

The true cost of center-based child care in Montana

The Montana child care cost model is an Excel-based tool developed to estimate the true cost of delivering early care and education. It illustrates how that cost varies based on different programs and operating choices. This powerful tool can be used by child care providers to better understand the financial implications of different program characteristics, such as ages of children served, size of program, and STARS to Quality level. Policymakers and advocates can also use it to highlight the policy changes and investments required to support this essential industry.

The cost model was developed by Prenatal to Five Fiscal Strategies ([P5FS](#)), working in partnership with Zero to Five Montana. It was designed with input from Montana child care providers and builds on the Cost of Care Calculator previously developed by the Montana Department of Public Health and Human Services (DPHHS) to support programs in the STARS quality rating and improvement system.

This brief is the first in a series of profiles demonstrating how the cost model can be used. These profiles aim to present results of example scenarios to illustrate the true cost of care in Montana for different program types. This first brief focuses on the cost of care in child care centers.

Using the cost model to estimate cost of center-based child care

While it is widely understood that paying for child care is a significant burden for most families, with tuition taking up an increasingly large part of their monthly income, there is less clarity about where that money goes and why child care staff and teacher compensation is so low. The Montana child care cost model can provide transparency into the finances of child care programs, illustrating how the **prices** child care providers charge families are in most cases much less than the **costs** the programs incur to provide safe and high-quality care.

Furthermore, these costs vary based on several factors, including the program's size. As a labor-intensive industry, there are limited economies of scale due to the need to maintain adult-child ratios. However, differences exist based on the program size, and this brief uses the child care cost model to illustrate those differences.

The cost model was used to estimate the cost of care at three different program sizes.¹ Table 1 details the default assumptions in the scenarios. Table 2 presents the monthly cost per child results from the Montana cost model.

Table 1: Program Characteristic - Program Size.

	Small Center	Medium Center	Large Center
Classrooms	1 infant/toddler classroom	2 infant/toddler classrooms	2 infant/toddler classrooms
	1 preschool classroom	2 preschool classrooms	2 preschool classrooms
Total Capacity	36 children	48 children	72 children

Table 2: Monthly cost per child at different program sizes

	Small Center	Medium Center	Large Center
Infants	\$1,800	\$1,720	\$1,582
Preschoolers	\$1,246	\$1,169	\$1,028

As shown in Table 2, the larger the program, the lower the cost due to some economies of scale related primarily to administrative staff and to some program-wide nonpersonnel expenses. The results also show the difference in the cost based on the child's age. The cost of care for infants is 44-54 percent higher than for preschoolers due to the smaller group sizes and lower adult-child ratios necessary when caring for the youngest children.

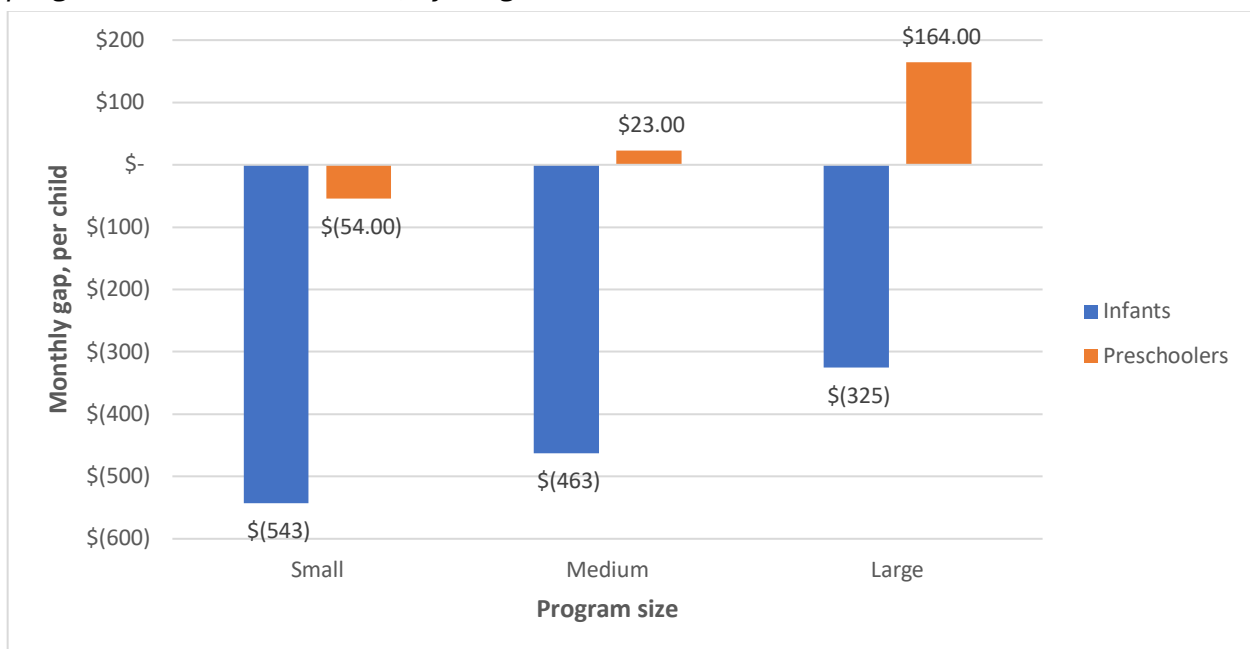
The Montana Child Care Cost Model allows users to estimate the cost of care under many different scenarios. This profile provides a snapshot from the model to demonstrate how the model can be used and highlight key findings from the model. For more details on the model methodology and the expenses captured in the model, please review the Technical Manual, available [here](#). To explore the model itself and run your own scenarios, please click [here](#).

