, and costs per unit of outcome.

### THE PROVIDER COST OF QUALITY CALCULATOR (PCQC)

- Estimates costs based on specific inputs chosen by the user.
- Uses the cost-ingredient method and sums up the costs of the resources used by the program.
- Includes training and professional development costs, and how much time a program spends on quality improvement-related activities.
- Can be used to determine the cost of providing services at a certain quality level, based on licensing or Keystone STARS levels, and compare estimated costs with estimated revenues to assess sustainability.



## Rather than conduct a market rate survey, Pennsylvania should:

Conduct a cost estimation study using an approved modeling tool, which also reviews the sufficiency of current revenues.

In order to set subsidy rates that reflect the true cost of high-quality child care, Pennsylvania must move past arbitrary market rates and instead focus on the true cost of providing high-quality child care. Basing Pennsylvania child care subsidy rates on these market rates has placed subsidy rates lower than the market rates that programs charge private pay families, which is a practice that Pennsylvania cannot continue.

Lessons from state K-12 funding formulas can be used as a blueprint from which early childhood care and education can learn and apply, such as the inequities in funding across communities. An example could be a shift in how much of early childhood should be funded publicly versus funded by parents.<sup>35</sup>

Conduct cost estimation studies moving forward using an approved modeling tool, which also reviews the sufficiency of current revenues.

Including revenues in the cost estimation study allows Pennsylvania to also estimate the sufficiency of current public and private revenue streams and the impact of different subsidy rates on provider financial stability. Excluding revenues and only estimating expenses by providers, highlights the cost of operating a program but not the amount of revenue needed to cover the true per-child cost.

Ensure all major factors driving program cost are considered in the cost estimation study, such as program type, quality level, geographic region, age of child, part/full-time child care, cost to compensate teachers appropriately, etc.

Conducting a cost estimation study and developing a revenue and expense model can identify the true costs to meet state standards, age, region, and program level variations, and the additional costs related to increasing quality and workforce compensation. The results of the cost estimation study can be used to inform subsidy reimbursement rates.

Creating principles that inform cost models and establish a shared language. By standardizing cost modeling, it will ensure coherence and consistency.



Ensure significant stakeholder engagement in the study. Hold targeted interviews and surveys to ensure representative data is captured.

Including providers who recognize the need for diversity in race, ethnicity, provider type and geography, resource and referral entities to advocacy and provider organizations. Providers who recognize the social responsibility to create an equitable and adequate system of care will ensure that the cost model will focus on equity, promoting equitable practices in early childhood systems to avoid exacerbating existing inequities. Grounding the cost model in equity contributes to a more inclusive and socially just outcomes in early childhood.<sup>36</sup>

A broad group of stakeholders is important to advise and provide valuable input at all points of the cost estimation study process to ensure buy-in to the study results, so that the cost estimation model is an accepted tool to set child care subsidy rates. These stakeholders, specifically providers, will provide input on assumptions that will need to be made. The broad group of stakeholders will allow for trust in and support of the cost estimations study's process and findings and supports its sustainability.

OCDEL will need to balance including child care programs in the cost estimation study process while not burdening a sector that is already in crisis or expecting child care providers to do all the work.

This can be mitigated by allowing for multiple levels of communication with stakeholder groups and the use of existing convenings to share information about the process and provide opportunities for child care program input and deeper engagement.

Place OCDEL in charge of the study and responsible for all persons who will ensure deadlines are met, data is collected and consensus is achieved among all the stakeholder groups on assumptions made in conducting the study. In states and communities that have done a study, they have been broad enough to include system administrators, legislators, state and local agency staff and non-profit groups.

Have three levels of engagement, the leadership team, the technical work group and the direct communication with programs.

This is necessary because CCDF rules require that the cost estimation model process must be informed by the engagement of a broad group of stakeholders.

Have a study that is transparent, published and distributed to policymakers and the field.



Upon completion of the study, develop a new Pennsylvania payment methodology based on the information collected, along with a plan to fund the gap between current payments and the cost of providing high-quality child care.

Financing high-quality child care will have to change and expand in order to fund the gap between current subsidy rates and the true cost of providing high-quality child care.

Pennsylvania will need to embrace significant increases in investment, recognizing the child, family, societal and economic benefits that accrue when families have equitable access to high-quality child care with supported, skilled and knowledgeable teachers. Adequate funding is necessary for human capital development.

