



MURIEL BOWSER
MAYOR

September 8, 2023

The Honorable Phil Mendelson
Chairman
Council of the District of Columbia
John A. Wilson Building
1350 Pennsylvania Avenue, NW, Suite 504
Washington, DC 20004

Dear Chairman Mendelson:

I am pleased to submit to the Council of the District of Columbia the enclosed report titled “Modeling the Cost of Child Care in the District of Columbia, 2023,” which was prepared by the Office of the State Superintendent of Education (“OSSE”) pursuant to section 11a of the Day Care Policy Act of 1979, effective September 19, 1979 (D.C. Law 3-16; D.C. Official Code § 4-410.01).

This report includes information on both childcare program operating costs and what parents pay for childcare. The report notes that between 2021 and 2023, the cost of providing childcare increased due largely to the increased cost of wages and benefits. For many childcare providers, these increased costs are higher than their currently available revenues from childcare subsidies, tuition, and other major revenue sources.

Implementation of minimum salaries required under the Early Childhood Educator Pay Equity Fund would increase providers’ per-child cost between 9 and 12 percent per child, depending on provider type and the age of children served. Child development facilities that enter into agreements with OSSE to implement minimum salaries will receive funding to cover those increased costs through the CDF payroll funding formula pursuant to D.C. Official Code § 4-402(b)(1).

My administration is available to discuss any questions you may have regarding this report. In order to facilitate a response to your questions, please have your staff contact Andrew Gall, Deputy Chief of Staff, OSSE, at (202) 478-9202.

Sincerely,

A handwritten signature in black ink that reads "Muriel Bowser".

Muriel Bowser



District of Columbia
Office of the State Superintendent of Education

MODELING THE COST OF CHILD CARE IN THE DISTRICT OF COLUMBIA, 2023

March 2023

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Letter from the Superintendent

Dear Early Learning Community Stakeholders,

Educators and parents know that children’s earliest years lay the crucial foundations for later success in school and life. For many District children, early learning happens not just at home, but also in child development facilities. Making sure our youngest learners have access to high-quality early learning is one of the most important ways we can advance the District’s goal of having the nation’s best urban education system. As we learned during the coronavirus (COVID-19) pandemic, parents cannot work unless child care works; an adequate supply of quality, affordable care is essential for the District’s economic recovery.

But affordable, quality child care does not happen on its own. Quality child care has costs, including for facilities maintenance and cleaning, healthy meals and snacks, and well-prepared educators and administrators who know how to foster children’s learning. None of these are cheap, and like many things in today’s economy, they are getting more expensive.

To help inform the Office of the State Superintendent of Education’s (OSSE’s) efforts to retain and improve the supply of quality, affordable child care for District families during the COVID-19 recovery, OSSE worked with national experts to estimate the cost to operate child development facilities in 2023. The results reflect input from diverse early learning stakeholders, including a survey of all licensed child development facilities conducted in fall 2022.

OSSE pays all or most of the cost of child care for low-income families participating in the District’s child care subsidy program—but government subsidies are only a fraction of child care revenues. Most funding for child care comes from payments families make for care.

For the first time, this cost modeling report includes information not only on child care programs’ costs to operate but also on what parents pay for child care. Child care affordability is important for families—and many struggle with child care costs. By understanding *both* what it costs to deliver care and what families pay, OSSE can design policies and programs that support quality and affordability for all District families.

OSSE will use the information in this report in several ways:

- First, cost modeling informs the reimbursement rates that OSSE pays child care providers caring for children participating in the subsidy program. To make sure children who receive subsidies have access to quality early learning, subsidy rates must reflect what it costs to deliver quality care. When we next update child care subsidy rates, we will take the information from this report into account.
- Second, we will use this information to set payment policies for the Early Childhood Educator Pay Equity Fund in fiscal year 2024 (FY24). In 2021, the DC Council passed, and Mayor Bowser signed, legislation to raise pay for our invaluable child care educators. In FY22 and FY23, OSSE is distributing funds directly to child care workers. But in FY24, we will shift to paying child care providers that agree to raise early educator salaries. Rather than adding those funds to subsidy payments, we will pay child care providers through a separate “child development facility funding formula” that looks more like how public schools are paid. This report estimates how much additional money a typical child care program will need to pay higher salaries—and how much it will cost the District to provide that

funding for all child care providers. That information informed the formula that OSSE developed to distribute Early Childhood Educator Pay Equity Funds.¹

- Third, this information informs programs and policies to advance child care quality, affordability and access. This report shows how policies that OSSE sets, like licensing requirements, affect what it costs to deliver child care, and how programs we support, like the Pre-K Enhancement and Expansion Program (PKEEP) and DC Shared Service Business Alliance (DC SSBA), can help child care providers increase revenue to cover costs. This information can help OSSE continue to improve these policies and programs.

Finally, this report provides transparent information to child care operators, families and other stakeholders about child care operating costs and prices charged to families. The report reflects averages across the District's child care market, so child care programs should not expect estimates to exactly mirror their individual costs or revenues. However, it can help child care program operators understand how their costs and tuition compare to other programs in the District and identify possible ways to lower costs or increase revenues. In addition, as part of OSSE's COVID-19 recovery efforts, programs like the Back-to-Work Child Care Grant and the DC SSBA will use methods similar to those in this report to help individual child care programs review their own costs and revenues to improve business sustainability.

This report can also help families in budgeting for and making choices about child care. Knowing what a typical child care program in the District charges and how that price compares to operating costs can help families understand why child care costs what it does, plan for child care expenses, and evaluate an individual program's tuition.

Whatever your role in the District's early learning sector—as an early educator, child care program leader or owner, parent, advocate, or policymaker—I hope that you find the information in this report useful, and I look forward to continuing to work with you to realize our shared goals of access to quality, affordable early learning for all District of Columbia children and families.

Sincerely,

Dr. Christina Grant, State Superintendent of Education

¹ OSSE, Child Development Facility (CDF) Payroll Funding Formula, April 2023, https://osse.dc.gov/sites/default/files/dc/sites/osse/page_content/attachments/FY24%20Child%20Development%20Funding%20Payroll%20Funding%20Formula.pdf.

Executive Summary

Child care cost modeling estimates the costs of providing care under a variety of scenarios, based on data and assumptions. It is a tool that child care program operators can use to project their costs to operate under different policy and operational scenarios and to inform budgeting and business decisions. In addition, policymakers can use these estimates to project the impact of policy changes on child care providers' operating costs and to ensure public funding streams are sufficient to cover the costs of delivering quality programs.

Since 2015, the District of Columbia has been a pioneer in the use of child care cost modeling to inform public policies. OSSE produced this report to comply with two laws: Section 201(c) of the Birth-to-Three For All Amendment Act of 2018, which requires OSSE to conduct a cost modeling analysis on a triennial basis to determine the likely cost of delivering services at each level of the District's Quality Rating and Improvement System (QRIS, known in the District as Capital Quality), as well as the Early Childhood Educator Pay Equity Fund Amendment Act of 2022, which requires OSSE to assess the cost of implementing an Early Childhood Educator salary scale ("ECE salary scale") that reflects minimum early childhood educator salaries by role and education (DC Code § 4-410.01(b)).

Beginning in FY24, any child development facility that receives money from the Early Childhood Educator Pay Equity Fund will be required to pay early childhood educators (including lead teachers, assistant teachers, home and expanded home providers, and home associate caregivers) salaries that meet or exceed minimum salaries established in statute (DC Code § 4-410.02) and updated by OSSE. OSSE used the results of this report to develop a child development facility payroll funding formula (CDF payroll formula) that provides child development facilities participating in the Early Childhood Educator Pay Equity Fund sufficient additional revenues to cover the increased costs of the updated minimum salaries.²

Additionally, OSSE has adopted child care licensing regulations that increase the minimum education credentials that will be required for most early childhood educators starting in December 2023. To comply with the requirements of the Child Care Study Act of 2017 (DC Code § 7-2011.03), this analysis also calculates the incremental costs to the Early Childhood Educator Pay Equity Fund of the new credential requirements. Because the Early Childhood Educator Pay Equity Fund ties early educator compensation to credentials, increased credential requirements will increase the costs to implement the program, which will bear the full cost of increased pay for higher credentials, so these costs do not fall on child care providers or families.

Key findings of the 2023 cost modeling analysis include:

- Across all program configurations, the cost to deliver care increased from 2021 to 2023. This is not surprising, given that inflation has increased labor and input costs for businesses across economic sectors over the past two years.
- Staff wages and benefits are the major driver of costs for child care programs of all types and sizes, and the major driver of increased costs to deliver care in the 2023 cost modeling analysis.

² Ibid.

- For many providers, the costs to deliver child care are higher than the revenues available through child care subsidies, tuition, and other major revenue sources. Average per child costs to deliver care exceed subsidy rates paid to child care providers for most age groups and provider types, as well as the tuition that some child care providers charge families. The analysis finds that providers that charge tuition rates at or above the 75th percentile of market rates likely operate at a profit.
- Implementing the minimum salaries in accordance with the FY23 Budget Support Act would increase providers' per-child cost to deliver care by nine to 12 percent per child, depending on provider type (e.g., child development center, child development home, expanded child development home) and the age of children served (e.g., infant, toddler, preschooler).
- Implementing the CDF payroll formula, as required by the FY23 Budget Support Act, at levels sufficient to enable providers to cover those increased costs, would cost the District approximately \$64.2 million in FY24, based on current early childhood educator credentials.
- Once all early childhood educators meet new credential requirements effective in December 2023, the costs to implement a CDF payroll formula sufficient to enable providers to cover minimum salaries will increase to \$87.6 million.

In addition to meeting legislative requirements and supporting implementation of the Early Childhood Educator Pay Equity Fund, this report will also inform the District's efforts to support child care program operators and families in need of care as the child care sector recovers from the impacts of the COVID-19 pandemic.

