Montgomery County Child Care Cost of Quality Study

Final Report

Presented to the Montgomery County Department of Health and Human Services

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BRODSKY
Research and Consulting
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The ECEI strategic plan was developed to shape the early care and education landscape within the system of program delivery through four elements: expansion, access and affordability, sustainability, and alignment.

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Executive Summary

A nuanced understanding of the costs of providing high-quality child care is essential for creating policies that increase families' access to care—especially care that meets families' needs and promotes children's healthy development. Research-informed cost estimates can also give providers of early care and education (ECE) and policymakers insight on the resources necessary for providers to transition to higher levels of quality and operate financially sustainable ECE programs.

To determine the cost of providing child care in Montgomery County, support ECE providers in their business operations, and inform policymaking, Montgomery County's Department of Health and Human Services contracted with Brodsky Research and Consulting (BRC) and its partner, School Readiness Consulting (SRC), to conduct the Montgomery County Cost of Quality Child Care Study. The study explored stakeholder perceptions regarding child care costs, affordability, and sustainability in the County; and provided estimates of the actual costs of providing child care in the County under different scenarios related to provider and child characteristics. Exhibit ES.1 summarizes the study's key research questions.

Exhibit ES.1. Topics and research questions for the Montgomery County Cost of Quality Child Care Study

Topic	Research questions
Contextual factors	What are the key economic, demographic, and policy factors affecting the cost, affordability, and sustainability of child care in Montgomery County, according to stakeholders?
Cost of quality child care	What is the estimated cost of providing child care at different levels of quality in Montgomery County? How does the estimated cost vary based on characteristics of ECE providers and children? How do costs vary based on different assumptions about staff compensation?

Topic	Research questions
Funding gaps	What gaps exist based on between the estimated cost of child care costs and current funding sources? How do these gaps affect ECE providers' business models? How do ECE providers currently manage funding gaps when they experience them?
Fiscal strategies	What fiscal strategies might the County adopt to increase access to affordable, high-quality, sustainable child care? In particular, how might the County help elevate the compensation of ECE program staff? How might the county blend funding streams to support a system of affordable, sustainable licensed child care?

To address the research questions, the study team completed three types of data collection and analysis: (1) focus groups and interviews with ECE providers, families, and key informants; (2) a survey of ECE providers, and (3) development of a child care cost model. The study's cost model is tailored to reflect local costs and standards for child care quality. The model estimates personnel and non-personnel costs for ECE providers of different types, sizes, and quality levels.

This report presents:

- Findings on stakeholders' perceptions of factors that affect child care costs, affordability, and sustainability in Montgomery County;
- Estimates of the cost of providing quality child care in the County at center- and home-based ECE providers, using a baseline scenario that describes a typical provider in the county;
- Cost estimates under alternative scenarios, such as increased wages for staff at ECE providers; and
- Recommendations and potential fiscal strategies for increasing access to quality child care and supporting the sustainability of ECE providers in the county.

A. Stakeholder perceptions of factors that affect child care costs, affordability, and sustainability

- ***Focus group participants and survey respondents highlighted how resources that ECE providers use to deliver child care have become more expensive.*** Most ECE providers responding to the survey indicated that costs have increased across all major categories over the past two years.

- ***Study participants noted several demographic patterns that may affect costs for ECE providers in Montgomery County***, including the county's relatively high proportions of (1) children with special needs and (2) children from families who are new arrivals to the United States or do not speak English as a first language. These patterns may influence the types and intensity of services that ECE providers must deliver to address the needs of enrolled children and families.

- ***Elevated standards for ECE providers, especially regarding credentials for teaching staff, create upward pressure on the cost of delivering care, according to stakeholders.*** The state's standards for high-quality early care and education, as outlined in the EXCELS framework and the Blueprint for Maryland's Future, set relatively high benchmarks for the professional credentialing of teaching staff at both centers and family child care homes.

- ***ECE providers generally set tuition to rates they believe local families can afford, rather than rates that cover the actual costs of providing care, according to focus group participants.*** Even so, some study participants noted that out-of-pocket costs for child care limit for many families in Montgomery County the options available—especially options for high-quality care.

- ***Although families who receive child care subsidies appreciate them, affording child care generally remains a challenge.*** Families often prioritize financial considerations in choosing an ECE provider, even if they must compromise on the quality of care.

B. The cost of providing quality child care in Montgomery County

The study's care cost model uses data-informed assumptions about enrollment, staffing levels, compensation and other factors to estimate the annual cost per child served,

considering the child's age and the provider's quality level, location, setting (center or home), size, and other factors.

The model also estimates expected revenues for providers, using assumptions about the mix of funding sources for enrolled children. These sources include private tuition paid by families, state and local child care subsidies—including the Maryland Child Care Scholarship Program (CCS) and Montgomery County's Working Parents Assistance Program (WPA) and EquiCare grant program—and the federal Child and Adult Care Food Program (CACFP). A provider's net revenue (profits or losses), and therefore its financial sustainability, is calculated as the difference between estimated costs and revenues.

To facilitate comparisons of estimated costs across provider types, quality levels, child ages, and other factors, the study team established baseline scenarios that describe a typical child care center or family child care home in Montgomery County. The study team used information from the provider survey, Montgomery County's child care licensing database, and other data sources to specify the characteristics of a typical provider, such as enrollment, staff positions, and revenue sources. Exhibit ES.2 summarizes the key parameters in the baseline scenarios.

It is important to recognize that the baseline cost estimates reflect current market wages for early childhood educators—and therefore a child care system that generally relies on a poorly compensated workforce. By and large, the market undervalues child care labor, resulting in wages that are lower than most other professions and often below the level required for self-sufficiency.

Exhibit ES.2. Baseline scenarios

Parameter	Centers	Family child care homes
Number of children enrolled	67 children: 6 infants (0-18 months), 9 young toddlers (18-24 months), 12 2-year-olds, and 40 3- or 4-year-olds	7 children: 1 infant (0-18 months), 1 young toddler (18-24 months), 2 2-year-olds, and 3 3- or 4-year-olds
Number of classrooms	5 classrooms: 1 for infants, 1 for young toddlers, 1 for 2-year-olds, 2 for 3- or 4-year-olds	Approximately 70 percent of owner's home used for child care
Days of operation per year	250	

Parameter	Centers	Family child care homes
Efficiency (percentage of slots filled)	85 percent	
Staffing[a]	1 director 1 office manager 5 lead teachers 6 teaching assistants 1 nurse (0.1 FTE)	1 owner/teacher
Wage standard	Market wages based on Bureau of Labor Statistics and Montgomery County Provider Survey data for each job category, adjusted for qualifications required at each quality level	
Revenue (percentage of enrolled children receiving funding from each source)	Private tuition: 85 percent Maryland Child Care Scholarship: 10 percent Montgomery County Working Parents' Assistance: 5 percent	

[a]The model includes an instructional coordinator for centers with over 100 children enrolled.
FTE = full-time equivalent

- ***Under the baseline scenario, the estimated annual cost to provide child care in Montgomery County ranges from $13,134 to $28,117 in centers and from $8,466 to $16,737 in family child care homes, depending on the age of the child and the provider's EXCEL rating.*** As shown in Exhibit ES.3, it is considerably more expensive to deliver child care for infants and toddlers than care for 3- and 4-year-olds, and costs for the highest quality care (based on EXCELS ratings) are 20 to 30 percent higher than for the lowest quality care.

Exhibit ES.3 Estimated annual cost per child, by child age and EXCELS level

Child age	EXCELS Level				
	1	2	3	4	5
Centers					
0-24 months	$23,370	$24,652	$25,870	$27,022	$28,117
2-year-olds	$16,058	$16,941	$17,759	$18,510	$19,205
3- and 4-year-olds	$13,134	$13,856	$14,514	$15,106	$15,641

Child age	EXCELS Level				
	1	2	3	4	5
FCC homes					
0-24 months	$12,693	$14,208	$14,884	$16,030	$16,737
2-year-olds	$10,159	$11,371	$11,912	$12,829	$13,394
3- and 4-year-olds	$8,466	$9,476	$9,927	$10,691	$11,162

- ***With EXCELS bonuses, the average Maryland CCS subsidy payment is sufficient to cover the estimated cost of providing high-quality child care (EXCELS Level 3 or higher) in Montgomery County.*** However, it is important to note that most children in care do not receive Maryland CCS subsidies. Median WPA program payments cover the cost of providing care for older children but are below the cost of care for infants and toddlers.

- ***Under the baseline scenario, an ECE provider's net revenue decreases substantially as its EXCELS level rises, as shown in Exhibits ES.4 and ES.5.*** These results indicate that providers whose primary revenue source is private tuition face strong financial disincentives to increasing their EXCELS quality rating and delivering higher quality care.

Exhibit ES.4. Estimated annual net revenue for centers under the baseline scenario, by EXCELS level

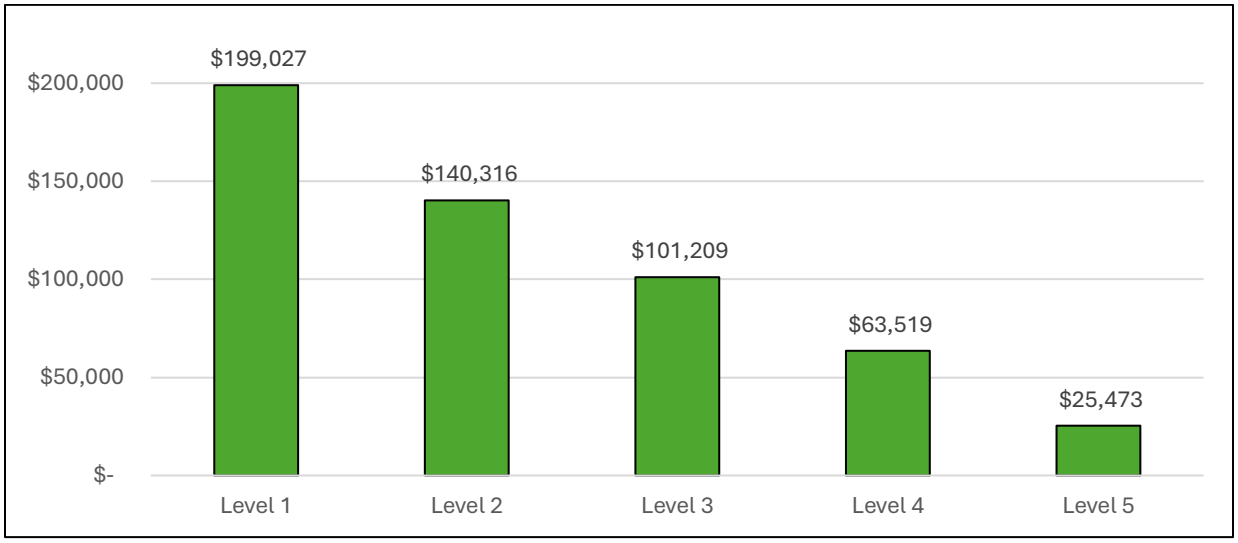
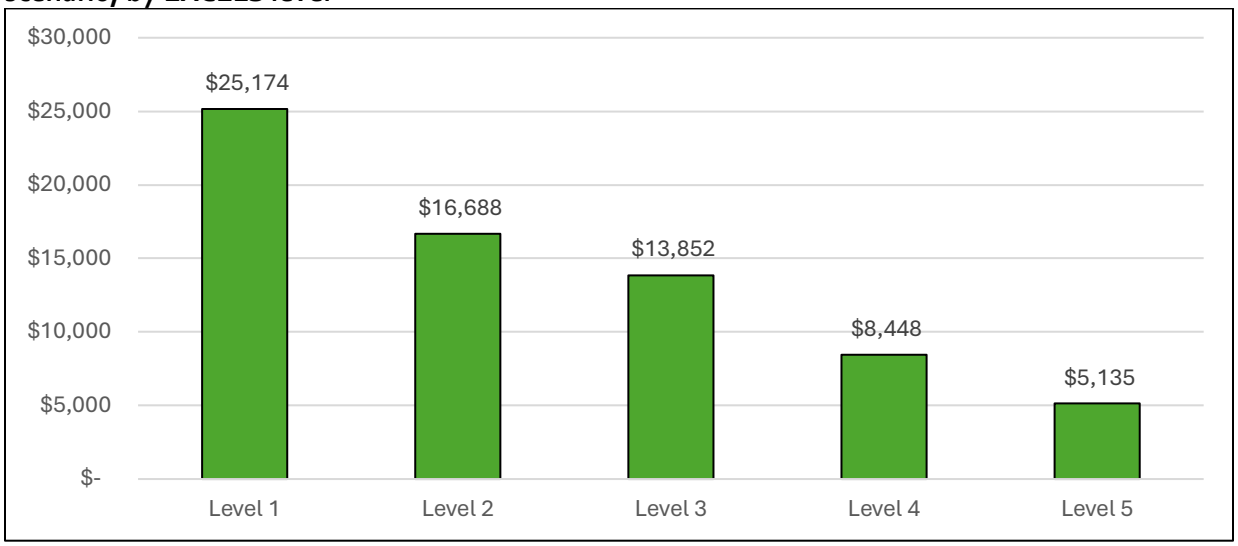


Exhibit ES.5. Estimated annual net revenue for family child care homes under the baseline scenario, by EXCELS level



C. Modeling ECE provider costs and revenues under alternative scenarios

The baseline scenario does not necessarily reflect the County's current and potential policy priorities, including: (1) achieving pay parity between community-based ECE professionals and teachers in public schools, and (2) increasing the availability of child care spaces for infants and toddlers. Such changes would have implications for provider expenses and revenues, affecting their financial sustainability. Modeling additional scenarios aligned with these priorities can help inform the County's decision making and identify the level of support that ECE providers may require to achieve these goals.

- ***Achieving pay parity between educators in community-based and public-school child care programs would require wage increases of up to 57% for community-based educators, creating significant financial challenges for ECE providers that employ them.*** Modeling shows that even incremental increases in wages lead to financial deficits for providers, especially at higher quality levels. Exhibits ES.6 and ES.7 present annual net revenue estimates when teaching staff salaries are increased so that the gap between market wages and pay parity wages is reduced by 50 percent.

