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# 2023 Minnesota Child Care Cost Modeling Report

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# Contents

- Executive Summary ..... 5
- Introduction..... 10
  - How Cost Studies Support Child Care Access, Quality and Equity ..... 11
- Child Care Landscape in Minnesota ..... 12
  - Characteristics Of Minnesota Licensed Child Care Programs: Size and Entity Type ..... 12
  - The Current Cost Model in Context..... 13
  - Future State Cost Model in Context..... 16
  - Impact of COVID-19 on the Cost Model ..... 17
- Methodology ..... 19
  - Community Engagement ..... 19
  - Administrative Data..... 20
  - Survey ..... 21
  - Business Interviews ..... 21
  - Analysis..... 22
  - Methodology Limitations ..... 22
- Results ..... 23
  - Cost Model Inputs ..... 23
  - Cost Model Outputs ..... 31
- Themes ..... 34
  - Child Age Impacts Business Sustainability..... 34
  - Geographic Differences Impact Business Model Viability..... 37
  - Quality Care and Education is Associated with Higher Costs that are not Supported by Current ECE System ..... 41
  - COVID-19 Relief Funding Supported Programs ..... 44

Business Sustainability Limits Opportunities for Start-up and Expansion.....	45
Importance of Equity Considerations.....	48
Future State .....	53
Family Child Care .....	54
Child Care Centers .....	56
Policy Implications.....	59
Future Directions.....	60
Appendices .....	62
Appendix A: Survey Participant Demographics.....	62
Appendix B: Cost Model Input Summary .....	65

## Executive Summary

In fall 2021, the Minnesota Department of Human Services contracted with First Children’s Finance (FCF) to develop a cost model to estimate the cost of providing child care in Minnesota. The model estimates the cost of meeting health and safety requirements for licensed child care programs in Minnesota. It calculates how costs vary based on the age of children served, geographic location, license type and quality of care. In partnership with the department, FCF also developed case studies to explore common scenarios associated with providing child care to Minnesotan families. This report updates the 2020 Minnesota Cost Modeling report. Finally, FCF developed a future cost model aligned with the recommendations established by the 2023 [Great Start for All Minnesota Children Task Force](#). The model depicts the recommendations’ impact at a program level. In this future state scenario, the cost model has been adjusted to estimate the per-child costs of carrying out competitive compensation to recruit and retain a highly qualified workforce, increased programmatic support to sustain, grow and launch programs, and enhanced quality supports to provide Minnesota children with a great start.

These cost models were designed to enable the department to explore new approaches to setting Child Care Assistance Program (CCAP) payment rates. This study predates the 2023 legislative directives to develop potential plans to set CCAP rates using the cost model. This study serves as a foundation for future iterations of the cost model, which will be updated and adapted to meet this directive.

Data collection for the study occurred from July 2022 through February 2023. The methodology included a program cost survey, business interviews, listening sessions, community conversations with partner organizations, and monthly engagement with a provider advisory group. The demographics of participants were analyzed and found to be geographically and socioeconomically representative of licensed child care programs across Minnesota. Programs participating in CCAP and Parent Aware, Minnesota’s quality rating and improvement system, were overrepresented in the study. Among child care centers, Four-Star Rated programs provided the vast majority of data collected from Parent Aware Rated programs. As a result, FCF made assumptions about quality-related costs for One-, Two- and Three-Star Rated programs, detailed in the report.

### Cost Model Outputs: Current State

A cost model estimates the average costs associated with providing care for children, including staff salaries and benefits, facilities and food costs, insurance, curricula and materials. All these costs represent inputs into the cost model. Understanding the costs associated with high quality care was a goal of this cost modeling process. To address this, Parent Aware Rating was used as a proxy for quality. Parent Aware awards quality Ratings to early education programs that meet a set of defined program standards. Higher Parent Aware Ratings were used to model higher quality care, while data from programs without a Parent Aware Rating were used to reflect care that meets licensing standards.

The cost models developed for this study depict a representative child care program in Minnesota. These models will not reflect every or any one child care program in the state. Instead, they reflect averages and the most common experiences of programs. Cost models provide information that can inform a wide range of policy questions. However, the information produced by the cost models are generalized and may not be appropriate

for programs to use to make individual business choices. Child care programs should make individualized choices about program quality and other business investments. While the cost models explored a wide range of cost inputs, the present study did not include analysis of tuition data and consistent revenues were used across models. In practice, programs may be adjusting their tuition rates to address higher costs, including costs associated with higher quality. These individual differences in tuition are not reflected in the following cost model revenues and resulting net revenue.

The cost model produced the following outputs related to the total costs currently experienced by family child care homes and centers.

### *Family Child Care*

Family child care providers are small business owners. The most significant input into a family child care business is the educator’s time. Most providers take the revenue remaining after expenses are paid as compensation rather than paying themselves a wage. The table below shows the annual **net revenue** (revenue minus expenses) experienced by a typical family child care program with 12 children enrolled, including differences by Parent Aware participation and geography. Net revenue must cover a provider’s living expenses, personal and business emergency savings, retirement savings and business growth.

#### **Annual Net Revenue for Family Child Care Models**

<b>Geography</b>	<b>Not Rated</b>	<b>One-Star</b>	<b>Two-Star</b>	<b>Three-Star</b>	<b>Four-Star</b>
Rural	\$28,789	\$29,416	\$29,518	\$29,286	\$28,864
Small Town	\$33,956	\$34,583	\$34,685	\$34,453	\$34,031
Large Town	\$33,749	\$34,376	\$34,478	\$34,246	\$33,824
Urban	\$56,796	\$57,423	\$57,525	\$57,293	\$56,871

### *Child Care Centers*

The typical centers depicted in the model experience the following annual **per-child costs** based on geography and Parent Aware Rating. These cost-per child values reflect the cost that it takes to operate at a per-child level, not the tuition that programs charge for care.

### Annual Cost per Child - Infants

Geography	Not Rated	One-Star	Two-Star	Three-Star	Four-Star
Rural	\$20,821	\$21,190	\$21,604	\$22,185	\$22,818
Small Town	\$19,836	\$20,181	\$20,576	\$21,134	\$21,742
Large Town	\$20,099	\$20,451	\$20,852	\$21,417	\$22,032
Urban	\$23,858	\$24,276	\$24,753	\$25,395	\$26,100

### Annual Cost per Child - Toddlers

Geography	Not Rated	One-Star	Two-Star	Three-Star	Four-Star
Rural	\$12,775	\$12,985	\$13,222	\$13,622	\$14,011
Small Town	\$12,211	\$12,409	\$12,634	\$13,022	\$13,394
Large Town	\$12,361	\$12,563	\$12,792	\$13,183	\$13,561
Urban	\$14,509	\$14,748	\$15,021	\$15,456	\$15,891

### Annual Cost per Child - Preschool

Geography	Not Rated	One-Star	Two-Star	Three-Star	Four-Star
Rural	\$9,555	\$9,702	\$9,869	\$10,196	\$10,488
Small Town	\$9,161	\$9,300	\$9,458	\$9,776	\$10,056
Large Town	\$9,267	\$9,407	\$9,568	\$9,889	\$10,173
Urban	\$10,770	\$10,937	\$11,128	\$11,481	\$11,806

## Findings

FCF analyzed the cost model outputs and developed case studies that shed light on the following key findings:

- **The current market does not support high cost of infant care.** The staffing patterns associated with caring for infants and toddlers are the largest driver of variation in the cost of care. Current revenue does not support the cost of infant care in any geographic, quality, or license type scenario across both centers and family child care.
- **The current child care business model is not sustainable in greater Minnesota.** The model demonstrates that, across geography, the costs programs experience vary less than the tuitions local markets can afford. Because urban markets support higher tuition rates, CCAP rates in urban areas are more aligned with the per-child cost of care. In comparison, the lower tuition rates in rural areas mean that CCAP rates for rural programs fail to meet the per-child cost of care across all age groups.
- **The true cost of quality is unmet by the current market.** The study looked at costs of providing higher quality care. The Parent Aware Standards and Indicators were used in this report as a proxy for measuring program quality. Four-Star Parent Aware Rated centers reported higher wages and increased benefits to attract and retain qualified staff. Four-Star Rated family child care providers reported working an additional three hours a week. The resources available to programs in the ECE system do not offset these costs.
- **COVID-19 relief funding supported programs.** The model demonstrates that the Child Care Stabilization Grant Program and other supports were critical to stabilizing programs during the pandemic. Based on statewide average models, COVID-19 supports increased family child care annual net revenue by over \$10,000 and took the center model from a net loss to a three percent profit margin. A descriptive analysis conducted by the Minnesota Department of Management and Budget found similar results regarding the Child Care Stabilization Grant Program.<sup>1</sup>
- **Business model sustainability limits opportunities for start-up and expansion.** FCF modeled several expanded and innovative family child care license types that have the potential to increase child care supply, especially for infants and toddlers. However, programs operating these license types earn significantly lower net revenues than those with more common licenses. FCF also modeled larger centers as a means of serving additional children. These larger than average centers are more sustainable in urban markets.
- **Special attention to equity considerations is needed.** FCF explored case studies representing programs operating in a language other than English, programs operating in an area of high economic need, programs with 80 percent CCAP enrollment, and programs providing inclusive care for children with special needs. These programs experienced reduced net revenues when compared to a standard model. Understanding specific costs and revenue impacts of these scenarios can facilitate tailored supports for the sustainability of these programs.

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<sup>1</sup> Minnesota Management and Budget (2023). *Child Care Stabilization Base Grants Descriptive Analysis: Final Report*. Retrieved from [https://mn.gov/mmb/assets/final\\_report\\_20230228\\_tcm1059-560081.pdf](https://mn.gov/mmb/assets/final_report_20230228_tcm1059-560081.pdf)



## Future State Considerations: Using Cost Models

In addition to understanding what it currently costs to provide care, this study sought to explore what it would cost to provide care in a future state of sustainable, high-quality care. To define what would be included in the future state models, FCF used feedback from listening sessions, community conversations, and from a provider advisory group. FCF aligned model inputs with the recommendations from the Great Start for All Minnesota Children Task Force Final Report.<sup>2</sup>

This future state scenario would result in an annual per-child cost of \$14,184 in family child care programs, \$35,472 for center-based infant care, \$21,846 for center-based toddler care, and \$16,395 for center-based preschool.

The department is working to close opportunity gaps for families with low incomes, children of color, and American Indian children by improving access to quality early learning opportunities. When children enter kindergarten, too many face experience gaps in outcomes and opportunities driven by income, race, ethnicity, and language. Minnesota has some of the worst achievement gaps nationally between white and students of color, and an underlying cause of these gaps is lack of access to quality early learning programs. The findings in this report help illustrate the well-established challenges faced by the child care market in Minnesota and nationwide. Multiple states now use cost estimation models to inform reimbursement rates that account for the cost of providing quality care. Minnesota will use the information in this report and upcoming work on provider wage scales to explore setting payment rates using the true cost of care.

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<sup>2</sup> Great Start for All Minnesota Children Task Force (2023). *Final Report: Great Start for All Minnesota Children Task Force*. Minnesota Management and Budget. Retrieved from [https://mn.gov/mmb/assets/Final%20Great%20Start%20for%20All%20MN%20Children%20Task%20Force%20Report%202.1.23\\_tcm1059-562456.pdf](https://mn.gov/mmb/assets/Final%20Great%20Start%20for%20All%20MN%20Children%20Task%20Force%20Report%202.1.23_tcm1059-562456.pdf)

## Introduction

In fall 2021, the Minnesota Department of Human Services contracted with First Children’s Finance (FCF) to develop a cost model to estimate the cost of providing child care in Minnesota. State agencies administering Child Care Assistance Programs (CCAP) under the Child Care and Development Block Grant Act of 2014 must consider cost information as part of their process to certify that child care assistance payment rates provide equal access to child care for eligible children when compared with children accessing care through the private child care market. The cost model developed by FCF is designed to meet federal requirements for this process as well as inform policies and potential investments tied to supporting access to child care. The model estimates the cost of meeting health and safety requirements for licensed child care programs in Minnesota. It calculates per-child costs and estimated program revenues and demonstrates how they vary based on the age of children served, geographic location, license type and quality of care.

In partnership with the department, FCF further adjusted this base cost model to explore common scenarios associated with providing child care to Minnesotan families. These scenarios have been depicted as case studies throughout the report. The case studies are intended to support the development of nuanced policy and programming to increase child care supply and quality. The case studies delve deeper into urban and rural cost variations. They consider barriers to building and maintaining the supply of family child care, including the costs experienced by new programs and the costs of providers operating expanded and innovative license types. They address access and equity by considering the financial impacts experienced by programs offering alternative hour care, programs serving families who are economically disadvantaged, programs serving children with disabilities, and programs meeting the linguistic needs of children in Minnesota. Finally, the case studies provide a timely analysis of the impact of COVID-19 and public preschool expansion on the changing child care business model.

In addition to quantifying the costs currently experienced by child care programs, cost studies are an opportunity to consider the costs associated with fully realizing the promise of high-quality child care for all Minnesotans. In partnership with the department and in consultation with child care programs and partners, FCF developed a future cost model that operationalizes the recommendations established by the [Great Start for All Minnesota Children Task Force](#). The model depicts the recommendations’ impact at a program level. In this future state scenario, the cost model was adjusted to estimate the per-child costs of carrying out competitive compensation to recruit and retain a highly qualified workforce, increasing programmatic support to sustain, grow, and launch programs, and enhancing quality supports to provide all Minnesota children with a great start.

These cost models were designed to enable the department to explore new approaches to setting CCAP payment rates. They meet the federal requirements for a narrow cost analysis to be used along with a market rate study to inform rate setting. This study predates the 2023 legislative directives to develop plans to use the cost model with provider wage scales as an alternative methodology for rate setting and to establish the Great Start Scholarship Program. This study serves as a foundation for future iterations of the cost model, which will be updated and adapted to meet these directives.

## How Cost Studies Support Child Care Access, Quality and Equity

A cost study estimates the costs associated with providing care for children, including staff salaries and benefits, facilities and food costs, insurance, curricula and materials. Most states now conduct cost studies in conjunction with market rate surveys/market rate studies (MRS) to inform CCAP rate setting. Cost of care studies are different from MRS in important ways. While the MRS provides information about the prices charged for child care services, a cost study focuses on the actual expenses associated with caring for children. Studies in Minnesota and other states have shown that for many child care programs, the price of tuition does not reflect the full cost of providing care, especially high-quality care.<sup>3,4</sup> Most child care programs set tuition rates based on what local families can afford and rely on various cost-cutting measures to balance their budgets. Some cost-cutting strategies, such as depending on donated facility space, fundraising, or volunteer labor, limit child care supply in communities where these resources are not readily available. Other measures, such as offering low wages and few benefits to staff, limit child care supply and impact the quality of care. As this report will demonstrate, the tuition families can afford varies more than the cost of providing child care services. Therefore, the difference between child care price and child care cost is experienced inequitably. Setting policies like CCAP payment rates based only on price, without understanding costs, can perpetuate underinvestment and inequity.

### *Limitations of Cost Modeling*

Cost studies use models to represent the average costs experienced by different types of child care programs. As described in the methodology section of this report, cost models are developed using data from many child care programs (e.g., the average cost of insurance) as well as assumptions informed by child care business owners and administrators (e.g., common staffing and enrollment patterns). Because models are based on averages and assumptions, they will not perfectly match the costs of any individual program. Cost models provide information that can inform a wide range of policy questions. However, the information produced by the cost models is too high-level to be appropriate for programs to use to make individual business choices. Child care programs should make individualized choices about program quality and other business investments.

