Best Practices for Estimating the Costs of Early Childhood Education

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Early Childhood Education Cost Study Glossary

The following terms are commonly used when estimating the costs of child care and early childhood education (ECE) programs. A shared understanding of these terms helps states, local governments, and researchers communicate more effectively and compare cost estimates. *Terms with multiple possible meanings are shown in italics.* For more information about ECE cost estimation, visit www.air.org/estimating-ece-costs.

Budget. The planned expenditures of a program. Budgets are typically estimated monthly or annually and represent anticipated spending during a specified period. They usually do not include the value of volunteered resources (e.g., staff time) or donated resources (e.g., facilities, materials). Budgets are spending plans, and spending may change over time based on program needs. Budgets are not the same as expenditure reports, and both budgets and expenditure reports differ from (though may inform) cost estimates.

Cost of ECE. The per-child value of all resources used to provide a defined type of ECE services. Cost estimates should always clearly describe what is included. Cost of ECE can reflect different scenarios, including:

- **Cost of aspirational/high-quality care**. The value of all the resources that would be needed to provide higher quality care, or care at a specified level of quality (e.g., lower ratios, higher wages, family support services). This is sometimes called the *cost of adequate care*.
- **Cost of current care.** The value of all resources used to provide care as it is currently delivered at the time of the cost study or cost model development.

Cost Model. A tool that allows users to explore how changes in input prices and assumptions affect cost estimates. Cost models typically draw on administrative and newly collected data on resource quantities, qualities, and prices. They often inform broad funding or policy decisions and are commonly delivered as Excel tools or other interactive platforms. Cost models can estimate specific scenarios of interest (e.g., inclusion of wraparound services, care for children with special needs, higher staff wages).

Cost Study. An analysis that uses administrative, existing, or newly collected data to estimate the value of resources used to provide clearly defined child care services at a single point in time. Cost studies may include sensitivity analyses showing how estimates change based on assumptions (e.g., staff wages, benefits, facility costs). They typically inform specific funding or policy decisions and are usually delivered as a final report. To remain accurate over time, cost studies must be repeated with updated data.

ECE Quality. Definitions of quality vary by state, territory, or local government. Common elements include staff credentials or training, staffing ratios, and the quality and quantity of educational materials. Cost estimates must clearly define the level of quality assumed, as many components of quality can affect costs.

Enrollment as a Percentage of Licensed Capacity. The percentage of the number of children a program is licensed to care for that is currently filled with enrolled children, calculated as (*current enrollment ÷ licensed capacity) × 100*. Enrollment as a percentage of licensed capacity can be calculated by age group or overall. Some researchers refer to this as *enrollment efficiency*, but early childhood program leaders may also use this term to describe the <u>ideal</u> enrollment level for a financially stable business. To avoid confusion, "enrollment as a percentage of licensed capacity" is recommended for describing actual enrollment relative to licensed capacity.

Expenditure. The amount of money programs spend in cash to operate. Reported monthly or annually, expenditures show actual spending but exclude the value of volunteered resources (e.g., staff time) or donated resources (e.g., facilities, materials) that help a program operate. As a result, expenditures often differ from total cost.

Market Rate. Sometimes called *market price*, this refers to the tuition that programs charge for child care services in a given region (typically defined by the state). It is often referred to as the *market rate* because it reflects the tuition and fees paid by families in the local child care market (i.e., state-defined region, county).

Per-Child Costs. The total value of resources used to provide ECE services divided by the number of children those costs apply to. Per-child costs help quantify the resources that a program uses (or would need) to serve an individual child.

Program-Level Costs. Sometimes called *direct service costs*. This includes the value of all resources used at the program level (i.e., child care center, prekindergarten program, family child care home). It does not include regional or state-level supports that help the full system operate.

Revenue. The income that a program receives. This may include private tuition; child care subsidies; private grants; and/or federal, state, or local funding to support ECE program operations.

Subsidy Rate. The reimbursement amount that states pay child care providers for serving children from low-income families participating in the subsidy program. Subsidy rates often vary by child age, setting (i.e., center based, family child care home), and state-defined geographic region. The rates may also vary by program quality level (e.g., star rating) or services provided (e.g., nontraditional hours of care, care for children with special needs). Historically, subsidy rates have been tied to market rates, but recent federal guidance encourages the use of cost data to set those subsidy rates.

System-Level Cost*.* This term can have multiple meanings. It generally refers to costs associated with resources beyond the program level, often a substantial share of the overall cost of a child care system for a state or local government. Depending on study goals, you may or may not want to include these costs in your overall estimate. Examples of "system-level costs" include regional and state-level professional development, resource lending libraries, licensing or quality rating visits, system-level software (e.g., billing or attendance), subsidy payment processes, and business mentoring. For cost estimates that aim to reflect the overall cost of a state or local child care system, including system-level costs is considered best practice. These types of costs are sometimes called *shared costs*, *overhead costs*, *infrastructure costs*, or *administrative costs*. **It is essential to provide a clear definition of any terms you use for these types of costs**.

True Cost. This term has multiple meanings. "True cost" may refer to the value of (1) the resources needed to sustain an ECE system beyond the status quo,[1] (2) the resources needed to maintain the current system,[2] (3) the gap between subsidy/tuition and the cost estimate (i.e., the true cost of operating a program, or (4) the cost of child care to parents[3] (tuition minus subsidies or required fees). Because of these different uses, **it is important to communicate clearly about what "true cost" means in any given context or to use more precise terms.**

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[1] See, for example: The True Cost of High-Quality Child Care Across the United States (Center for American Progress)
[2] See, for example: Child Care in America: 2024 – Price & Supply (Child Care Aware® of America)
[3] See, for example: True Program Costs: Program Budget and Allocation Template and Resource (Propel Nonprofits) and The True Cost of Childcare (Flannel Guy ROI)