Exhibit ES.6. Provider net revenue with increased salaries for teaching staff, by EXCELS level: Centers

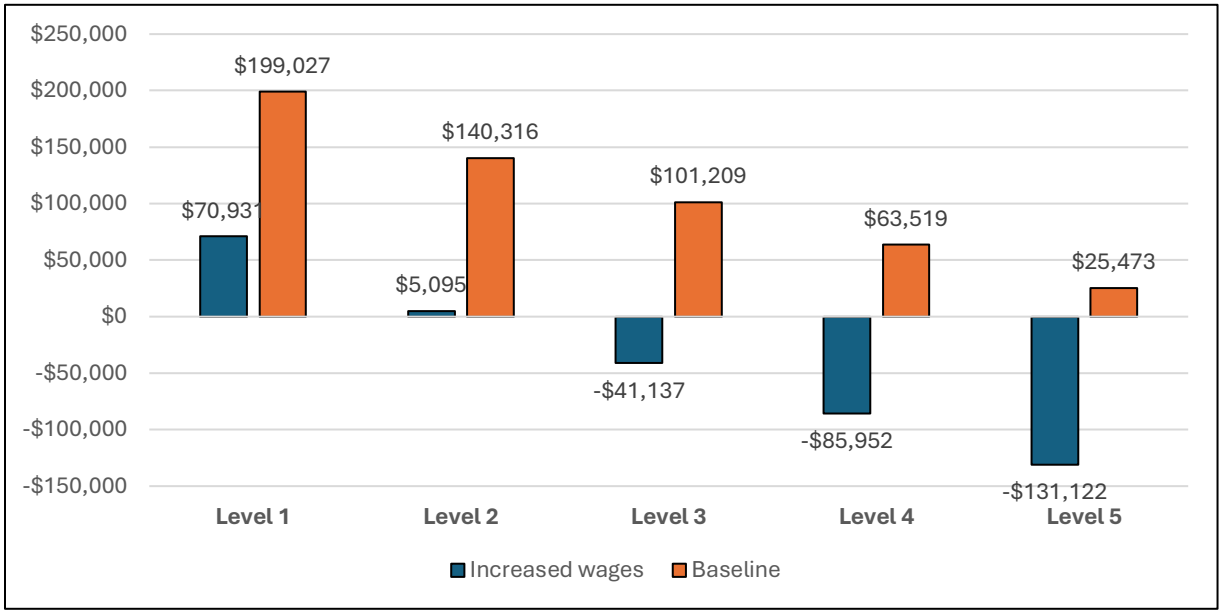
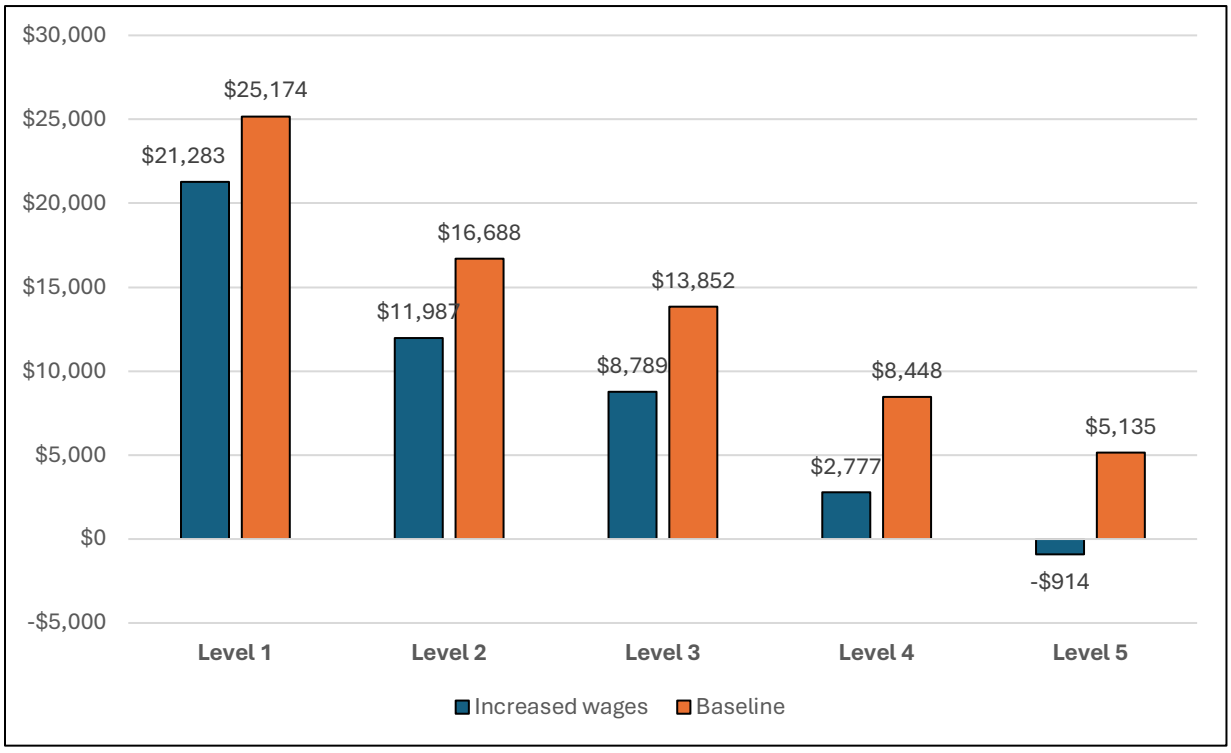


Exhibit ES.7. Provider net revenue with increased wages for teaching staff, by EXCELS level: Family child care homes



- ***Montgomery County faces a critical shortage of infant and toddler care, meeting only 17% of the demand for these age groups. Modeling an alternative scenario where providers add classrooms for infants and toddlers highlights how expanding slots for younger children reduces net revenue for providers at all quality levels.*** Providers adding infant and toddler slots can continue to make profits at lower quality levels, because market tuition rates roughly equal the cost to provide care at these levels, given current wage conditions. However, at higher quality levels, infant and toddler care is more expensive, and serving more infants and toddlers becomes financially burdensome for providers, resulting in a net loss at the highest quality levels

- ***Cost modeling indicates that increasing the enrollment of subsidy-eligible children significantly improves financial outcomes for higher-quality ECE providers.*** For example, raising subsidy participation from 10% to 25% of enrolled children boosts profits, particularly for higher quality providers. Expanding subsidy participation and aligning funding with provider costs are key to sustaining high-quality, equitable care. To illustrate the financial impact of enrolling subsidy-eligible children, we created an alternative scenario in which 25% (rather than 10%) of enrolled children receive the Maryland CCS subsidy. This change in revenue mix substantially increases the net revenue of higher-quality providers. For centers, Level 5 providers earn over $63,000 profit, compared to about $28,000 in the baseline scenario. For homes, Level 5 providers earn about $8,800 in profit, compared to $5,000 in the baseline scenario.

D. Recommendations

Analyses based on cost modeling suggest that action is required to help Montgomery County's ECE providers overcome the substantial financial challenges they face in offering high-quality care. We recommend several strategies that can help the County achieve three key goals for its ECE system: (1) ***expanding access to infant and toddler care***, (2) ***increasing the number and share of high-quality ECE providers in the system***, and (3) ***achieving pay parity for educators at community-based ECE providers***. In general, these strategies will require a commitment to additional public investment in the county's ECE system. Exhibit ES.8 summarizes the recommended strategies and the goals they support.

Exhibit ES.8. Recommended strategies and related goals

Strategies	Goals		
	Expand access to infant and toddler care	Increase share of high-quality providers	Pay parity for child care educators
Promote higher participation in subsidy programs among families and providers	✓	✓	
Adjust WPA payments to cover the cost of high-quality care	✓	✓	
Expand the EquiCare grant program	✓	✓	✓
Adopt a foundational funding approach for child care providers	✓	✓	✓
Develop a salary scale for community-based child care professionals			✓
Provide wage stipends and other benefits directly to community-based child care professionals			✓

Recommendation 1: Promote higher participation in existing subsidy and grant programs, especially Maryland CCS, among both families and ECE providers.

Because Maryland CCS subsidies cover the cost of providing care to infants and toddlers—and in some cases exceed it—the program offers a promising tool for encouraging ECE providers to expand their capacity to serve younger children. Montgomery County can promote increased family participation in Maryland CCS by expanding awareness of the subsidy program through improved outreach to families, actively communicating about opportunities to apply for child care assistance, and providing additional support for families navigating the application process. The County should also increase awareness of the opportunity to participate in Maryland CCS among Montgomery County ECE providers, focusing especially on family child care homes. This campaign should stress the opportunity to receive subsidy payments that cover the cost of providing care, especially for higher-quality providers.

Recommendation 2: Adjust subsidy payments from the County's WPA program so that they equal the estimated cost of delivering high-quality child care, include bonuses based on a provider's EXCELS rating, and minimize administrative burden for providers.

The County can use financial incentives embedded in its own subsidy program to support its goal of increasing equitable access to high-quality child care. To encourage

ECE providers to expand the number of child care slots available to children receiving subsidies, especially infants and toddlers, the County should adjust WPA subsidy payments to match the cost of serving children at different ages. The County should also implement WPA payment bonuses based on an ECE provider's EXCELS rating.

Recommendation 3: Expand the EquiCare grant program to serve more children and providers.

The EquiCare grant program offers a promising vehicle for expanding access to high-quality child care because (1) it focuses on infants and toddlers from lower-income families, (2) its payments not only cover the estimated cost of providing care in a higher-quality center but also provide for the administrative expenses associated with participating in the program, and (3) participating providers must have an EXCELS rating of Level 3 or higher. These features create strong incentives for providers to add slots for infants and toddlers, enroll children from qualifying families, and provide high-quality services. The County should build on this favorable model by increasing the program's funding and reach.

Recommendation 4: Offer contracts and grants that provide foundational funding to ECE providers

To supplement traditional per-child subsidies, Montgomery County should implement foundational contracts and grants tied to its goals for the local ECE system. Foundational funding generally takes the form of fixed payments provided through contracts or grants with ECE providers. It is intended to help solve problems, such as low pay for educators in child care programs, that result from the current financial structure of the child care market, including providers' reliance on private tuition.

Recommendation 5: Develop a local salary scale for teachers and other professionals working in community-based child care.

Montgomery County should clearly define its goals related to increased compensation for professionals in child care programs by developing a local salary scale. This tool would clearly define its goals related to increased compensation for early educators and establish a transparent standard for compensation of all staff employed by ECE providers. It should be designed to set clear expectations for minimum and maximum pay levels based on roles, qualifications, tenure, and other factors.

Recommendation 6: Implement an initiative to provide wage supplements and access to other benefits for teachers and other professionals in community-based child care.

Montgomery County can begin to quickly increase the compensation of community-based child care professionals by implementing a wage supplement program. Such programs pay a recurring stipend to child care workers. These supplements can be designed to begin closing the pay gap between educators in community-based and public-school child care programs by taking incremental steps toward pay parity.

I. Introduction and Study Overview

A nuanced understanding of the costs of providing high-quality child care is essential for creating policies that increase families' access to care—especially care that meets families' needs and promotes children's healthy development. Research-informed cost estimates can also give providers of early care and education (ECE) and policymakers insight on the resources necessary for providers to transition to higher levels of quality and operate financially sustainable ECE programs.

The mission of Montgomery County's Department of Health and Human Services (DHHS), Early Childhood Services (ECS) unit is to ensure that all children in the county have equal access to quality early care and education. As part of this commitment, ECS aims to promote the development and sustainability of affordable, accessible, and high-quality child care programs that meet the needs of families and children.

To ascertain the cost of providing child care in Montgomery County, support ECE providers in their business operations, and inform policymaking, ECS contracted with Brodsky Research and Consulting (BRC) and its partner, School Readiness Consulting (SRC), to conduct the Montgomery County Cost of Quality Child Care Study. The study included three main components:

(1) an exploration of stakeholder perceptions regarding child care costs, affordability, and sustainability in the County;
(2) estimation of the actual costs of providing child care in the County under different scenarios related to provider and child characteristics;
(3) development of an interactive cost modeling tool for use by licensed child care programs and other early care and education stakeholders in the County.

This report presents results from the first two components of the study, summarizing stakeholders' perspectives on child care costs and affordability and providing model-based estimates of the costs of delivering child care. In the remainder of this chapter, we describe the study's research questions, methods and data sources, and policy context.

A. Research questions

BRC and SRC designed the Cost of Quality Child Care Study in collaboration with ECS and the Cost of Quality Project Team, an advisory group comprised of representatives

of Montgomery County government agencies and state and local organizations in the early care and education sector. The study addresses research questions across four broad topics: (1) contextual factors that influence child care costs and affordability, (2) estimated costs for providing quality child care, (3) gaps between costs and funding for quality child care, and (4) actionable fiscal strategies to support high quality, sustainable child care. Exhibit I.1 presents the questions related to each topic.

Exhibit I.1. Study topics and research questions

Topic	Research questions
Contextual factors	What are the key economic, demographic, and policy factors affecting the cost, affordability, and sustainability of child care in Montgomery County, according to stakeholders?
Cost of quality child care	What is the estimated cost of providing child care at different levels of quality in Montgomery County? How does the estimated cost vary based on characteristics of ECE providers and children? How do costs vary based on different assumptions about staff compensation? What are the costs to ECE providers of securing and maintaining Maryland Accreditation?
Funding gaps	What gaps exist based on between the estimated cost of child care costs and current funding sources? How do these gaps affect ECE providers' business models? How do ECE providers currently manage funding gaps when they experience them?
Fiscal strategies	What fiscal strategies might the County adopt to increase access to affordable, high-quality, sustainable child care? In particular, how might the County help elevate the compensation of ECE program staff? How might the county blend funding streams to support a system of affordable, sustainable licensed child care?

B. Methods and data sources

To address the research questions, the study team completed three types of data collection and analysis: (1) focus groups and interviews with ECE providers, families, and key informants; (2) a survey of ECE providers, and (3) a child care cost model.

Focus groups and interviews. To better understand the perspectives of participants in the County's child care system, the team collected qualitative data by conducting focus groups with representatives of child care programs and enrolled families. The team completed a total of 10 focus groups; participants included 17 child care program staff members and 9 family members. Separate groups were organized and facilitated for center-based programs, family child care programs, and families. Participants represented programs of all quality ratings.

In addition, the team interviewed seven key informants representing local governments (the County and independent cities) and nonprofit organizations in the early care and education sector. Focus group and interview participants were identified and recruited with support from Montgomery County.

The study team analyzed data from the focus groups and interviews using a directed content analysis approach. In this analytic method, researchers use a predetermined framework to organize qualitative data, identify key themes, and articulate findings. The study's research questions provided the framework for analysis.

Provider survey. To gather data about program costs and business operations from a wide range of child care providers, in July 2024, BRC developed and fielded an online survey of all licensed providers in Montgomery County. The survey was administered in collaboration with The Reinvestment Fund.

The survey included questions on providers' characteristics, enrollment, staffing, and annual expenditures for personnel and non-personnel costs. The survey also asked providers to reflect on trends in operating costs and business challenges in recent years.

Using contact information for licensed child care providers provided by Montgomery County, the research team sent the survey to a total of 1,155 programs. A total of 294 providers responded to the survey, equivalent to a response rate of 25 percent. Survey

respondents included a mix of centers, family child care homes, large family child care homes, and letter of compliance providers.

Child care cost model. To estimate the per-child cost of delivering child care in Montgomery County, the research team developed a spreadsheet-based cost model tailored to reflect local costs and standards for child care quality. The cost model draws on previous research and a variety of secondary data sources, such as the Bureau of Labor Statistics' occupational employment and wage data, to estimate personnel and non-personnel costs for ECE providers of different types, sizes, and quality levels. The research team validated and adjusted secondary data using local fiscal data collected through the ECE provider survey.

The cost model provides estimates at both the provider and system levels under various scenarios and assumptions. Based on a selection of potential policy options and assumptions, including current or projected participation rates, distribution of quality levels, demand for child care, and other variables, the model estimates the total cost to provide care in the county and the cost to meet unmet need, considering current public funding.

The report's appendices provide additional details regarding primary data collection and analysis methods for the study, as well the data sources and methodology for the cost model.

C. Policy context

Several policies and programs supporting ECE in Maryland provide important context for the Cost of Quality Child Care Study and impetus for understanding the financial circumstances of ECE programs more deeply. These policies and programs include: (1) state and local child care subsidies, (2) Maryland's child care quality rating and accreditation program, (3) the expansion of pre-kindergarten programs in Maryland through the Blueprint for Maryland's Future, and (4) the action plan for Montgomery County's Early Care and Education Initiative.

State and local child care subsidy programs. The Maryland Child Care Scholarship (CCS) program provides subsidies to eligible families to help them pay for ECE. Parents must be working, in an approved training program, or in school to qualify. Families

must also meet income requirements (up to 75 percent of the state median income as of June 2022). ECE providers serving children enrolled in CCS are paid at the 70th percentile of the market rate for child care. Payment rates differ based on the type of provider, the age of the child, the region where the provider is located, and the required family copayment. Exhibit I.2 shows average CCS payments in Montgomery County (excluding increments for EXCELS quality ratings).