The nature of cost modeling requires making assumptions about model inputs. It is not feasible to collect detailed program cost data from every child care program in the state. As a result, cost modelers, informed by child care businesses, must make assumptions about how to interpret and apply data and trends. However, these assumptions may result in some limitations. Throughout this study, FCF relies on median regional data to model program revenues. The study did not include analysis of tuition data and consistent revenues were used across models. In practice, programs may be adjusting their tuition rates to address higher costs, including costs associated with higher quality. These individual differences in tuition are not reflected in cost model revenues and resulting net revenue. Among child care centers, Four-Star Rated programs provided the vast majority of

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<sup>3</sup> Minnesota Department of Human Services. (2020). *Minnesota Cost Modeling Report*. Retrieved from <https://edocs.dhs.state.mn.us/lfserver/Public/DHS-7180-ENG>

<sup>4</sup> Bipartisan Policy Center. (2020). *The Limitations of Using Market Rates for Setting Child Care Subsidy Rates*. Retrieved from <https://bipartisanpolicy.org/report/the-limitations-of-using-market-rates-for-setting-child-care-subsidy-rates/>

data collected from Parent Aware Rated programs. As a result, FCF made assumptions about quality-related costs for One-, Two- and Three-Star Rated programs. These assumptions are detailed later in the report.

## Child Care Landscape in Minnesota

Child care in Minnesota is provided in a mixed delivery model. This report focuses on child care centers and family child care providers licensed by the state of Minnesota.<sup>5</sup> This report will use the term “program(s)” to refer to both licensed centers and licensed family child care providers. Family child care providers offer small group child care in their homes or small nonresidential facilities. Licensed child care centers and family child care providers meet standards to ensure a healthy, safe, and nurturing environment. Licensed programs are subject to biannual inspections. In December 2021, licensed child care in Minnesota was provided by 8,460 total license holders, including 1,787 child care centers and 6,673 family child care providers. These programs offered 156,395 licensed child care slots for infants, toddlers, and preschoolers, with another 74,796 licensed slots for school-aged children.<sup>6</sup>

### Characteristics Of Minnesota Licensed Child Care Programs: Size and Entity Type

Across Minnesota, the average licensed capacity for a family child care provider is 12 children, with a minimum of 5 and a maximum licensed capacity of 14.<sup>7</sup> The average licensed capacity for family child care providers does not vary geographically. Providers may have their own desired capacity and enroll fewer children than their license allows.

The average licensed capacity for a child care center is 81 children. The minimum licensed capacity for a center is 4 children, and the maximum licensed capacity is 549. Like family child care providers, center operators may have a desired capacity lower than their license allows.

One-third of centers have licensed enrollments of less than 50. Smaller centers experience fewer economies of scale and are typically more financially vulnerable than larger centers. In Minnesota, the average licensed capacity decreases as centers become more rural. The average urban center has a licensed capacity of 88 children, while the average rural center has a licensed capacity of 45. A case study on page 39 of this report explores the cost model for small, rural child care centers.

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<sup>5</sup> Certified, license-exempt programs were not included in the study. Certified, license-exempt child care is offered by elementary schools, parks and recreation programs, YWCA and JCC after-school programs, among others. Tribally licensed child care programs do not appear in this study unless they are also licensed by the state of Minnesota.

<sup>6</sup> Analysis of child care licensing data from the department, as of December 2021.

<sup>7</sup> Analysis of child care licensing data from the department, as of December 2021.

Analysis of licensing data suggests that 61 percent of centers operate from a single location, 14 percent are small chains with two or three sites, and 26 percent of centers in Minnesota are part of large chains with four or more sites. 56 percent of licensed centers participating in this cost study were nonprofit entities.<sup>8</sup>

## The Current Cost Model in Context

Nationwide, child care is a market failure. Parents and caregivers typically experience child care costs early in their careers when they are least able to afford them.<sup>9</sup> While current tuitions are unaffordable for many families, the cost model demonstrates the challenges of establishing the needed supply of child care programs at 2022-2023 funding levels, especially for those offering higher quality care. These challenges of access, quality, and affordability are described in the subsequent sections.

### Child Care Access

In 2021, there were 410,645 children in Minnesota under the age of six.<sup>10</sup> 296,000 of these children had all available parents in the workforce and are presumed to need some form of child care.<sup>11</sup> Access to the approximately 150,000 licensed child care slots for children ages birth to five is not equally distributed. The need for additional child care capacity is experienced across the state and has worsened in almost every region over the last several years.<sup>12</sup> However, the declining availability of licensed family child care has contributed to a particularly severe child care shortage in Greater Minnesota.<sup>13</sup> The cost model helps demonstrate why. When comparing the experiences of programs across the state, differences in program costs between rural and urban programs are smaller than differences in tuition. In the market outside of urban areas, programs are more limited in the tuition they can charge. However, the cost to operate programs does not differ as dramatically across geography as tuition. **Determining rates based on the cost of providing care instead of price would likely have the most dramatic impact in Greater Minnesota.**

Child care access also varies by age group. There are 43 licensed preschool slots for every 100 children whose parents work in Minnesota. By the same metric, there are only 23 infant and toddler slots.<sup>14</sup> Again, the cost model demonstrates why. Lower child-to-staff ratios and group sizes for younger children increase labor costs

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<sup>8</sup> There are no comparative data available to determine if this is an overrepresentation of nonprofit licensed child care centers. In 2019, 46 percent of licensed and certified child care centers reported nonprofit status.

[https://mn.gov/dhs/assets/NSECE%20MN%20Center%20Based%20Program%20Characteristics\\_2019\\_tcm1053-567919.pdf](https://mn.gov/dhs/assets/NSECE%20MN%20Center%20Based%20Program%20Characteristics_2019_tcm1053-567919.pdf)

<sup>9</sup> U.S. Department of Treasury. (2021). *The Economics of Child Care Supply in the United States*. Retrieved from

<https://home.treasury.gov/system/files/136/The-Economics-of-Childcare-Supply-09-14-final.pdf>

<sup>10</sup> Kids Count Data Center. (2023). [Dataset]. In *Child Population by Single Age in Minnesota*. Annie E. Casey Foundation.

<https://datacenter.aecf.org/data/tables/100-child-population-by-single-age?loc=25&loct=2#detailed/2/25/false/2048,573,869,36,868/42,43,44,45,46,47/418>

<sup>11</sup> Children's Defense Fund. (2022). *Minnesota Kids Count: Thriving Children, Thriving Minnesota 2022*. Retrieved from <https://cdf-mn.org/wp-content/uploads/sites/5/2022/12/MN-KidsCountReport-2022-Digital-Spreads.pdf>

<sup>12</sup> First Children's Finance. (2022). *Child Care Need Summary*. Retrieved from <https://www.ruralchildcare.org/data>

<sup>13</sup> Center for Rural Policy and Development. (2021). *Child care in rural Minnesota after 2020*. Retrieved from

<https://www.ruralmn.org/child-care-in-rural-minnesota-after-2020/>

<sup>14</sup> Child Care Aware of America (2020). *Minnesota: Access 2020*. Retrieved from <https://www.childcareaware.org/our-issues/research/ccdc/state/mn/>

when caring for these age groups. The true cost of caring for infants is more than most families can afford. Programs that enroll infants charge tuitions below their expenses and make up the difference by caring for preschool aged children, who are less expensive to care for. However, recent public preschool expansion and COVID-19 related workforce trends have potentially jeopardized this strategy.<sup>15</sup> **Setting payment rates based on cost rather than tuition could dramatically affect CCAP rates for infants and toddlers.**

Public pre-kindergarten expansion has the potential to support child care access for preschool children across the state. However, expansion may result in unintended consequences for the child care sector more broadly. Cost models that explore the impact of low preschool enrollment on program sustainability are presented on pages 36 and 34. This potential impact of public pre-kindergarten expansion and decreased preschool enrollment among child care programs is mitigated when expansion is designed within a mixed delivery system. The Walz Administration has reflected this need for a mixed delivery model in public pre-kindergarten proposals. Proposals have been inclusive of child care centers and family child care providers to include child care programs in public pre-kindergarten funding, ensuring family choice and mitigating fiscal impact on child care programs.

In practice, child care access is more complex than the ratio of children to child care slots. For child care to be truly accessible, it must meet families' specific needs. Currently:

- 63 percent of child care centers and 26 percent of family child care providers accept CCAP<sup>16</sup>. The dynamics of programs serving a majority of families using CCAP are explored on page 51.
- Despite a growing number of parents working nonstandard hour schedules<sup>17</sup>, only 18 percent of centers and 3 percent of family child care providers report operating for more than 12 hours per day<sup>18</sup>. The costs of offering alternative hour care are explored on page 51.
- 57 percent of centers and 14 percent of family child care providers in the cost survey were currently serving dual-language learners. The experiences of programs offering linguistically and culturally responsive care are explored on page 51.
- Nationally, parents of children with disabilities report more challenges accessing child care.<sup>19</sup> 86 percent of centers and 52 percent of family child care providers in the cost survey were currently serving children with a diagnosed or potential disability. The experiences of programs serving children with increased needs are explored on page 51.

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<sup>15</sup> Federal Reserve Bank of Minneapolis. (2023). *Minnesota child care sector struggles as business model changes*. Retrieved from <https://www.minneapolisfed.org/article/2023/minnesota-child-care-sector-struggles-as-business-model-changes>

<sup>16</sup> Analysis of CCAP participation data provided by the department.

<sup>17</sup> Child Care Aware of America. (2019). *It's About Time: Parents Who Work Nonstandard Hours Face Child Care Challenges*. Retrieved from <https://info.childcareaware.org/download-nonstandard-hours-report>

<sup>18</sup> Of the 6,541 providers reporting operating hours in the 2021 Market Rate Survey.

<sup>19</sup> Henly, J.R. & Adams, G. (2018). *Insights on Access to Quality Child Care for Children with Disabilities and Special Needs*. Retrieved from [https://www.urban.org/sites/default/files/publication/99146/insights\\_on\\_access\\_to\\_quality\\_child\\_care\\_for\\_children\\_with\\_disabilities\\_and\\_special\\_needs\\_1.pdf](https://www.urban.org/sites/default/files/publication/99146/insights_on_access_to_quality_child_care_for_children_with_disabilities_and_special_needs_1.pdf)

## Child Care Quality

A robust body of research links quality early care to increased success in school, fewer instances of students needing to repeat grades, increased high school and college graduation rates, increased lifetime earnings, and reduced incarceration rates, among other positive social outcomes.<sup>20 21</sup> These outcomes are found across mixed delivery settings. Early care is education. Community-based early care and education is linked to meaningful educational and life outcomes. Sustained high-quality experiences are particularly important for children from lower-income backgrounds.<sup>22</sup> Unfortunately, children from low-income backgrounds are least likely to have access to high-quality programs.<sup>23</sup> Low-quality early care environments have the “potential to exacerbate the adversity and sustained toxic stress children face that are often associated with living in poverty,” in particular, “low-income males who were in low-quality settings experienced reduced health outcomes and earned lower wages later in life than those who attended quality programs or were able to stay home with a parent or family member.”<sup>24</sup>

Quality care comes in many shapes and sizes but shares common ingredients. At its foundation, child care quality is built on positive, enriching child-teacher interactions and relationships. These positive interactions are supported through education and professional development for the child care workforce, small child-staff ratios and group sizes, evidence-based curriculum and instructional supports, and safe and stimulating learning environments. As demonstrated in research and reflected in the cost model, these ingredients come with a significant cost.<sup>25</sup>

In Minnesota, child care quality is measured through the Parent Aware Quality Rating and Improvement System (QRIS). Programs that engage in the Parent Aware Rating process earn a One-, Two-, Three-, or Four-Star Rating. 75,011 early care and education slots were offered in programs that achieved a Four-star Rating in Parent Aware.<sup>26</sup> This study predates 2023 legislative changes that will issue One-Star Ratings to licensed programs unless they opt out, starting in 2026. All Rated programs in the study, including One-Star programs, voluntarily earned Ratings in the QRIS.

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<sup>20</sup> McCoy, D. C., Yoshikawa, H., Ziol-Guest, K. M., Duncan, G. J., Schindler, H. S., Magnuson, K., Yang, R., Koepp, A., & Shonkoff, J. P. (2017). Impacts of Early Childhood Education on Medium- and Long-Term Educational Outcomes. *Educational Researcher*, 46(8), 474–487. <https://doi.org/10.3102/0013189X17737739>

<sup>21</sup> The Center for High Impact Philanthropy (2016). *Early Childhood: High Return on Investment*. Retrieved from <https://live-penn-impact.pantheon.io/wp-content/uploads/2016/2015/06/Why-Invest-High-Return-on-Investment.pdf>

<sup>22</sup> Bustamante, A. S., Dearing, E., Zachrisson, H. D., & Vandell, D. L. (2022). Adult outcomes of sustained high-quality early child care and education: Do they vary by family income? *Child Development*, 93, 502– 523. <https://doi.org/10.1111/cdev.13696>

<sup>23</sup> First Five Years Fund. (2022). High-Quality Early Learning & Care: Understanding the Proven Benefits & Need for Investment. Retrieved from <https://www.ffyf.org/high-quality-early-learning-care-understanding-the-proven-benefits-need-for-investment/>

<sup>24</sup> First Five Years Fund. (2022).

<sup>25</sup> Grunewald, R. & Stepick, L. (2022). *What drives the cost of high-quality early care and education?* Federal Reserve Bank of Minneapolis. Retrieved from <https://www.minneapolisfed.org/article/2022/what-drives-the-cost-of-high-quality-early-care-and-education>

<sup>26</sup> Child Care Aware of America (2020). *Minnesota: Access 2020*. Retrieved from <https://www.childcareaware.org/our-issues/research/ccdc/state/mn/>

The data collected in this study considered the costs of providing higher quality care by examining costs of child care programs holding different Parent Aware Star Ratings.<sup>27</sup> For example, Four-Star Rated programs reported offering higher wages, more paid time off (PTO), and additional benefits compared to programs without a Rating, as strategies to retain quality staff. Although these benefits and wages are not named in the Parent Aware Standards and Indicators, Four-Star programs reported they were necessary to recruit and retain qualified teachers. When FCF asked about costs associated with quality, all programs, including those not participating in Parent Aware, cited the importance of limiting turnover and maintaining continuity of care through improved workforce compensation. Current quality incentives (for example, Parent Aware Grants and higher CCAP reimbursement rates) are inadequate to cover the costs associated with higher quality.

### *Child Care Affordability*

Child care in Minnesota is primarily funded through family tuition (often called private pay). Child care is one of the most significant expenses that Minnesotan families face. Infant care, in particular, costs almost \$5,000 more per year than in-state college tuition and 30.8 percent more than average rent.<sup>28</sup> Unaffordability and workforce shortages help explain the paradox of families struggling to access care while programs report under enrollment.

Minnesota primarily supports child care affordability for families through:

- \$214.8 million in federal, state, and county funding for CCAP in FY21<sup>29</sup>;
- \$70.7 million in Early Learning Scholarships to support families' participation in Parent Aware Rated programs in FY21<sup>30</sup>.

Generally, the source of revenue, whether family tuition or public programs, does not impact the cost model. Exceptions occur when relevant policies or common practices change how much revenue is fully collected. These include CCAP payment policies related to family child care provider PTO as well as programs' choosing not to bill families using CCAP the difference between private tuition rates and what CCAP will pay. These dynamics are explored in a case study on page 51. Although the cost model does not directly address child care affordability, it is important to note that although current revenue is inadequate to cover the true cost of care, it represents a tremendous cost for Minnesotan families.