This report does not present specific proposals for changes in child care subsidy rates or detail the formula OSSE will use to distribute funding amounts to individual child care providers. Consistent with the requirements of DC Code § 4-410.01, OSSE published a CDF payroll formula for the Early Childhood Educator Pay Equity Fund separately in April 2023. The reimbursement rates the District pays to subsidized child care providers are established in regulation and determined by taking into account *both* the estimated cost to deliver care and the amount of funds available for the child care subsidy program. If OSSE were to propose changes in child care subsidy reimbursement rates, informed by the findings of this analysis, those proposals would be made through the District's standard regulatory process, which provides opportunities for public comment and engagement.

Introduction

The District of Columbia has a long history of prioritizing investment in early childhood care and education. Along with universal pre-kindergarten for 3- and 4-year-old children, the District's child care subsidy program is the cornerstone of efforts to ensure access, quality, and affordability of early learning for all children birth to age five in the District. The child care subsidy program is the primary public funding program for early learning programs serving infants and toddlers, and it funds before- and after-school care for preschool- and school-aged, income-eligible children up to age 13 (or 19 if the child has a disability). OSSE makes child care payments on behalf of working families with low incomes and otherwise eligible children³ attending child development facilities participating in the District's subsidy program. Approximately 7,381 children and their families benefit directly from child care subsidies each year. Further, by providing funding to 278 child care facilities that accept subsidies—more than half of all programs in the District—subsidy payments also help expand the supply of care for both subsidized and non-subsidized families.

To advance the District's goals of access, quality, and affordability in child care, payment rates for subsidized child care must be set at levels that cover the cost of operating quality programs, attract facilities to participate in the subsidy program and enable child care programs that accept subsidies to operate sustainable businesses. Cost modeling is an important tool to achieve these goals. More broadly, cost modeling can help policymakers, child care providers, and families understand the factors that affect child care providers' operating costs and inform efforts to improve business sustainability and support access, quality and affordability across the early learning system.

Child care cost modeling estimates the costs of providing care under a variety of scenarios, based on data and assumptions. Since 2015, OSSE has worked with national experts to model the cost of delivering child care services in the District. OSSE uses the results of cost modeling to inform payment rates for the child care subsidy program, in accordance with requirements of the federal Child Care and Development Fund,⁴ and to inform the design and implementation of other policies and programs, such as licensing regulations, that affect all child development facilities.

The Birth-to-Three Act of 2018 required OSSE to, on a triennial basis, conduct a cost modeling analysis to determine the likely cost of delivering services at each level of the District's quality rating and improvement system (QRIS), also known as Capital Quality. This report complies with that requirement, as amended by the FY23 Budget Support Act of 2022, codified at DC Code § 4-410.01. Under the latter legislation, OSSE is also required to assess the cost of implementing an early childhood educator (ECE) salary scale that reflects minimum early childhood educator salaries, by role and education, established in statute. Beginning in FY24, OSSE will distribute payments from the Early Childhood Educator Pay Equity Fund (DC Code § 1-325.431) through the child development facility payroll funding formula (CDF payroll formula) to child development

³ Children who are experiencing homelessness, children who are in foster care or protective services, and children who have disabilities are categorically eligible for child care in the District of Columbia.

⁴ The Child Care and Development Fund allows Lead Agencies the option to conduct a statistically valid and reliable ACF pre-approved alternative methodology developed by the state, such as a cost estimation model, instead of a market rate survey to set payment rates for subsidized child care.

facilities that enter into agreements with OSSE to increase early educator compensation. Facilities that enter into such agreements will be required to pay teachers, by role and credential, salaries equal to, or higher than, the established minimum salaries in the ECE salary scale (DC Code § 4-410.02(b)) and updated by OSSE in accordance with principles established in § 4-410.02(c)(1). This report includes both the 2023 cost modeling analysis and projected costs for the child development facility (CDF) payroll formula for FY24.

Cost Modeling Approach

The District's Child Care Cost Estimation Model

The District's cost modeling tool is a set of flexible financial models, developed using commercial spreadsheet software, that project the costs to operate a child development facility while meeting District requirements, including child care licensing, health and safety requirements, and employment laws such as minimum wage and paid family leave. The cost model tool aligns with methodology used in the Provider Cost of Quality Calculator (PCQC), an online cost model calculator.⁵ The PCQC provides a resource for source data to inform local models, as it includes regional, non-personnel data for every state or territory. The District's cost modeling tool further refines this methodology based on input from local stakeholders and national experts.

The model estimates the cost to support child care providers' implementation of health, safety, quality, and staffing requirements, defined by the District's Child Development Facility Licensing Regulations (5A DCMR §§ 100-149), as applicable in centers, homes, and expanded homes, and with variation for size and ages of children served. Federal regulations require that a cost model used to inform subsidy payment rates reflect variations by geographic area, type of provider (e.g., child development home, expanded child development home, child development center), and age of children (e.g., infant, toddler, preschooler).⁶ This analysis considers type of provider and ages of children served. Geographic area is not relevant because the District is a single, urban jurisdiction and child care market.

Adjustable assumptions also enable OSSE to project costs at higher levels of quality, as defined by Capital Quality (QRIS), as well as cost and revenue impacts associated with participation in specialized programs such as PKEEP, Quality Improvement Network (QIN), and the DC SSBA. Adjusting these assumptions and data inputs result in different outputs that reflect the estimated costs to deliver care under different circumstances. Additional factors that affect provider revenues (including enrollment efficiency, fee collectability, and the percentage of subsidy and private pay children served) are also included in the model (see Appendix for model assumptions).

Using the District's Cost Estimation Model to Estimate Costs to Deliver Child Care in 2023

For the 2023 cost modeling analysis, OSSE worked with national experts (Prenatal to Five Fiscal Strategies or P5FS) to review the District's cost estimation model tool and update key data inputs. To ensure that cost assumptions and data inputs were valid, reliable, and reflect input from stakeholders, OSSE conducted the 2022 DC Child Care Provider Survey, in partnership with DC Child Care Connections and P5FS, in the fall of 2022. OSSE also sought stakeholder input through engagement with the State Early Childhood Development Coordinating Council (SECDCC) and Child Care Recovery Working Group, which include child care providers

⁵ For additional information: U.S. Department of Human Services, Child Care Technical Assistance Network, Provider Cost of Quality Calculator, childcareta.acf.hhs.gov/pcqc.

⁶ Federal law and regulations establish requirements for Lead Agencies using an alternative methodology, such as a cost estimation model, to set payment rates for child care assistance.

and representatives of organizations that support them. OSSE also conducted direct outreach to provider organizations representing various types of child care operators and early childhood educators.

All licensed child development facilities were invited to participate in the confidential survey. Operators were asked to answer questions about tuition rates, wages and compensation, and enrollment and facility expenses. Forty-seven percent of child development facilities responded to at least some questions in the survey, which included child development homes (57 percent response rate), expanded child development homes (56 percent response rate) and child development centers (45 percent response rate).

Data from the provider survey were used as inputs in the cost estimation model. Where appropriate, survey data was supplemented by publicly available data such as data on wages from the Bureau of Labor Statistics (BLS), occupancy data from District of Columbia business and real estate organizations, and a national non-personnel data set maintained by P5FS.⁷

Scenarios Used in 2023 Cost Estimations

This report presents the outputs from a variety of scenarios that reflect variation in child care provider type, licensed capacity, ages of children served and Capital Quality designations, considering current licensing and Capital Quality requirements, federal and District labor laws applicable to child development facilities, and current costs for staff compensation, occupancy, and other major cost drivers. The scenarios presented were selected because they are representative of a variety of provider operating scenarios that are typical in the District of Columbia.

Estimating Costs Associated with the Early Childhood Educator Pay Equity Fund and Credential Requirements

In addition to estimating typical base operating costs for child development facilities under a variety of scenarios using current input costs, OSSE and P5FS used the cost modeling tool to estimate the expected costs for child development facilities to operate while paying early childhood educators at the minimum salary levels required for the Early Childhood Educator Pay Equity Fund. First, the tool was used to estimate the change in child development facilities' per-child operating costs if staff are paid at the new salary levels. Then, OSSE and P5FS estimated the system-wide costs to provide child development facilities sufficient additional funding, through the CDF payroll formula, to cover those additional costs. These costs were estimated using both current data on staff credentials, as well as for costs if all staff met the new credential requirements effective December 2023.

Interpreting Cost Model Results

Cost modeling is intended to estimate "typical" operating costs under the regulatory and market conditions that exist in the District. Individual programs may have higher or lower costs for specific inputs for a variety of reasons. In addition, it is important to recognize that cost modeling reflects normative assumptions about how child care programs will or should operate that do not necessarily reflect how some programs operate in practice. Because child care providers' revenues are constrained by subsidy reimbursement rates and what

⁷ For more information see, Provider Cost of Quality Calculator, Dept of Health & Human Services, pcqc.acf.hhs.gov.

families can afford to pay, many child care providers have adopted cost efficiency strategies that may not reflect best practices or how they would choose to operate without those constraints. For example, to economize on costs, it is a common practice in some child care programs to send staff home without pay on days when attendance is low and all staff are not needed to meet ratio requirements. However, this is not an optimal practice and so is not included in cost modeling assumptions. Similarly, the cost estimation model includes health insurance and discretionary benefits for staff in all scenarios, even though some child care employers do not offer these benefits.

As a result, some child care programs may experience actual costs that are lower than those estimated here, enabling them to remain in operation with revenues that are lower than the costs projected by the model. However, the strategies through which they do so are not scalable or sustainable for the early childhood sector. The District's approach to cost modeling projects costs for facilities to operate in ways that are sustainable at scale for both programs and staff and aligned with regulatory requirements and quality standards. Yet, it also does not reflect "ideal" scenarios that include all the resources and features families, educators, or operators might desire.

