The true cost of home-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. Child care providers can use this powerful tool to better understand the financial implications of different program characteristics, such as the ages of children served, the program size, 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 one in a series of profiles demonstrating how the cost model can be used. These profiles aim to present results of example scenarios illustrating the true cost of care in Montana for different program types. This brief focuses on the cost of care in family child care home-based settings.

Using the cost model to estimate cost of home-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 providers make so little. The cost model can provide transparency into the finances of home-based 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.

Most home-based child care programs operate as small businesses, with the provider/owner rarely paying themselves a salary. Instead, their income is whatever is left

over at the end of the month once all expenses have been paid. Too often, this results in poverty-level wages for home-based providers who frequently end up making less than minimum wage when accounting for the number of hours per week they dedicate to their business. To accurately capture the true cost of child care in home-based settings, the Montana Child Care Cost Model includes a salary for the provider/owner. This does not indicate a requirement to pay a salary or change the employment status of the family child care owner but rather is an attempt to capture all the costs of operating a home-based program, which includes sufficient compensation for the provider/owner. In the model, this salary is equivalent to the hourly wage of a lead teacher in a center-based program but annualized based on working 55 hours per week.

To understand the impact of program size on cost, the cost model was used to estimate the cost of care at two different program sizes for family child care homes and group family child care homes.[1] Table 1 details the default assumptions in the scenarios and associated staffing. Table 2 presents the monthly cost per child results from the Montana cost model.

Table 1: Program Characteristic - Program Size.

	FCC (Small size)	FCC (Large Size)	Group FCC (Small Size)	Group FCC (Large Size)
Enrollment	2 infants/toddlers 2 preschoolers *Total = 4*	4 infants/toddlers 2 preschoolers *Total = 6*	6 infants/toddlers 4 preschoolers *Total = 10*	7 infants/toddlers 5 preschoolers *Total = 12*
Staffing	Provider/owner	Provider/owner	Provider/owner 1 full time assistant	Provider/owner 1 full time assistant

Table 2: Monthly cost per child at different program sizes.

	FCC (Small size)	FCC (Large Size)	Group FCC (Small Size)	Group FCC (Large Size)
Cost per Child[2]	$1,667	$1,174	$1,160	$998

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[1] For consistency, only the program size was adjusted across the four scenarios. Each scenario uses current salary data, 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.
[2] A single cost per child is generated in the cost model for infants, toddlers and preschoolers in home-based settings because the program operates as one classroom without different ratio and group size requirements for different age children.

As shown in Table 2, the larger the program, the lower the cost. In the FCC program, serving two additional children lowers the cost for all children because staffing costs are consistent across both scenarios. The same is true in the Group FCC program, where the cost per child is also lower than in the FCC program because the second teacher required in these larger programs is paid a lower salary than the provider/owner. In addition, across both FCC and Group FCC programs, some economies of scale are realized as the program increases in size, with several fixed costs not increasing proportionally to the number of children enrolled.

> *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.*

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.[3] 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.

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[3] Note: this comparison uses the base reimbursement rate, not accounting for any increased rate related to a programs STARS to Quality rating level.

Figure 1: Monthly gap between estimated cost of care and Best Beginnings Scholarship program reimbursement rate, by Program Size.
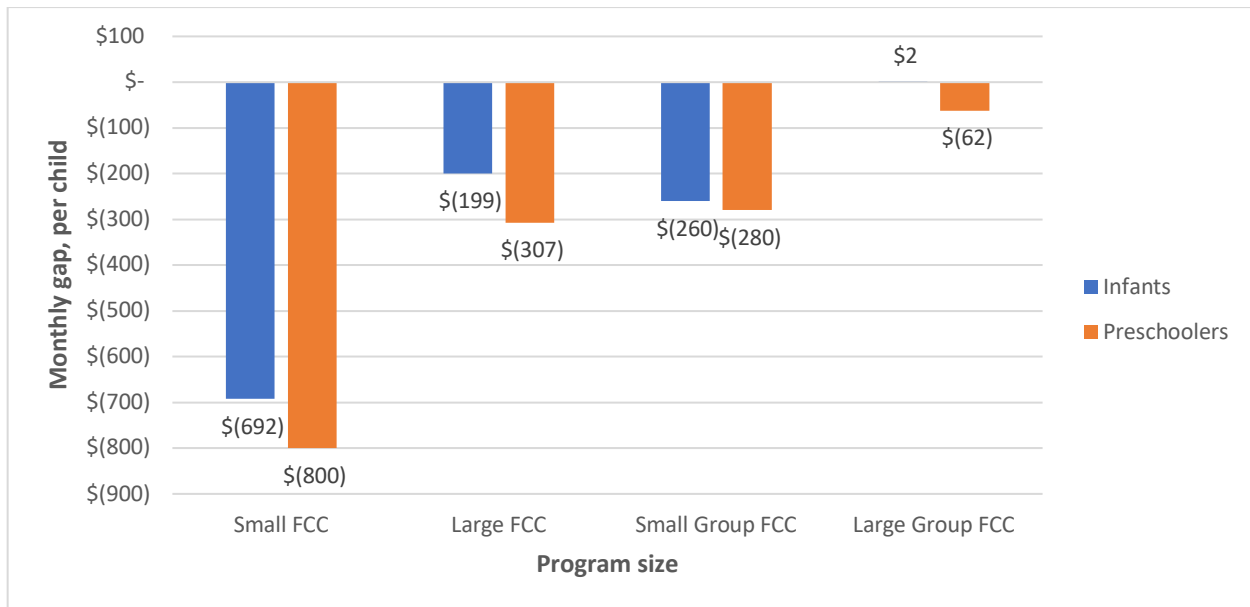
As shown, there is a large gap between the estimated cost of care and the current subsidy rates under almost all of the scenarios:

- The FCC, small enrollment, loses nearly $700 per month for an infant and $800 per month for a preschooler, or between $8,300 and $9,600 per year.
  - Increasing enrollment to six children reduces these losses to between $200 and $300 per month per child.
- Subsidy rates cover between 52-58% of the cost of care in FCC serving four children but between 74-83% of the cost of care in the larger FCC program serving six children.
- The higher subsidy rates for Group FCCs helps reduce the losses to under $300 per child in a group FCC serving 10 children.
  - Increasing enrollment to 12 children in the group FCC helps the program break even for infants and realize only minimal monthly losses for preschoolers.
- Subsidy rates cover between 84-90% of the cost of care in a lower enrollment Group FCC, but between 98-104% of the cost of care in the larger Group FCC program serving 12 children.

While only a snapshot using a hypothetical scenario, this data illustrates the trade-offs that home-based providers face. Serving more children is often necessary to operate a financially sustainable business, but this must be balanced against child development

best practices that highlight the importance of intentional adult-child interactions, which in turn rely on small group sizes.

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 program characteristics and children. 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, most home-based providers do not pay themselves a salary, and their tuition prices reflect this. However, these tuition rates are reflected in the market-based subsidy rates, resulting in a rate that does not provide sufficient resources to adequately compensate home-based providers/owners. If cost of care data were used to inform rate setting, this discrepancy could be addressed by ensuring subsidy rates account for the true costs of running a home-based program, including compensation for the provider/owner.

The model can also help support child care providers when deciding which age groups they serve and how many children they need to serve 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 compensation.

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/