### **Future State Cost Model in Context**

This study uses the term “future state” to describe a cost model that quantifies the investment needed to address Minnesota’s access and quality challenges. In 2021 Governor Walz signed enabling legislation for the

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<sup>27</sup> Minnesota Department of Human Services. (2016). *Parent Aware Quality Rating and Improvement System: Standards and Indicators*. Retrieved from <https://edocs.dhs.state.mn.us/lfsrserver/Public/DHS-6346B-ENG>

<sup>28</sup> Economic Policy Institute. (2020). *Child Care Costs in the United States: Minnesota*. Retrieved from <https://www.epi.org/child-care-costs-in-the-united-states/#/MN>

<sup>29</sup> Minnesota Department of Human Services. (2022). *Child care assistance: Facts and figures for State Fiscal Year 2021*. Retrieved from <https://edocs.dhs.state.mn.us/lfsrserver/Public/DHS-4745-ENG>

<sup>30</sup> National Institute of Early Education Research. (2023). *State Preschool Yearbook: Minnesota*. Retrieved from [https://nieer.org/wp-content/uploads/2023/05/Minnesota\\_YB2022.pdf](https://nieer.org/wp-content/uploads/2023/05/Minnesota_YB2022.pdf)



Great Start for All Minnesota Children Task Force. The purpose of the task force was to develop a state plan to ensure “all families have access to affordable, high-quality early care and education that enriches, nurtures, and supports children and their families.”<sup>31</sup> The task force completed their report on February 1, 2023. The cost model is not a fiscal analysis of the total costs to implement the task force recommendations. However, the future state cost model depicts a vision of what a program cost structure aligned with the recommendations of the task force might look like and provides a per-child cost of these recommendations. The cost model reflects the recommendations of the task force in the following ways:

- **Accessibility:** Positive program revenues incentivize and support increased child care start-up and program expansion.
- **Effectiveness:** All programs have funding to cover the costs of training, materials, engagement with families and other supports needed to provide high quality care and education services.
- **Supported Workforce:** Staff receive additional time off, and additional pedagogical leadership within the center supports reflective supervision.
- **A Healthy Business Environment:** All programs have access to Child Care Management Systems (CCMS); competitive wages are offered for administrative staff (e.g., administrative assistants, accountants).
- **Compensation:** Teaching staff compensation is offered in accordance with recommendations; competitive wages are offered for other staff positions (e.g., directors, cooks).
- **Benefits:** Benefits are offered in accordance with recommendations.
- **Time Off:** Personal time off is offered in accordance with recommendations.

Provider listening sessions, partner conversations with provider advocacy organizations, and the provider-led advisory group for the cost study also informed the future state model. More detail on the inputs of the future state cost model can be found starting on page 52 of this report.

For the purposes of the cost study, the source of revenue in the future state is not defined. As recommended by the task force, a fiscal study of the systems-level cost of implementing these recommendations and a strategic financing study to identify and assess the revenue options available are necessary to inform the implementation of these recommendations.

## Impact of COVID-19 on the Cost Model

While the early months of the COVID-19 pandemic saw widespread and extreme disruption across the child care sector, by the time data collection from this study occurred in 2022-2023, programs reported more variation in experiences. In both this study and others exploring child care business sustainability during the same time period, several themes emerged. First, programs reported an uneven return to previous levels of enrollment. Although some programs reported enrollment had returned to pre-pandemic levels, others described changing enrollment dynamics, including a potential reduction of preschool-aged children enrolled due to parents

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<sup>31</sup> Great Start for All Minnesota Children Task Force (2023). *Final Report: Great Start for All Minnesota Children Task Force*. Minnesota Management and Budget. Retrieved from [https://mn.gov/mmb/assets/Final%20Great%20Start%20for%20All%20MN%20Children%20Task%20Force%20Report%202.1.23\\_tcm1059-562456.pdf](https://mn.gov/mmb/assets/Final%20Great%20Start%20for%20All%20MN%20Children%20Task%20Force%20Report%202.1.23_tcm1059-562456.pdf)

working from home.<sup>32</sup> The impact of reduced preschool enrollment on the program business model is explored in the case studies on page 36 and 34. Programs participating in the cost survey reported average current enrollments of 77 percent of licensed capacity in family child care and 73 percent of licensed capacity in centers. Both averages were concerningly below the best practice of maintaining at least 85 percent enrollment to ensure program sustainability.

Reduced enrollment is closely connected to the second theme: severe workforce shortages. In a survey completed during the same time frame, centers across the state reported that 10-20 percent of their licensed capacity could not be enrolled due to a lack of staff.<sup>33</sup> Child care workforce shortages were a challenge in Minnesota before the pandemic.<sup>34</sup> Nationally, the field lost over 100,000 workers during the pandemic and has yet to return to February 2020 staff counts.<sup>35</sup> A third theme was the rapid rise in inflation during the data collection period. Rising costs were a widely cited concern by participants in the study. Rising costs for food, transportation, and utilities were most referenced, which aligns with economic data from the time period.<sup>36</sup> While shifting enrollment patterns, workforce shortages, and inflation arose during the COVID-19 pandemic, it is unclear when or if these challenges will subside. The cost model reflects these dynamics as part of the ongoing costs of providing child care.

In response to the challenges brought by COVID-19 and subsequent economic and social upheaval, child care programs received unprecedented federal and state funding during the data collection period. The largest source of support was the Child Care Stabilization Grant Program. In Minnesota, Child Care Stabilization Grants were structured as base grants and financial hardship grants. Base grants were offered monthly from June 2021 to June 2023. During the first year of the grant program, which overlapped with data collection for this study, over 7,504 unique providers received a base grant. The average monthly grant amount was \$1,657, and grants ranged in award from \$4 to \$30,612, depending on the size and type of program. Grant recipients were required to use 70 percent of the grant award to increase staff compensation. In an evaluation conducted by the department, 70 percent of base grants received by licensed child care centers were used to provide staff bonuses, 64 percent were used to increase hourly wages, 21 percent were used to increase or improve benefits, and 8 percent used another method to increase compensation (grants could be used for multiple purposes). Programs experiencing extreme financial hardship could also apply for hardship grants which ranged from

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<sup>32</sup> Tran, T. (2022). *Half of Minnesota child care providers unsure how long they'll remain in business*. Federal Reserve Bank of Minneapolis. Retrieved from <https://www.minneapolisfed.org/article/2022/half-of-minnesota-child-care-providers-unsure-how-long-theyll-remain-in-business>

<sup>33</sup> Pearl, S. & Horowitz, B. (2023). *Regional Economic Conditions: Health of the Minnesota Child Care Sector*. First Children's Finance and Federal Reserve Bank of Minneapolis. <https://www.minneapolisfed.org/-/media/assets/events/2023/regional-economic-conditions-health-of-the-minnesota-child-care-sector/fcf-mpls-fed-2023-cc-provider-survey.pdf>

<sup>34</sup> Casale, O. (2019). *Workforce Shortages in Minnesota's Early Learning Industry*. Minnesota Department of Employment and Economic Development. Retrieved from <https://mn.gov/deed/newscenter/publications/review/march-2019/early-learning.jsp>

<sup>35</sup> Center for the Study of Child Care Employment. (2023). *Child Care Sector Jobs: BLS Analysis*. Retrieved from <https://cscce.berkeley.edu/publications/brief/child-care-sector-jobs-bls-analysis/>

<sup>36</sup> Mahon, J. & Fitzgerald, T. (2022). *Inflation and the Fed's Response*. Federal Reserve Bank of Minneapolis. [https://www.minneapolisfed.org/-/media/assets/events/2022/conversations-with-the-fed-inflation-101/cwtf\\_inflation101\\_3-31-2022.pdf](https://www.minneapolisfed.org/-/media/assets/events/2022/conversations-with-the-fed-inflation-101/cwtf_inflation101_3-31-2022.pdf)

\$1,500 to \$68,000, depending on the size and type of program.<sup>37</sup> Programs also realized benefits from additional Child and Adult Care Food Program (CACFP) revenue, Child Care Facility Revitalization Grants, state-funded background checks for staff, and expanded access to and uptake of online and free training. The case study on pages 43 and 44 explores the impact of these supports on child care net revenues.

Because the cost model was intended to inform rate setting after the conclusion of these supports, the base model does not include Child Care Stabilization Grant revenue; it does include costs for background checks as well as a return to typical program costs of training staff. The cost model includes program wages as reported during the data collection period. Many of these wages were likely supported by Child Care Stabilization Grant revenue. Unadjusted wages were included in the model based on the assumption that programs will need to maintain raised wages to retain staff as they navigate severe workforce shortages (as described on page 43). The net losses depicted in the cost model across almost all geographies and quality ratings illustrate just how challenging maintaining these wages would be without the Great Start Compensation Support Payment Program and other interventions enacted during the 2023 legislative session.<sup>38</sup>

## Methodology

The study was completed between October 2021 and July 2023. FCF completed project planning, study design, and initial community engagement from October 2021 through July 2022. Data collection spanned July 2022 through February 2023. Finally, FCF completed data analysis and reporting from January through July 2023.

## Community Engagement

First Children’s Finance used three primary approaches to ensure that the cost model and resulting report reflected the experiences of child care programs.

### Cost of Care Advisory Group

First Children’s Finance engaged with eight child care providers to inform all aspects of the study. FCF intentionally built an advisory group that represented the diversity of providers in the state. Attention was paid to the diversity of program types (family child care and centers), licensed capacity, program structure, Parent Aware participation, and racial and ethnic identity. Providers received a stipend for their participation in the advisory group. FCF engaged providers monthly to inform each phase of the study.

### Listening Sessions

First Children’s Finance held two listening sessions with child care programs in the spring of 2022. These listening sessions sought to increase awareness of the study and to gather input from a broader range of child

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<sup>37</sup> Department of Human Services. (2022). *Child Care Stabilization Grant summary – year one*. Retrieved from <https://edocs.dhs.state.mn.us/lfserver/Public/DHS-8330A-ENG>

<sup>38</sup> Department of Human Services. (2023) *Great Start Compensation Support Program*. Retrieved from <https://mn.gov/dhs/partners-and-providers/grants-rfps/great-start-grants/>

care programs. Each listening session had a different content focus. One session focused on the impact of COVID-19 and broader inflation on specific program costs. The other addressed the ways that programs define program quality and the ways that quality drives program costs. 80 participants attended across the two sessions (duplicated count). Feedback from the listening sessions informed data collection tools, data analysis, and the inputs included in the cost models.

## Partner Conversations

First Children’s Finance also held conversations with seventeen organizations across the state who are engaged in the child care sector. The department and FCF partnered to identify these organizations. Organizations included statewide provider networks, Initiative Foundations, professional development agencies, advocates, Parent Aware Coaches, and other state government departments. Each partner conversation included an overview of the study and feedback questions specific to the organization. Partner conversations informed data collection tools, data analysis, and inputs included in the cost model. Partners also supported outreach efforts during the data collection process.

## Administrative Data

First Children’s Finance used administrative data provided by the department throughout the study to support accurate data collection and reduce the data collection burden on child care programs. This included child care licensing data, Parent Aware participation data, 2021 Market Rate Survey tuition data<sup>39</sup>, and Child Care Assistance Program (CCAP) participation and payment data. Administrative data provided confirmation that data collected for the present study represented the field of programs in the state. FCF also matched administrative data with survey and business interview responses to limit the number of questions asked of programs. Administrative data were used to inform decisions on the inclusion of particular costs or characteristics in the cost models.

This cost study uses the Rural Urban Commuting Area (RUCA) codes to define geographic groupings.<sup>40</sup> The Census tract of each program was used to categorize programs into urban, large town, small town and rural. This approach to geographic groupings sought to provide more variation in the costs and experiences in greater Minnesota.<sup>41</sup> While this provides increased detail on the experiences in greater Minnesota, the categorization of urban is broader than in previous cost modeling. Programs in the Twin Cities metro, St. Cloud, Rochester and Duluth are categorized as urban in this report. Commuter towns associated with those metros and metro areas in neighboring states are also included in the urban programs.

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<sup>39</sup> Minnesota Department of Human Services. (2021). *Final Report for the 2021 Child Care Market Price Analysis*. Retrieved from <https://edocs.dhs.state.mn.us/lfservlet/Public/DHS-6226G-ENG>

<sup>40</sup> U.S. Department of Agriculture, Economic Research Service. (2023). *Rural-Urban Commuting Area Codes*. Retrieved from <https://www.ers.usda.gov/data-products/rural-urban-commuting-area-codes/documentation/>

<sup>41</sup> Minnesota State Demographic Center. (2017). *Greater Minnesota: Refined & Revisited*. Retrieved from <https://mn.gov/admin/demography/reports-resources/greater-mn-refined-and-revisited.jsp>

## Survey

The Minnesota Cost of Care program survey was open for participation from July 2022 through November 15, 2022. During this time, First Children’s Finance (FCF) promoted the survey through community partners, targeted follow-up emails, and FCF’s own communications channels. In September 2022, FCF paused data collection, identified gaps in survey participation, and conducted targeted outreach to programs. Overall, FCF collected 855 useable responses from family child providers and 243 useable responses from child care centers. This represents a 13 percent participation rate among both family child care providers and centers and meets the 10 percent participation goal.

Survey questions focused on costs where FCF expected there would be wide variety, especially across quality and geography. The center survey focused on staffing patterns, staff wages, benefits, and program enrollments. The family child care survey focused on program enrollment, quality costs, and occupancy costs.

## Demographics of Participants

The full demographic characteristics of survey participants is shown in detail in Appendix A. The survey sample was geographically representative across RUCA codes of urban, large town, small town and rural classifications, as well as regionally representative. The sample was also socioeconomically representative. FCF used the Social Vulnerability Index (SVI) of the area where the program was located to measure and estimate socioeconomic variability. The SVI is a measure created by the Centers for Disease Control (CDC), that uses 16 United States Census indicators to identify communities experiencing high levels of social vulnerability. The CDC defines social vulnerability as, “the potential negative effects on communities caused by external stresses on human health.”<sup>42</sup>

Participants representing programs with Four-Star Parent Aware Ratings were overrepresented in the survey. Programs participating in CCAP were also over represented in the survey. FCF worked to correct the overrepresentation of Parent Aware and CCAP in data analysis, where appropriate. Focused outreach was completed in the fall of 2022 to increase response rates from programs not rated by Parent Aware or participating in CCAP.

## Business Interviews

First Children’s Finance completed 31 interviews, covering 33 individual sites. At the end of the survey, programs indicated if they were interested in participating in a compensated business interview as part of the study. FCF reached out to a sample of programs in alignment with data collection goals for representation across geography and Parent Aware participation. In addition to survey participants, FCF received referrals to potential interview participants from FCF Business Development Specialists and the advisory group.

Before the interview, business interview participants shared financial documents (Schedule Cs, program budgets, profit and loss statements, and financial analyses completed by FCF Business Development Specialists). FCF staff analyzed these documents and walked through a structured interview protocol to better understand

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<sup>42</sup> Agency for Toxic Substances and Disease Registry (2023). *CDC/ATSDR Social Vulnerability Index*. Retrieved from <https://www.atsdr.cdc.gov/placeandhealth/svi/index.html>

the costs programs experienced across a range of cost categories. While survey questions focused on specific costs, business interviews covered all costs programs experience. Participants were compensated for their participation.

## **Analysis**

Data from surveys and business interviews was cleaned, with extreme outliers removed, and summarized to identify average costs for each cost indicator. FCF reviewed potential differences in average costs by Parent Aware participation and Rating level, geography and licensed capacity.

FCF used the Program Cost of Quality Calculator (PCQC) to create the cost models detailed in this report. The PCQC is an online calculator offered by the Office of Child Care to help policymakers, policy analysts, budget analysts, providers, and other stakeholders estimate the annual cost and revenue for full-time child care provided through family child care homes or centers at different quality levels. The PCQC is approved by the Office of Child Care as an alternative methodology for CCAP rate setting, is used in cost of care studies nationally, and helps in making comparisons by quality level and geography. The PCQC is limited in the flexibility of its cost models. To better understand the impact of these limitations, FCF compared PCQC results with internal FCF financial analysis tools and used FCF tools for a select number of case studies.

## **Methodology Limitations**

As noted above, the sample was fairly representative of the broader field of licensed child care programs in the state. While data collection goals were met, the sample still reflects a subset of programs. Programs that participate in Parent Aware and CCAP were overrepresented in this sample. FCF considered this oversampling during data analysis and tried to correct for it. However, there may be areas where FCF did not consider or accurately capture the impact of this over-sampling. There may also be some sampling bias in the sample. For example, programs that have comfort with and a clearer understanding of their finances may be more likely to participate in surveys and interviews that request budgetary information. There may be something different about the costs of this group of programs in comparison to the broader field.

The financial information provided by programs across the state was the primary data source. This data is inherently messy. Documents like Schedule Cs and profit and loss statements serve a distinct tax-related purpose and may not fully reflect program spending. FCF developed protocols to align categorizations of program costs through the interview process. However, the unique financial systems each program uses limits some of the cross-program standardization.