The District's approach to cost modeling seeks to project costs that reflect current conditions, common operating scenarios and market costs of child care inputs, but does not expect child care providers to rely on cost saving strategies that may undermine sustainability or the quality of care in order to remain in operation. This approach enables cost modeling estimates that can inform system-level policies and can provide a benchmark for individual programs and other stakeholders to see how individual program costs compare to typical operating costs.

Key Changes from 2021

In 2023, OSSE made updates to the cost estimation model that affect the resulting cost estimates. These include changes to model assumptions, which reflect input from stakeholders and a careful review of how previous model assumptions align with licensing requirements, the Capital Quality framework, and other policies. Because costs for many inputs have increased in the past two years, data inputs for staff and non-personnel cost drivers were also updated based on the most recent available data. Specific changes include:

- **Size and age configuration of facilities modeled:** Previous cost estimation modeling analyses included a variety of scenarios that varied by provider type, number and ages of children served, and participation in specific programs. However, many analyses focused on a "standard" program serving 64 children with one infant, one toddler, one older toddler, one 3-year-old, and one 4-year-old classroom. The 2023 cost modeling analysis adjusted program size and configuration assumptions to more closely reflect the actual distribution of programs in the District. The share of infant and toddler slots, relative to preschool slots, was also increased in most scenarios, in recognition that a high percentage of preschoolers are served in public school classrooms rather than child care facilities.
- **Increased wages for child care staff.** Child care staff salaries increased to reflect market-based changes in wages. Salaries for lead teachers, assistant teachers, home and expanded home providers and

associate caregivers were updated based on a review of provider-reported survey data.⁸ Other staff salaries were updated based on Bureau of Labor Statistics Occupational Employment and Wage Estimates for the District of Columbia. All salaries were reviewed to ensure they meet or exceed District Living Wage and Minimum Wage requirements, as effective on July 1, 2023.

- **Increases to non-personnel costs.** Data inputs for non-personnel cost drivers were updated based on input from the 2022 DC Child Care Provider Survey and P5FS' non-personnel data set, to reflect increases in prices for many inputs. Where feasible, all non-personnel data inputs are drawn from data sources specific to child care providers and/or specific to the District of Columbia.⁹
- **Changes to staffing patterns.** Personnel calculations are based on staffing patterns typical of centers and homes. Compared to the 2021 model, thresholds for employing a full-time director and assistant director were reduced and administrative staff were increased to more closely approximate actual staffing patterns (see details in Appendix).
- **Costs for health coverage and other benefits.** The cost estimation model incorporates updated assumptions for discretionary and mandatory health and other benefits.
 - Discretionary benefits are those, such as health insurance, retirement, disability, and life insurance benefits, that employers may choose to offer their employees and/or have some flexibility in determining the benefits offered.¹⁰ Health insurance benefits included in the 2023 cost estimation model are based on the premium costs for individual Silver Plan coverage purchased by the employer through the DC Health Benefit Exchange Authority, which is estimated at \$3,800 annually.¹¹ Health insurance costs are the largest discretionary benefit cost for most employers and account for 63 percent of the \$6,000 per full-time equivalent (FTE) staff member discretionary benefits included in the model. Estimated discretionary benefits costs (which increased from \$5,000 in the 2021 cost analysis) assume employers also provide retirement, life or disability insurance, and/or more generous health coverage options beyond the base cost for a Silver Plan.
 - Mandatory taxes and benefits are those, such as employer contribution to payroll taxes, unemployment insurance, and workers compensation, that all employers are required to pay or provide by law. Mandatory benefits are included at 10.4 percent of staff wages. 2023 cost modeling assumptions were updated to include current employers' contributions to DC's Paid Family Leave program.

⁸ Teacher salaries were taken directly from the 2022 DC Child Care Provider Survey. OSSE reviewed the survey data on assistant teacher salaries, which were lower than the previous cost model salary for that role and opted to use the 2021 cost model salary for assistant teachers at the quality-level designation for all assistant teachers.

⁹ In cases where any extant data source had a lower value than what was in the 2021 model, the previous value was retained or increased for inflation, as opposed to relying on that extant source alone.

¹⁰ Employers with 50 or more full-time employees are required to offer health insurance coverage to their employees.

¹¹ To calculate health care premiums, which are based on an individual's age, OSSE estimated an age breakdown of the child care workforce based on research on the number of years of experience early childhood educators in DC have.

- Inclusion of these costs meets the requirement in statute at § 4-410.01 (c)(2)(H) and (I) that the cost model address employer payroll costs associated with federal and District labor laws and costs associated with employer-paid benefits packages.
- **Changes in costs relative to quality designations.** Assumptions about cost drivers at various levels of quality in Capital Quality were updated to better reflect Capital Quality standards, as discussed further below.
- **Implications of the Early Childhood Educator Pay Equity Fund.** In FY22 and FY23, eligible early childhood educators received supplemental payments from the Early Childhood Educator Pay Equity Fund to increase their wages. These payments went directly to educators and, therefore, are not included in the cost model analysis, as they do not function as costs or revenues for child development facilities. Beginning in FY24, child development facilities that choose to enter into agreements with OSSE to receive funds from the Early Childhood Educator Pay Equity Fund will be required to pay lead and assistant teachers minimum salaries established by OSSE in accordance with statute. The scenarios presented below include costs with and without the minimum salaries in order to project how full implementation of the Early Childhood Educator Pay Equity Fund in FY24 will impact average costs per child.

Cost Estimation Findings

OSSE used the DC Child Care Cost Estimation Model tool to run multiple scenarios to estimate the typical per child operating costs of delivering care in child care centers, homes, and expanded homes with various program characteristics. The tables included in this report are illustrative examples of key findings from the modeling. While costs vary based on the specifics of a program or facility, several key themes emerged from the analysis and are discussed below.

On average, across all program configurations, the cost of care increased from 2021 to 2023. Several changes to the cost model assumptions and data inputs contributed to increased costs, with an increase in average salaries and benefits for child care staff driving increased costs. Regardless of a facility's size, staff wages and benefits are the major drivers of costs for child care programs.

Child Development Center Costs

OSSE modeled multiple scenarios across small, medium, and large child development centers serving a mix of ages in different classroom configurations. These size profiles were selected based on the actual distribution of child development facilities in the District. The median facility in the District serves 52 children, one-quarter of facilities serve fewer than 32 children, and one quarter serve 96 or more. Findings for illustrative small, medium, and large facilities are presented in Table 1.

As programs increase in size, they can distribute fixed costs across a larger number of children, which results in slightly lower per-child costs on average, as seen in the difference in costs between the small and medium scenarios. However, once programs reach a certain scale, they need additional administrative staff, which increases per-child costs relative to smaller programs (although even larger programs, not shown here, have lower per-child costs due to further economies of scale). Serving a larger number of infants and toddlers results in higher costs as more staff are needed to meet ratios and group size requirements. Conversely, school-age care has the lowest average costs, due to higher allowable ratios and group sizes. Therefore, serving school-age children can reduce average costs per child across all age groups. Regardless of facility size or ages of children served, staffing is the major driver of costs for all child care programs.

Table 1. Estimated Costs for Child Development Centers for Small, Medium, and Large Centers

Age Group	Estimated Annual Cost Per Child		
	Small Center	Medium Center	Large Center
Infants	\$30,979	\$30,790	\$31,165
Younger Toddlers	NA	\$30,790	\$31,165
Older Toddlers	\$26,962	\$26,833	\$27,223
3-year-olds	\$19,762	\$19,663	\$20,061
4-year-olds	NA	NA	\$17,840
School age (5 years and older)	NA	NA	\$10,161
Average per-child cost*	\$24,655	\$26,453	\$19,233

<p><i>*Classroom Configuration Assumptions:</i></p> <ul style="list-style-type: none"> • <i>Small Center: one infant classroom, one older toddler classroom, and one 3-year-old classroom (total = 36 children)</i> • <i>Medium Center: two infant classrooms, one toddler classroom, one older toddler classroom, and one 3-year-old classroom (total = 52 children capacity)</i> • <i>Large Center: one infant classroom, one toddler classroom, one older toddler classroom, one 3-year-old classroom, one 4-year-old classroom, and one out of school time classroom (total = 94 children capacity)</i>
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Although per-child costs vary with facility size, as shown above, this variation is modest. For this reason, the remainder of this report presents average per-child costs based on the median (52 child) facility, unless otherwise specified.

Cost of Quality Care in Child Development Centers. OSSE’s QRIS (or “Capital Quality”) measures the quality of early care and education programs in licensed child development facilities and supports providers to continuously improve quality. Capital Quality uses evidence-based observational tools to assess the quality of programs through measures of the environment, program structure, and teacher-child interactions. Table 2 provides an overview of these observational tools.

Table 2: Valid and Reliable Observational Tools Used in Capital Quality

Observational Tool	Used for	Areas Observed
Classroom Assessment Scoring System (CLASS)	Preschool classrooms in child development centers	Adult Child Interactions: <ul style="list-style-type: none"> • Emotional Support • Classroom Organization • Instructional Support
Infant Toddler Environment Rating Scale, 3 rd edition (ITERS-3)	Infant and toddler classrooms in child development centers	Six Subscales: <ul style="list-style-type: none"> • Space and Furnishings • Personal Care Routines • Language and Books • Activities • Interaction • Program Structure
Family Child Care Environment Rating Scale, 3 rd edition (FCCERS-3)	Child development homes and expanded homes (all ages served)	Six Subscales: <ul style="list-style-type: none"> • Space and Furnishings • Personal Care Routines • Language and Books • Activities • Interaction • Program Structure

OSSE assigns programs a Capital Quality designation based on scores received across all applicable observational tools for the past two years for which valid and reliable observation data exist.¹² These tools were selected as the basis for Capital Quality designations based on extensive research showing that the types of interactions, environments, and learning experiences they measure are associated with improved early learning and development outcomes for children. However, many of the interactions and environmental features that these tools measure, such as adults' use of language with children or how classroom transitions are managed, do not carry direct costs that can be easily quantified and measured. Though it is probable that programs that pay staff higher wages may be better able to attract staff who are skilled in nurturing children's learning and development or that programs with more resources might score better on some of ITERS' or FCCERS' environment measures because they can afford more or higher quality materials, books, and toys, there is no evidence base linking higher CLASS, ITERS, or FCCERS scores with specific cost drivers.