Exhibit I.2. Average weekly CCS payment rates in Montgomery County

Infant (birth to 24 months)		Child (age 2 and older)	
Family child care home	Center	Family child care home	Center
$325	$481	$300	$381

Source: Maryland State Department of Education

To supplement the financial support offered through Marlyand CCS, Montgomery County sponsors the Working Parents Assistance (WPA) child care subsidy program for eligible county residents. WPA offers subsidies to families of children up to age 13 (or age 19 for children with a disability) whose parents are working or in school. The program serves families whose incomes exceed the CCS eligibility requirements but are under established thresholds (approximately 80 percent of area median income). In addition, in contrast to CCS, WPA eligibility requirements do not address children's citizenship or immigration status.

Maryland EXCELS and accreditation. Licensed child care centers, registered family child care homes, and public pre-kindergarten (pre-K) programs can choose to participate in Maryland EXCELS, the state's quality rating and improvement system. EXCELS assigns a participating program a rating from 1 to 5 based on an established set of quality standards and best practices.[1] These standards are tailored to each child care setting. Benefits to ECE programs that choose to participate in Maryland EXCELS include increased subsidy payments; bonuses for quality improvement; access to technical assistance, peer support, and free training; as well as discounts from various vendors and organizations.

[1] A full description of the standards is available at: https://marylandexcels.org/commitment-to-quality/maryland-excels-standards/.

Child care centers, school-age child care programs, and public pre-K programs may also choose to purse Maryland Accreditation, which is offered by the Maryland Department of Education. This two-year process involves program self-assessments, a program improvement plan, a validation and evaluation visit, and optional technical assistance. Programs that complete accreditation retain it for five years and are eligible for an EXCELS 5 rating, higher EXCELS payments, and other benefits. Family child care providers may pursue accreditation through the National Association for Family Child Care.

The Blueprint for Maryland's Future and expansion of public pre-K. In 2021, the Maryland General Assembly adopted the Blueprint for Maryland's Future, a 10-year funding and policy framework intended to improve public education in the state, with an emphasis on equity. Increasing access to early education, especially through expansion of publicly funded pre-K, is one of the Blueprint's pillars. The Blueprint also emphasizes quality standards for providers, including high staff qualifications through state certification or other credentials. Although the pre-K expansion and CCS programs are administered separately, some child care providers participate in both, and the Blueprint's focus on quality standards for pre-K has general implications for the early care and education system in the County and state.

The Montgomery County ECE Initiative Action Plan. Within Montgomery County, current priorities for the ECE sector are articulated within the ECE Initiative Action Plan for fiscal years 2024-2027. This plan—created by an interagency workgroup including representatives of the County Executive, County Council, Montgomery County Public Schools, and Montgomery College—establishes goals and implementation plans for strengthening early care and education locally, with an emphasis on serving children with special needs, cultural diversity, and equity. The plan's priorities include securing long-term, stable funding for the ECE system; building the ECE workforce and achieving compensation parity with public schools; strengthening early intervention services and family, friend, and neighbor care; supporting program expansion by creating an ECE facilities fund; and increasing the number of community-based pre-K seats.

D. Organization of this report

The remainder of this report is organized broadly by research topic. Chapter 2 presents findings on stakeholders' perceptions of factors that affect child care costs and sustainability in Montgomery County. Chapter 3 presents estimates of the cost of providing quality child care in the County for center- and home-based ECE providers, using a baseline scenario that describes a typical provider in the County. Chapter 4 explores costs under alternative scenarios, such as increased wages for ECE professionals. Finally, in Chapter 5, the report offers recommendations and potential fiscal strategies for increasing access to quality child care and supporting the sustainability of ECE programs in the County.

II. Stakeholder Perspectives on Child Care Costs, Affordability, and Funding in Montgomery County

The experiences and perspectives of local ECE providers, families, and policymakers can help illuminate opportunities to promote a high-quality child-care system. This chapter reports key findings about Montgomery County stakeholders' views on a range of issues related to the cost of child care. Findings address (1) the contextual factors that may influence the cost of care; (2) child care pricing and affordability; and (3) ECE provider strategies for addressing funding gaps they may experience.

To the extent possible, the report notes where perspectives vary among different groups of stakeholders. Among providers, for example, such characteristics as provider type (center or family child care home), size, and whether a provider operates independently or part of a network may affect experiences in the child care market—and providers' outlook on issues related to child care costs and sustainability.

A. Contextual factors that influence the cost of care

A variety of factors have intensified cost pressures for ECE providers in Montgomery County in recent years, according to provider staff and other stakeholders. Participants in this study noted economic, demographic, and policy trends that they believe affect the cost and affordability of child care locally, including: (1) increasing prices and wages, (2) relatively high proportions of children and families with elevated needs, and (3) rising professional requirements for staff in ECE programs.

1. Increasing prices and wages

- ***Montgomery County, like the rest of the United States, has experienced increased prices for various goods and services in recent years. Focus group participants and survey respondents highlighted how resources that ECE providers use to deliver child care have become more expensive.***

One indicator of rising costs in the county is the change in the self-sufficiency standard, which specifies the income required to meet a working family's basic needs—including housing, food, health care, child care, transportation, and other necessities—in a locality. According to estimates released by Montgomery County's Community Action

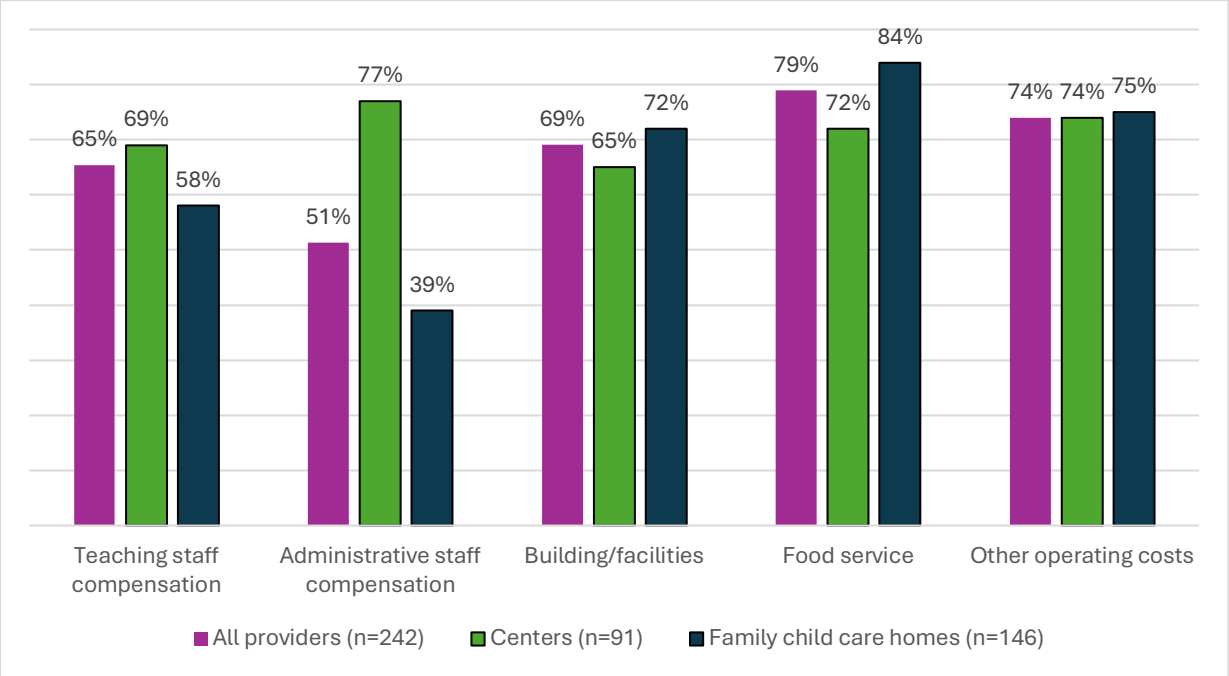
Agency, the self-sufficiency standard for a Montgomery County family of four with two adults, one preschooler, and one school-age child has increased over 26% since 2019.[2]

In focus groups for the Cost of Quality Child Care study, representatives of ECE providers noted the operational challenges that increasing costs create. In particular, participants mentioned the escalating salaries and benefits required to attract and retain staff. One participant, describing efforts to hire staff, noted that "people come to the interviews…asking for $20, $22, $23 an hour"—even though Montgomery County's minimum wage is as low as $15.50 per hour for mid-sized employers. This circumstance creates difficulties for programs that need additional staff members but cannot afford to pay higher wages.

Responses to the provider survey confirm that many are experiencing increased costs. As shown in Exhibit II.1, most ECE providers responding to the survey indicated that costs have increased across all major categories over the past two years. By and large, similar proportions of centers and family child care homes reported increased costs. The category of administrative staff compensation was an exception to this pattern. For this category, centers were about twice as likely to report increased costs compared to family child care homes, which are unlikely to have staff and other resources dedicated specifically to administrative functions.

[2] Brolliar, Sarah, Annie Kucklick, and Lisa Manzer. *The Self-Sufficiency Standard for Montgomery County, Maryland 2023.* Seattle, WA: Center for Women's Welfare, University of Washington School of Social Work, September 2023. Available at: https://www.montgomerycountymd.gov/HHS-Program/Resources/Files/MDMontCo2023_SSS.pdf.

Exhibit II.1. Percentage of child care providers reporting that costs have increased over the past two years



Source: Montgomery County Child Care Provider Survey, July 2024

2. Demographic trends

- ***Study participants noted several demographic patterns that may affect costs for ECE providers in Montgomery County, including the county's relatively high proportions of (1) children with special needs and (2) children from families who are new arrivals to the United States or do not speak English as a first language. These patterns may influence the types and intensity of services that ECE providers must deliver to address the needs of enrolled children and families.***

Analyses of community data support participants' observations regarding the demographics of Montgomery County's children and families. According to the Maryland State Department of Education, the percentage of students with identified disabilities in Montgomery County Public Schools (13.3% in the 2021-22 school year) exceeds the statewide average (12%).[3] Among young children, there were over 1,500

[3] Maryland State Department of Education. "Data Deep Dive: Students with Disabilities." Presentation to the Maryland State Board of Education, February 28, 2023. Available at:

public preschool students with disabilities in 2021-22, and over 5,400 infants and toddlers received early childhood intervention services through the Montgomery County Infants and Toddlers Program in 2022.[4] Supporting children with disabilities in ECE settings may require additional resources to fund increased classroom staffing, individualized equipment or materials, and supplementary teacher training.

Data on the national origin of Montgomery County residents confirm that the county population includes a high percentage of immigrants who come from a wide variety of geographic, racial, and linguistic backgrounds. A recent needs assessment reported that over 32% of the county's population is foreign born (compared to about 15% of the statewide population), and nearly 15% of residents have limited English proficiency.[5] Among children under age five, 58% live in families where one or more parents speaks a language other than English, according to analyses by the Reinvestment Fund.[6] Providing ECE that is accessible to families who are "new arrivals" may demand targeted recruitment of staff who are linguistically and culturally competent. According to stakeholders, programs may also need to invest staff time to support eligible families in navigating applications for child care benefits, including securing appropriate documentation.

Focus group participants noted that community-based ECE providers find it challenging to serve children with elevate needs because they are not always able to make the investments they feel are necessary. It may be especially difficult for family child care homes, which generally have few staff and limited budgets, to do so. As one staff member commented, "We are not addressing their developmental needs

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https://marylandpublicschools.org/stateboard/Documents/2023/0228/DeepDiveStudentsWithDisabilitiesPart2.pdf

[4] Horned Owl Analytics. "Well-being of Montgomery County's Youngest Children: White Paper for the Children's Opportunity Alliance." Rockville, MD: Children's Opportunity Alliance, May 2023. Available at: https://mocochildren.org/data.

[5] Montgomery County Community Action Agency. *2022-2025 Community Needs Assessment.* Rockville, MD: Montgomery County Department of Health and Human Services, April 2023. Available at: https://www.montgomerycountymd.gov/HHS-Program/Resources/Files/CNA%20Report%202023_April%2027.pdf

[6] Reinvestment Fund. *The State of Supply and Demand for Childcare in Montgomery County, Maryland.* Philadelphia, PA: Reinvestment Fund, 2024.

adequately because we don't have the resources.… It is a constant concern that despite everything we're trying to do, we're still not doing right by these children…."

3. Professional requirements for ECE providers

- ***Elevated standards for ECE providers, especially regarding credentials for teaching staff, create upward pressure on the cost of delivering care, according to stakeholders. The state's standards for high-quality early care and education, as outlined in the EXCELS framework and the Blueprint for Maryland's Future, set relatively high benchmarks for the professional credentialing of teaching staff at both centers and family child care homes.***

Professional credentialing creates costs for ECE providers and staff members due to the tuition and fees for required courses and the time necessary for staff members to attend them. In addition, professionals with these qualifications generally are paid higher wages. Moreover, participants in focus groups and interviews noted that the local hiring pool for ECE professionals with higher credential levels is smaller than for uncredentialed staff, which creates further upward pressure on wages. (Provider staff in focus groups also noted that it can be especially challenging for staff who speak a language other than English to secure professional credentials, as the required courses are often available only in English.) Additional requirements associated with child care quality standards, such as ratios, curriculum, learning materials, and ongoing training, can also drive up the cost of providing high-quality care.

B. Child care pricing and affordability

- ***ECE providers generally set tuition to rates they believe local families can afford, rather than rates that cover the actual costs of providing care, according to focus group participants. Even so, some participants noted that out-of-pocket costs for child care limit for many families in Montgomery County the options available—especially options for high-quality care.***

Staff from both home- and center-based ECE providers reported in focus groups that that they set tuition rates in response to highly local markets. Their primary concern is their need to be competitive with nearby programs and aligned with the ability of local families to pay tuition. As such, geographic location plays a crucial role in determining

tuition levels, regardless of the quality of services provided or the actual cost of providing care.

Focus group participants shared various ways that ECE providers emphasize competitiveness in the market rather than the true cost of delivering services in setting tuition rates. For example, one staff member at a center noted that their program "looked at all the families in the neighborhood around the other centers. So, we tried to make sure that we were competitive with other programs, and I think that's really what we base on. Really, the demographics of the families and the needs of the families…. [W]e would love to base it on paying teachers and everything like that, but that's not a real world we live in."

Staff at family child care homes highlighted the flexibility required to stay competitive, such as allowing summer breaks, providing flexible or part-time hours of care, or working with families who are late on payments. A staff member from a home-based program explained, "In my area, honestly, they don't pay that much…. I can't charge $400; I can't go more than that because after I go more than that they don't want to sign up for my daycare." Another FCC provider staff member shared that this tradeoff "is hard but sometimes we don't have any choice."

- ***Although families who receive child care subsidies appreciate them, affording child care generally remains a challenge. Families often prioritize financial considerations in choosing an ECE provider, even if they must compromise on the quality of care.***

In Montgomery County, the high cost of child care constrains the choices available to lower and middle-income families. As one parent from a center-based program expressed, "Obviously, the quality is important, but if you don't have the money to pay more, well you cannot choose this program." Families participating in the focus groups reported that they find it difficult to find affordable care, and that many eligible families are unaware of subsidy programs.

Many families reported that factors such as location, transportation, and hours of operation dictate their child care choices. One interviewee noted that, "[b]asically, if you work nontraditional hours you rely on family, friend, and neighbor care. Informal kinship care arrangement is the only option. It is an ecosystem that can be challenging

to figure out how to make it all work. It is harder for those with less robust social networks." Few licensed providers offer extended hours.

Families with children who have special needs face a very narrow range of suitable ECE provider options and struggle to find inclusive programs, according to interviewees. Similarly, families with infants encounter long waiting lists due to the scarcity of available spaces, as well as higher tuition costs. Parents and providers in focus groups noted that a one-year wait was not out of the ordinary. Interviewees commented that linguistic and cultural preferences also can affect parents' perceptions of ECE accessibility. For instance, parents may want their children to be able to communicate with teachers in their home language, but providers with staff who speak this language may be scarce.