The PCQC is a useful tool that provides accessible cost models. However, there are a number of fields within the tool that are standardized and unable to be edited. In particular, the center staffing structure is standardized based on licensing requirements and may not fully reflect how centers practically manage staff to stay in ratio. When FCF used their financial analysis tool, which allows for a high level of customization, to model a more nuanced staffing structure, results were comparable to the PCQC. There may be some nuance lost with the use of the PCQC. Similarly, the nature of cost modeling means that FCF produced models that reflect an average statewide program. This average will not fully reflect the realities of any one child care business. To reflect some of these important distinctions, FCF developed case studies for this report. However, FCF recognizes that there are many specific scenarios that will not be fully reflected or captured in these models.

A previous Minnesota cost model was conducted in 2019 and released in 2020.<sup>43</sup> Differing methodologies and geographic categorizations may limit the comparability of these models. This study reflects a specific point in time, in which there were incredible shifts in the child care ecosystem. Future analysis is needed to understand the impact of ongoing financial supports to child care programs and labor market dynamics.

## Results

### Cost Model Inputs

First Children’s Finance used data from business interviews, surveys and administrative data to build a cost model for a representative, average child care program in Minnesota. Feedback from the advisory group and community partners informed the inputs described below. These models will not reflect every or any one child care program in the state. Instead, they reflect averages and the most common experiences of programs.

### Program Enrollment

The family child care program modeled has an enrollment of 12 children, shown in Table 1. The center modeled has a full-time enrollment equivalence of about 80 children across five classrooms. The center program structure is shown in Table 2. This is aligned with the average center size across the state. In both family child care and center models, school age enrollment was modeled as part time during the school year and full time during the summer.

Enrollment efficiency reflects the portion of licensed capacity that a program actually has enrolled in their program. For example, if a center has a licensed capacity of 100 children and has 80 children enrolled then their enrollment efficiency is 80%. Enrollment efficiency has a large impact on net revenue as it impacts the tuition revenue a program is able to take in. Industry goals for enrollment efficiency are generally 85%, recognizing that a program will likely operate below its licensed capacity maximum as families enter and exit the program or as children age into new classrooms. Unless noted in the case studies, the enrollment efficiency used in the model is 85 percent. Survey data and recent studies suggest that average enrollment efficiency in the field is currently lower than this 85 percent industry goal.<sup>44</sup> On average, centers participating in the study reported 73 percent enrollment, and family child care programs reported 77 percent enrollment. However, given the potential use of cost modeling for rate setting, FCF used the industry standard in the model. Including this actual enrollment efficiency, rather than the industry goal, would decrease the revenue earned, resulting in decreased net revenue across models.

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<sup>43</sup> Minnesota Department of Human Services. (2020). *Minnesota Cost Modeling Report*. Retrieved from <https://edocs.dhs.state.mn.us/lfserver/Public/DHS-7180-ENG>

<sup>44</sup> Pearl, S. & Horowitz, B. (2023). *Regional Economic Conditions: Health of the Minnesota Child Care Sector*. First Children’s Finance and Federal Reserve Bank of Minneapolis. <https://www.minneapolisfed.org/-/media/assets/events/2023/regional-economic-conditions-health-of-the-minnesota-child-care-sector/fcf-mpls-fed-2023-cc-provider-survey.pdf>

This program and enrollment structure is consistent across all cost models in this report unless otherwise noted. As noted above, the average center size does vary by geography. However, to help in making comparisons, the same center size was used across geographies. To better reflect reality and nuance, some case studies use different enrollment structures or enrollment efficiencies. These are noted in the case study descriptions.

**Table 1: Family Child Care Model Enrollment**

Age Group	Number of Children
Infant	1
Toddler	1
Preschool	8
School Age	2

**Table 2: Child Care Center Model Structure**

Age Group	Number of Classrooms
Infant	1
Toddler	1
Preschool	2
School Age	1

### Staffing & Benefits

The family child care program modeled does not include an assistant. The model includes costs for health insurance for the family child care provider. A majority of survey respondents reported accessing health insurance through a spouse, partner or family member. However, based on input from listening sessions, the advisory group, and the department, modeling a program that required providers to access health insurance through a family member was not deemed appropriate. The average cost of health insurance, among those who pay for a plan for themselves, was used in the model (\$6,576 annually).



In addition to the classroom staff required to meet licensing standards, the center modeled includes the following staff:

- Director (working 44 hours/week)
- Cook (32 hours/week)
- Administrative Assistant (32 hours/week)
- Accountant (8 hours/week)

This staffing structure was informed by survey data on the non-classroom staff most often employed by a center with a licensed capacity of less than 100. In the center model, the classroom staffing structure is set based on licensing ratios and maximum group sizes. Additional staff time is included in the model to reflect staff coverage for a center operating a 10-hour day.

Throughout data collection, center directors and owners were clear that adequately staffing centers was a significant challenge for them. Hiring and retaining staff was the biggest challenge they faced in operations. 45 percent of centers reported having at least one vacant lead teacher role, and 52 percent reported having at least one vacant assistant teacher role in the survey. Directors reported that they needed to work longer hours and spent more time in the classroom to manage staffing shortages. FCF increased the hours worked per week for directors in the model to reflect this dynamic based on the average weekly work hours reported in the survey.

FCF also analyzed data on benefits offered by centers and other resources spent on staffing. When more than 50 percent of center respondents offered a benefit, FCF included the benefit in the cost model. Table 3 illustrates the benefits included in the model. Among those who offered health insurance, business interview participants reported a relatively low uptake of the benefit. Similarly, while an employee discount for the care of their own child was a popular benefit, it was not one that every staff experienced or took advantage of. The amounts shown in Table 3 represent a per-staff cost that takes into account low staff uptake. The per-staff cost used in the model reflects the total cost of each benefit for the program with the benefit costs being spread across both participating and non-participating staff.

**Table 3: Voluntary Benefits in Center Model**

Staffing Related Cost	Annual Cost Model Input (per staff)
Health Insurance	\$2,537
Employee Discount for the Care of Own Children	\$1,208
Paid Time Off	80 hours
Paid Professional Development Release Time	24 hours

## Quality Care Cost Variation

FCF explored differences in costs for different levels of quality, using Parent Aware Ratings to explore costs incurred by programs. The advisory group reviewed Parent Aware Standards and Indicators to identify costs that programs typically incur when offering higher quality care. Informed by this review, FCF analyzed data for differences for these cost inputs. Table 4 shows the cost model inputs in the family child care (FCC) model that varied by programs with different Parent Aware Ratings. The costs shown below represent annual program-level costs.

**Table 4: Quality Variations in FCC Model**

Cost Input	Not Rated	One-Star	Two-Star	Three-Star	Four-Star
Supplies <sup>45</sup>	\$1,907	\$1,964	\$2,079	\$2,746	\$3,367
Training/ Professional Development <sup>46</sup>	\$342	\$344	\$377	\$403	\$462
Professional membership dues	\$59	\$123	\$123	\$130	\$130
Child Assessment Tool	\$0	\$0	\$0	\$274	\$274

Table 5 shows the cost model inputs that varied across Parent Aware Ratings for centers. Across all centers in the state, a small proportion of programs have earned a One-, Two-, or Three-Star Rating. As a result, there were limited data available for One-, Two- and Three-Star Rated centers. FCF analyzed cost differences between centers that were not rated and Four-Star Rated. FCF then made assumptions about how cost differences would be applied across the Parent Aware Ratings, informed by business interviews and review of Parent Aware Indicators. FCF explored differences in benefits offerings by Parent Aware Rating and found that there were some benefits (dental insurance, retirement contributions, and education benefits) offered by a majority of Four-Star Parent Aware Rated centers but not by a majority of all centers. Those additional staff benefits costs are also shown in Table 5 and are included only in the Four-Star Rated center model. These increased salary and benefits costs for Four-Star Rate Programs reflect a commitment to hiring and retaining quality staff to ensure

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<sup>45</sup> There is not a curriculum specific PCQC category in the FCC model. Costs related to curriculum would be included in the “Supplies” input.

<sup>46</sup> Minnesota has a robust ECE training systems with professional development resources offered through community-based organizations, colleges and universities, and the department. Many trainings are available free of charge to providers. See <https://developtoolmn.org/> for more information.

quality services, thus meeting Parent Aware Indicators. However, Parent Aware Indicators do not require offering higher wages or benefits.

**Table 5: Quality Variations in Center Model**

<b>Cost Input</b>	<b>Not Rated</b>	<b>One-Star</b>	<b>Two-Star</b>	<b>Three-Star</b>	<b>Four-Star</b>
Director Wage	Geographic base (see below)	3% higher than base	6% higher than base	9% higher than base	12% higher than base
Lead Teacher Wage	Geographic base	1.25% higher	2.5% higher	3.75% higher	5% higher
Assistant Teacher Wage	Geographic base	1.25% higher	2.5% higher	3.75% higher	5% higher
Aide Wage	Geographic base	0.75% higher	1.5% higher	2.25% higher	3% higher
Annual Paid Time Off	80 hours	80 hours	88 hours	96 hours	104 hours
Training Fees (per staff)	\$312	\$330	\$348	\$366	\$382
Dental Insurance (per staff)	N/A	N/A	N/A	N/A	\$417
Retirement Contributions (per staff)	N/A	N/A	N/A	N/A	1% of salary
Education Benefits (per staff)	N/A	N/A	N/A	N/A	\$154
Education Supplies (per child)	\$102	\$102	\$102	\$168	\$168

Cost Input	Not Rated	One-Star	Two-Star	Three-Star	Four-Star
Child Assessment Tool (per child)	\$0	\$0	\$0	\$23	\$23
Curriculum (per child)	\$0	\$0	\$0	\$61	\$61
Family Engagement (per child)	\$0	\$0	\$0	\$9	\$9
Professional Memberships and Subscriptions	\$267	\$340	\$340	\$340	\$340

## Geographic Variation

FCF analyzed data to identify differences in costs across geography. This analysis looked at variation in costs across geography, regardless of Parent Aware Rating. Table 6 and Table 7 show the cost model inputs in the family child care and center models that vary across geography. Providers across the state hypothesized that food costs would differ by geography. However, the data collected through business interviews did not support this. Future cost modeling efforts could collect more detailed data on food costs to explore this potential difference.

Center wage data was higher, on average, in rural areas than in small and large towns. This mirrors wage trends from the Minnesota Department of Employment and Economic Development.<sup>47</sup> Higher rural wages may be a result of a smaller potential labor pool. Rural communities have been experiencing higher job vacancy rates since the pandemic, resulting in competition for workers.<sup>48</sup> Analysis from the Minneapolis Federal Reserve Bank has found that teacher turnover in ECE settings tends to be higher when wages are lower.<sup>49</sup> Given the increased challenge of finding staff in rural areas, centers may be offering higher wages to retain their current staff. Additionally, FCF survey data showed that a higher proportion of rural centers were nonprofits. The staffing

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<sup>47</sup> Minnesota Department of Employment and Economic Development. (2023). [Dataset] *Occupational Employment Statistics: 39-9011 Childcare Workers*. Retrieved from <https://apps.deed.state.mn.us/lmi/oes/DetailedOccupationData?code=399011&geog=US,MN>

<sup>48</sup> Center for Rural Policy and Development. (2023). *The State of Rural 2023*. Retrieved from <https://www.ruralmn.org/the-state-of-rural-2023/>

<sup>49</sup> Grunewald, R. & Nunn, R. (2022). *Examining teacher turnover in early care and education*. Federal Reserve Bank of Minneapolis. Retrieved from <https://www.minneapolisfed.org/article/2022/examining-teacher-turnover-in-early-care-and-education>

approaches and decisions around wages and benefits may be different in nonprofit centers/organizations, impacting average wages in rural communities.

The geographic categories used in this study did not neatly align with the geographic price clusters used in the state’s Market Rate Survey and CCAP rate setting.<sup>50</sup> FCF analyzed the price cluster most commonly represented by providers in each geography. The most common price cluster was used to identify the private pay tuition value and CCAP reimbursement rates used in the models. The median tuition value for each price cluster was used as the private pay tuition in each model.

**Table 6: Geographic Variation in Family Child Care Model**

Cost Input	Rural	Small Town	Large Town	Urban
Annual vehicle expenses	\$3,700	\$1,200	\$990	\$2,654
Annual mortgage interest, property taxes, and depreciation or rent/lease	\$7,678	\$8,776	\$9,609	\$11,893
CCAP Price Cluster	Cluster 1	Cluster 2	Cluster 2	Cluster 4

**Table 7: Geographic Variation in Center Model**

Cost Input	Rural	Small Town	Large Town	Urban
Annual rent, lease or mortgage (per square foot)	\$8.02	\$6.65	\$6.97	\$14.21
Director hourly wage	\$23.38	\$20.31	\$21.07	\$26.31

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<sup>50</sup> Minnesota Department of Human Services. (2021). *Final Report for the 2021 Child Care Market Price Analysis*. Retrieved from <https://edocs.dhs.state.mn.us/lfserver/Public/DHS-6226G-ENG>

Cost Input	Rural	Small Town	Large Town	Urban
Administrative assistant hourly wage	\$17.35	\$17.35	\$17.35	\$19.62
Cook hourly wage	\$16.40	\$15.89	\$15.89	\$17.31
Accountant hourly wage	\$20.32	\$17.01	\$17.01	\$22.45
Lead teacher hourly wage	\$17.20	\$16.65	\$16.81	\$19.61
Teacher assistant hourly wage	\$13.98	\$13.86	\$13.70	\$16.73
Teacher aide hourly wage	\$13.54	\$11.95	\$12.69	\$15.09
Substitute hourly wage	\$17.40	\$17.44	\$17.48	\$20.73
CCAP Price Cluster	Cluster 1	Cluster 2	Cluster 2	Cluster 4

## Case Studies

FCF completed several case studies to better understand the costs and revenues of specific child care businesses. These case studies focused on scenarios impacting program costs and business structures. Feedback from the department and the advisory group shaped the case studies completed. These included different family child care license types, programs caring for specific child and family populations, and different enrollment structures.

Details on different inputs and results for case studies are included below. FCF used statewide average values for case studies. All case studies reflect inputs for programs that are not rated through Parent Aware. Data from business interviews and input from the advisory group shaped these case studies. FCF calculated a weighted average for CCAP rates and private pay tuition, aligned with the frequency of family child care and center

programs across each price cluster. A model with the statewide average data for all geographic variations is included as a comparison.

## Cost Model Outputs

The information below shows the outputs of the cost model. The primary output is net revenue, the modeled program's revenue minus their costs. For centers, a per-child cost is also included below. This reflects program costs allocated across classrooms and then by child. The per-child cost reflects what it costs to care for each child and not the tuition that a program is charging for each child. The tables below show net revenue by both geography and Parent Aware Rating. Appendix B summarizes the inputs used across models.

The cost models developed for this study depict a representative child care program in Minnesota. These models will not reflect every or any one child care program in the state. Instead, they reflect averages and the most common experiences of programs. Cost models provide information that can inform a wide range of policy questions. However, the information produced by the cost models is too high level to be appropriate for programs to use to make individual business choices. Child care programs should make individualized choices about program quality and other business investments.

## Family Child Care

Table 8 shows the annual net revenue cost model output for family child care programs, including differences by Parent Aware Rating and geography. This revenue represents the take home pay of family child care providers. Net revenue must cover a provider's living expenses, personal and business emergency savings, retirement savings and business growth. The following themes emerge:

- The urban family child care model has much higher net revenue than other geographies. This is largely due to the higher tuition rates in the urban models.
- Programs receive a Quality Grant when they complete the Parent Aware Rating process to help sustain or increase quality.<sup>51,52</sup> The value of this grant offsets the increased costs that Parent Aware programs experience, outlined in the above sections. This contributes to higher net revenue for Parent Aware rated programs.
- Program costs for Three- and Four-Star Rated programs are greater than for One- and Two-Star Rated programs. While the Quality Grant amount increases with Star Rating level, this increased grant amount is less than the increase in costs across Parent Aware Star Rating levels.

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<sup>51</sup> Parent Aware. (n.d.). *Benefits for Rated Programs*. Retrieved from <https://www.parentaware.org/programs/benefits-for-rated-programs/>

<sup>52</sup> This includes grants for programs receiving any Star level, with exception of public school prekindergarten programs and Head Start/Early Head Start (not partner locations) receiving a Rating, starting in January 2021.