Previous versions of the cost estimation model incorporated assumptions about increasing cost drivers at higher quality levels (including additional staff positions, the provision of comprehensive services such as health screenings and higher staff salaries).

However, for 2023, OSSE revisited these assumptions and concluded that there are no explicit drivers of cost associated with the constructs measured by the valid and reliable observational tools that determine quality designations. Moreover, going forward, programs that receive funds from the Early Childhood Educator Pay Equity Fund will have to meet the same minimum teacher salaries regardless of Capital Quality designation (see later discussion on salaries on page 16). This means that differences in staff salaries, which were the major driver of cost differentials across Capital Quality levels in previous iterations of the model, should no longer be a major driver of cost differences, since all facilities that accept funds from the Early Childhood Educator Pay Equity Fund will need to pay their staff at or above the minimum salary levels.

Thus, the estimated costs for small, medium, and large centers estimated above are applicable across all facilities with Capital Quality designations.

The revised cost model allows for additional staff positions (family engagement specialist, health care specialist, and professional development coach) at the High-Quality designation to be selected as inputs as desired (rather than automatically). This approach enables calculation of scenarios that consider that some programs, particularly those serving vulnerable children, provide additional services to support children's and families' comprehensive needs, which requires additional staff positions. However, because facilities are not required to employ these staff roles to receive a High-Quality designation, these staff roles are not included in the default scenario for any quality level. Table 3 shows the projected cost to operate a High-Quality center enrolling 96 children and employing a family engagement specialist, health care specialist, and professional development coach. This scenario was projected for a larger center based on an assumption that employing additional staff positions for these roles is only practical above a certain level of scale. Smaller facilities that participate in the QIN receive similar staff supports in-kind through the QIN hubs.

¹² For additional information, please see the Capital Quality Technical Guide (August 2022), osse.dc.gov/sites/default/files/dc/sites/osse/page_content/attachments/Capital%20Quality%20Technical%20Guide%20August%202022.pdf.

Table 3. Estimated Costs for Large Child Development Center Operating with High-Quality Designation and Additional Staff Positions (family engagement specialist, health care specialist, professional development coach)

Age Group	Annual cost per child
Infants	\$36,041
Younger Toddlers	\$36,041
Older Toddlers	\$31,486
Preschoolers	\$23,780
<i>Classroom configuration assumption is three infant classrooms, two toddler classrooms, two older toddler classrooms and two 3-year-old classrooms (total = 96 children capacity).</i>	

Child Development Home Costs

OSSE modeled the costs of providing care in child development and expanded child development homes based on scenarios of serving six and 12 children, respectively (see Table 4). Expanded child development homes have a lower cost per child as costs are spread over more children. Because child development homes and expanded homes do not have separate classrooms, as is the case in centers, costs per child for infants, toddlers, and preschool-aged children are projected to be the same. However, the costs for out-of-school-time care are projected separately and are lower than the cost to serve younger children since there are fewer hours of out-of-school-time care offered annually, compared to full-day, full-year care to children not yet in school settings. Note that, because of the smaller size of homes, actual costs per child served may vary based on specific program enrollment. This cost modeling analysis seeks to project average costs under common or typical operating scenarios, which may be different from those encountered by individual child development homes or expanded homes.

Child development homes and expanded homes have a different operating model than centers, which frequently results in a lower projected cost per child. Homes generally have lower overhead compared to centers, which typically have higher costs such as paying rent for commercial spaces. In the previous cost model analysis conducted in 2021, OSSE updated the cost model for homes to include a salary for the child development home provider even though many home providers, as small business owners, do not actually pay themselves a salary that shows up as an expense in their accounting but rather take the profits of the business enterprise as income. The current analysis continues to include salaries for home and expanded home providers, as well as other staff. The salaries used in the model reflect salary data reported by home and expanded home providers who responded to the 2022 DC Child Care Provider Survey.

Table 4. Estimated Cost for Child Development Home and Expanded Home Care

Age	Annual Cost Per Child	
	Child Development Home	Child Development Expanded Home
Infants	\$19,045	\$16,365
Toddlers	\$19,045	\$16,365
3-year-olds	\$19,045	\$16,365
4-year-olds	\$19,045	\$16,365
School age	\$10,581	\$9,091
<p><i>Configuration Assumptions:</i></p> <ul style="list-style-type: none"> • <i>Child Development Home: Costs shown model care for two infants, one older toddler, one 3-year-old, one 4-year-old and one school age child (total = 6 children capacity)</i> • <i>Expanded Child Development Home: Costs shown model care for two infants, two toddlers, six 3-year-olds and two school age child (total = 12 children capacity)</i> 		

Implementing the FY24 ECE Salary Scale

Beginning in FY24, any child development facility that receives money from the Early Childhood Educator Pay Equity Fund will be required to pay their teachers and assistant teachers salaries that meet or exceed minimum salaries, by role and credential. District law requires OSSE to recommend updates to the minimum salary tables established at DC Code § 4-410.02 annually and for minimum salaries to be set in line with salaries for District of Columbia Public Schools (DCPS) teachers with comparable credentials.

In February 2023, the DC Council approved a collective bargaining agreement between DCPS and the Washington Teachers’ Union (WTU) that will revise the DCPS teacher salary schedule effective retroactively to October 9, 2022.¹³ Because minimum salaries for pay equity (DC Code § 4-410.02) are intended to provide pay parity between early childhood educators in licensed child development facilities and DCPS teachers with comparable degrees, OSSE updated the minimum salaries for FY24 consistent with the updated DCPS salary scale and is using these revised minimum salaries as the basis for projecting costs in FY24 (see Table 5).

¹³ “Compensation and Working Conditions Agreement between the District of Columbia Public Schools and the Washington Teachers’ Union, Local #6 of the American Federal of Teachers Approval Resolution of 2023,” R 25-0053, effective Feb. 7, 2023.

Table 5. Comparison of Current Teacher Salaries and Minimum Salaries Required in FY24 for Programs Receiving Pay Equity Funds as Updated by OSSE

Role	Current Average Annual Salary (Cost Model)	FY24 Minimum Annual Salary by Credential	
		Credential	Minimum Annual Salary
Assistant Teacher or Associate Home Caregiver	\$41,536	Less than a Child Development Associate (CDA)	\$43,865
		CDA	\$51,006
		Associate degree or higher	\$54,262
Lead Teacher, Home Caregiver or Expanded Home Caregiver	\$45,759	CDA	\$54,262
		Associate degree	\$63,838
		Bachelor’s degree or higher	\$75,103

Sources: Current salaries are based on responses to the 2022 DC Child Care Provider Survey.

It is important to note that the estimated costs to deliver child care presented in the previous sections of this report do not incorporate the FY24 minimum salaries. Instead, they reflect the costs to deliver care at current market wages for early childhood educators, as reported by child development facilities in the 2022 DC Child Care Provider Survey, supplemented by analysis of BLS Occupational Employment and Wage Estimates for the District of Columbia for other staff roles. Given that current average salaries are lower than the ECE salary scale minimums, programs that raise salaries for teachers in line with the minimum salaries required for participation in the Early Childhood Educator Pay Equity Fund will experience higher costs to provide care.

Table 6 shows the average cost of care in a child development center and a child development home based on the FY24 ECE salary scale. These estimated costs incorporate an assumption that early childhood educators in the facilities meet the minimum credential requirements for their role that will be in effect December 2, 2023.

Table 6. Estimated Costs for Centers (Medium Operating Scenario) and Homes with FY24 Minimum Salaries for Educators

Age Group	Estimated Annual Cost Per Child		
	Center	Child Development Home	Child Development Expanded Home
Infants	\$34,528	\$20,735	\$18,330
Younger Toddlers	\$34,528	\$20,735	\$18,330
Older Toddlers	\$30,213	\$20,735	\$18,330
Preschoolers	\$21,680	\$20,735	\$18,330

Configuration Assumptions:

- *Center: two infant classrooms, one toddler classroom, one older toddler classroom and one 3-year-old classroom (total = 52 children capacity)*
 - *Child Development Home: Costs shown model care for two infants, one older toddler, one 3-year-old, one 4-year-old and one school age child (total = 6 children capacity)*
 - *Expanded Child Development Home: Costs shown model care for two infants, two toddlers, six 3-year-olds and two school age child (total = 12 children capacity)*
- *Note that the preschool cost estimate for centers is based on a 3-year-old, non-PKEEP classrooms, since PKEEP lead teachers are excluded from the Early Childhood Educator Pay Equity Fund.*

Table 7: Change in Estimated Cost for Centers (Medium Operating Scenario) with FY24 Minimum Salaries

Age Group	Estimated Annual Cost Per Child: Medium Center		
	Cost at Current Salaries	Cost at FY24 Minimum Salaries	Difference
Infants	\$30,790	\$34,528	\$3,738 (12.1%)
Younger Toddlers	\$30,790	\$34,528	\$3,738 (12.1%)
Older Toddlers	\$26,833	\$30,213	\$3,380 (12.6%)
Preschoolers	\$19,663	\$21,680	\$2,017 (10.3%)

Configuration Assumptions: two infant classrooms, one toddler classroom, one older toddler classroom and one 3-year-old classroom (total = 52 children capacity)

**Note that the preschool cost estimate for centers is based on a 3-year-old, non-PKEEP classrooms, since PKEEP lead teachers are excluded from the Early Childhood Educator Pay Equity Fund.*

Table 8: Change in Estimated Cost for Child Development Homes and Expanded Homes with FY24 Minimum Salaries

Age Group	Estimated Average Annual Cost Per Child (Infant, Toddler or Preschooler)		
	Cost at Current Salaries	Cost at FY24 Minimum Salaries	Difference
Child Development Home	\$19,045	\$20,735	\$1,690 (8.9%)
Expanded Child Development Home	\$16,365	\$18,330	\$1,965 (12.0%)

Configuration Assumptions:

- *Child Development Home: Costs shown model care for two infants, one older toddler, one 3-year-old, one 4-year-old and one school age child (total = 6 children capacity)*
- *Expanded Child Development Home: Costs shown model care for two infants, two toddlers, six 3-year-olds and two school age child (total = 12 children capacity)*

As shown in Tables 7 and 8, on average, paying early childhood educators at the minimum salary levels set in legislation would increase child development facilities’ per-child operating costs by nine to 12 percent, per child. In centers, the percentage cost increase is higher for infant and toddler programs because of higher adult-to-child ratios required in infant and toddler programs than for preschool programs. Expanded child development homes would experience larger percentage increases in costs than child development homes

due to the presence of additional staff and higher minimum education requirements for expanded home caregivers.