- ***In general, provider staff participating in focus groups perceived limited financial advantage to pursuing accreditation for their programs. Nevertheless, some programs do become accredited because of the opportunity to secure higher EXCEL ratings, the availability of state funding to help cover the costs of becoming accredited, and the perception that parents may be paying more attention to indicators of quality than in the past.***

Child care centers in Maryland can secure accreditation through the Maryland Accreditation program or another approved agency, such as the National Association for the Education of Young Children (NAEYC). Family child care homes can seek accreditation through the National Association of Family Child Care (NAFCC).

ECE provider staff in focus groups considered accreditation to be closely linked with EXCELS participation. Focus group members recognized that accreditation and EXCELS can be valuable tools for raising the quality of child care. However, focus groups members emphasized the time and effort required to become accredited or to participate in EXCELS, and they were mixed in their opinions about whether the additional time and effort was worthwhile.

Some focus group participants who had experience with accreditation and EXCELS participation viewed these efforts positively. As one participant noted, "Accreditation is a lot of work, but it makes you grow professionally. It makes you a better person; it makes you a better provider." Regarding EXCELS participation, another provider

commented, "You have to put your time to it. It's not easy because what they're doing is they're putting up the bar for everybody to [provide] quality…. Yes, it's a pain. My papers get rejected like four or five times before I move. [But] there are people there that help you. You just need to make the time and do the homework."

ECE providers were motivated to pursue accreditation because of its tie to higher EXCEL ratings and higher subsidy reimbursement rates. As one noted, "We want to get…a higher level, you can get more money. That is the purpose why we do that." Despite the effort and expense involved in becoming accredited, providers do not always see significant financial returns, however. Provider staff in focus groups explained that they cannot charge more for being accredited, though they do use accreditation to market their programs as high quality. Although many families are not aware of EXCELS, or they prioritize cost over quality ratings, one family child care provider observed that EXCELS is slowly gaining traction among parents: "The people who say I found you in EXCELS, and I liked it because you had a credential... now people are understanding. They are moving to another level [of understanding]."

Although some focus group participants noted that their centers benefited from state funding to help cover the costs of accreditation, several shared concerns about the cost of meeting staff education requirements, especially if public funding for credentialing and training were limited. Some providers help their staff cover these costs, while others require staff to bear the financial burden of securing additional credentials themselves.

C. ECE provider responses to funding gaps

- ***A large proportion of ECE providers report experiencing financial strain as they attempt to deliver quality care with limited funding. As one focus group participant explained, providers "want to get to quality, want to do more than just the bare minimum" but feel they are "squeezed from all sides."***

Focus group participants cited several ways that funding gaps limit the ability of ECE providers to address the needs of their staff. For example, providers may be unable to pay wages that meet self-sufficiency standards, offer benefits that promote staff well being, invest in training and materials, or hire enough staff to allow professionals in the classroom to have adequate planning and break times. As one interviewee put it, "We

have not found an effective way to mitigate [the gap between revenues and costs] because the cost of staff and meeting ratios and having credentials and compliance for child care centers to pass inspections—it comes at a price." Staff members noted that their programs are further burdened with the challenge of serving children with special needs with limited additional funding allocated for this population.

Responses to the provider survey suggest that a substantial minority of providers have concerns about the financial viability of their businesses. Providers were asked how strongly they agree with the statement, "My child care business is financially stable." As shown in Exhibit II.1, one-third of respondents disagreed or strongly disagreed with the statement. Among all providers, about 39 percent agreed or strongly agreed that their child care businesses are financially stable. Respondents from child care homes were less likely than those from centers to feel this way (33 percent of homes, compared to 38 percent of centers).

Exhibit II.1. How strongly would you agree with this statement: "My child care business is financially stable"?

Source: Montgomery County Child Care Provider Survey, July 2024

- ***ECE providers address funding gaps in various ways, including enrolling large proportions of families who can pay private tuition and setting tuition levels that allow slots for older children to help subsidize the higher cost of providing care to younger children. Other strategies for making ends meet include limiting directors' compensation and offering services in addition to child care.***

In focus groups, some ECE provider staff said they pursue elevated levels of private-pay enrollment if they are located in areas with parents who can pay relatively high tuition rates. Some programs that serve both older and younger children do not fully discount tuition for older children to reflect the lower costs of providing care for this group compared to infants and toddlers. In effect, fees for preschoolers then subsidize the higher costs of providing care to infants and toddlers.

Other providers—particularly small, independent centers and family child care homes—might limit directors' pay in order to cover other costs. Many centers, regardless of size, must keep their staff compensation low to cover other, non-negotiable costs, such as facilities rental and food purchases. Providers also work to seek grants, incentives, and other temporary sources of funding.

Another strategy ECE providers use to make ends meet, according to focus group participants, is to offer additional services. Centers with commercial kitchens sometimes cook for other centers to generate additional income. Providers with sufficient capacity can offer extended day programs for older children to help subsidize the costs of child care for younger children. Some centers with multiple locations rely on more profitable sites to support those that are less financially stable. Family child care providers, on the other hand, often become more flexible than they would like with families to keep their businesses afloat, keeping rates artificially low to remain competitive. Despite these strategies, providers generally feel that inadequate funding and support hinder their ability to offer high-quality care.

- ***Public child care subsidies and assistance programs play a critical role in supporting the child care system in Montgomery County, but providers and families perceive administrative challenges to participating in these programs.***

Subsidies offered through state and county programs offer substantial support to help participating families cover child care costs. However, in focus groups, provider staff reported that challenges with subsidy administration can create strain for providers and families. Processing mistakes or delays may require families to pay tuition out of pocket temporarily, and the administrative burden on providers and families can be high—although some providers reported that the state's online portal has improved processes.

Middle-income families may be ineligible for subsidies but still find it difficult to pay for child care, according to focus group participants. As one staff member from a center-based provider noted, “There is a whole swath of families in the middle who are quickly becoming, if not already, unable to afford programming.” A center family echoed this sentiment, saying, “I think if you're making the median income in Montgomery County, I don't know how you would afford full-time childcare.”

In focus groups, ECE provider staff also shared their thoughts about Montgomery County’s EquiCare grant program. Families and provider staff noted the positive effects of the EquiCare grant’s relatively generous payments. However, some expressed concern about the program’s limitation to children ages 3 and younger. They worried that families must scramble to find care once their child is no longer eligible, and programs must fill resulting vacancies if families cannot afford the program tuition.

III. The Cost of Providing Quality Child Care in Montgomery County

To estimate the cost of providing child care in Montgomery County, we developed a spreadsheet-based financial model. Drawing on well-established methods for cost analysis, the model builds up an estimate of service delivery costs by identifying the key types and quantities of resources required to provide child care, assigning an estimated dollar value to these resources, and summing across those values. Based on these calculations and data-informed assumptions about enrollment, staffing levels, compensation and other factors, the model estimates the annual cost per child served, considering the child's age and the provider's quality level, location, setting (center or home), size, and other factors.[7]

The model also estimates expected revenues for providers, using assumptions about the mix of funding sources for enrolled children. These sources include private tuition paid by families, state and local child care subsidies—including the Maryland Child Care Scholarship Program (CCS) and Montgomery County's Working Parents Assistance Program (WPA)—and the federal Child and Adult Care Food Program (CACFP). A provider's net revenue (profits or losses), and therefore its financial sustainability, is calculated as the difference between estimated costs and revenues.

In this chapter, we first provide an overview of the cost modeling approach. We then describe estimated costs for center- and home-based child care in Montgomery County using a baseline scenario that reflects key features of a typical child care provider. Finally, we present an estimate of the total cost for delivering child care to children through age 4 in Montgomery County, based on the overall demand for care, expected participation rates, and estimated costs per child.

It is important to recognize that the baseline cost estimates presented in this chapter reflect current market wages for early childhood educators—and therefore a child care system that generally relies on a poorly compensated workforce. By and large, the market undervalues child care labor, resulting in wages that are lower than most other

[7] For an example of accepted methods for cost analysis and modeling, see: Gonzalez, Katie, Julia B. Isaacs, Pia Caronongan, Peter Willenborg, and Lynn A. Karoly. 2022. *Approaches to Narrow Cost Analysis: A Report for CCDF Lead Agencies.* OPRE Report #2022-278. Washington, DC: Urban Institute. Available at: https://acf.gov/sites/default/files/documents/opre/approaches_to_narrow_cost_analysis_dec2022.pdf.

professions and often below the level required for self-sufficiency. A recent national study of the ECE workforce found that wages for child care workers are lower than 97 percent of all other occupations, and that 43 percent of child care workers' families rely on some form of public assistance.[8] Data from the Montgomery County Provider Survey and the U.S. Bureau of Labor Statistics indicate that the average wage for a child care worker in the county is approximately $18 per hour, below the local self-sufficiency standard for a household of any size.[9]

In Chapter IV, we present cost estimates using alternative standards for the compensation of teaching staff in ECE programs.

A. Cost model design and baseline scenarios

1. Cost categories and estimation methods

The financial model includes two broad categories of costs: personnel and non-personnel expenses. Personnel expenses, which include staff salaries, wages, and benefits, are the primary driver of child care costs and typically comprise 75 to 85 percent of a provider's total expenditures. Importantly, the model also estimates personnel costs beyond salaries and benefits, such as costs for professional development (for staff training and credentialing that are likely to be required at increased levels of quality) and staff turnover, which tends to be high in child care businesses.

Non-personnel costs include facilities and maintenance, educational materials and supplies, food, and other operational expenses. Exhibit III.1 summarizes the types of costs included in the model and our general approach to estimating them. (The Technical Appendix provides additional detail about the model's parameters, estimation methods, and data sources.)

[8] Center for the Study of Child Care Employment. 2024. *Early Childhood Workforce Index 2024*. Berkeley, CA: Center for the Study of Child Care Employment, University of California, Berkeley. Available at: https://cscce.berkeley.edu/workforce-index-2024/#report

[9] For details on the self-sufficiency standard for Montgomery County, see:

Exhibit III.1. Cost categories and estimation methods

Cost category	Estimation method and key assumptions
Personnel costs	
Wages and salaries	Set at current market rates (or alternative salary scale, such as kindergarten parity or self-sufficiency standard) for typical positions in child care homes and centers. Owners of family child care homes receive a salary in addition to net revenue from the child care business. Wages are adjusted to reflect findings from Montgomery County Provider Survey and varied staff qualifications and experience required at different quality ratings. Number of teaching staff reflects teacher-child ratios required to meet licensing standards. (Required group sizes and ratios do not change across EXCELS quality levels.) Personnel estimates include costs for substitute teachers to provide classroom coverage when regular staff engage in training or take time off.
Benefits	Based on current tax rates for legally required benefits (e.g., Social Security, Medicare, unemployment insurance). Paid leave, health insurance and other discretionary benefits assumed to be 5 percent of wages and salaries.
Professional development	Based on types of credentials and training required for staff at each EXCELS quality level, staff cost per hour for training hours, and assumptions regarding the proportion of staff requiring credentials or training.
Turnover	Based on assumptions regarding turnover rate and annual cost to recruit and onboard a new employee.
Non-personnel costs	
Occupancy (rent/mortgage, maintenance, insurance)	For centers, estimated facilities costs per child are drawn from previously developed cost models and adjusted to local prices using cost-of-living indices.[a] For family child care homes, estimated facilities costs are based on local fair market rental prices and assumptions regarding the proportion of space in the home used for providing child care services.
Educational materials and supplies	Per-child costs based on estimates from cost models, adjusted for local prices using cost-of-living indices. Estimates validated using Montgomery County Provider Survey data. Some per-child costs adjust to reflect enrollment efficiency (the percentage of slots that a provider can fill).
Food and food preparation	
Other operational expenses	

[a]For information on a previously developed cost model, see: Brodsky Research and Consulting. 2024. *Colorado Alternative Rate Setting Methodology to Establish CCCAP Provider Reimbursement Rates: Final Report.* Available at: https://cdec.colorado.gov/for-providers/colorado-child-care-assistance-program-for-providers.

Data informing the assumptions and values in the model were drawn from a variety of sources, including survey data collected for this project; existing secondary data sources; and prior research and cost modeling. Estimates for individual categories of costs were validated and adjusted, as appropriate, based on data from the Montgomery County Provider Survey. Additional information regarding data sources used to develop the model appears in the Technical Appendix.

The model also allows for the incorporation of two special categories of costs that can be difficult to estimate:

1. ***Special education services.*** Special education includes a wide range of supports, resources, and tailored instruction to promote the development and address the needs of children with developmental delays and disabilities. Although organizations other than ECE providers often deliver these services, ECE providers that enroll children with disabilities may incur additional expenses related to physical accommodations, supplies and materials, and staff time and expertise to deliver specialized care. Because expenditures on special education services will vary widely based on an individual child's needs, it is very difficult to precisely estimate average costs per child. Therefore, our baseline scenario does not include costs for serving children with special needs.
2. ***Accreditation.*** To qualify for higher EXCELS quality ratings, providers must take steps toward accreditation from an organization recognized by the Maryland State Department of Education or (at Level 5) have been awarded a certificate of accreditation. The process of applying for and gaining accreditation typically involves substantial staff time for such activities as developing and documenting policies, conducting a self-study, and completing a validation visit with an accrediting body. It also typically requires payment of fees to the accrediting organization for pursing and maintaining accreditation. The baseline scenario includes estimated annual costs for accreditation fees (for EXCELS Level 5 centers) but does not include costs for staff hours devoted to accreditation-related activities.

As noted above, these costs are not fully incorporated into the estimates developed for the baseline scenarios. However, the online cost estimation tool developed for

Montgomery County providers includes an option for adding or adjusting these types of costs.

2. Description of baseline scenarios

The financial model generates cost estimates based on a range of parameters that users can modify to develop varying provider scenarios. To facilitate comparisons of estimated costs across provider types, quality levels, child ages, and other factors, the study team established baseline scenarios that describe a typical child care center or family child care home in Montgomery County. The study team used information from the provider survey, Montgomery County's child care licensing database, and other data sources to specify the characteristics of a typical provider, such as enrollment, staff positions, and revenue sources.

Exhibit III.2 summarizes the baseline scenarios. Because required staff-to-child ratios and maximum group sizes are the same across EXCELS quality levels, the main factor that drives cost differentiation among quality levels is staff compensation levels. Staff in higher-quality centers must have additional credentials and training, compared to those in lower-quality centers, and their compensation is assumed to be commensurately higher at each level of quality.

Exhibit III.2. Baseline scenarios

Parameter	Centers	Family child care homes
Number of children enrolled	67 children: 6 infants (0-18 months), 9 young toddlers (18-24 months), 12 2-year-olds, and 40 3- or 4-year-olds	8 children: 1 infant (0-18 months), 1 young toddler (18-24 months), 3 2-year-olds, and 3 3- or 4-year-olds
Number of classrooms	5 classrooms: 1 for infants, 1 for young toddlers, 1 for 2-year-olds, 2 for 3- or 4-year-olds	Approximately 70 percent of owner's home used for child care
Days of operation per year	250	
Efficiency (percentage of slots filled)	85 percent	

Parameter	Centers	Family child care homes
Staffing[a]	1 director 1 office manager 5 lead teachers 6 teaching assistants 1 nurse (0.1 FTE)	1 owner/teacher
Wage standard	Market wages based on Bureau of Labor Statistics and Montgomery County Provider Survey data for each job category, adjusted for qualifications required at each quality level	
Revenue (percentage of enrolled children receiving funding from each source)	Private tuition: 85 percent Maryland Child Care Scholarship: 10 percent Montgomery County Working Parents' Assistance: 5 percent	

[a]The model includes an instructional coordinator for centers with over 100 children enrolled.
FTE = full-time equivalent

B. Baseline cost and revenue estimates

Using the parameters defined for the baseline scenario, the study team generated estimates of annual per-child costs. Below, we present these baseline cost estimates, discuss how estimated costs compare to state and local child care subsidy payments, and provide estimates of providers' annual net revenue based on the assumed mix of revenue sources.