**Table 8: Annual Net Revenue for Family Child Care Models**

Geography	Not Rated	One-Star	Two-Star	Three-Star	Four-Star
Rural	\$28,789	\$29,416	\$29,518	\$29,286	\$28,864
Small Town	\$33,956	\$34,583	\$34,685	\$34,453	\$34,031
Large Town	\$33,749	\$34,376	\$34,478	\$34,246	\$33,824
Urban	\$56,796	\$57,423	\$57,525	\$57,293	\$56,871

Family child care (FCC) providers are entrepreneurs who make business decisions that impact their net revenue, including their preferred enrollment level and business expenses. FCC providers may realize additional financial benefits that are hard to capture in a cost model, such as providing care to their own children (avoiding child care tuition elsewhere) and through tax savings. Past work by FCF has demonstrated that FCC income is highly variable.<sup>53</sup> However, understanding average net revenues in the context of an equivalent hourly wage can be helpful in comparing the experience of operating an FCC business to other professions. Family child care providers reported working 64 to 67 hours per week, on average. Increased working hours were associated with higher Parent Aware Ratings, resulting in a lower equivalent hourly wage for highly Rated programs. This model assumes providers are paying for health insurance before calculating hourly wages.

**Table 9: Equivalent Hourly Wage for Family Child Care Models**

Geography	Not Rated	One-Star	Two-Star	Three-Star	Four-Star
Rural	\$8.65	\$8.84	\$8.60	\$8.53	\$8.28
Small Town	\$10.20	\$10.39	\$10.11	\$10.04	\$9.77
Large Town	\$10.14	\$10.33	\$10.05	\$9.98	\$9.71
Urban	\$17.07	\$17.25	\$16.76	\$16.69	\$16.32

<sup>53</sup> First Children’s Finance. (2016). *Business Practices of Family Child Care: Expanding What We Know*. Retrieved from <https://lcc.mn.gov/tfcc/meetings/160830/FCF%20Data%20Brief%20-%20Business%20Practices%20of%20Family%20Child%20Care.pdf>



## Child Care Centers

Table 10 shows the annual net revenue cost model output for child care centers, including differences by Parent Aware Rating and geography. The following themes emerge:

- The urban center model is the only geography that earned a profit.
- Small and large town profit margins ranged from -30 percent to -44 percent. Realistically, centers would not be able to remain open with this budget outlook. FCF included inputs in the model if more than half of centers reported experiencing the cost. It is likely that any one center does not experience all of these costs. This and other resourceful budget and cost measures help centers stay afloat.
- The rural centers modeled had a net profit margin of -63 percent to -78 percent. This highlights the challenge of operating and sustaining a rural center, especially of this size. The lower tuition rates of rural centers limit the revenue rural centers have access to. Only four percent of child care centers in Minnesota are located in rural areas.
- Increased staffing and benefit costs resulted in lower profit and greater losses for Parent Aware Rated programs. The Parent Aware grants are a support to programs and do not fully offset the increased costs associated with operating a Four-Star center.

FCF recognizes that programs would not be able remain open when experiencing these negative net revenues, yet there are many centers outside of urban areas. As noted above, these models show a representative, average program and will not reflect the experience of any or all programs across the state. FCF has seen many programs that are creative in finding ways to continue operating and managing costs. As discussed, not all programs will have all the costs included in the model. Similarly, the model uses the median tuition by geographic cluster from the 2021 Market Rate Survey. If a local market supports it, programs may charge higher tuition than the median, resulting in higher net revenue. The model does not reflect the individual program variability in tuition charged. Programs may also seek out other grant funding or resources to support program sustainability. **These net revenue losses highlight the value of the Child Care Stabilization Grant Program to support program sustainability.**

**Table 10: Annual Net Revenue for Child Care Center Models**

Geography	Not Rated	One-Star	Two-Star	Three-Star	Four-Star
Rural	-\$331,145	-\$344,009	-\$359,071	-\$386,667	-\$412,574
Small Town	-\$187,899	-\$199,941	-\$214,260	-\$241,046	-\$265,846
Large Town	-\$197,767	-\$210,028	-\$224,590	-\$251,630	-\$276,764
Urban	\$119,606	\$104,893	\$87,518	\$57,641	\$28,692

Across all geographies and Parent Aware Ratings, personnel expenses make up 69-71 percent of total center expenses. Occupancy costs represent 10-14 percent of total expenses. All other expenses range from 17-20 percent of total expenses.

## Themes

### Child Age Impacts Business Sustainability

The staffing patterns associated with caring for children of different age groups are the largest driver of variation in the cost of care across age. Programs experience more costs when caring for children at younger ages. Current revenue does not support the cost of infant care in any geography. As demonstrated in the case studies below, as programs care for more infants, they become less financially sustainable.

### Family Child Care

Because family child care businesses operate as mixed-age child care settings, the cost model does not have per-child costs differentiated by age. However, different license types define the number of children that can be in care, by different age groups. This shapes the costs and tuition available to providers. To understand the business viability of these different license types, FCF created case studies for a Specialized Infant and Toddler Family Child Care class B2 license and a Specialized Infant and Toddler Group Family Child Care class D license. Both of these specialized license types allow for a smaller total enrollment with a higher number of infants and toddlers enrolled. The class D license requires a second adult caregiver but allows for higher enrollment, in comparison to a class B2 license.

Family child care providers reported experiencing challenges in enrolling preschool children as public pre-kindergarten programs expand. FCF modeled a case study that reflects these preschool enrollment challenges. This enrollment picture was more closely aligned with the average enrollment pattern reported in the survey. Table 11 shows the enrollment patterns of these case studies.

**Table 11: Number of Children Enrolled, Child Age Group Case Studies**

Model Scenario	Infants	Toddlers	Preschool	School Age
Specialized Infant and Toddler Family Child Care class B2 license	2	2	0	2
Specialized Infant and Toddler Group Family Child Care class D license	4	3	0	2
Low Preschool Enrollment	1	1	4	2

Model Scenario	Infants	Toddlers	Preschool	School Age
Statewide Average- Comparison Model	1	1	8	2

In addition to the different enrollment structure, the Infant and Toddler class B2 license included increased equipment costs. The Infant and Toddler class D license included increased equipment costs and an assistant. This assistant is employed for 34 hours per week at \$14.46 an hour. No voluntary benefits are included for the assistant in this model.

Table 12 shows the annual net revenues across these different case studies. The “Annual Net Revenue” column shows the annual net revenue of that case study’s cost model. The “Net Revenue Change” column shows the annual difference between the case study’s net revenue and the statewide average comparison model. As noted above, the case studies represent statewide average data. All case studies reflect inputs for programs not Rated through Parent Aware. FCF calculated a weighted average for CCAP rates and private pay tuition, aligned with the frequency of family child care providers and centers across each price cluster. A model with the statewide average data for all geographic variations is included as a comparison.

The different enrollment patterns decrease the net revenue that the family child care model produces. These case studies represent providers maximizing licensable enrollment for the sake of demonstrating maximum potential revenue. In practice, providers specializing in infant and toddler care would be unlikely to enroll two school-age children, further limiting annual revenue. Operating either of the specialized infant and toddler licenses limits the ability of family child care providers to provide for themselves and their families. In the case of the Specialized Infant and Toddler Group Family Child Care class D license, the additional cost of hiring a paid assistant makes it challenging for an FCC program to break even. Partnerships that offer subsidized space, administrative support, or other benefits may be necessary to make these license types advantageous.

**Table 12: Child Age Group Case Studies Annual Net Revenue<sup>54</sup>**

Model Scenario	Annual Net Revenue	Net Revenue Change
Specialized Infant and Toddler Family Child Care class B2 license	\$5,705	-\$35,175
Specialized Infant and Toddler Group Family Child Care class D license	-\$3,067	-\$43,947

<sup>54</sup> All case studies reflect inputs for programs that are not rated by Parent Aware.

Model Scenario	Annual Net Revenue	Net Revenue Change
Low Preschool Enrollment	\$17,424	-\$23,456
Statewide Average- Comparison Model	\$40,880	--

## Centers

For centers, different licensing ratios and maximum group sizes impact the staffing costs of each classroom. These varying staffing costs shape the differences in cost of care seen in Tables 13, 14, and 15 below. This represents the annual cost to provide care, not the tuition charged.

**Table 13: Annual Cost per Child - Infants**

Geography	Not Rated	One-Star	Two-Star	Three-Star	Four-Star
Rural	\$20,821	\$21,190	\$21,604	\$22,185	\$22,818
Small Town	\$19,836	\$20,181	\$20,576	\$21,134	\$21,742
Large Town	\$20,099	\$20,451	\$20,852	\$21,417	\$22,032
Urban	\$23,858	\$24,276	\$24,753	\$25,395	\$26,100

**Table 14: Annual Cost per Child - Toddlers**

Geography	Not Rated	One-Star	Two-Star	Three-Star	Four-Star
Rural	\$12,775	\$12,985	\$13,222	\$13,622	\$14,011
Small Town	\$12,211	\$12,409	\$12,634	\$13,022	\$13,394
Large Town	\$12,361	\$12,563	\$12,792	\$13,183	\$13,561
Urban	\$14,509	\$14,748	\$15,021	\$15,456	\$15,891

**Table 15: Annual Cost per Child - Preschool**

Geography	Not Rated	One-Star	Two-Star	Three-Star	Four-Star
Rural	\$9,555	\$9,702	\$9,869	\$10,196	\$10,488
Small Town	\$9,161	\$9,300	\$9,458	\$9,776	\$10,056
Large Town	\$9,267	\$9,407	\$9,568	\$9,889	\$10,173
Urban	\$10,770	\$10,937	\$11,128	\$11,481	\$11,806

Because preschool classrooms have higher child to staff ratios, the net revenue of preschool classrooms can offset losses that infant and toddler classrooms experience. However, as public pre-kindergarten programs expand, some centers are experiencing challenges in filling their preschool classrooms. FCF completed a case study of a center that closed one of the two preschool classrooms included in the standard model. This model has four classrooms with one infant, one toddler, one preschool, and one school age classroom. This center would have a full time equivalent enrollment of 60 children. Table 16 shows the net revenue of this case study in comparison to the statewide model. Closing a preschool classroom limits the net revenue and sustainability of a child care center.

**Table 16: Potential Impact of Public Pre-K Center Model Annual Net Revenue**

Model Scenario	Annual Net Revenue	Net Revenue Change
One Preschool Class- Case Study	-\$63,463	-\$60,597
Statewide Average- Comparison	-\$2,866	--

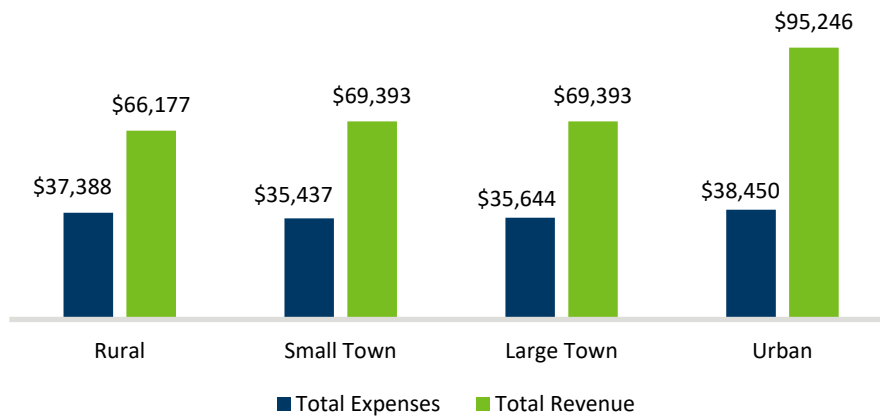
### Geographic Differences Impact Business Model Viability

For both family child care providers and centers, the costs programs experience in different geographies vary less than the tuitions local markets can afford. Lower tuition rates in rural areas mean that CCAP rates for rural programs fail to meet the per-child cost of care across all age groups.

## Family Child Care

Among the family child care models, costs do not differ dramatically across geography. Instead, the total revenue largely contributes to net revenue differences by geography. This is illustrated in Figure 1. This shows how disconnected tuition rates are from the costs programs are experiencing in the current market. Providers, especially outside of urban areas, are limited by the tuition prices that local markets and families can pay.

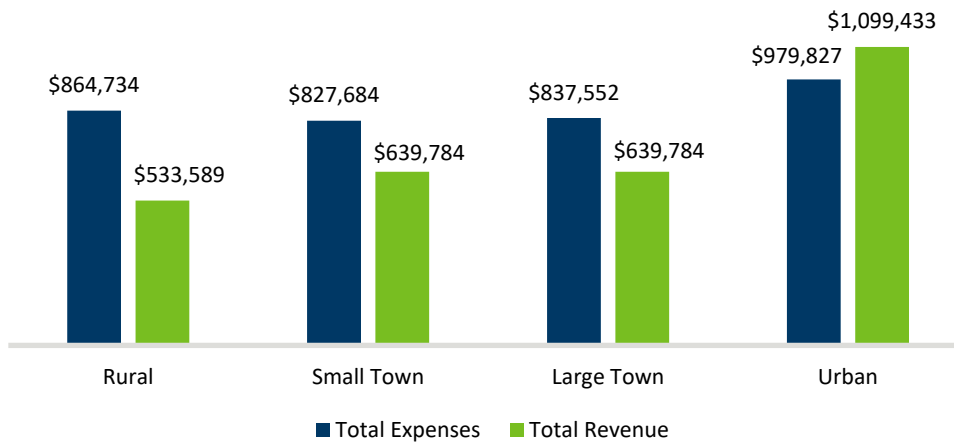
**Figure 1: Family Child Care Total Annual Expenses and Revenue, by Geography**



## Child Care Centers

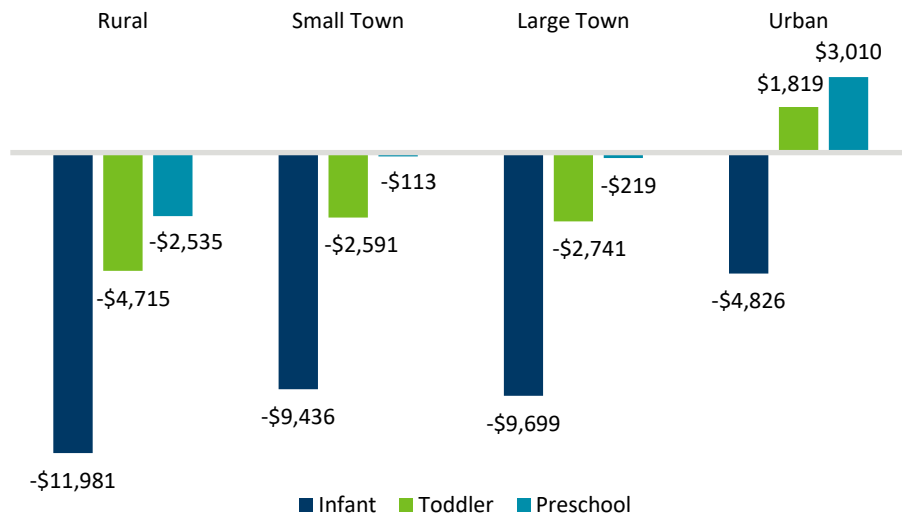
As with family child care models, there was variation in total annual revenue for centers across geography. Unlike family child care, center expenses showed more variation in the cost model. Geographic differences in staff wages were the primary contributor to differences in total costs. While there was more variation in costs, there was still a disconnect between geographic differences in costs and revenues, as seen in Figure 2.