Child Development Center and Home Revenues

Findings

In addition to estimating costs that child care providers incur to serve children under current regulatory requirements and a variety of operating scenarios, the District's child care cost estimation model enables OSSE to project the revenues of child care providers under different scenarios. This can help OSSE and child care stakeholders understand how current policies (such as licensing regulations and subsidy reimbursement rates) and other factors (such as tuition rates paid by families) affect the overall financial picture and sustainability of child care businesses, as well as how variation in the population of children served and services offered affects provider revenues.

The District's child care cost estimation model incorporates revenue from the following sources:

- **Child Care Subsidy Reimbursement:** For facilities receiving child care subsidies, FY22 child care payment rates were used.¹⁴ Currently, OSSE reimburses child development facilities at different, or "tiered" rates, based on a facility's Capital Quality rating (e.g., Developing, Progressing, Quality, High-Quality). Programs with a "Developing" rating receive the lowest reimbursement, with increasing rates for programs with "Progressing" (the most common) and "Quality" (the second most common) designations, and the highest rates for programs with a "High-Quality" designation. The District's cost modeling tool can model subsidy revenue at different levels of quality based on OSSE's tiered reimbursement rates. Subsidy-eligible families with incomes above 100 percent of poverty contribute a portion of the costs of care in the form of a copay. For Level I providers who do not participate in the QIN or SSBA, the District deducts the amount of the copay from subsidy payments. Level II providers (who are authorized to determine eligibility of children to participate in subsidy), as well as those who participate in the QIN and SSBA, receive the full subsidy amount and keep the family copayment. Revenue from family copayments is included in cost model revenue projections for Level II, QIN, and SSBA participating facilities.
- **Tuition:** Most families who do not qualify for child care subsidies pay tuition for their children to attend child care. Tuition is the primary revenue source for most facilities that do not accept child care subsidies (about 43 percent of licensed programs), and many programs that participate in the subsidy serve both children receiving the subsidy and tuition-paying families. Child development facilities set their own tuition rates. To model revenue from private tuition, OSSE used rates reported by child development facilities that responded to the 2022 DC Child Care Provider Survey.
- **Child and Adult Care Food Program (CACFP):** The model assumes participation in CACFP for all programs serving children with subsidies because it is a requirement for all providers participating in the District's child care subsidy program. The cost estimation model uses current CACFP reimbursement rates effective July 1, 2022.¹⁵ Revenue estimates reflect the estimated percentage of children who qualify for CACFP

¹⁴ OSSE, [FY22 Subsidy Reimbursement Rates](#).

¹⁵ OSSE, [Child and Adult Care Food Program \(CACFP\) Reimbursement Rates 2022-2023](#).

reimbursement under different scenarios. For slots covered by tuition, the model assumes there is no revenue from CACFP.

- **PKEEP:** Community-based child development facilities that participate in the PKEEP program commit to meet high-quality pre-K standards established in law and receive funding per PKEEP child equivalent to the District’s Uniform Per Student Funding Formula (UPSFF) funding levels provided to public schools. The cost estimation tool can model scenarios in which a provider participates in PKEEP; for the 2023 analysis, the USPFF revenue input was updated to reflect the 2022-23 school year rates for 3- and 4-year-olds, including at-risk funds allocated for PKEEP students in foster care, who are homeless, or receiving Temporary Assistance for Needy Families (TANF) or Supplemental Nutrition Assistance Program (SNAP) benefits, as well as subsidy reimbursement for before-and after-care for eligible children.
- **Other sources:** Some child care programs receive revenue from other sources, such as subsidies provided by employers (e.g., businesses and the federal government) on behalf of their employees, philanthropic grants, federal Head Start funding, or in-kind support from an affiliated institution (e.g., reduced rent for facilities operating in churches or synagogues). Because these revenue sources are not available to all facilities, they are not included in this cost modeling.

Sidebar 1: What Do District Families Pay for Child Care?

Child care is a major cost for DC families with young children. According to Child Care Aware of America, the average cost of child care in the District is higher than any other US state,^a and a recent study from the Urban Institute found 45 percent of DC families report challenges finding child care they can afford.^b

But what are District child care facilities actually charging families for child care? What is a typical high, average, or low price? To help families plan for child care costs and see how individual facility rates compare to District-wide rates, OSSE and P5FS surveyed child care providers about their tuition.

To show the variation in rates, tuition is reported at the 25th, 50th, and 75th percentile for infants, toddlers, and preschoolers. The 50th percentile is the median rate reported across all programs who responded to the question—meaning that half charge more and half charge less. The 25th percentile rate and the 75th percentile rate are higher than those charged by 25 percent and 75 percent of programs, respectively—meaning that half of providers charge rates between these two rates. Rates for out-of-school-time care are not included because relatively few providers shared this information. Rates are reported as daily and annual rates, to facilitate comparison with child care subsidy reimbursement rates, and as monthly rates, since most families pay for care on a monthly, rather than daily or annual, basis. Providers were requested to report their “list price” without including discounts offered for enrolling multiple children, due to employer subsidies, or for other reasons. Monthly and annual rates are rounded to the nearest dollar.

Child care centers and homes charge more to care for infants than toddlers and more for toddlers than preschoolers, but the differences in tuition are smaller than the differences in costs estimated by the cost modeling tool—suggesting that facilities earn relatively higher margins on care provided to preschoolers and use these funds to offset higher costs of infant and toddler care. On average, costs charged by homes are lower than those charged by centers, although the most expensive homes charge more than the lowest priced centers. As discussed further below, in many cases, tuition rates charged at the 25th and 50th percentiles are lower than the estimated per child costs to deliver care, while those at the 75th percentile and above are higher than projected per child costs, except for infants in child care centers.

Tuition rates charged to families by child development centers, by child age:^c

- **Infant** (under age 1):
 - 25th percentile: \$80 a day, \$1,733 a month, \$20,800 per year
 - 50th percentile: \$98 a day, \$2,123 a month, \$25,480 per year
 - 75th percentile: \$115 a day, \$2,492 a month, \$29,900 per year
- **Toddler** (12-30 months):
 - 25th percentile: \$80 a day, \$1,733 a month, \$20,800 per year
 - 50th percentile: \$90.12 a day, \$1,953 a month, \$23,431 per year
 - 75th percentile: \$111.40 a day, \$2,414 a month, \$28,963 per year
- **Preschooler** (30-60 months):
 - 25th percentile: \$56.41 a day, \$1,222 a month, \$14,665 per year
 - 50th percentile: \$78.50 a day, \$1,701 a month, \$20,410 per year
 - 75th percentile: \$100.91 a day, \$2,186 a month, \$26,235 per year

Tuition rates charged to families by child development homes/expanded homes, by child age:

- **Infant** (under age 1):
 - 25th percentile: \$75 a day, \$1,625 a month, \$19,500 per year
 - 50th percentile: \$80 a day, \$1,733 a month, \$20,800 per year
 - 75th percentile: \$85 a day, \$1,842 a month, \$22,100 per year
- **Toddler** (12-30 months):
 - 25th percentile: \$70 a day, \$1,517 a month, \$18,200 per year
 - 50th percentile: \$78.65 a day, \$1,704 a month, \$20,449 per year
 - 75th percentile: \$84.63 a day, \$1,834 a month, \$22,003 per year
- **Preschooler** (30-60 months):
 - 25th percentile: \$55.63 a day, \$1,205 a month, \$14,463 per year
 - 50th percentile: \$73.65 a day, \$1,596 a month, \$19,149 per year
 - 75th percentile: \$81.50 a day, \$1,733 a month, \$21,190 per year

a. Child Care Aware of America, [Demanding Change: Repairing our Child Care System](#) (2020).

b. Sandstrom, H., Kuhns, C., Casas, M., Lauderback, E., Bose, S., Hernandez-Lepe, F., a Greenberg, E., [What Were Parents' Experiences Searching for Child Care in the Wake of the Pandemic?](#) Urban Institute (November 2022)

c. The "toddler" rate is an average of rates charged for children ages 12-24 months and 24 to 30 months and the "preschooler" rate is an average of rates charged for children ages 30-48 months and 48 to 60 months.

Revenue Estimates

An analysis of the above revenue sources, including tuition, suggests that the projected costs to deliver child care are higher than the revenues available to facilities for many providers. With a few exceptions, estimated per child costs exceed subsidy rates paid to child care providers across age groups and providers. Estimated per-child costs also exceed the 50th percentile of tuition charged for most age groups. As a result, the cost estimation model further projects that, in many scenarios, providers are operating at a loss. Analysis of multiple scenarios, varied by tuition level and share of children receiving subsidy, found that only programs charging tuition at the 75th percentile or above operated above the profit margin (see Table 9).