¹ For consistency, only the program size was adjusted across the three scenarios. Each scenario uses state licensing standards for ratio and group size, current salaries, adjusted for a \$15/minimum wage floor, an employer contribution to health insurance, 10 days paid sick leave and 10 days paid leave, and a 5% contribution to operating reserve, along with non personnel to cover the full operations of a child care program.

Assessing the sufficiency of current revenue

The cost model includes current subsidy [rates](#) under the Best Beginnings Child Care Scholarship program, which helps eligible working families afford child care. These rates are based on [current market prices](#) and were last updated in March 2024. The model demonstrates how far the reimbursement rates go toward covering the cost of care, and how this varies by child age and program size. Figure 1 illustrates the monthly gap between the estimated cost of care (as shown in Table 2) and the current reimbursement rates under the Best Beginnings program.² For providers who serve families who receive the scholarship, any gap can significantly impact their financial stability and affect their decisions about how many subsidy-eligible families they can serve.

Figure 1: Monthly gap between estimated cost of care and Best Beginnings Scholarship program reimbursement rate, by Program Size.



² Note: this comparison uses the base reimbursement rate, not accounting for any increased rate related to a program's STARS to Quality rating level.

As shown, there is a significant gap between the estimated cost of care and the current subsidy rates for infant care in child care centers of any size:

- The small program loses nearly \$550 per month per infant, or over \$6,500 per year, with subsidy rates covering only 70-80% of the cost of care.
- For preschool-aged care, in a small program, the gap is around \$54 per month, but in the medium and large programs, the estimated cost of care is slightly below the current subsidy rate.

While only a snapshot using a hypothetical scenario, this data illustrates why many providers do not serve infants and toddlers and opt instead to serve older children or why providers must carefully balance the age mix of children in their program to offset losses incurred when serving infants and toddlers.

Using the tool to inform policy and practice

The Montana child care cost model can provide transparency into the true costs of operating a high-quality child care program in the state and how those costs vary based on different program and child characteristics. Results from the model can help demonstrate why setting child care subsidy rates based on market prices perpetuates the disparities in the private market. For example, because families of infants are limited in their ability to afford the cost of care, providers must set their tuition rates lower than the cost. Then, this lower tuition is reflected in the market-based subsidy rates, as shown in the results in this profile. If cost of care data were used to inform rate setting, this disparity could be addressed so that programs were not disadvantaged when serving infants compared to preschoolers.

The model can also help support child care providers when deciding which age groups of children they serve and how many classrooms they need to operate to run a financially stable business. The model can provide a helpful data point when making business decisions by demonstrating the fiscal impact of different program characteristics.

Other profiles in the series provide additional examples of how the Montana child care cost model can support program operations, including decisions related to STARS to Quality and workforce compensation. Profiles focused on family child care home settings are also included.

To access the Montana child care cost model and to view all of the profiles in this series, please visit the Montana Child Care Business Connect website at:

<https://childcarebusinessconnect.com/resources/existing-provider-resources/financial/cost-of-care-modeling-tool/>