**Figure 2: Center Total Annual Expenses and Revenue, by Geography**



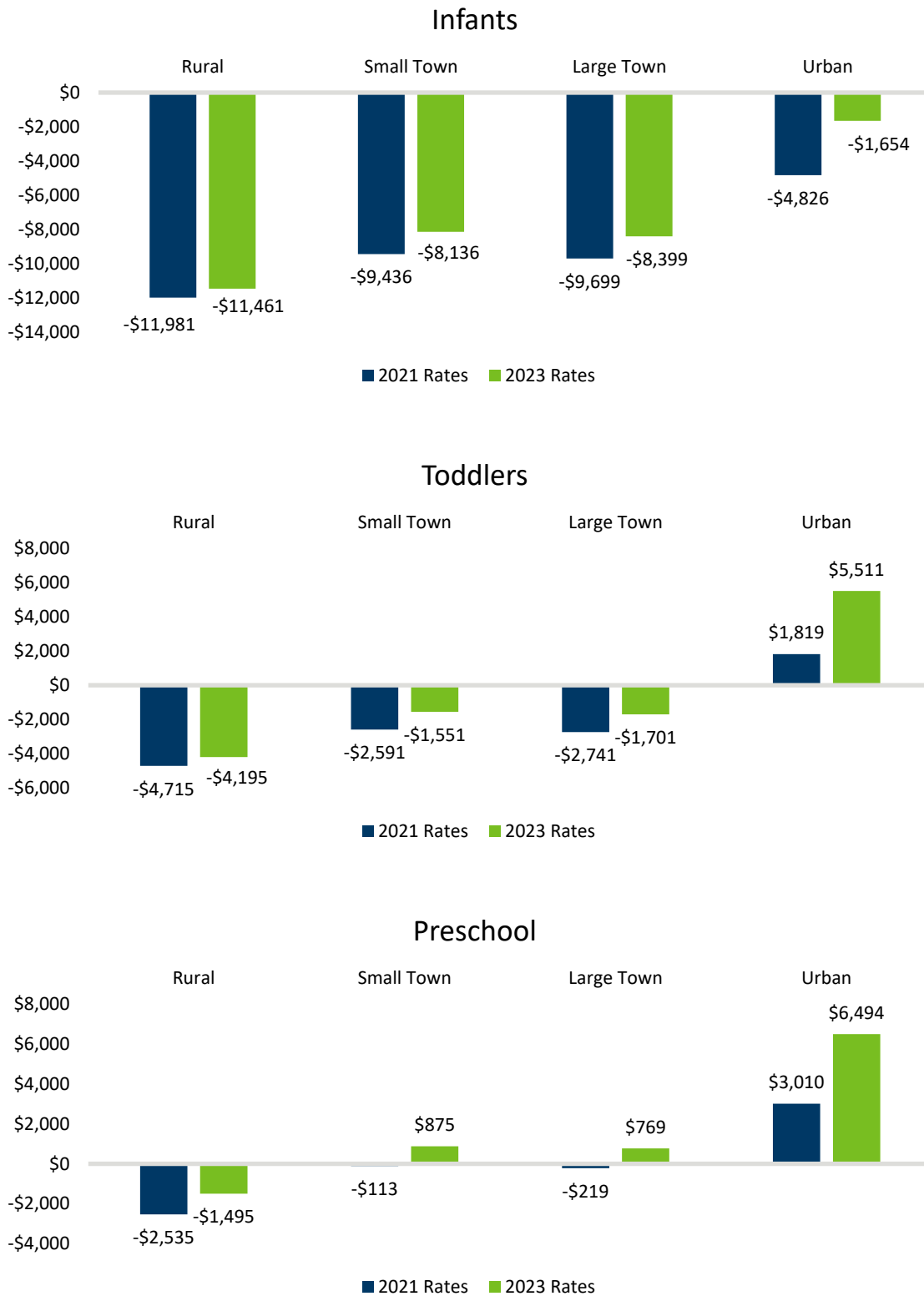
This discrepancy between variation in costs and revenues impacts the viability of CCAP rates to cover program costs. As discussed earlier in this report, setting CCAP rates based on tuition rates does not address the realities of the costs programs experience. Because urban markets support higher tuition rates, CCAP rates in urban areas are more aligned with the per-child cost of care. In comparison, the lower tuition rates in rural areas mean that CCAP rates for rural providers fail to meet the per-child cost of care across all age groups, as shown in Figure 3.

**Figure 3: Annual Gap Between CCAP Rates and Cost-Per Child, by Geography**



In 2023, the Minnesota Legislature passed the Omnibus Health and Human Services Bill (SF 2995), which raises CCAP rates to the 75<sup>th</sup> percentile of tuition. This is a significant and meaningful change for the child care sector. However, the benefits are not experienced equally by geography. The range between the 50<sup>th</sup> and 75<sup>th</sup> percentile of tuition is smaller in price cluster one than in price cluster four. As a result, a change to the 75<sup>th</sup> percentile has a more minor impact on changing CCAP rates for programs in price cluster one. The impact of this on the gap between annual CCAP rates and per child costs is illustrated in Figure 4. While a valuable change, this highlights the limitations of using the Market Rate Survey to set CCAP rates.

**Figure 4: Annual Gap Between Center CCAP Rates and Cost-Per Child, 2021 v 2023 Rates**





For easier comparisons, FCF used the same program structure across geographies. However, survey data suggests that rural centers tend to have smaller enrollment than small town, large town and urban centers. To reflect this, FCF created a rural center case study that had four total classrooms. This model includes one infant, one toddler, one preschool, and one school age classroom. This differs from the standard model with two preschool classrooms. This center would have a full time equivalent enrollment of 60 children.

**Table 17: Rural Center Model Annual Net Revenue**

Model Scenario	Annual Net Revenue	Net Revenue Change
Rural Center- Case Study	-\$312,078	+\$19,067
Rural Center- Standard Model	-\$331,145	--

Generally, revenue from preschool classrooms offsets losses that centers experience in infant and toddler classrooms. However, in the standard rural center model, cluster one preschool median tuition does not cover classroom costs, even in preschool classrooms. Operating with one fewer preschool class results in a slightly better net revenue picture. This case study still represents a rural center operating at a loss. As noted above, programs cannot remain open while experiencing losses like this. **FCF’s survey data suggests that rural centers are more likely to be nonprofits and be receiving discounted or free rent. These arrangements provide access to additional resources and revenue that can support the sustainability of rural centers. This also suggests that additional community or business-level supports are needed to create sustainable rural child care centers.**

**Quality Care and Education is Associated with Higher Costs that are not Supported by Current ECE System**

The provision of higher quality care and education impacted family child care and center net revenues differently. Parent Aware Ratings are used as a proxy for program quality, with higher Parent Aware Ratings reflecting higher quality care. In family child care models, programs with a Parent Aware Rating had higher net revenues than programs not participating in Parent Aware. However, because Parent Aware Rated programs report longer working hours, these programs experience a lower equivalent hourly wage. For centers across all scenarios, net revenues decrease when offering higher quality care and education using this model.

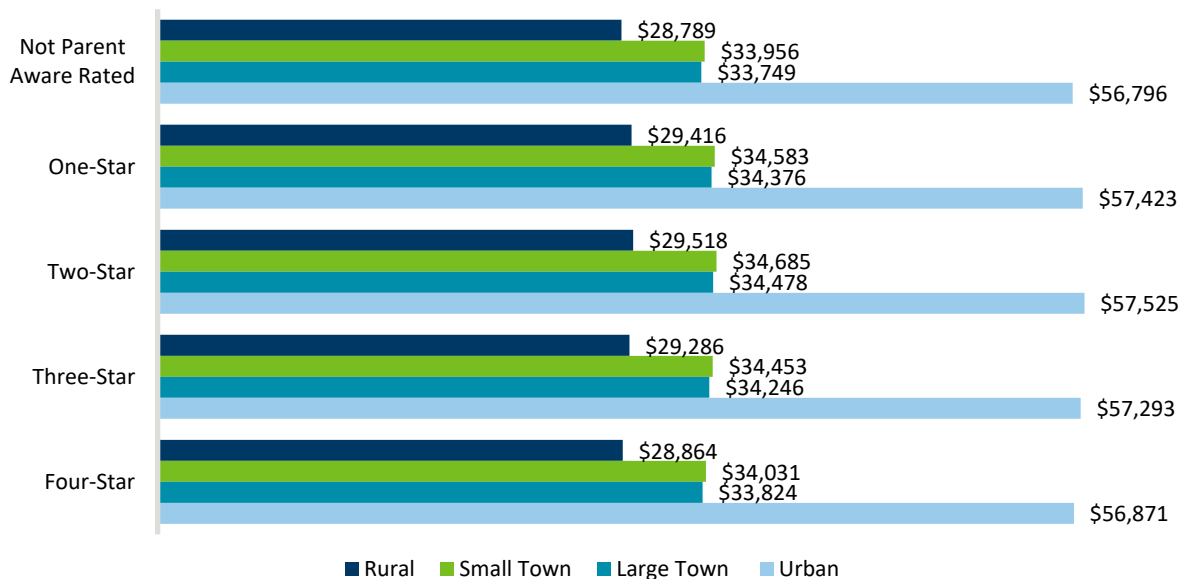
**Family Child Care**

Across family child care models, programs with Parent Aware Ratings had higher net revenues than programs that were not Rated. This difference peaked for Two-Star Rated programs. Added costs for Three- and Four-Star Rated programs decreased the difference, as shown in Figure 5. Grants that programs receive after completing the Parent Aware Rating process offset some added expenses Parent Aware Rated programs experience. However, Parent Aware Rated programs report spending additional weekly hours on their business. As shown

previously in the report, if providers experience their net revenue as an hourly wage, increasing the quality of their program through participation in Parent Aware effectively lowers their hourly rate.

While CCAP offers a 15 percent quality differential for Three-Star Parent Aware Rated programs and a 20 percent quality differential for Four-Star Parent Aware Rated programs, the quality differential rates are only allowed in situations where private rates are at the level of the quality differential. If the differential is higher than a provider’s rates the CCAP program does not pay the quality differential. This model uses median tuition values, varied by geographic cluster. As these median rates are all lower than the differential payment, no quality differential payments were included in the following cost models. **The department could leverage federal flexibility to allow payment rates that “exceed private pay rates if they are designed to pay providers for additional costs associated with offering higher-quality care” to better incentivize quality among programs participating in CCAP.**<sup>55</sup>

**Figure 5: Family Child Care Annual Net Revenue, by Parent Aware Participation**

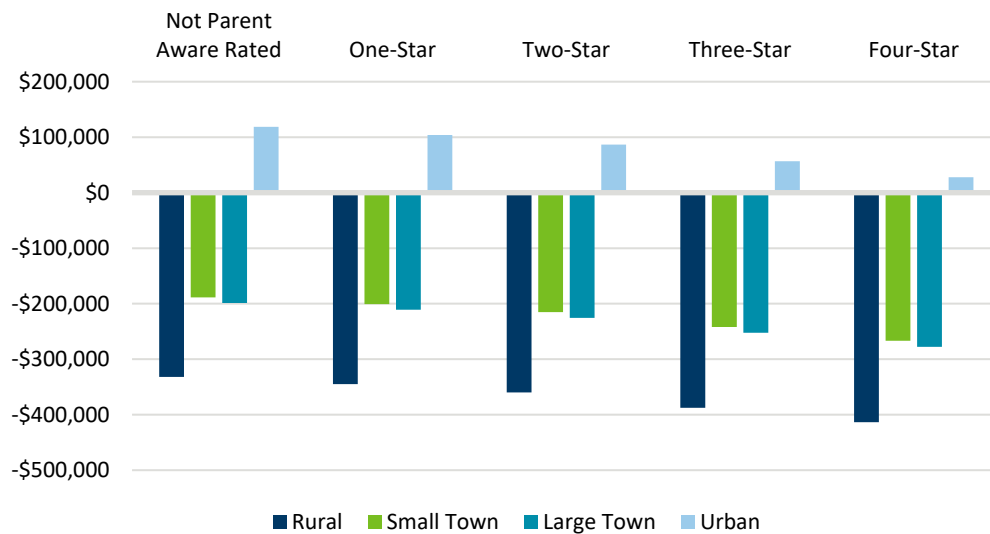


### Centers

Across all geographies, net revenues decrease as programs increase their quality, as shown in Figure 6. There is a larger decrease in net revenue with higher Parent Aware Ratings. Higher staff wages and benefits associated with higher Star Ratings are the largest contributors to increased costs. As discussed above, median tuition values, by geographic cluster, were used across models. It may be that Four-Star Rated programs charge higher tuition rates to balance increased costs. Future analysis could explore this and its impact on the model.

<sup>55</sup> Federal Register / Vol. 81, No. 190 / Sept. 30, 2016 / Rules and Regulations, page 67514

**Figure 6: Center Annual Net Revenue, by Parent Aware Rating**

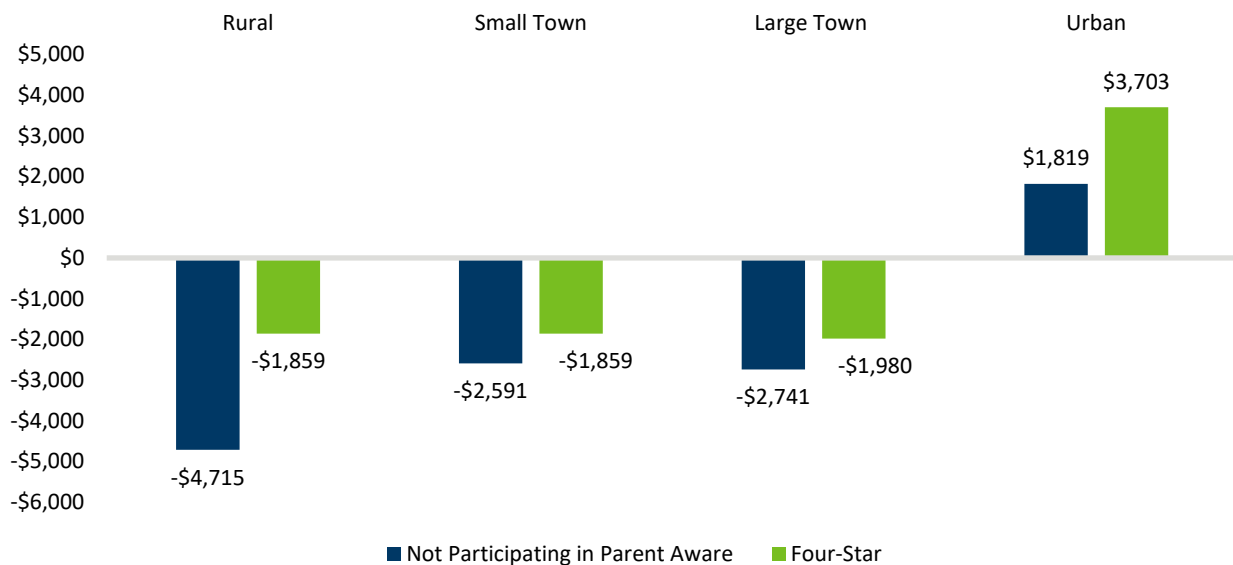


While centers are also eligible for and receive Parent Aware grants, these do not offset the increased costs. As noted above, the median tuition values used in the cost models were lower than the quality differential rates across all price clusters. As a result, these quality differential rates did not impact child care center revenue in the cost models. As a result, the Parent Aware grants are the only additional revenue for Parent Aware Rated centers in the cost models.

FCF wanted to better understand the potential of quality differentials to support quality care. To do so, FCF compared the difference between revenue available through CCAP payment rates and the annual per-child costs for toddlers. The quality differential does help offset some of the added costs associated with Parent Aware participation for centers. Figure 7 shows this annual difference across geographies. The data in blue shows the gap between the per-child costs for programs not participating in Parent Aware and the standard CCAP rate. The data in green shows the gap between the Four-Star Rated program per-child cost and the 20 percent quality differential CCAP rate. This illustrates that while the per-child cost increases with higher Parent Aware Star Rating levels, the quality differential gets closer to meeting the cost of care in rural, small, and large town centers. While the quality differential did not impact the cost models presented in this study, this additional analysis shows the value of the quality differential when programs do access it. This further highlights the opportunity for the department to explore using the flexibility available to better incentivize quality among programs participating in CCAP.<sup>56</sup>

<sup>56</sup> Federal Register / Vol. 81, No. 190 / Sept. 30, 2016 / Rules and Regulations, page 67514

**Figure 7: Annual Gap Between Toddler Per-Child Cost and Associated CCAP Rate, by Quality Level**



### COVID-19 Relief Funding Supported Programs

Data was collected for this study from summer 2022 to winter 2023. The data reflected 2021 program and operating costs. During the study period, programs were navigating the COVID-19 pandemic, resulting in some differences in program costs and revenues. To better understand this impact, FCF completed a COVID case study that reflects Child Care Stabilization Grant revenue, staff bonuses, differing costs, and other revenue supports. The COVID-19 case study sought to demonstrate the extent to which the Child Care Stabilization Grant Program and other supports addressed the rising costs of operating during and following the pandemic.