1. Annual cost per child

- ***The estimated annual cost to provide child care in Montgomery County ranges from $13,134 to $28,117 in centers and from $8,462 to $16,737 in family child care homes, depending on the age of the child and the provider's EXCEL rating. Child care for infants and toddlers is considerably more expensive than care for 3- and 4-year-olds, and costs for the highest quality care (based on EXCELS ratings) are 20 to 30 percent higher than for the lowest quality care.***

We estimated the cost to provide full-time child care to one child for one year, using current market wages as a compensation standard. Exhibit III.3 summarizes these estimates by child age, provider type, and EXCELS level.

Exhibit III.3 Estimated annual cost per child, by child age and EXCELS level

Child age	EXCELS Level				
	1	2	3	4	5
Centers					
0-24 months	$23,370	$24,652	$25,870	$27,022	$28,117
2-year-olds	$16,058	$16,941	$17,759	$18,510	$19,205
3- and 4-year-olds	$13,134	$13,856	$14,514	$15,106	$15,641
FCC homes					
0-24 months	$12,693	$14,208	$14,884	$16,030	$16,737
2-year-olds	$10,159	$11,371	$11,912	$12,829	$13,394
3- and 4-year-olds	$8,466	$9,476	$9,927	$10,691	$11,162

As shown in Exhibit III.3, across all age groups, at both centers and family child care homes, the estimated cost of providing child care rises as the quality level increases. This is due mainly to the higher compensation necessary for teaching staff with the additional credentials and training required to achieve higher EXCELS ratings. Across quality levels, personnel costs comprise 78 to 82 percent of total costs in centers and 59 to 69 percent of total costs in FCC homes.

At all quality levels, estimated costs are higher for younger children than for older children. In centers, this trend primarily reflects the smaller group sizes and higher teacher-child ratios required for younger children. In FCC homes, the pattern is related to the additional time that providers are assumed to spend directly attending to the needs of younger children, compared to older children.

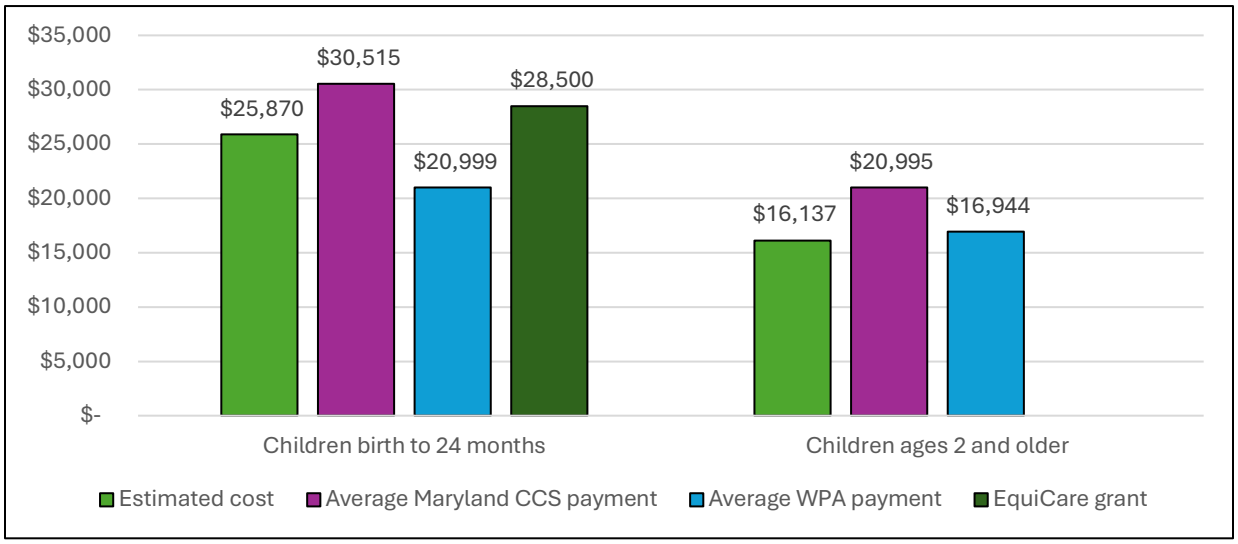
2. Comparison of costs and subsidy payments

- ***With EXCELS bonuses, the average Maryland CCS subsidy payment is sufficient to cover the estimated cost of providing high-quality child care (EXCELS Level 3 or higher) in Montgomery County—but most children in care do not receive Maryland CCS subsidies. Median WPA program payments cover the cost of providing care for older children but are below the cost of care for infants and toddlers.***

Among children enrolled in child care in Montgomery County, a relatively small proportion receive a state or county subsidy or occupy a slot covered by a county-funded grant. For example, during fiscal year 2024, about 4,900 Montgomery County children participated in the Maryland Child Care Scholarship (Maryland CCS) program each month.[10] This number represents about 16 percent of the county's total operational child care capacity of approximately 31,200 seats.[11] The County's Working Parents Assistance (WPA) subsidy program and EquiCare grant program also fund child care slots for some children (about 800 children and 80 children, respectively).

Although most community-based ECE providers receive a small share of their revenue from child care subsidies and grants, it is helpful to understand whether these payments are sufficient to cover the cost of delivering child care. Exhibits III.4 and III.5 show how estimated annual costs of care at EXCELS Level 3 centers and family child care homes compare with average per-child payments for the Maryland CCS, WPA program, and EquiCare grant program.

Exhibit III.4. Comparison of estimated annual costs and subsidy or grant program payments: Centers



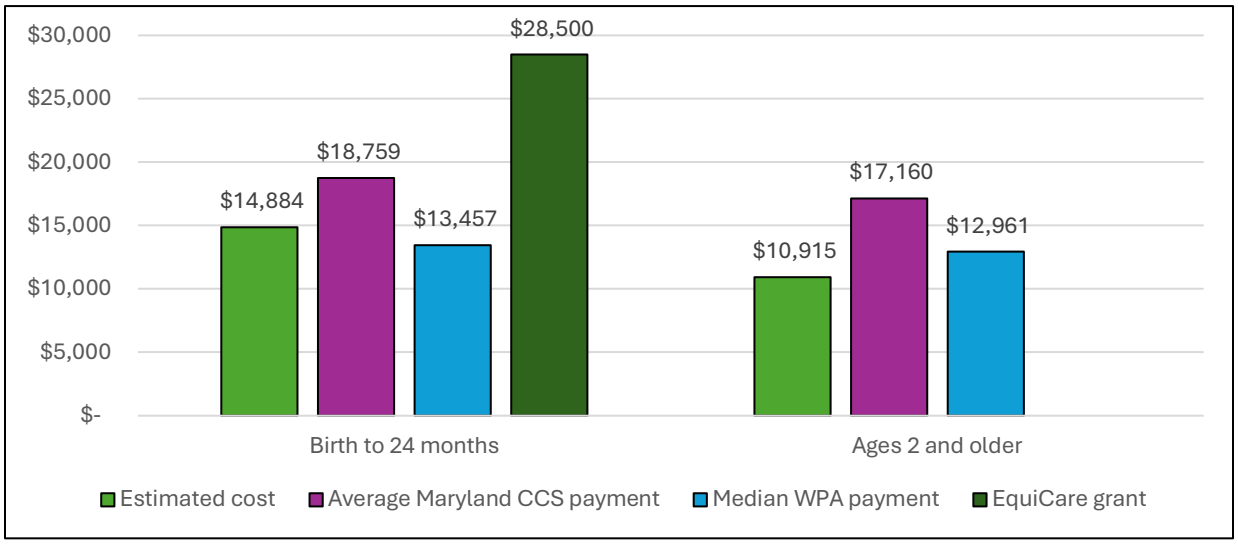
Notes: The Maryland CCS and WPA programs feature payment tiers for children up to 24 months old and those ages 2 and older. Average annual cost for ages 2 and older is the average of estimated costs for 2-year-olds and 3-

[10] Maryland State Department of Education, Office of Child Care. 2024. "Child Care Scholarship Data." Available at: https://earlychildhood.marylandpublicschools.org/child-care-scholarship-data-office-child-care.

[11] Reinvestment Fund. 2024. *The State of Supply and Demand for Childcare in Montgomery County, Maryland.* Philadelphia, PA: Reinvestment Fund.

and 4-year-olds. The average Maryland CCS payment includes an increase of 10 to 22 percent for EXCELS Level 3 providers. EquiCare grants serve infants and toddlers. A portion of EquiCare grants is intended to cover administrative expenses associated with a provider's participation in the program.

Exhibit III.5. Comparison of average annual costs and subsidy or grant program payments: Family child care homes



Notes: The Maryland CCS and WPA programs feature payment tiers for children up to 24 months old and those ages 2 and older. The estimated cost shown for ages 2 and older is the average of estimated costs for 2-year-olds and 3- and 4-year-olds. The average Maryland CCS payment amount includes an increase if 10 to 11 percent for EXCELS Level 3 providers. EquiCare grants serve infants and toddlers. A portion of EquiCare grants is intended to cover administrative expenses associated with a provider's participation in the program.

As Exhibits III.4 and III.5 show, the average Maryland CCS payment for Montgomery County (including an EXCELS Level 3 bonus) exceeds the estimated cost of providing child care to infants, toddlers, and preschool-age children in both centers and homes. Median WPA payments are below the estimated cost of serving children up to 24 months old in both centers and homes but equal to or somewhat higher than the estimated cost of serving children ages 2 and older. EquiCare grants are slightly higher than the estimated cost of serving infants and toddlers in centers and well above the estimated cost in homes.

These findings suggest that current subsidy payment levels are sufficient, in most cases, to cover the cost of providing care for an individual child, as estimated in the baseline scenario. An exception is WPA payments for children up to 24 months old, which are less than the estimated cost of providing care.

It is important to note that many families do not qualify for subsidy programs, and that subsidy programs serve only a small portion of all qualifying families. A typical provider is likely to enroll relatively few children whose tuition is covered by subsidy or grant payments—as a result, most of the provider's revenue is likely to come from other sources. Moreover, some providers opt not to participate in subsidy or grant programs at all because of the administrative burden involved.

3. Annual net revenue

- ***Under the baseline scenario, a provider's net revenue decreases substantially as its EXCELS level rises. These results indicate that providers whose primary revenue source is private tuition face strong financial disincentives to increasing their EXCELS quality rating and delivering higher quality care.***

Using assumptions in the baseline scenario about a provider's mix of revenue sources and child enrollment, we can develop revenue projections for each type of provider and quality level. These projections offer an indication of providers' financial sustainability and incentives under this scenario.

Exhibits III.6 and III.7 show estimated annual net revenue (income less expenditures) for centers and family child care homes, respectively, at EXCELS Levels 1 to 5. Under the baseline scenario, for both centers and family child care homes, estimated net revenue decreases as the EXCELS level increases. At the highest quality level, providers are projected to operate at a small profit, which is likely to be a financially precarious position for child care businesses. Moreover, these projected revenues presume that providers pay teaching staff market wages, which, as noted above, are lower than most other professions and below compensation levels required for self-sufficiency.

Exhibit III.6. Estimated annual net revenue for centers under the baseline scenario, by EXCELS level

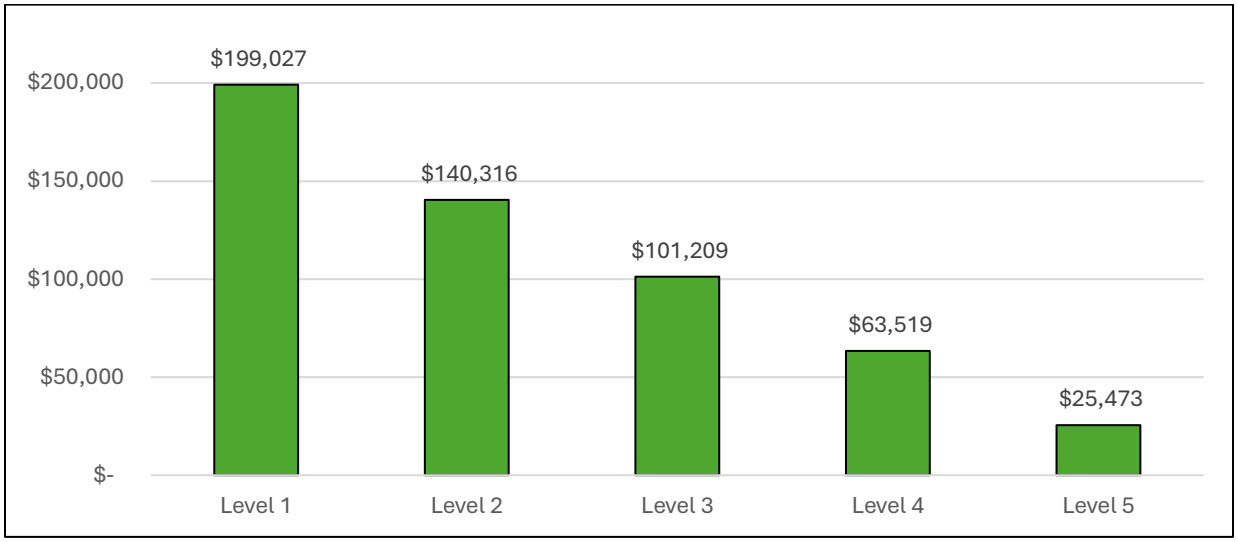
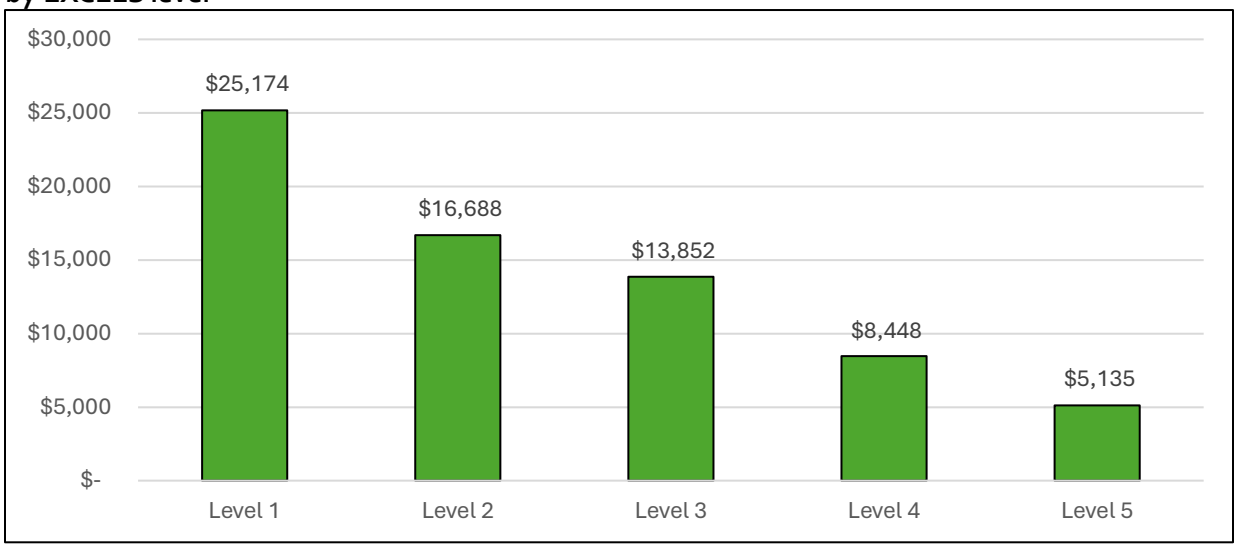


Exhibit III.7. Estimated annual net revenue for family child care homes under the baseline scenario, by EXCELS level



These findings suggest that community-based ECE providers face strong financial disincentives to providing higher-quality child care. Providers may be able to overcome these disincentives if they are able to modify their revenue sources. For example, providers can set tuition well above market rates or enroll a larger proportion of children participating in the Maryland CCS program, whose payments for providers at higher EXCELS levels can help cover the additional costs of delivering higher-quality child care. However, providers may be constrained in their revenue options by the ability or willingness of families in local child care markets to pay higher tuition, as well

as the number of children they can enroll whose tuition is covered by subsidy or grant payments.