Table 9. Estimated Annual Expenses and Revenues for Child Development Centers of Median Size Under Varying Revenue Scenarios

Revenue Source	Expenses	Collected Revenue From All Sources	Revenue Less Expenses	Revenue Less Expenses (%)
All subsidy (“Progressing” level)	\$1,375,600	\$976,000	\$399,600	-29.0%
All subsidy (“Quality” level)	\$1,375,600	\$1,077,600	\$298,000	-21.7%
All tuition – 25 th percentile	\$1,375,600	\$871,600	\$504,000	-36.3%
All tuition – 50 th percentile	\$1,375,600	\$1,099,000	\$276,600	-20.1%
All tuition – 75 th percentile	\$1,375,600	\$1,386,700	\$11,100	0.8%
Mix of subsidy at “Progressing” designation (50%) and tuition – 50 th percentile (50%)	\$1,375,600	\$1,037,462	\$338,100	-24.6%
<i>Cost and revenue estimates are based on child development center with 52 children. Collected revenue assumes 95% enrollment efficiency and 3% adjustment for bad debt. “Developing” projections are not included because of the small N-size of such centers.</i>				

This does not mean that a typical child development facility participating in the District’s child care subsidy program is losing \$300,000 to \$400,000 per year. If that were the case, many programs would not be able to remain in operation. As discussed previously, child care programs implement a variety of cost reduction strategies (such as sending staff home when children are absent, doubling up administrative tasks with other staff roles to reduce the number of administrative staff needed to operate or not offering employee benefits) that allow them to remain in operation but may not be sustainable for staff or the sector. Many programs also receive in-kind supports from an affiliated organization—such as a sponsoring employer or a religious congregation that allows a program to operate in a facility at a reduced or no rent—which lowers their costs. In addition, Mayor Bowser’s Access to Quality program, which funds construction and renovation projects to increase the supply of quality infant and toddler slots, has helped some child care providers access space at lower costs than they would otherwise pay, enabling them to focus resources on other priorities. Facilities

may also access other grant or philanthropic funding or additional programming to increase revenues, but these strategies may not be available or scalable for all facilities.

Over the past decade, the District has implemented multiple subsidy rate increases in an effort to support access, quality, and affordability of child care and furnish providers who participate in the subsidy program with sufficient revenues to cover their costs. In addition, the District has adopted policies, such as tiered subsidy rates tied to higher quality designations in Capital Quality, and programs, such as the QIN, SSBA, and PKEEP, that provide additional opportunities for child care providers to increase revenues in return for meeting higher quality standards or adopting business practices designed to enhance sustainability. Child care facilities with designations of “Quality” and “High-Quality” receive higher reimbursement levels, which reduce the gap between expenditures and revenue (relative to providers with a “Progressing” rating) but do not close it.

Programs that participate in additional programs, such as QIN and PKEEP, receive additional revenues but also have higher expenses and can still operate at a loss. To better understand the effects of these policies and programs on child care program sustainability, OSSE modeled a large program that participates in child care subsidies and benefits from revenue enhancing programs and policies by being a Level II provider, having a “High-Quality” designation, participating in PKEEP, and serving a combination of children who participate in subsidy and whose families pay private tuition. This program is projected to operate at a much smaller loss than the scenarios in Table 9 (see Table 10). This suggests that the policies and programs the District has put in place over the past decade to support the sustainability of child care programs are effective in increasing net provider revenues and financial well-being, yet additional supports may be necessary to keep pace with other factors increasing the costs to deliver care in the current economic climate.

Table 10. Estimated Annual Expenses and Revenues for Large Child Development Center with “High-Quality” Designation and Multiple Revenue Streams

Revenue Source	Expenses	Collected Revenue	Revenue Less Expenses	Revenue Less Expenses (%)
Subsidy – “High-Quality” level PKEEP tuition – 50 th percentile	\$1,938,000	\$1,805,400	\$132,600	-6.8%
<i>Cost and revenue estimates are for a large (94 children) child development center that participates in PKEEP and is a Level II subsidy provider. Tuition for private pay children (25 percent) is at the 50th percentile. Collected revenue assumes 95 percent enrollment efficiency and 3 percent adjustment for bad debt. The subsidy reimbursement rate is at the “High-Quality” level.</i>				

Modeling for child development homes project a more sustainable financial picture than those for centers, but child development homes and expanded homes may also operate at a loss if they only care for children receiving child care subsidies. Homes and expanded homes receiving revenues through tuition at the 50th and 75th percentiles are estimated to operate above the profit margin (see Table 11).

Table 11. Estimated Annual Expenses and Revenues for Child Development Homes and Child Development Expanded Homes

Revenue Source	Child Development Homes				Child Development Expanded Homes			
	Expenses	Collected Revenue	Revenue Less Expenses	Revenue Less Expenses (%)	Expenses	Collected Revenue	Revenue Less Expenses	Revenue Less Expenses (%)
All subsidy – “Progressing” level	\$105,800	\$87,700	-\$18,100	-17.1%	\$181,800	\$163,100	-\$18,700	-10.3%
All subsidy – “Quality” level	\$105,800	\$93,400	-\$12,400	-11.7%	\$181,800	\$174,600	\$7,200	-4.0%
All tuition – 25 th percentile	\$105,800	\$95,900	-\$9,900	-9.3%	\$181,800	\$192,500	\$10,700	5.9%
All tuition – 50 th percentile	\$105,800	\$113,600	\$7,700	7.3%	\$181,800	\$229,300	\$47,500	26.1%
All tuition – 75 th percentile	\$105,800	\$123,100	\$17,300	16.4%	\$181,800	\$246,700	\$64,900	35.7%
<i>Cost and revenue estimates are for a child development home caring for 6 children and expanded home caring for 12 children. Collected revenue assumes 95 percent enrollment efficiency and 3 percent adjustment for bad debt.</i>								

Implications for the Early Childhood Educator Pay Equity Fund in FY24

Beginning in FY24, which runs from October 1, 2023 through September 30, 2024, the District will implement a new revenue stream for child development facilities, the CDF payroll formula, created with funds allocated to the Early Childhood Educator Pay Equity Fund. Through this formula, child development facilities that enter into an agreement with OSSE to pay early childhood educators' wages or salaries that meet or exceed minimum salaries set by OSSE in accordance with DC Code § 4-410.02 will receive funding from OSSE to help cover these increased costs. In keeping with the recommendations of the Early Childhood Educator Equitable Compensation Task Force,¹⁶ funds will not be included in child care subsidy rates but will be distributed to participating providers using a separate formula (the CDF payroll formula), based on the number of eligible staff employed and other factors, including valid and reliable indicators of child, family, or community disadvantage and resources that direct more funding to facilities serving families and communities with fewer resources.¹⁷ These funds are not intended to replace existing funds used to pay child care staff but to supplement the funds that child development facilities receive from tuition or subsidies to increase staff compensation.

The following analysis projects systemwide costs to the District to distribute CDF payroll formula payments to all facilities eligible to participate in the Early Childhood Educator Pay Equity Fund based on the incremental difference between current average early educator compensation levels (as reported by child care operators in the 2022 DC Child Care Provider Survey and included in the cost estimation model) and minimum salaries for the Early Childhood Educator Pay Equity Fund (as established by OSSE in accordance with legislation).

Estimated Incremental Costs Due to Implementation of FY24 Minimum Early Childhood Educator Salaries

As of December 2022, there were a total of 3,508 lead teachers, assistant teachers, home caregivers, expanded home caregivers, and associate home caregivers with available credentialing data in OSSE's licensing data system, the Division of Early Learning Licensing Tool (DELLT, see Table 12). Based on this data, OSSE projected the cost of implementing the ECE salary scale in FY24. OSSE assumed current salaries of

¹⁶ Final Report of the Early Childhood Educator Equitable Compensation Task Force, lms.dccouncil.gov/downloads/LIMS/49122/Introduction/RC24-0154-Introduction.pdf, March 23, 2022.

¹⁷ Code of the District of Columbia, § 4-402 (c)(2), code.dccouncil.gov/us/dc/council/code/sections/4-402.

eligible staff consistent with salary assumptions in the cost model and calculated the difference between current salaries and the minimum salaries in the ECE salary scale, based on the credentials currently held by early childhood educators. Additionally, since funds from the Early Childhood Educator Pay Equity Fund will go to child development facilities in the form of a CDF payroll formula (and not direct payments to educators), OSSE calculated increased administrative costs for facilities at 15 percent of the wage supplement to cover increased mandatory payroll taxes (10.4 percent) and other potential cost increases for facilities (see Table 13).

Table 12. Projected Wage Supplement of Early Childhood Educators Based on Current Credentials Held as of December 2022

Role	Credentials	Number of Staff	Difference between current average salary and FY24 minimum salaries
Assistant Teacher or Associate Home Caregiver	Less than a CDA	958	\$2,329
	CDA	384	\$9,470
	Associate degree or higher	246	\$12,726
Lead Teacher, Home Caregiver or Expanded Home Caregiver	CDA	1,193	\$8,503
	Associate degree	464	\$18,079
	Bachelor’s degree or higher	263	\$29,344
Total		3,508	\$35,248,535

Table 13. Projected Incremental Cost Based on Difference Between Current Early Childhood Educator Salaries and FY24 ECE Salary Scale, Using Current Staff Credentials

Child Development Facility Payroll Formula Cost Driver	Projected Cost
Wage Supplement (Difference between current salaries and FY24 minimum salaries)	\$35,248,535
Administrative enhancement	\$5,287,280
Total	\$40,535,816

In December 2016, OSSE published updated [child care licensing regulations](#) that increased the minimum education requirements for the early childhood workforce. Effective, December 2, 2023, the following minimum education requirements will be required (see Table 14).