As a result of the COVID-19 pandemic, labor market dynamics, and other global forces, programs have experienced increased costs across a variety of inputs (expense types) during this study period. FCF anticipates that some of these costs will not revert to pre-pandemic levels due to inflation and ongoing labor shortages. These costs are included in the standard cost model. The COVID-19 cost model focuses on time-limited expenses, discounts, and revenue.

The COVID-19 case studies include:

- Bonuses for center staff: Programs reported they would not be able to continue offering bonuses without Child Care Stabilization Grant revenue.
- Decreased training costs: Programs reported decreased training costs as required trainings were offered for free or discounted. Because trainings occurred virtually, providers did not experience travel-related costs for trainings.
- No background check costs.
- Higher Child and Adult Care Food Program (CACFP) revenue: Reflects tier one reimbursement for family child care providers and the CACFP supplement for centers.

- Additional revenue from Child Care Stabilization Grants is included in the model.

The “Annual Net Revenue” column shows the annual net revenue of the case study’s cost model. The “Net Revenue Change” column shows the annual difference between the case study’s net revenue and the statewide average comparison model. As noted above, the case studies represent statewide average data. All case studies reflect inputs for programs not rated through Parent Aware. These case studies suggest that the supports programs received during the COVID-19 pandemic helped stabilize their business and supported business sustainability. The Compensation Payment Program aims to provide similar supports to programs.

**Table 18: Family Child Care COVID-19 Case Study Annual Net Revenue**

Model Scenario	Annual Net Revenue	Net Revenue Change
Family Child Care COVID-19 Case Study	\$51,538	+ \$10,658
Statewide Average- Comparison Model	\$40,880	--

**Table 19: Center COVID-19 Case Study Annual Net Revenue**

Model Scenario	Annual Net Revenue	Net Revenue Change
Center COVID-19 Case Study	\$50,201	+ \$53,067
Statewide Average- Comparison Model	-\$2,866	--

## Business Sustainability Limits Opportunities for Start-up and Expansion

To better understand some of Minnesota’s child care supply challenges, the following section explores the experiences of child care programs starting up or expanding their capacity. Minnesota offers several expanded and innovative family child care licensing options. However, business sustainability limits the potential impact of these licenses. The experiences of large child care centers are also explored as an opportunity for increased capacity.

### Family Child Care

FCF modeled a family child care program with an assistant (Group Family Child Care class C3 license). In comparison to the standard model, this model included:

- Enrollment of 14 children (two infants, two toddlers, six preschoolers, and four school age children)

- A paid assistant at \$14.46/hour for 34 hours/week. No voluntary benefits were included for the assistant.
- Increased supply costs
- Increased food costs

FCF created cost models for a family child care program operating outside of their home and a family child care program that has been operating for less than three years. Previous research conducted by the department found that new child care centers and family child care homes are the most likely to close, and new child care centers are most likely to receive licensing sanctions.<sup>57</sup> As Minnesota considers approaches to expanding family child care supply, understanding the unique costs of these case studies can facilitate effective supports to ensure business sustainability and high quality care.

In comparison to the standard model, the case study examining a family child care provider operating outside their home includes:

- Increased insurance costs
- Increased office supply costs
- Increased repairs and maintenance costs
- Increased telephone and internet costs
- No CACFP revenue (programs are not eligible)

In comparison to the standard model, the family child care program operating for less than three years case study includes:

- Lower enrollment efficiency as providers build up their enrollment
- Increased equipment costs as providers make larger equipment purchases for the first time (cribs, strollers, furniture etc.)
- Increased supply costs
- Increased office supply costs as providers purchases needed materials for the first time
- Increased training and professional development costs
- Increased repairs and maintenance costs as providers make changes to their homes to meet licensing requirements.
- Costs for interest for startup debt or repairs for setting the home up for child care. Many providers use credit cards to pay for start-up costs, resulting in interest payments.

The net revenue for these different family child care program structures is outlined in Table 20 below. These different program structures result in lower net revenue. This can inform additional supports to these program types in the future.

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<sup>57</sup>Minnesota Department of Human Services. (2016). *Understanding licensed child care in Minnesota: 2016 Issue Brief*. Retrieved from <https://edocs.dhs.state.mn.us/lfserver/Public/DHS-3790-ENG>

Other states’ cost models have found newer programs paying higher rents or mortgage interest than more mature programs.<sup>58</sup> FCF examined the data and found only a small and inconsistent association between occupancy costs and program tenure. Ninety-seven percent of family child care programs in the survey data were homeowners rather than renters, and these trends may be slower to appear among homeowners. Rising real estate costs may also impact entry into the field rather than the costs of existing programs.

**Table 20: Family Child Care Program Structure Case Studies, Annual Net Revenue**

Model Scenario	Annual Net Revenue	Net Revenue Change
Group Family Child Care class C3 license	\$19,463	-\$21,417
Family Child Care Outside the Home	\$21,616	-\$19,264
Family Child Care Program in Operation for Less Than 3 Years	\$29,545	-\$11,335
Statewide Average- Comparison Model	\$40,880	--

## Centers

As noted above, all of the child care center models had the same program structure and licensed capacity. FCF completed a case study of a larger center with a higher licensed capacity. This center reflects larger programs that exist predominately in urban areas of the state. This center had eight classrooms (two infant, two toddler, three preschool, and one school age classroom). This center would have full time equivalent enrollment of about 120 children. This model also included changes to the program staffing structure:

- Include full time assistant director/education coordinator
- Increase cook from 32 to 40 hours/week
- Increase administrative assistant from 32 to 40 hours/week
- Increase bookkeeper/accountant from 8 to 16 hours/week

Table 21 shows the net revenue for this larger center urban case study. Net revenue increases in this case study, and additional staffing is supported. This is only the case in the urban price cluster. In all other geographies serving additional children increases program losses. Starting large centers has a high upfront cost, but in the right market, it can provide long-term business sustainability.

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<sup>58</sup> Workman, S. (2021). *Oregon Revenue and Expense Manual: Technical Manual and User Guide*. Oregon Department of Early Learning and Care. Retrieved from <https://www.oregon.gov/delc/Documents/delc-child-care-cost-of-quality-cost-oregon-model-technical-user-guide.pdf>

**Table 21: Large Center Case Study Annual Net Revenue**

Model Scenario	Annual Net Revenue	Net Revenue Change
Larger Center Case Study	\$163,026	+\$43,420
Urban Center- Standard Model	\$119,606	--

## Importance of Equity Considerations

The following case studies explore cost and revenue scenarios that support equitable access to child care. Having access to care that is culturally and linguistically relevant and affirming is important for a child’s wellbeing and development.<sup>59</sup> FCF explored case studies for programs operating in a language other than English, programs offering alternative hour care, programs operating in an area of high economic need, programs with 80 percent CCAP enrollment, and programs providing inclusive care for children with special needs. Understanding the specific costs and revenue impacts of these scenarios can facilitate tailored supports for the sustainability of these programs.

### Operating in a Language Other than English

FCF completed a cost model for a child care program that is operating in a language other than English. This hypothetical program operates in the language of the community where it is situated. Staff, families and children are all members of this specific cultural community. In comparison to the standard model, the case study for programs operating in a language other than English includes:

- Centers
  - Lower enrollment efficiency (60 percent): Programs providing care in the language of a specific community may have a smaller pool of children to enroll, resulting in lower enrollment efficiency.
  - Increase in teacher wages: The pool of potential classroom staff is likely smaller, given language requirements. As a result, centers may need to offer higher wages to attract and retain staff.
  - Costs for translation services.
  - Increased costs for classroom supplies that reflect the language of the program, staff and students.

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<sup>59</sup>Kashen, J., Potter, H., & Stettner, A. (2016). Creating a More Diverse ECE Workforce Benefits Children in *Quality Jobs, Quality Child Care*. The Century Foundation. <https://tcf.org/content/report/quality-jobs-quality-child-care/?agreed=1#c3>



- Family Child Care
  - Lower enrollment efficiency (60 percent): Programs providing care in the language of a specific community may have a smaller pool of children to enroll, resulting in lower enrollment efficiency.
  - Increased costs for classroom supplies that reflect the language of the program, staff, and students.

### **80 Percent CCAP Participation; Not billing difference between CCAP and private rate**

Participating in the Child Care Assistance Program (CCAP) primarily impacts the revenue side for child care businesses. However, participation requires additional time spent administering the program and completing the required paperwork. The standard model assumes that 10% of children enrolled participate in CCAP based on average participation rates reported in the survey. The maximum percentage of children enrolled in CCAP in the survey data was 80%. FCF wanted to understand the impact of higher levels of CCAP participation on net revenues. This could inform specific supports to programs that enroll a higher percentage of families with CCAP, potentially increasing access for families.

In the standard model, providers charge families the difference between the private pay tuition rate and the CCAP rate. However, many providers shared that they struggle to collect this difference or choose not to collect it. In this case study, FCF modeled that families do not pay the difference between CCAP and private pay tuition to understand this impact. In comparison to the standard model, the case study for programs operating with 80% CCAP enrollment includes the following:

- Centers
  - Administrative assistant at 40 hours per week instead of 32. This position would support additional time spent on communicating with the county CCAP office, managing billing and paperwork, and supporting families in navigating the program.
  - Higher CACFP revenue to reflect more children at the “paid” and “reduced” tiers.
  - Increased uncollected revenue rate. Some centers reported that this is a result of delayed billing processes from the county that make it challenging to later collect tuition from families or lost payments as a result of state policies around absent days.
- Family Child Care
  - Tier one CACFP revenue.
  - Increased uncollected revenue rate. Providers reported lost income as a result of participating in CCAP. Some family child care providers reported income loss because CCAP does not pay for provider holidays or vacation days.
  - Increased provider hours worked per week to manage paperwork and program administration.

### **Providing Inclusive Care for Children with Special Needs**

As discussed earlier in this report, a majority of providers report providing care for a child that has either a medically diagnosed need, is educationally eligible for special education services, and/or is suspected of having

special education needs. The models included throughout this report include the assumption that some children with increased or special needs are enrolled in child care programs. FCF asked questions in surveys and business interviews to better understand the financial costs associated with providing inclusive child care for children with special needs.<sup>60</sup> The following case study describes a center that is providing care for more children with special needs.

In comparison to the other case studies, this model is informed both by the practices that providers currently use and those they wish were available. Many providers noted that there were practices they wanted to offer to support children and staff, but financial limitations made those practices inaccessible. For example, providers described wanting to give more individualized or one-on-one care to some children. However, resources are not available to hire additional staff or decrease family child care enrollment to provide this lower ratio.

In comparison to the standard model, the case study for programs providing inclusive care for children with special needs includes:

- Centers
  - Increased staffing coverage and two additional aides to provide more individualized attention and coordinate services. In the survey, the most commonly reported impact of providing care for children with special needs is on staffing costs. Centers reported a need for lower ratios or an additional aide to provide one on one care for some children. Some reported that providing care for children with special needs resulted in increased staffing costs because additional supports needed to be provided to existing staff. This included mental health days or other supports to prevent burnout. Centers also reported that caring for children with special needs resulted in new or changing responsibilities for staff. This included coordinating supports with external specialists or service providers, completing paperwork and participating in Individualized Education Program or Individualized Family Service Plan meetings, managing school bus pick up and drop offs, and more intensive parent communication and support. This requires additional staff time, impacting staffing costs.
  - Increased food costs to accommodate food allergies or other specific food-related needs.
  - Increased classroom equipment costs to provide specialized equipment to meet children’s needs.
  - Increased educational supply costs.
  - Increased training and professional development costs to support staff in providing inclusive care and preventing burnout.
- Family Child Care
  - Lower enrollment efficiency to provide more individualized attention to children with special needs.

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<sup>60</sup> Throughout data collection, FCF asked about “diagnosed” and “potential” special needs. Providers were clear that many children they cared for required additional support or resources but did not have a formal diagnosis. Given the young age of children in care, a diagnosis may not be possible or may take a very long time to access. During this time care is still being provided by child care providers.

- Increased supply and equipment costs. Providers reported costs for buying specialized equipment, activities, or materials for children with special needs. Examples included curriculum, sensory fidgets, grab bars and assistive items for meal times.
- Increased food costs to accommodate food allergies or other specific food-related needs.
- Increased training and professional development costs to help providers in feeling confident in providing inclusive care and provide a supportive community for family child care providers.

## Alternative Hour Care

Alternative hour care is a critical service to meet the needs of all parents and families in the workforce. However, center providers shared that operating alternative hour care is challenging, especially given current labor market dynamics. In comparison to the standard model, inputs in the alternative hour case study include the following:

- The center operating 15 hours per day Monday through Friday.
- Staff who work during evening hours earn 25% higher wages to support recruitment and retention.
- Increased food costs to account for evening meals served.
- Increased utility costs.
- Increased educational supply costs.
- Lower enrollment efficiency to reflect more flexible family enrollment schedules.

FCF did not develop a case study for alternative hour care for family child care. Family child care programs offering alternative hour care do not experience dramatic differences in costs for providing alternative hour care. The biggest change is the large cost to the provider's personal time. Family child care providers dedicate significantly more time to their business when providing care outside of traditional hours. This increase in time spent is not fully captured in the PCQC output.

## Children with High Economic Need

FCF and the department wanted to understand the cost and revenue differences in providing care to children with diverse economic needs. FCF developed a case study focused on programs providing care for children with high economic need. To explore this question, FCF analyzed cost data for differences by Social Vulnerability Index (SVI) in the area where providers operate.<sup>61</sup>

In the study data set, SVI was highly correlated with geography. To address this, FCF only explored differences in costs by SVI among urban providers. The urban data set was large enough to be further disaggregated into the four categories of the SVI. Unlike other case studies, the high economic need case study uses urban data rather than statewide averages. FCF recognizes and understands that poverty exists outside of urban areas and that these trends likely exist for rural, small town, and large town. However, there was not a data set of sufficient

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<sup>61</sup> Agency for Toxic Substances and Disease Registry (2023). *CDC/ATSDR Social Vulnerability Index*. Retrieved from <https://www.atsdr.cdc.gov/placeandhealth/svi/index.html>

size to explore at this time. Future data collection and analysis could focus on these trends outside of urban areas in Minnesota.

While the SVI provides some insight, the index is intended to support disaster relief efforts. The Census items included in the index serve this disease-focused purpose. Not all Census items are relevant for a child care context. Future analysis and discussions should consider child care specific equity measures.

In comparison to the standard model, the case studies’ inputs for providing care in areas with high economic need include the following:

- Centers
  - Higher rent/mortgage costs in low-income areas<sup>62</sup>
  - Tuition at 25th percentile of market rate survey
  - Higher CACFP revenue to reflect more children at “paid” and “reduced” tiers
- Family Child Care
  - Lower occupancy costs (rent or mortgage interest, property tax, and homeowners insurance)
  - Tuition at the 25th percentile of the Market Rate Survey
  - Tier one CACFP revenue

Table 22 and Table 23 below show the net revenue across these case studies. These case studies can inform specific supports to providers to support their business sustainability and access to quality child care for all families in Minnesota. In particular, the additional revenue from the CACFP was important in offsetting revenue losses for the 80% CCAP and high economic need models in the family child care model. Ensuring family child care providers can access the CACFP is an important strategy for business sustainability.

**Table 22: Family Child Care Case Study Annual Net Revenues**

Family Child Care Model Scenario	Annual Net Revenue	Net Revenue Change
Operating in a Language Other than English	\$20,902	-\$19,978
80% CCAP Enrollment; not billing difference between CCAP and private rate	\$39,740	-\$1,140
Providing Inclusive Care for Children with Special Needs	\$34,565	-\$6,315

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<sup>62</sup> Trends related to real estate costs were found in study survey data. This reflects disaggregation by SVI for urban providers. Per-square foot rent/mortgage costs were approximately 15% higher in areas of high social vulnerability in comparison to areas with low social vulnerability.