C. Cost to meet the demand for child care countywide

Increasing access to quality ECE is a core goal of Montgomery County's Early Care and Education Initiative. Using our estimate of the annual cost of providing high-quality child care, we can approximate the total financial investment (from both private and public sources) that would be necessary to provide high-quality care to all children who need it in Montgomery County, and to key subgroups of children, such as those in families that are eligible for subsidies. We can then compare this total to the funding currently spent on ECE to estimate the additional resources that would be required to achieve this goal.

Exhibit III.8 summarizes key parameters and assumptions for estimating countywide costs in Montgomery County. As in the analyses above, we use current market wages as the compensation standard in estimating total costs, which generally undervalues the labor of child care educators. Using the standard of pay parity with kindergarten teachers in public schools would produce substantially higher estimates. To indicate a minimum cost threshold for providing high-quality care, we use costs at EXCELS Level 3 providers to develop the estimate.

Exhibit III.8. Key parameters, values, and assumptions for estimating countywide costs

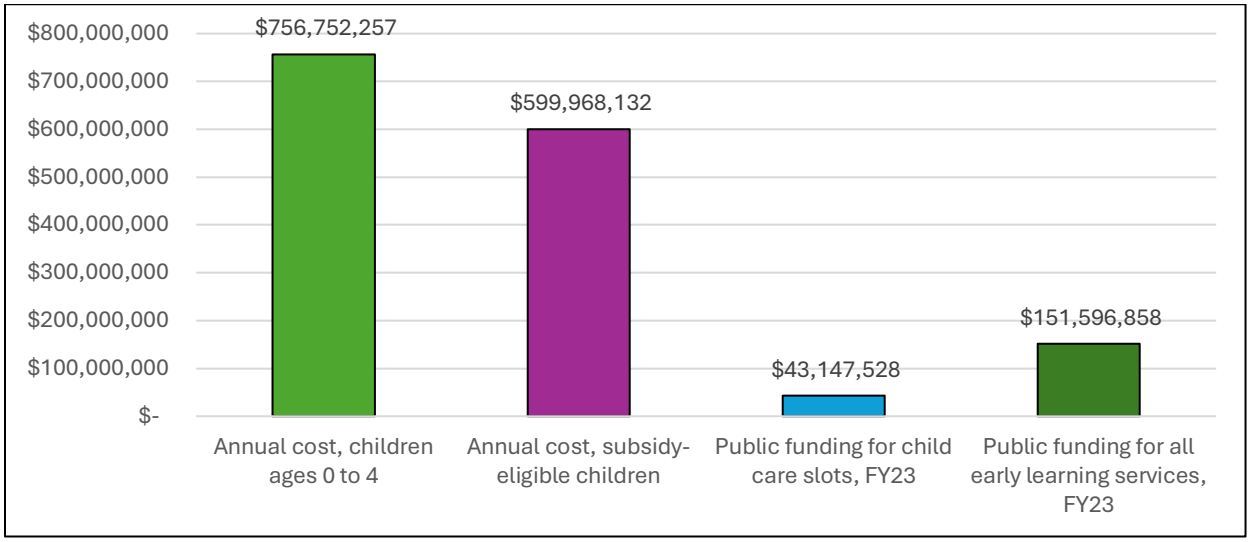
Parameter	Values and assumptions
Annual cost per child (full-time care)	Based on baseline scenario estimates for EXCELS Level 3 providers (as shown in Exhibit III.3)
Proportion of slots in centers and FCC homes[a]	Centers: 80 percent of all slots FCC homes: 20 percent of all slots
Demand for child care (number of children needing care) [a]	All children ages 0 to 4: 57,300 Subsidy-eligible children ages 0 to 4: 31,800
Age distribution of children[a]	Ages 0-1: 39 percent Age 2: 20 percent Ages 3-4: 41 percent
Proportion of children in subsidy-eligible families[a]	55 percent

Parameter	Values and assumptions
Child care participation rate	70 percent

[a] Based on data from the 2024 Montgomery County child care supply and demand study (Reinvestment Fund 2024).

Using these parameters, we estimate that it would cost approximately $756 million annually to meet the demand for high-quality child care for all children ages 0 to 4 who need care in Montgomery County (Exhibit III.9). To provide high-quality care only to subsidy-eligible children in the county would cost about $600 million annually. According to a recent analysis of funding for early childhood services in the county, public funding for early care and education seats totaled approximately $43,000,000 in fiscal year 2023, and public funding for all early learning services (including child care provided by Montgomery County Public Schools) totaled $152,000,000.[12]

Exhibit III.9. Estimated cost and current public funding to meet demand for high-quality child care in Montgomery County



Note: Estimates assume full-time, full-year care and are based on current market rates for compensation of staff at ECE providers. Data on public funding is based on the Montgomery County Children's Opportunity Alliance fiscal mapping project (Montgomery County Children's Opportunity Alliance 2024).

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[12] Montgomery County Children's Opportunity Alliance. 2024. "Montgomery County FY22 and FY23 Fiscal Map." Available at: https://mocochildren.org/fiscalmap.

IV. Staff Compensation, Child Enrollment, and Revenue Mix: Modeling Costs and Revenues Under Alternative Scenarios

The baseline scenario is designed to reflect current circumstances for a typical ECE provider in Montgomery County. Our estimates of ECE provider revenue under the baseline scenario suggest that net revenue for most child care businesses would be positive under those assumptions, although net revenue declines markedly as the provider's EXCELS level rises. (ECE provider revenue estimates are presented in Chapter III, Exhibits III.6 and III.7).

The baseline scenario does not necessarily align with the County's current and potential policy priorities, however. These priorities include, for example, achieving pay parity between community-based ECE professionals and teachers in public schools, and increasing the availability of child care spaces for infants and toddlers. Such changes would have implications for provider expenses and revenues, affecting their financial sustainability. Modeling additional scenarios aligned with these priorities can help illuminate their financial implications for providers and inform the County's decision making.

A. Pay parity for community-based child care educators

- ***Achieving pay parity between educators in community-based and public-school child care programs would require wage increases of up to 57% for community-based educators, creating significant financial challenges for ECE providers that employ them. Modeling shows that even incremental increases in wages lead to financial deficits for providers, especially at higher quality levels.***

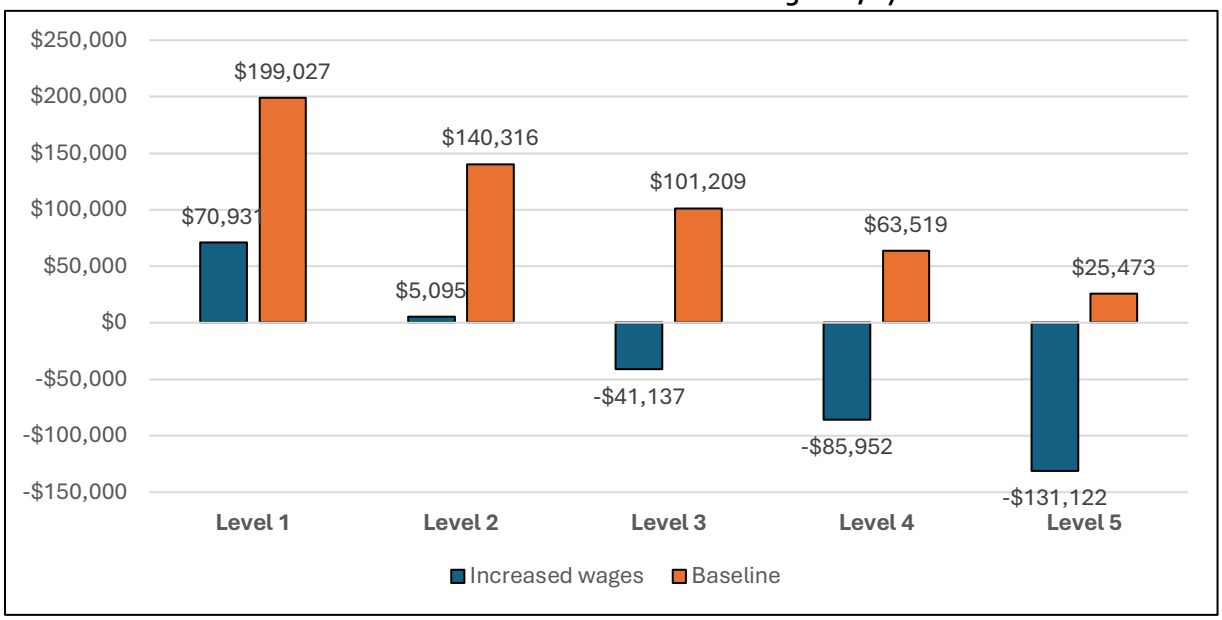
In its 2024-27 action plan, Montgomery County's Early Care and Education Initiative established a goal of pay parity between community-based ECE professionals and kindergarten teachers in public schools. The baseline scenario assumes compensation levels for ECE professionals that mirror local market rates, which are well below pay parity and the self-sufficiency standard in the county. In practice, achieving pay parity would require substantial increases in compensation for most staff members in community-based child care programs. For example, pay for lead teachers in child care centers would need to be approximately 57% higher than current market rates (increasing from approximately $42,000 per year for a teacher in an EXCELS Level 3

center to $73,500 per year, the starting salary for a kindergarten teacher in the Montgomery County Public Schools school district).

To explore how pay parity for educators in community-based child programs might affect child the financial sustainability of providers, we modeled costs and revenues under alternative assumptions about staff compensation. This alternative scenario presents an incremental policy shift in which teacher and teaching assistant salaries are halfway between current wages and the minimum salaries for similar teaching positions in public schools. Under these assumptions, the estimated annual cost per child for a Level 3 center ranges from $16,058 for 3- and 4-year-old children to $29,525 for children under 2 years old.

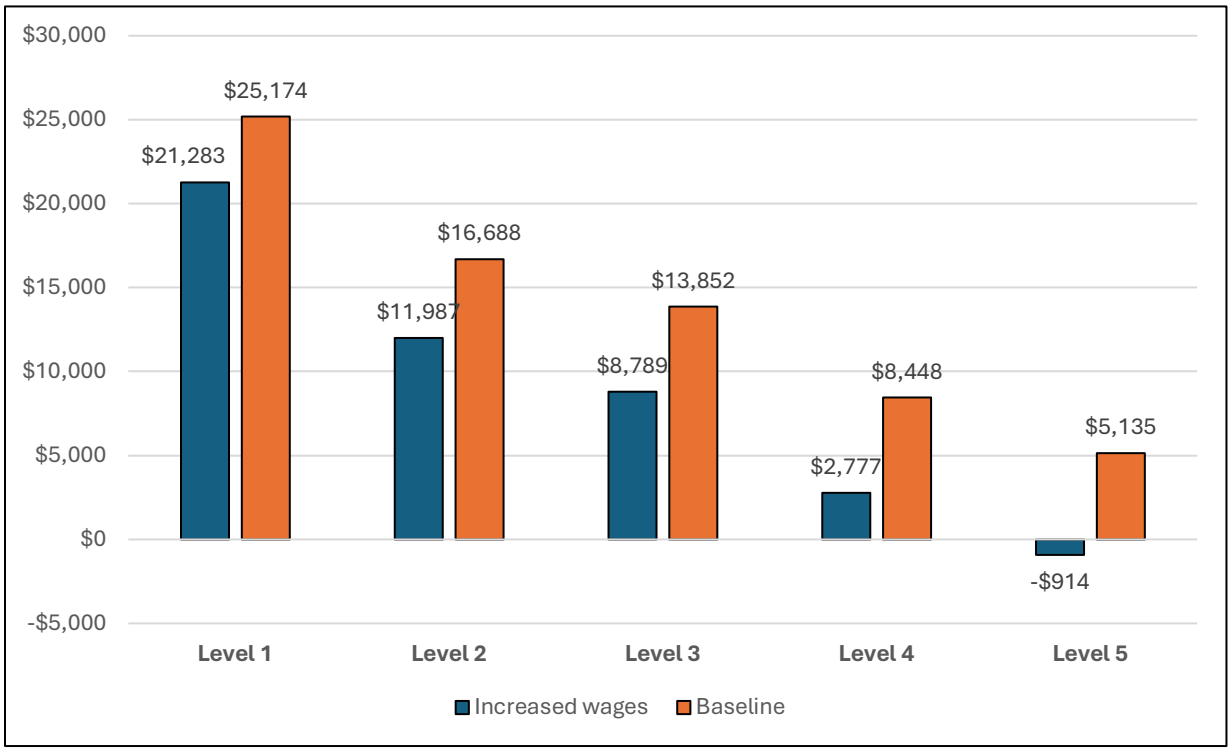
We then modeled providers' annual net revenue by subtracting estimated costs from estimated income, keeping other assumptions in the baseline scenario constant. The results of this analysis suggest that community-based child care programs would incur large financial deficits if they were to pay teaching staff salaries on par with those of MCPS kindergarten teachers, without other changes to expenses or revenues. Exhibit IV.1 presents annual net revenue estimates when teaching staff salaries are increased so that the gap between market wages and pay parity wages is reduced by 50 percent. The estimated annual net revenue for centers is negative for higher quality levels, with deficits ranging from approximately $41,137 per year for EXCELS Level 3 centers to over $131,000 per year for Level 5 centers.

Exhibit IV.1. Provider net revenue with increased salaries for teaching staff, by EXCELS level: Centers



Estimated net revenues for family child care homes show a similar pattern when salaries are adjusted so that the gap between market wages and pay-parity wages is reduced by 50 percent. Compared to the baseline scenario, providers' net revenue is substantially lower when they pay these higher wages, and providers at higher quality levels would incur a net loss, as shown in Exhibit IV.2.

Exhibit IV.2. Provider net revenue with increased wages for teaching staff, by EXCELS level: Family child care homes



In sum, establishing pay parity for educators in community-based child care programs would not be financially feasible for providers if other assumptions in the baseline scenario hold true. To maintain financial sustainability while paying teaching staff parity wages, child care providers would need to secure substantial additional revenue. Without this revenue, child care providers must keep wages for their staff at low market rates—well below parity levels—to remain in business.

B. Increasing slots for infants and toddlers

- ***Montgomery County faces a critical shortage of infant and toddler care, meeting only 17% of the demand for these age groups. Modeling an alternative scenario where providers add classrooms for infants and toddlers highlights how expanding slots for younger children reduces net revenue for providers at all quality levels. Providers at the highest quality levels face financial losses in a scenario assuming additional slots for infants and toddlers.***

Montgomery County faces a substantial gap in child care capacity, especially for infant and toddlers. According to a recently completed supply-and-demand study (Reinvestment Fund 2024), Montgomery County has an absolute gap of approximately 23,700 child care seats for all children under five years old, and 17,800 seats for infants and toddlers. Approximately 59 percent of all children under five who are likely to need child care are currently served. Among infants and toddlers, however, the county has capacity for only 17 percent of children who are likely to need care.

Addressing gaps in care will require existing and new providers to offer more slots to children—especially infants and toddlers. Yet, providers face financial disincentives to increasing the supply of infant and toddler care, because the cost of caring for infants and toddlers is higher than the cost for older children. As noted in Chapter III, the estimated annual cost for serving a child under 2 years old in an EXCELS Level 3 center is about $26,000, compared to about $15,000 for a 3- or 4-year-old child. In FCC homes, the estimated annual costs are about $16,000 for children under 2 and $12,000 for 3- and 4-year olds.