Table 14. Minimum Education Credential Requirements

Position	Minimum Education Credential Required
Center Director	Bachelor’s degree in early childhood education (including early childhood development, early childhood education, elementary education, or early special education) or a bachelor’s degree in any subject area with at least 15 semester credit hours in early childhood.
Teacher	Associate degree in early childhood education (or early childhood development, child and family studies, or a closely related field) or an associate degree (or higher) in any subject area with at least 24 semester credit hours in early childhood.
Assistant Teacher	CDA or an associate degree (or higher) in any subject area
Expanded Home Caregiver	Associate degree in early childhood education (or early childhood development, child and family studies or a closely related field) or an associate degree (or higher) in any subject area with at least 24 semester credit hours in early childhood.
Home Caregiver and Associate Home Caregiver	CDA

Because the minimum salaries required by the Early Childhood Educator Pay Equity Fund legislation increase with higher levels of staff credentials, for long-term forecasting purposes, it is important to understand what the costs for the Early Childhood Educator Pay Equity Fund will be when all early childhood educators meet the credential requirements that go into effect on December 2, 2023. In addition, the Child Care Study Act of 2017 (DC Code § 7-2011.03) requires OSSE to work with nationally recognized experts to assess the impact of new credential requirements on child care costs in the District. To address both needs, OSSE and P5FS modeled a scenario in which all current early childhood educators hold the minimum education requirement for their role (see Tables 15 and 16).

Table 15. Wage Supplement of Early Childhood Educators Based on December 2023 Minimum Education Requirements

Role	Credentials	Number of Staff	Difference between current average salary and FY24 minimum salaries
Assistant Teacher or Associate Home Caregiver	Less than a CDA	--	--
	CDA	1,342	\$9,470
	Associate degree or higher	246	\$12,726
Lead Teacher, Home Caregiver or Expanded Home Caregiver	CDA	42	\$8,503
	Associate degree	1,615	\$18,079
	Bachelor’s degree or higher	263	\$29,344
Total		3,508	\$53,111,040

Table 16. Projected Incremental Cost Based on Difference Between Current Early Childhood Educator Salaries and FY24 ECE Salary Scale, Using December 2023 Credential Requirements

Child Development Facility Payroll Formula Cost Driver	Projected Cost
Wage Supplement (difference between current salaries and FY24 minimum salaries)	\$53,111,040
Administrative enhancement	\$7,966,656
Total	\$61,077,696
<i>Difference from Projected Cost of FY24 ECE Salary Scale at Current Education Levels (modeled above)</i>	<i>\$20,541,881</i>

The incremental cost of new credential requirements, compared to the costs at current levels of staff credentials, is \$20.5 million per year. Costs are higher because the minimum salaries set in statute provide higher compensation for higher credentials. As a result, if all eligible child care facilities in the District choose to participate in the Early Childhood Educator Pay Equity Fund, the District will bear the full financial cost of increased credential requirements through the Early Childhood Educator Pay Equity Fund and avoid the need for child care providers to pass these costs along to families.

Without the Early Childhood Educator Pay Equity Fund, these costs would fall on child development facilities and families, but they would likely be lower. Without dedicated funding to cover higher staff salaries, child development facilities could not increase compensation for higher credentials by as much as the credential-based differentials in the minimum salaries set in statute. Further, the credentials required by OSSE licensing regulations are specific to early childhood education and may not significantly increase what staff who obtain them could earn in alternative jobs outside the child care sector. In that case, higher credentials would not significantly increase the competitive market wage for child care staff without government intervention to increase pay. National data on the wages and credentials of early childhood educators over the past two decades suggest the market impact of higher credentials on early childhood educator wages is often minimal.¹⁸

In sum, the estimated \$20.5 million annual cost to the Early Childhood Educator Pay Equity Fund from new credential requirements likely represents a reasonable, but upper bound, estimate of system-level costs due to new credential requirements.

¹⁸ Marcy Whitebook, Deborah Phillips, and Carollee Howes, *Worthy Work, Still Unlivable Wages: The Early Childhood Workforce 25 Years After the National Child Care Staffing Study*, CTR. FOR THE STUDY OF CHILD CARE EMP'T (Nov. 1, 2014) cscce.berkeley.edu/wp-content/uploads/publications/ReportFINAL.pdf; NAT'L ASS'N FOR THE EDUC. OF YOUNG CHILD., *Increasing Qualifications, Centering Equity: Experiences and Advice from Early Childhood Educators of Color* (2019) https://www.naeyc.org/sites/default/files/wysiwyg/user-74/increasing_qualifications_centering_equity.pdf; Maureen Coffey, *Still Underpaid and Unequal*, CTR. FOR AM. PROGRESS (July 19, 2022) <https://www.americanprogress.org/article/still-underpaid-and-unequal/>.

Estimated Costs of Equity Adjustments

The cost estimates presented in Tables 12-16 do not include the costs of the equity adjustment required by DC Code § 4-402(c)(2) to direct more resources to child development facilities serving children and families with fewer resources. Because the statute requires the equity adjustment to consider valid and reliable indicators of child, family, and community disadvantage, the exact costs of the equity adjustment will depend, in part, on characteristics of the individual facilities that choose to participate in the Early Childhood Educator Pay Equity Fund. Based on available data, OSSE projects that the system-wide costs of the equity adjustment will range from \$5.6-8.5 million in FY24 and will use this funding range as a benchmark in finalizing funding amounts associated with indicators included in the proposed CDF payroll formula. To the extent that child development facilities serving economically disadvantaged children and families receive more money as a result of the equity adjustment than they need to cover the difference between current staff compensation and minimum salaries required by statute, facilities may use these funds to further increase compensation for eligible early childhood educators, including costs associated with salary schedules that provide higher pay for staff with more years of experiences, to increase pay for other child care program staff, for other purposes that improve child care quality and services for children and families, or to reduce harmful practices like sending staff home without pay when attendance is low.

Other Costs Associated with the Early Childhood Educator Pay Equity Fund

The Early Childhood Educator Pay Equity Fund legislation only requires the CDF payroll formula to provide sufficient funds to cover costs associated with new minimum early childhood educator salary requirements and the required equity adjustment. However, fully realizing the goals of compensation equity for early childhood educators would entail additional costs.

For example, the DCPS salary schedule provides increased staff compensation for years of experience at each credential level. For purposes of this cost modeling analysis, OSSE has estimated only the costs to implement minimum salaries set in legislation and not the costs to further differentiate salaries based on years of experience. There are several reasons for this. First, the Early Childhood Educator Pay Equity Fund legislation does not require facilities that receive CDF payroll formula funds to pay higher salaries for staff with more years of experience. Second, OSSE does not have data on staff years of experience that would be needed to project costs to differentiate pay based on experience. Finally, given the projected costs simply to meet minimum salaries, after considering new credential requirements and the updated DCPS teacher salary scale, anticipated funding levels for the Early Childhood Educator Pay Equity Fund in FY24 and beyond are likely insufficient to sustainably cover the costs of incorporating experience differentials into the CDF payroll formula.

Non-pay benefits, such as health insurance coverage, are also an important part of equitable compensation. In FY23, OSSE and the DC Health Benefits Exchange Authority (HBX) collaborated to launch HealthCare4ChildCare, an innovative initiative that makes free or low-cost health care coverage available to child care workers who live in the District and non-District residents whose employers purchase coverage through the Exchange. As authorized by DC Code § 1-325.431(c), OSSE allocated \$18 million for HealthCare4ChildCare in FY23 and will continue directing Early Childhood Pay Equity Funds towards covering the health coverage costs of early childhood educators. In FY24, OSSE will work with HBX to project updated costs for the program based on utilization and anticipated need (including increased coverage needs due to

employees losing Medicaid coverage in FY24). In this analysis, OSSE uses the FY23 funding level as a placeholder for this cost analysis.

Table 17: Comprehensive Projected Costs to Implement the Early Childhood Educator Pay Equity Fund in FY24

Cost Driver	Cost (Current Credential Levels)	Cost (New Credentials Effective Dec. 2023)
Wage Supplement (Difference between current salaries and FY24 minimum salaries)	\$35,248,535	\$53,111,040
Administrative enhancement	\$5,287,280	\$7,966,656
Equity Adjustment	\$5,639,766	\$8,497,766
HealthCare4ChildCare	\$18,000,000	\$18,000,000
Total Projected Cost	\$64,175,581	\$87,575,463

Based on the above cost estimation and the FY24 funding level for the Early Childhood Educator Pay Equity Fund set in DC Code § 1-325.431(b), OSSE anticipates sufficient funding in FY24 to support implementation of the minimum early childhood educator salaries as updated by OSSE in accordance with legislation. We anticipate actual costs in the range of \$64-87 million given that the new credential requirements will not go into effect until late in the first quarter of FY24 and a considerable share of child care educators may qualify for waivers of the requirements based on continuous service or hardship.

Key Findings

Several key findings emerge from OSSE’s cost modeling of various scenarios with implications for child development facilities:

Serving infants and toddlers costs more than serving preschool and school-aged children: The costs of serving infant and toddlers are greatest compared to any other age group because more staff are required to meet ratio and group size requirements. Cost modeling finds the largest gap between costs and available revenues occurs in small centers that primarily serve infants and toddlers. Serving a mix of ages can spread fixed costs, making a facility more financially viable. However, the high percentages of preschool-aged children enrolled in school-based pre-K programs limits child care providers’ ability to spread fixed costs in this way, which increases the average cost to deliver care in the District. The costs to care for school-age children are lowest of any age group; increasing the number of school-aged slots available could help some child care providers increase overall sustainability while also helping meet families’ needs for before-and after-care for school-aged children.