The outcomes of the cost model will be based on the political climate and feasibility. The reactions regarding the gap between existing funding and the true cost of those services are valid. Acknowledgement that funding will need to be contributed from all levels of government will push against the scarcity mindset in early childhood.



**Pennsylvania must move beyond using a market rate survey rate-setting methodology that does not reflect the true cost of providing high-quality child care and embark on the process of cost estimation and development of an alternative methodology. Our children and families in Pennsylvania depend on it in order to build an equitable child care system with a stable supply of high-quality programs.**

## ACKNOWLEDGMENTS:

[PennAEYC](#) is an affiliate of the National Association for the Education of Young Children (NAEYC) and is a nonprofit, membership organization of early childhood care and education professionals. Our mission is to be an effective voice for high-quality early childhood care and education. We do this through policy development, advocacy and professional development and supports for early childhood professionals.

[Start Strong PA](#) is a statewide, nonpartisan issue advocacy campaign focused on increasing access to and the affordability of high-quality child care programs, of which PennAEYC is a principal partner organization.

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### DATA CONTRIBUTORS:

We would like to thank Kelly Hoffman, Vice President of Data and Strategy at Pennsylvania Partnerships for Children, for her efforts to analyze the data and produce the charts in this report which highlight the gaps in the cost of preschool child care and infant and toddler care. We recognize Louise Stoney, an independent consultant and Co-Founder of the Opportunities Exchange and the Alliance for Early Childhood Finance, for sharing her expertise and supporting Kelly with this project.

### NATIONAL COST ESTIMATION AND ALTERNATIVE PAYMENT METHODOLOGY EXPERTS:

We also would like to thank Jeanna Capito and Simon Workman, Principals at Prenatal to Five Fiscal Strategies, for the time and expertise they provided us on the subject matter and to Jeanna Capito for her contributions to the report itself.

### THANK YOU TO THE FUNDERS THAT MADE THIS BRIEF POSSIBLE:

The Heinz Endowments

The PN-3 Capacity Building Hub managed by the BUILD Initiative and funded by the Pritzker Children's Initiative

Vanguard Strong Start for Kids Program™

William Penn Foundation

*The views expressed in this report are those of the authors and do not necessarily reflect the views of these foundations.*

## APPENDIX:

### Additional Information on Current Rate Setting and Pennsylvania's Child Care Subsidy System

#### MARKET RATE SURVEY

Per the federal government, the market rate survey must be statistically valid and reliable and is required to:

- represent the child care market,
- provide complete and current data,
- use rigorous data collection procedures,
- reflect geographic variation, and
- analyze data in a manner that captures other relevant differences.

Only a narrow cost analysis is required by the federal government if conducting the market rate survey to compare the cost of implementing health, safety, quality and staffing requirements and also of implementing high-quality care (according to [Keystone STARS](#) in Pennsylvania).

#### PENNSYLVANIA: PARENT COPAYMENTS AND PROVIDER PAYMENTS

Families receiving a subsidy must pay a copayment for child care directly to the provider. The cost of the copayment can be as little as \$5/week and varies according to family size and income. The family's annual co-payment may not exceed 11 percent of the family's annual income and if the family's annual income is 100 percent of the federal poverty level or less, the annual co-payment may not exceed 8 percent of the family's annual income. Providers are allowed to charge families the difference between their private pay rate and the rate they receive from their ELRC. Pennsylvania's current copayment chart may be found [here](#).

OCDEL pays child care providers a daily rate based on a child's attendance at the lower of two rates – the rate the provider charges private-pay families or the established Maximum Child Care Allowance (MCCA). MCCAs are based on the age of the child, geographical region where care occurs, the unit of care (full-time or part-time), and the type of provider rendering service (center, family child care home, etc.). A provider that has achieved a STAR 2, 3 or 4 quality rating will receive an "add-on" to that rate, recognizing it costs more to reach these higher quality standards.

#### CCDF PAYMENT RATES – UNDERSTANDING THE 75TH PERCENTILE

- The percentile is the measurement of the established MCCA base rate when compared to private pay rates. It is designed to allow families access to 75 percent of the available child care programs in their communities, which is the price at which 75 percent of the child care programs reported charging for child care services.
- For additional information on the 75th percentile, please refer to:
- [https://childcareta.acf.hhs.gov/sites/default/files/public/508ed-75th\\_percentile\\_exercise.pdf](https://childcareta.acf.hhs.gov/sites/default/files/public/508ed-75th_percentile_exercise.pdf)

# ENDNOTES

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