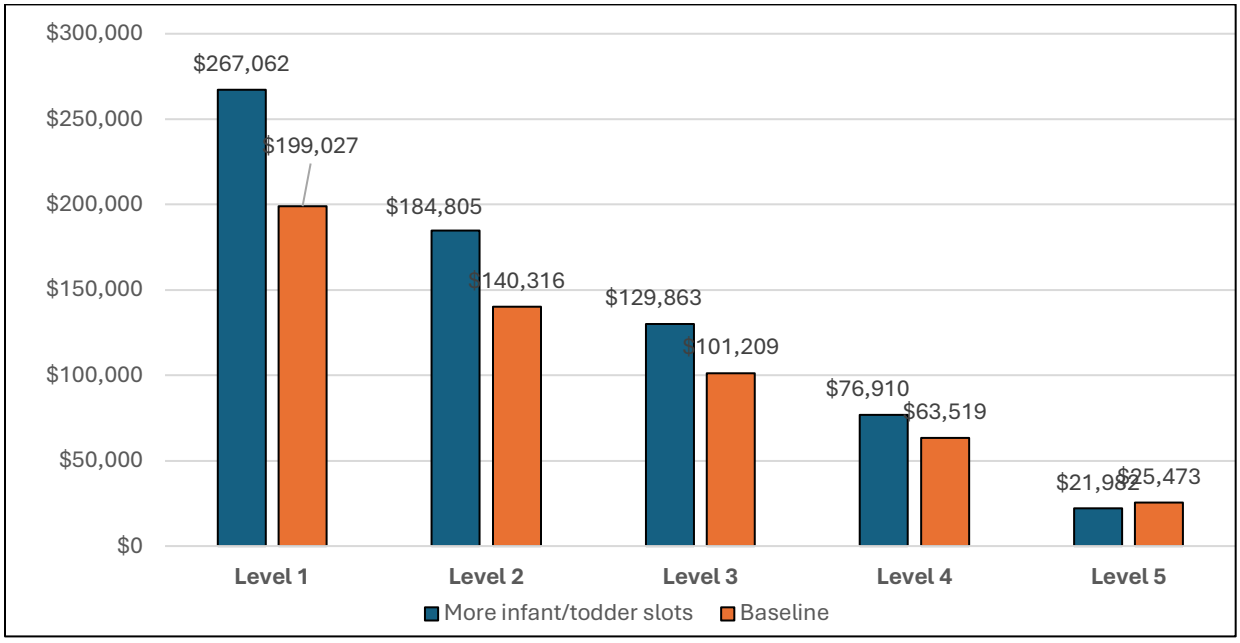
To illustrate how increasing slots for infants and toddlers might affect the financial sustainability of ECE providers, we examined how costs and revenues change when center-based providers enroll more infants and toddlers, keeping assumptions including pay scales and family revenue mix the same. Exhibit IV.3 presents assumptions about the provider's enrollment in each scenario. For this analysis, we focus on centers because FCC homes are limited by licensing standards in the number of infants and toddlers they can enroll, and the baseline scenario assumes they enroll the maximum number (two).

Exhibit IV.3. Number of classrooms and children in baseline and alternative scenarios

	Baseline scenario		Alternative scenario	
Child age	Number of classrooms	Number of children	Number of classrooms	Number of children
0-18 months (infants)	1	6	2	12
18-24 months (young toddlers)	1	9	2	18
24-36 months (older toddlers)	1	12	2	24
3- and 4-year-olds	2	40	2	40
Total	6	67	8	96

Providers with additional infant and toddler slots can continue to make profits at lower quality levels, because market tuition rates roughly equal the cost to provide care at these levels, given current wage conditions. However, providers serving more infants and toddlers results barely break even at the highest quality levels, as shown in Exhibit IV.4.

ExhibitIV.4. Provider net revenue with additional infant/toddler slots, by EXCELS level: Centers



C. Increasing the number of children receiving Maryland CCS subsidies

- ***Cost modeling indicates that increasing the enrollment of subsidy-eligible children significantly improves financial outcomes for higher-quality ECE providers. For example, raising subsidy participation from 10% to 25% of enrolled children boosts profits, particularly for higher quality providers. Expanding subsidy participation and aligning funding with provider costs are key to sustaining high-quality, equitable care.***

The baseline provider scenario assumes that providers' revenue sources generally follow the same distribution as for families in the county as a whole. In the baseline model, a relatively small proportion of families – 10% -- receive Maryland CCS subsidy funding. In this scenario, providers at higher quality levels struggle to be financially sustainable, as tuition costs do not equal the costs to provide higher quality. Maryland CCS subsidies are designed to incentivize quality, because they provide additional per-child revenue for higher-quality providers.

To illustrate the financial impact of enrolling subsidy-eligible children, we created an alternative scenario in which 25% (rather than 10%) of enrolled children receive the subsidy. This change in revenue mix substantially increases the net revenue of higher-quality providers. For centers, Level 5 providers earn over $63,000 profit, compared to about $25,000 in the baseline scenario. For homes, Level 5 providers have profit of about $8,600, compared to about $5,400 in the baseline scenario. (Note that these scenarios are all based on current wages; increasing wages would make enrolling subsidy children even more important from a financial perspective). Results for centers and homes under this alternative scenario are presented in Exhibits IV.5 and IV.6.

Exhibit IV.5. Provider net revenue with additional families receiving Maryland CCS subsidies, by EXCELS level: Centers

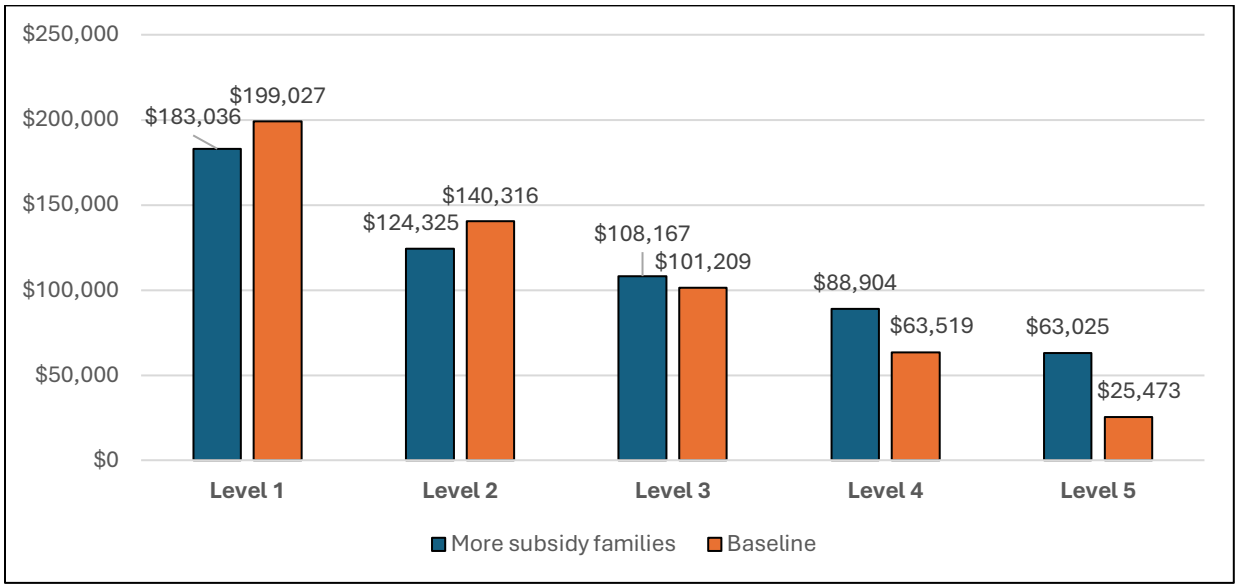
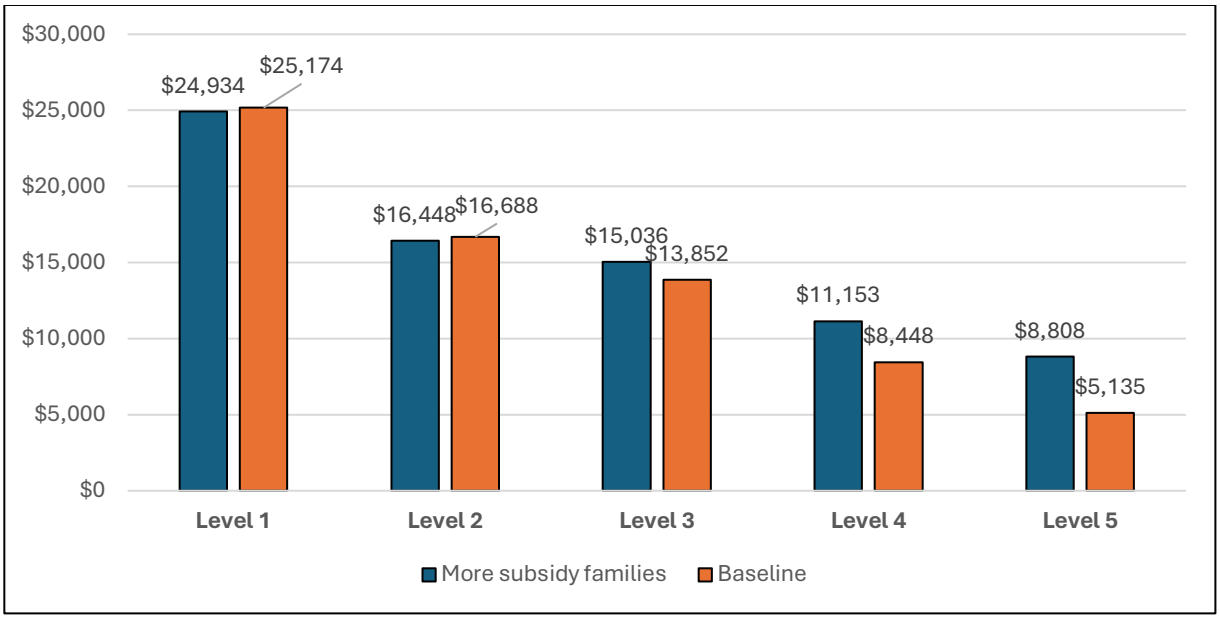


Exhibit IV.6. Provider net revenue with additional families receiving Maryland CCS subsidies, by EXCELS level: Homes



In sum, exploring alternative scenarios highlights the need for policy interventions to help Montgomery County promote quality child care, equity in compensation for child care professionals, and financial sustainability for community-based ECE providers. In Chapter V, we offer recommendations for steps the County can take to help it achieve these important goals.

V. Recommendations

Analyses based on cost modeling suggest that action is required to help Montgomery County's ECE providers overcome the substantial financial challenges they face in offering high-quality care. In this chapter, we offer recommendations for investments and interventions that can help align the County's goals for its ECE system with providers' financial structures and incentives.

The strategies we suggest focus on three key goals:

1. ***Expanding access to infant and toddler care.*** Montgomery County has an estimated shortage of nearly 18,000 child care seats for infants and toddlers.[13] To fill the County's substantial gap in infant and toddler care, ECE providers will need to increase capacity to serve these children. However, because providers incur higher costs to care for infants and toddlers, compared to older children, they generally are inclined to offer more slots to older children than to infants and toddlers. Enrolling more infants and toddlers under current market tuition rates might be financially feasible for providers at lower quality levels, whose net revenue would remain positive, according to our modeling. However, providers at the highest quality levels are likely to incur financial losses if they substantially increase enrollment of infants and toddlers. For these reasons, strategies to expand access to infant and toddler care will need to address providers' current financial incentives.
2. ***Increasing the share of high-quality child care providers.*** Among Montgomery County ECE providers serving children ages 0 to 5, just 20 percent have EXCELS ratings of 3 or higher.[14] Our modeling finds that estimated annual net revenue decreases as EXCELS quality levels increase in both centers and family child care homes, creating disincentives for providers to take steps to increase their quality rating. Moreover, achieving the highest EXCELS ratings requires providers to undertake an accreditation process, which imposes additional costs. On the other hand, Maryland CCS subsidies generally are commensurate with the costs of

[13] Reinvestment Fund. 2024. *The State of Supply and Demand for Childcare in Montgomery County, Maryland.* Philadelphia, PA: Reinvestment Fund. Available at: https://www.reinvestment.com/insights/the-state-of-supply-and-demand-for-childcare-in-montgomery-county-md/
[14] Ibid.

providing higher-quality services. Strategies to encourage more ECE providers to offer higher-quality care can focus on providers' revenue streams, promoting greater access to revenue sources that help cover the increased costs associated with high-quality services.

3. ***Achieving pay parity for teachers in community-based child care programs.*** Achieving pay parity between teachers in community-based and public-school ECE programs would require a substantial increase in compensation for teachers employed by community-based providers; lead teacher salaries would need to rise by as much as 57%. Providers would face unsustainable financial deficits if they attempted to implement such wage increases without additional revenue streams or considerable hikes in tuition, which would increase the financial burden on families paying for child care. Thus, achieving pay parity will involve clearly articulating compensation expectations and directing additional public investment into the child care system.

To accomplish these goals, we recommend a set of six strategies related to child care subsidies, grants, and policies. Each of the strategies we suggest would support the County in achieving at least one of the goals described above, and several strategies support multiple goals, as shown in Exhibit V.1.

Exhibit V.1. Strategies and related goals

Strategies	Goals		
	Expand access to infant and toddler care	Increase share of high-quality providers	Pay parity for child care educators
Promote higher participation in subsidy programs among families and providers	✓	✓	
Adjust WPA payments to cover the cost of high-quality care	✓	✓	
Expand the EquiCare grant program	✓	✓	✓
Adopt a foundational funding approach for child care providers	✓	✓	✓
Develop a salary scale for community-based child care professionals			✓
Provide wage stipends and other benefits directly to community-based child care professionals			✓

Recommendation 1: Promote higher participation in existing subsidy and grant programs, especially Maryland CCS, among both families and ECE providers.

Because Maryland CCS subsidies cover the cost of providing care to infants and toddlers—and in some cases exceed it—the program offers a promising tool for encouraging ECE providers to expand their capacity to serve younger children. Yet, as noted in Chapter III, just 22 percent of income-eligible Montgomery County families currently participate in Maryland CCS. Similarly, many providers who could enroll children receiving Maryland CCS choose not to do so. About half of centers and two-thirds of family child care homes do not participate in the Maryland CCS program.[15]

Montgomery County can promote increased family participation in Maryland CCS in several ways. First, the County can expand awareness of the subsidy program through improved outreach to families and communication about opportunities to apply for child care assistance. The County can partner with organizations—including healthcare providers, schools, family services nonprofits, and community organizations—that are likely to interact with families that may be eligible for Maryland CCS. In addition, the County can provide additional support for families navigating the application process, helping clarify eligibility requirements and related paperwork, either directly or through partner organizations. These actions should focus on neighborhoods where eligible families are likely to live.

A similar campaign to increase awareness of the opportunity to participate in Maryland CCS can be targeted to Montgomery County ECE providers. This campaign should include a focus on family child care homes,. The campaign should stress the opportunity to receive subsidy payments that cover the cost of providing care, especially for higher-quality providers. In addition, the County should collaborate with the Maryland State Department of Education to identify strategies for helping minimize the administrative burden of participation for community-based providers. In particular, the County and State can support providers by simplifying paperwork, communicating accurate information about payment timing, minimizing reporting

[15] Maryland Child Care Resource Network and Maryland Family Network. (2024). "Child Care Demographics 2024: Montgomery County Report." Baltimore, MD: Maryland Family Network. https://www.marylandfamilynetwork.org/sites/default/files/2024-02/Montgomery%202024.pdf

burdens, and creating processes to help providers make accurate projections about enrollment among children receiving subsidies.