Current projected operating costs are higher than both subsidy reimbursement rates and average tuition charged to families: For most ages and scenarios, the projected cost to deliver child care is higher than current subsidy reimbursement rates and exceeds the median tuition charged to private-pay families. Costs for many key inputs needed to deliver child care, particularly staff compensation, have increased in recent years, and neither subsidy reimbursement rates nor the tuition parents can afford to pay have kept pace. As noted above, child care providers may use a variety of revenue and cost saving strategies to balance their books, but this finding underscores the need for additional revenue streams, such as the Early Childhood Educator Pay Equity Fund, to enable a sustainable child care sector in the District. In addition, it may be necessary to increase reimbursement rates paid to child care subsidy providers, to the extent feasible given current funds available for the subsidy program.

Diversifying revenue sources increases financial sustainability: Programs that care for a mix of children receiving subsidies and paying through tuition have higher revenues and smaller projected operating losses than those who serve only children receiving subsidies; however, the extent to which this is true depends on the tuition that programs charge. Programs that charge tuition rates above the 75th percentile are likely operating at a profit—and, for those with the highest tuition rates, a potentially significant one. However, providers who serve families that cannot afford to charge the highest tuition rates may need to look at additional revenue sources. Participating in programs that provide access to additional funding streams, such as PKEEP, can increase program revenues. For programs that serve a mix of children who participate in subsidy and those who do not, increasing subsidy reimbursements could also increase revenues, and help to limit the need to increase parent tuition.

District and federal labor laws, including Paid Leave and the Fair Shot Minimum Wage Amendment of 2016, affect operating costs of child development facilities. Child development facilities must comply with all relevant labor laws. As required by DC Code § 4-410.01, OSSE considered payroll costs associated with implementation of applicable District and federal labor laws in developing this cost model and found that these laws contribute to increased costs to deliver child care. Effective January 1, 2023, the District’s living wage is \$16.50 per hour. Effective July 1, 2023, the District’s minimum wage and living wage will increase to

\$17.00. Any wages in the model that did not already exceed \$17.00 were increased to \$17.00 to account for this requirement. Additionally, District employers are required to pay for mandated benefits that increase staffing costs; while the most substantial of these benefits are federally mandated (e.g., employer contributions to payroll tax), others are set by District laws, such as the District's Paid Family Leave program. Currently, employers' mandatory payroll taxes are 10.4 percent. Because child care providers must maintain coverage levels when staff are on leave, the cost model includes substitute teachers as a cost to programs to account for the provision of paid sick and paid leave benefits, which further increases operating costs. It is important to consider the impact of District laws that affect all employers on costs to deliver child care.

Employer-paid benefits are a significant operating cost for child development facilities that offer them, and leveraging the DC Health Benefits Exchange can help reduce costs. The 2023 cost modeling analysis includes an estimate of health care costs based on employer costs to purchase employee coverage from HBX,¹⁹ plus an additional \$2,200 per full-time employee for additional discretionary benefits such as retirement. While the cost estimation model considers health coverage to be a cost for child development facilities, OSSE is currently partnering with HBX to subsidize the costs of coverage purchased by eligible child care employers and District residents working in child care through the HealthCare4ChildCare program.²⁰ Although this program has costs for the District, which were covered in FY23 by the Early Childhood Educator Pay Equity Fund, this investment both increases the number of child care staff covered by health insurance and helps reduce child care providers' cost to deliver child care by an estimated \$1,200 per child.

¹⁹ To calculate health care premiums, which are based on an individual's age, OSSE estimated an age breakdown of the child care workforce based on research on the number of years of experience early childhood educators in DC have.

²⁰ [HealthCare4ChildCare | DC Health Link](#)

Conclusion

Over the past two decades, the District has made significant strides to expand access to high-quality early learning for all District children by creating the nation's most expansive universal pre-k program and investing in child care for infants and toddlers. The District has taken a number of steps to increase the access, quality, and affordability of infant and toddler care, including: increases in child care subsidy reimbursement rates; the development and launch of Capital Quality to foster continuous improvement in early learning programs; the creation of the Quality Improvement Network to support quality early learning environments and comprehensive services for the District's most vulnerable children and families; and the Access to Quality program, which created 1,000 high-quality infant and toddler seats and reduces the costs of facilities for child care operators. During the COVID-19 pandemic, the District put additional strategies in place to weather the financial impacts of the pandemic and continue delivering quality services to children and families. With the implementation of the Early Childhood Educator Pay Equity Fund, the District is once again providing a national model of investment in early education. Cost modeling is an important tool that has supported the strategies the District has implemented to date—by using costs of care as the basis to increase subsidy rates in 2018, 2019, and 2021, and enabling the District to calculate funding needs to implement the Pay Equity Fund. In addition, cost modeling can help the District assess the impact of policies and programs on child care provider financial sustainability to inform future policies. This analysis shows that the strategies that the District has implemented over the past decade can help child care providers operate more sustainably and cover the costs of quality, but it also shows that, as a result of broader economic factors, costs to deliver child care are increasing. By providing a clear analysis of the factors that affect child care provider costs and revenues, this report will both support the implementation of the Pay Equity Fund in FY2024 and serve as a foundation for OSSE, child care providers, and other early learning stakeholders to work together to identify strategies to support sustainable child care businesses and further advance the supply, quality, and affordability of child care as the District moves through and beyond recovery from the COVID-19 pandemic.

Appendix

Appendix A. Center-based Assumptions

Assumed Cost Drivers	
Staffing Assumptions	<ul style="list-style-type: none"> • Adult to child ratio required by licensing standards. • Increased staff coverage during opening and closing (assuming a 10-hour day) and daily breaks. • Included a full-time director for facilities with 32 children or more and a part-time director for fewer than 32. Facilities with 94 or more children have a full-time assistant director. • Staff coverage to account for paid time to attend training, based on the District’s licensing requirements. • Additional staff (e.g., janitor, receptionist, office manager, assistant director) based on program size. Other additional staff can be modeled through selecting program enhancements (eligibility coordinator, family engagement specialist, coach and health care specialist).
Staff Compensation Assumptions	<ul style="list-style-type: none"> • Lead teachers’ salaries based on 2022 DC Child Care Provider Survey and assistant teachers’ salaries based on 2021 cost model for Quality-level salary. • Director and assistant salary based on BLS Occupational Employment Statistics Occupational Employment and Wage Estimates for the Metropolitan Washington Area. • Data inputs for additional staff wages are set based on BLS data for the Washington Metropolitan area for relevant occupational codes. • All staff wages are set to meet or exceed the DC minimum wage of \$17.00 in effect on July 1, 2023. • Employer paid benefits for all employees.
Non-Personnel Cost Assumptions	<p>The model incorporates non-personnel costs to operate, calculated as per child, per classroom or program costs, depending on the cost. Non-personnel costs are based on national industry norms and adjusted for the District where necessary for the following:</p> <ul style="list-style-type: none"> • <u>Per-child costs</u>: includes costs such as food, supplies, equipment and office costs. • <u>Per-classroom costs</u>: includes utilities, building insurance, maintenance, repair, cleaning and rent or lease costs.

	<ul style="list-style-type: none"> • <u>Program costs</u>: includes fixed costs that support the entire program such as telephone, internet, audit expenses and fees.
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Assumed Revenue Drivers	
Subsidy Reimbursement Rates	FY22 rates, effective Oct. 1, 2021.
CACFP Reimbursement Rates	The model assumes participation in CACFP for all programs serving children with subsidies, because this is a requirement of the District’s subsidy program. CACFP reimbursement rates were updated to reflect rates effective July 1, 2022.
Pre-K	Some scenarios reflect provider participation in PKEEP, in which providers receive funding equal to the District’s UPSFF per enrolled PKEEP student. The USPFF revenue input was updated to the 2022-23 school year rates for 3- and 4-year-olds, including at-risk funds allocated for PKEEP students in foster care, who are homeless, or on TANF or SNAP.
Private Pay Tuition	Based on 2022 DC Child Care Provider Survey.

Operating Assumptions	
Enrollment Efficiency	95 percent enrollment.
Uncollected Revenue	3 percent bad debt (proportion of revenue, e.g., tuition, fees and copayments, that is uncollectable), which is industry standard.

Appendix B. Home-based Assumptions

Assumed Cost Drivers	
Staffing and Compensation Assumptions	<ul style="list-style-type: none"> Child development home assumptions include a salary for the child development home provider. Expanded child development home assumptions include a salary for the expanded home provider and associate caregiver. Includes, if necessary, because of adult to child ratio, a floater/teacher aide wage.
Non-Personnel Cost Assumptions	<p>The model incorporates non-personnel costs to operate; calculated as per child, annual home operating or other direct costs, depending on the cost. Non-personnel costs are based on the national industry norms and adjusted for the District where necessary for the following:</p> <ul style="list-style-type: none"> <u>Per-child costs</u>: includes costs such as food, supplies, equipment and office supplies. <u>Annual home operating costs</u>: includes rent or mortgage, utilities, home or renter’s insurance and home maintenance and repairs. <u>Other annual direct costs</u>: includes telephone, internet, accountant or tax preparation and fees and permits.

Assumed Revenue Drivers	
Subsidy Reimbursement Rates	FY22 rates, effective Oct. 1, 2021.
CACFP Reimbursement Rates	All the scenarios modeled assume the provider participates in CACFP, because this is a requirement of the District’s subsidy program. CACFP reimbursement rates were updated to reflect rates effective July 1, 2022.
Private Pay Tuition	Estimate based on 2022 DC Child Care Provider Survey.

Operating Assumptions	
Enrollment Efficiency	95 percent enrollment.
Uncollected Revenue	3 percent bad debt (proportion of revenue, e.g., tuition, fees and copayments, that is uncollectable), which is industry standard.
Number of children	Six children enrolled in a child development home and 12 children enrolled in an expanded home.