Recommendation 2: Adjust subsidy payments from the County's WPA program so that they equal the estimated cost of delivering high-quality child care, include bonuses based on a provider's EXCELS rating, and minimize administrative burden for providers.

The County can use financial incentives embedded in its own subsidy program to support its goal of increasing equitable access to high-quality child care. To encourage ECE providers to expand the number of child care slots available to children receiving subsidies, especially infants and toddlers, the County should adjust WPA subsidy payments to match the cost of serving children at different ages.

In our baseline scenario, estimated annual costs for serving older children (3- and 4-year-olds) were about equal to the median annual WPA payment for that age group. However, the median annual WPA payment for infants and toddlers (up to age 2) was about $5,000 less than the estimated cost for serving those children in a center-based program and about $1,500 less than the cost of serving them in an family child care home. The County can reduce these gaps over time, taking incremental steps to raise subsidy payment amounts over a period of several years. (This is the approach that the State of Colorado took recently when it opted to raise subsidy payments to match the estimated cost of providing care.)

The County should also implement WPA payment bonuses based on an ECE provider's EXCELS rating. One approach would be to mirror the payment schedule of Maryland CCS program, which offers incrementally larger bonuses for programs at EXCELS Level 3 and higher. This shift would help motivate providers to enhance quality and provide financial resources for doing so.

Finally, the County should work to identify and remove barriers to provider and family participation in WPA, especially for immigrants and non-English-speakers. In particular, it should review enrollment and payment processes, identify and remove bottlenecks, and ensure that application requirements are aligned with those of other programs (such as Maryland CCS).

Recommendation 3: Expand the EquiCare grant program to serve more children and providers.

The EquiCare grant program offers a promising vehicle for expanding access to high-quality child care because (1) it focuses on infants and toddlers from lower-income families, (2) its payments not only cover the estimated cost of providing care in a higher-quality center but also provide for the administrative expenses associated with participating in the program, and (3) participating providers must have an EXCELS rating of Level 3 or higher. In addition, the grant-based payments establish a reliable revenue stream for ECE providers, and the program supports providers' efforts to continually improve quality by including funding specially for staff professional development. These features create strong incentives for providers to add slots for infants and toddlers, enroll children from qualifying families, and provide high-quality services. The County should build on this favorable model by increasing the program's funding and reach.

Recommendation 4: Offer contracts and grants that provide foundational funding to ECE providers

To supplement traditional per-child subsidies, Montgomery County should implement foundational contracts and grants tied to its goals for the local ECE system. Foundational funding generally takes the form of fixed payments provided through contracts or grants with ECE providers. It is intended to help solve problems, such as low pay for educators in child care programs, that result from the current financial structure of the child care market, including providers' reliance on private tuition. A number of states and localities have adopted this promising model in recent years.[16]

Foundational funding is a flexible model that can be aligned with the specific goals of an initiative. For example, funding amounts can be based on the resources required to expand a program by a specific number of slots, bridge a portion of the gap between market-based pay for teaching staff and a desired pay threshold tied to staff credentials,

[16] Maryland Child Care Resource Network and Maryland Family Network. 2024. "Child Care Demographics 2024: Montgomery County Report." Baltimore, MD: Maryland Family Network. https://www.marylandfamilynetwork.org/sites/default/files/2024-02/Montgomery%202024.pdf

or increase staff members' access to fringe benefits. The contracts can include provisions and outcome measures that help ensure that the funding is used for its intended purpose. These programs also can be designed to minimize administrative burden for providers—for example, by using simplified applications and eligibility criteria--making them accessible to smaller providers with limited capacity to apply for and manage traditional grants. Finally, foundational funding can be targeted to specific geographic areas, making it a suitable approach to supporting expansion of child care access in underserved communities.

Recommendation 5: Develop a local salary scale for teachers and other professionals working in community-based child care.

Montgomery County should clearly define its goals related to increased compensation for professionals in child care programs by developing a local salary scale. This tool would establish a transparent standard for compensation of staff employed by ECE providers. It should be designed to set clear expectations for minimum and maximum pay levels based on roles, qualifications, tenure, and other factors. Policymakers, funders, and advocates can then use this information to set specific targets for equitably improving compensation for child care professionals and estimate the resources needed to reach them. Providers can also use a salary scale to ascertain whether their current compensation levels are adequate. Developing and implementing a salary scale will require collaboration among a variety of partners and agencies, as well as analysis of local workforce and compensation data.[17]

Recommendation 6: Implement an initiative to provide wage supplements and access to other benefits for teachers and other professionals in community-based child care.

Montgomery County can begin to quickly increase the compensation of community-based child care professionals by implementing a wage supplement program. Such programs pay a recurring stipend to child care workers. These supplements can be

[17] National Center on Early Childhood Quality Assurance. (2024). "Early Care and Education Workforce Salary Scale Playbook: Implementation Guide." Administration for Children and Families, U.S. Department of Health ad Human Services. https://www.acf.hhs.gov/sites/default/files/documents/ecd/Early-Care-and-Education-Workforce-Salary-Scale-Playbook-Implementation-Guide.pdf

designed to begin closing the pay gap between educators in community-based and public-school child care programs by taking incremental steps toward pay parity.

There are many options for designing wage supplements and defining such features as the amount of the stipend (for example, whether the payment amount is tied to a staff member's credentials and role with a program) and how payments are made (directly to recipients or through another organization, such as an ECE provider).[18] A number of states and localities have implemented wage supplements for early childhood educators; examples include the DC Early Childhood Educator Pay Equity Fund and New Mexico's Early Childhood Wage Supplement Program. A recent evaluation of the DC Pay Equity Fund found that it increased employment levels for early childhood educators in the District, promoting workforce retention and stability in the child care system.[19]

Montgomery County can also enhance the compensation of early childhood educators by directly supporting access to traditional fringe benefits. For example, the County can ensure that educators are able to place their own children in child care programs at no cost by funding slots for these children. The county can also collaborate with the State of Maryland to offer financial assistance for health insurance, allowing educators in center-based providers and family child care homes to access plans offered through the state's health care exchange at low or no cost. Such steps would likely improve the well-being of early educators and, by extension, strengthen Montgomery County's child care system.

[18] Dichter, Harriet and Ashley LiBetti. 2021. "Improving Child Care Compensation Backgrounder" The BUILD
Initiative. https://buildinitiative.org/resource-library/backgrounder-on-compensation-in-child-care/
[19] Schochet, Owen. (2023). "Jobs in the Balance: The Early Employment Impacts of Washington, DC's Early Childhood Educator Pay Equity Fund." Mathematica.
https://www.mathematica.org/publications/jobs-in-the-balance-the-early-employment-impacts-of-washington-dcs-early-childhood-educator-pay

Appendix A: Cost Model Technical Manual

Overview

The cost model is adapted from previous child care studies in several states, including Colorado. This modeling, in turn, was developed based on approaches developed by Andrew Brodsky, Louise Stoney, and Anne Mitchell. The model reflects current best practices in child care cost modeling and has been used in numerous applications.

The base model represents a "typical" provider. For centers, this provider includes infant, two toddler, and two preschool classrooms, enrolling about 67 children. For homes, this provider enrolls one infant, one young toddler, two 2-year olds, and 3 preschoolers (3 or 4 years old). The model can be modified to reflect larger or smaller providers.

Enrollment, Ratios and Staff Required

Enrollment

Enrollment is calculated based on the number of classrooms and adult-child ratios that meet requirements at each quality level. Full-time attendance is based on an assumption of 250 days per year.

Ratios and Maximum Group Sizes

Ratios are based on Maryland EXCELS requirements, as indicated in Table 1. For centers, The number of students per classroom is set to EXCELS requirements, except for preschoolers at Level 3 (19 children) and Levels 4 and 5 (18 children).

For homes, a single teacher may serve up to eight children and no more than two children under two. The model assumes that this adult is present throughout the day. Additional children beyond this assumption incur an additional staff member. The default home provider enrolls 1 infant, 1 young toddler, two 2-year olds, and three preschoolers (3-4 years old).

Table 1. Maryland EXCELS Requirements (Centers)

	Children Per Adult	Teachers Per Classroom	Students Per Classroom
0-18 months	3	2	6
18-24 months	3	3	9
2 year olds	6	2	12
3 and 4 year olds	10	2	20

Percent of daily coverage (centers only)

An additional 20% of staff time needed for daily coverage is allotted based on the following assumptions:

- A child care center is open for 10 hours per day, 5 days per week.
- Staff work 8 hours per day.
- Staff must be given breaks during the day.
- Some percentage of staff time will need to be spent outside of the classroom for other miscellaneous duties.
- Centers can never be out of ratio and thus always need additional staff (or floaters/substitutes) to provide coverage during breaks and time spent outside of the classroom.

Substitute time

Base substitute time for staff training starts is set at a minimum of 15 hours per year and assumes that staff training increases with higher QRIS levels.

For centers, substitute time required for staff leave is based on assumed staff leave time per year, increasing with each QRIS level. At Level 1, 15 hours of substitute time is assumed for staff training, in addition to five days of staff leave. At Level 5, 25 hours of substitute time is assumed for staff training, in addition to 10 days of staff leave (Table 2). The home-based model assumes a base of 15 hours of staffing training per year, increasing with each QRIS level, and 5 days of staff leave per year.

Table 2: Substitute Time Assumed Per QRIS Level (centers).

QRIS Level	Hours	Days
Level 1	15	5
Level 2	18	7
Level 3	20	10
Level 4	23	10
Level 5	25	10

Salaries/Wages

In the calculator, four metrics can be used to estimate wages: current wage data; kindergarten salary comparison; housing affordability; and the self-sufficiency standard.

Current Wages

Average wages are based on BLS wage data for job titles that most closely match the job titles reflected in the cost model. *Source*: *Occupational Employment Wage Estimates, Bureau of Labor Statistics,*

Table 3: BLS Average Wages

Job Description	Current Wage	Kindergarten	SSS
Education Administrators	$61,715	$73,505	$91,674
Office and administrative support	$52,550	$73,505	$91,674
Instructional coordinator	$86,820	$86,820	$91,674
Registered nurse	$82,970	$82,970	$91,674
Preschool teacher	$46,780	$73,505	$91,674
Childcare worker	$32,830	$38,941	$91,674

Wage Increase by Quality Level

Wages increase in higher QRIS levels, expressed as a percentage of the base wage indicate above. This increase is based on the assumption that as programs increase

quality, wages for staff increase. Percentage change from the base wage for each quality level and salary metric are presented in Table 4.

	Selected Wages Per 1 FTE as Pct of BLS Wage				
Job Description	**Level 1**	**Level 2**	**Level 3**	**Level 4**	**Level 5**
Centers					
CC/Preschool administrator	85%	95%	105%	115%	125%
Office & admin support worker	90%	90%	90%	90%	90%
Instructional Coord (Educ)	70%	72%	75%	78%	80%
Registered nurse	90%	90%	90%	90%	90%
Preschool Teacher, except Special Education	80%	85%	90%	95%	100%
CC worker	105%	110%	115%	120%	125%
Homes					
Director	60%	65%	70%	75%	80%

Kindergarten Parity.

Kindergarten-equivalent wages are the Montgomery County Public Schools salary schedules. Teacher salaries are set to Step 1/BA 12-month kindergarten teacher salaries for lead teachers, and SEUI Local 500 Grade 1 Step 6 wages for assistant teachers/aides. *Source*: *Occupational Employment Wage Estimates, Bureau of Labor Statistics, Montgomery County Public Schools.*

SSS

The Center for Women's Welfare Self-Sufficiency Standard defines the income working families need to meet a minimum yet adequate level, taking into account family composition, ages of children, and geographic differences in costs. The Standard is an affordability and living wage economic security measure that provides an alternative to the official poverty measure. The model uses the self-sufficiency standard for a family with one adult and one preschooler. *Source: Self-Sufficiency Standard at the Center for Women's Welfare, University of Washington.*

Benefits

Mandatory benefits are based on federal requirements for full-time employees, including FICA (Social Security and Medicaid), unemployment, and worker's compensation. The model assumes 5% of salary is contributed to non-required benefits, such as health insurance, at the provider's discretion.

Turnover

Providers incur costs for finding, hiring, and training new staff when existing staff members leave. The turnover rate is estimated at 15%, and the cost of turnover is estimated at 50% of an employee's annual salary.

Non-personnel Expenses

Baseline non-personnel costs are derived from several sources, including survey results from this study; the Colorado Child Care Cost Estimation Model; and secondary sources indicating the cost of living in Montgomery County. Estimates reflect costs for Montgomery County in 2024. Cost data collected at a provider or classroom level were modified to reflect per-child costs.

Non-personnel costs include the following:

- Operational costs, such as cleaning, , and utilities
- Administrative costs, such as accounting, insurance,
- Food and food preparation costs
- Facilities costs, including rent or mortgage and repairs and maintenance
- Instructional costs, such as materials and assessments

Revenues

Provider revenues derive from private-pay tuition and public subsidy streams including Maryland Child Care Subsidy and WPA. Total revenues for a provider are based on the number of children receiving a funding stream (as determined by the user) times the average amount of revenue received for that stream. In addition, providers may receive revenue from the USDA Child and Adult Care Food Program (CACFP).

Full Tuition Revenue

Private-pay tuition rates are based on results from the 2021 Montgomery County Child Care Market Rate Survey, adjusted for inflation (approximately 9.3% between 2021 and 2024).

Child Care Subsidy Revenue

Rates are based on reimbursement rates from the Maryland Child Care Subsidy program.

CACFP

Providers can opt to receive funding from the Child And Adult Care Food Program (CACFP) for families eligible for the program. The model assumes that one-third of enrolled children are paid, one-third reduced-price, and one-third free.

Efficiency and Bad Debt

Providers may not receive the maximum possible amount of tuition for two reasons. Their enrollment may be less than 100% of staffed capacity (efficiency), and they may not receive all tuition owed to them (bad debt), described in more detail below.

Efficiency

Enrollment is assumed to be 80% of capacity for Level 1, 82.5% for Level 2, 85% for Level 3, 90% for Level 4, and 92.5% for Level 5. Industry standard is to keep enrollment at or above 85%. Achieving 100% efficiency means every seat, in every classroom, is full every day. This is unattainable even for centers with high demand supported by extensive waiting lists, due to a variety of factors, including gaps in service when children move, leave for the summer, children moving up to a different classroom, and staffing shortages. Enrollment is also related to subsidy-eligibility policies. If subsidy paperwork is not completed on time or parent's income, employment, or life circumstances result in a gap in eligibility, this will affect enrollment.

Bad Debt

The model uses the industry standard for bad debt of no more than 3% of revenue. When subsidy payments are based on attendance, the program is not likely to be paid for every day a child is enrolled, even though they incur expenses for that day (e.g. rent, utilities, phone must be paid regardless of attendance; staff can't always be sent home and not paid simply because some children are absent).

Calculation of Per-Child Costs

Centers

Per-child costs are calculated for each age group and EXCELS level. Costs include two components:

- Costs per child for classroom staff vary by age group, and are determined by dividing the total personnel costs for classroom teachers by the number of children in each age group.
- Costs per child for all other costs (including administrative staff and non-personnel costs) do not vary by age group, and are calculated by summing these costs and dividing by the number of children.

Homes

Per child costs for homes are calculated by dividing the total cost to provide care by the adjusted number of children enrolled. In order to account for the fact that younger children require more staff time, the actual number of enrollees is adjusted for each age group.

Table 4: Cost Per Child Enrollment Adjustment for Homes

Age Group	Weight of 1 child, assuming total enrollment of 8
0-12 mo.	1.33
12-24 mo.	1.17
24-36 mo.	1.00
3 year olds	0.83
4 year olds	0.83