Family Child Care Model Scenario	Annual Net Revenue	Net Revenue Change
Statewide Average- Comparison Model	\$40,880	--
Children with High Economic Need (Urban)	\$53,542	-\$3,254
Urban Model- Comparison	\$56,796	--

**Table 23: Center Case Study Annual Net Revenue**

Center Model Scenario	Annual Net Revenue	Net Revenue Change
Operating in a Language Other than English	-\$233,396	-\$220,530
80% CCAP Enrollment; not billing difference between CCAP and private rate	-\$46,792	-\$43,926
Providing Inclusive Care for Children with Special Needs	-\$122,078	-\$119,365
Alternative Hour Care	-\$210,477	-\$207,602
Statewide Average- Comparison Model	-\$2,866	--
Children with High Economic Need (Urban)	\$41,878	-\$77,727
Urban Model- Comparison	\$119,606	--

## Future State

In addition to understanding what it currently costs to provide care, this study sought to explore what it would cost to provide care in a future state of sustainable, high-quality care. Given the limited revenue available, programs are creative and resourceful in finding ways to continue operating. Some of these strategies, like family child care providers limiting their take home pay or centers offering limited staff benefits, hurt the sustainability of the child care field.

To define what would be included in the future state models, FCF used feedback from listening sessions, partner conversations, and feedback from the advisory group. Programs highlighted that staff longevity and quality working conditions for those caring for children were critical components of a high-quality child care program. Wherever possible, FCF aligned model inputs with the recommendations from the Great Start for All Minnesota Children Task Force Final Report.<sup>63</sup> Because the Great Start for All Minnesota Children Task Force recommendations do not include geographic differences in staff wage recommendations, the future state models below reflect a statewide average. Future work will explore geographic differences in future state costs.

The models included below do not consider the revenue side of the cost model. **Significant additional funding, beyond parent tuition, will be needed to reach the future state described below.** The future state models provide a starting point for understanding the systems-level investment needed to support the early care and education field.

**Family Child Care**

In a future state, family child care providers will have access to a range of benefits that support their health and well-being. The annual net revenue of family child care providers represents both their take home wage and the resources available to support the growth and sustainability of their business.

A family child care provider would need an annual net revenue of \$97,414 in this future state model. Table 24 outlines the cost inputs that would be supported by this annual net revenue. Table 25 highlights the program-specific costs included in the future state. This future state scenario would result in an annual per-child cost of \$14,184.

**Table 24: Family Child Care Annual Future State Inputs: Annual Net Revenue**

Annual Cost Input	Future State	Notes
<b>Total Annual Net Revenue</b>	\$97,414	This model assumes that child care providers caring for 10-12 children will earn a total net revenue of \$97,414. That net revenue will be allocated to provider wages, benefits, and business sustainability, illustrated below.
Portion of annual net revenue allocated as provider wage*	\$63,050	Great Start Task Force recommendation of a provider wage for family child care providers caring for 10 or more children.

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<sup>63</sup> Great Start for All Minnesota Children Task Force (2023). *Final Report: Great Start for All Minnesota Children Task Force*. Minnesota Management and Budget. Retrieved from [https://mn.gov/mmb/assets/Final%20Great%20Start%20for%20All%20MN%20Children%20Task%20Force%20Report%202.1.23\\_tcm1059-562456.pdf](https://mn.gov/mmb/assets/Final%20Great%20Start%20for%20All%20MN%20Children%20Task%20Force%20Report%202.1.23_tcm1059-562456.pdf)

Annual Cost Input	Future State	Notes
Portion of annual net revenue allocated to retirement savings	\$9,457	Represents 15% of provider wage to be allocated for provider retirement savings.
Portion of annual net revenue allocated to business sustainability	\$9,942	Reflects rainy day fund with 3 months of operating expenses replenished every three years. Would support major repairs, emergency response, and funds to weather revenue shortfalls.
Portion of annual net revenue allocated to business expansion and entrepreneurship	\$5,965	Reflects an additional 5% net revenue for investment in ongoing business development and expansion. Would support debt service for program start-up or fund program improvement or expansion efforts.
Portion of annual net revenue that represents annual value of family contributions to business	\$9,000	On average, survey respondents reported that family members contribute 12 hours/week to their business. This reflects some of the value of this time contributed to the business. Programs would likely have to hire people to complete this work (yard work, care of children, shopping, etc.) without this family contribution.

\*Input is aligned with the Great Start Task Force recommendation.

**Table 25: Family Child Care Annual Future State Inputs: Adjusted Program Costs**

Annual Cost Input	Future State	Notes
Professional Development	\$600	Additional professional development funds support dedicated time for networking and engagement with other family child care providers to support longevity in the field.
Health Insurance	\$6,576	The average survey cost for those who reported a monthly health care cost.

Annual Cost Input	Future State	Notes
Annual Contribution to Cafeteria Benefits*	\$6,305	For Centers and Head Start, the Task Force recommends a negotiable package equivalent to 10 percent of an employee’s salary be made available for benefits such as: child care for the employee’s own children; family member health coverage; short- and long-term disability insurance; dental insurance; optical insurance; and life insurance. FCF includes this in the future state model for family child care, as well.

\*Input is aligned with the Great Start Task Force recommendation.

### Child Care Centers

Across both the advisory group and provider listening sessions, recommendations for the future state focused on supports for the early care and education workforce that would increase tenure, experience and longevity in the field. Providers emphasized the value of positive relationships between staff, children and families and noted that positive working conditions, pay and benefits all contributed to relationship building.

The wages and benefits of the future state model align with Great Start Task Force recommendations. Future adjustments to the proposed early care and education wage scale are planned for 2024-2025. The future state model can be updated to reflect those new recommendations. The Great Start Task Force wage recommendations focus on classroom staff. For other staff positions, such as administrative assistants, cooks, and bookkeepers, FCF used Minnesota Department of Employment and Economic Development (DEED) median wage data to align child care center wages with other industries. As child care centers recruit staff for these roles, they must compete with employers from other industries.

The future state reflects a significant expansion in voluntary benefits, as Table 26 below outlines. This represents an average of \$11,677 in voluntary benefits per staff (excluding the value of PTO). This is an approximately 220% increase over the benefits offered in the non-Parent Aware center model and a 150% increase over the Four-Star Rated center model.



**Table 26: Child Care Center Future State Annual Inputs**

Annual Cost Input	Future State	Notes
Health Insurance (per staff)	\$5,069	Reflects the average annual employer contribution to premiums across industries and assumes the cross-industry average of 77% participation rate in the health insurance plan, among eligible staff. <sup>64</sup> Assume more staff will participate in more generously funded benefits. Additionally, fewer staff will be eligible for publicly funded health insurance in the future state.
Annual Paid Time Off (hours per staff)*	132 hours	This value represents staff vacation and sick days. It does not include paid holidays when the program is closed. Represents a weighted average of time off aligned with Task Force recommendations. Assumes in the future state that 10% of staff are in their first year of employment, 50% are in years 2-4, and 40% have worked for the center for 5+ years.
Annual Teaching Staff Training	40 hours	Increased paid training time for staff.
Annual Employer Retirement Contribution* (per staff)	4% of salary Average of \$1,888/staff	Represents a 4% match. This reflects the median cross-industry employer match. <sup>65</sup>
Cafeteria Benefits* (per staff)	10% of salary, Average of \$4,720/staff	The Great Start Task Force recommends a negotiable package equivalent to 10 percent of an employee’s salary be made available for benefits such as child care for the employee’s own children; family member health coverage; short- and long-term disability insurance; dental insurance; optical insurance; and life insurance.

<sup>64</sup> Kaiser Family Foundation. (2022). *Employer Health Benefits 2022 Annual Survey*. <https://files.kff.org/attachment/Report-Employer-Health-Benefits-2022-Annual-Survey.pdf>

<sup>65</sup> Vanguard. (2022). *How America Saves*. [https://institutional.vanguard.com/content/dam/inst/vanguard-has/insights-pdfs/22\\_TL\\_HAS\\_FullReport\\_2022.pdf](https://institutional.vanguard.com/content/dam/inst/vanguard-has/insights-pdfs/22_TL_HAS_FullReport_2022.pdf)

Annual Cost Input	Future State	Notes
Healthy Net Revenue Allocated to Business Sustainability Annually	\$48,650	Reflects a rainy day savings fund of 3 months of operating expenses replenished every seven years for ongoing business sustainability. It would support facility maintenance, emergency response, and funds to weather revenue shortfalls.
Healthy Net Revenue Allocated to Business Expansion and Entrepreneurship Annually	\$68,110	Reflects an additional 5% net revenue for investment in ongoing business development and expansion. Would support debt service for program start-up or fund program improvement or expansion efforts.
Director Hourly Wage	\$39.18	Education Administrators, All Other median wage.
Assistant Director Hourly Wage	\$33.23	Mid-point between Director and Lead Teacher wage
Administrative Assistant Hourly Wage	\$23.80	Secretaries and Administrative Assistants, Except Legal, Medical, and Executive median wage.
Cook Hourly Wage	\$19.08	Cooks, Institution, and Cafeteria median wage.
Accountant/Bookkeeper Hourly Wage	\$24.44	Bookkeeping, Accounting, and Auditing Clerks' median wage.
Lead Teacher Hourly Wage*	\$27.28	Mid-point between recommended wage for Lead I and Lead II educators.
Assistant Teacher Hourly Wage*	\$19.40	Recommended wage for support educators in 0-5 settings.
Teacher Aide Hourly Wage*	\$16.21	Recommended base wage for all members of the early care and education workforce.

\*Input is aligned with the Great Start Task Force recommendation.

This model results in the annual per child costs shown by age group in Table 27. For comparison, the statewide average cost-per child for the current state model is also included.

**Table 27: Annual Future State Cost per Child, by Age Group**

Age Group	Future State Annual Cost	Current State Annual Cost (Statewide Average)
Infant	\$35,472	\$23,250
Toddler	\$21,846	\$14,162
Preschool	\$16,395	\$10,527

## Policy Implications

The cost models and case studies can inform policymaking to strengthen the child care sector. This cost modeling study predates the transformative early care and education investments made in the 2023 legislative session. However, the model clearly demonstrates the need for these interventions. Transitioning CCAP payment rate setting from a price to cost based approach may have the most profound impact on rates in greater Minnesota, where child care shortages are severe. It could also guide significant increases in infant and toddler rates to address the high costs of serving these age groups. Given the potential declining enrollment of preschool children in community-based child care (the impact of which is demonstrated in case studies on pages 34 and 36), it is critical that infant and toddler slots are fully funded and self-sustaining. As demonstrated in the case studies on pages 34 and 45, family child care providers choosing to serve additional infants and toddlers through specialized or expanded license types (B2, C3, and D licenses) are limited in their ability to be financially sustainable. **Increased infant and toddler rates are necessary to encourage program expansion and specialization in infant and toddler care.**

Based on survey data, the current state model assumes that 10 percent of enrollment is funded through CCAP. This limits the impact that CCAP rates and quality differentials have on the cost model and on the business sustainability of the programs the model represents. It is not practical to increase workforce compensation based on revenue from 10 percent of enrollment. Even in programs with higher participation rates, fluctuating and unpredictable CCAP participation makes it challenging for programs to plan wage increases based on this revenue. Operational supports, such as Child Care Stabilization Grants and Compensation Payments, are necessary interventions to support investments in workforce compensation, which drive program quality. **As these cost models demonstrate, compensation supports are necessary across most geographic and quality levels to maintain current wages.** Future investment will be necessary to achieve the compensation targets recommended by the Great Start Task Force and included in the future state model.

The department could explore opportunities to use **higher CCAP rates to incentivize providing harder-to-access types of care, such as alternative hour care.** To be effective incentives, payments must be structured to pay above posted rates. As demonstrated in the case study on page 51, alternative hour care is costly for centers to provide. Incentive rates would have to outweigh these costs. For family child care, alternative hour care comes with few additional expenses but a high cost to providers’ personal and family life. Incentive rates could be structured to recognize the value of providers’ time.

Although care was taken to collect data about the costs of providing culturally and linguistically responsive care in the cost survey, listening sessions, business interviews and conversations with the advisory group, these costs are highly variable and difficult to quantify. **Flexible and supportive equity grants provided to programs that reflect the cultures and languages of their communities may be most effective to encourage and retain diverse and responsive programs across Minnesota.**<sup>66</sup>

The department should continue and expand efforts such as the Inclusive Care Pilot Program to enhance services to children with increased needs. However, it is important to note that the interventions offered and/or desired by programs to support children with special needs, such as increased staff coverage, training, and PTO and wellness supports, are associated with quality care for *all* children. Because of the young age of children served in child care, formal diagnoses are slow and may not be possible. **Investing in high quality care for all children, such as in the future state cost model, is the best way to ensure the timely and comprehensive provision of inclusive care.**

**Program profit is necessary to sustain and launch additional child care supply.** Profits are used to pay debt service on startup loans, fund major repairs, weather downturns, and invest in program quality or expansion. In the current state models, only urban programs operating without a Parent Aware Rating or at a One- or Two-Star level earn above a five percent profit margin, a baseline for sustainability. As the case study on page 51 demonstrates, urban programs operating within low-income communities and unable to charge local families the median tuition for their rate cluster operate on slimmer margins. Finally, at current enrollment rates, no programs across any geographic or quality scenario earn a profit. **The future state model includes investments in program reserves and a five percent profit for all programs to incentivize increased access to care.**

While the cost model in this study explores program level costs, there are benefits to exploring systems-level investments and programs. Employee benefits are a significant cost driver in both the current and future state models. The Great Start Task Force recommended developing a family child care health benefits program to subsidize the cost of premiums for family child care programs and provide healthcare navigators that specialize in serving the child care workforce. This infrastructure could also be extended to staff in small center programs (with fewer than 50 employees). **Robust supports connecting the workforce to marketplace health plans and limiting out-of-pocket costs could reap savings over employer-sponsored health care. A state-level entity could administer the cafeteria benefits offered in the future state cost model to leverage economies of scale and minimize cost. Providing the child care workforce with automatic eligibility for CCAP rather than the current practice of providing discounts at the program level would also shift costs to reduce the per-child cost burden on child care programs.**

## Future Directions

Costs modeling is a tool that can inform or answer a wide range of questions. Future iterations of this cost modeling study can include further analysis. For example, wage and benefit information used in the current

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<sup>66</sup> Minnesota could look to Oregon's [Early Childhood Equity Fund](#) as a potential program model.

state cost model was collected between summer 2022 and winter 2023. Over the last year, child care programs have had to adapt quickly to a severely constrained labor market, and these wages and benefits may already be outdated. There is an opportunity to collect additional data on costs and revenue associated with high quality programming. Additional analysis of costs associated with being a Parent Aware Rated Program can inform system-level supports that ensure accessible, high-quality care.

The future state cost model uses wages recommended by the Great Start Task Force. The task force put forward this wage scale as a starting point. In FY24, the department will develop an updated wage scale to reflect inflation, changing workforce dynamics, and regional wage variation. The wage scale will also guide the placement of the workforce within a career lattice by determining comparable competency and experience guidelines to accompany the educational guidelines. Future iterations of the cost model will be updated to align with this wage scale.

Currently, the cost model does not include age-based variation in costs for family child care providers. Licensing requirements limit the enrollment of infants and toddlers in family child care homes rather than increasing staff costs as they do in center models. However, as demonstrated in the case studies on page 34, the age of children enrolled in family child care homes has significant impacts on the net revenue of programs. Future iterations of the cost model will incorporate a methodology to appropriately assign costs across age groups to ensure that caring for infants and toddlers does not come with financial disadvantages.

Furthermore, the investments made during the 2023 legislative session are not included in this cost modeling study. Future iterations will be updated to include the Compensation Payment Program. Cost modeling can inform a wide range of decisions and policy directions. Future directions should be informed and driven by clear questions and use cases.

## Appendices

### Appendix A: Survey Participant Demographics

The tables below show a detailed comparison of how the demographics of survey participants compared to the field of licensed child care providers, overall. For example, the survey sample was geographically representative across RUCA codes of urban, large town, small town, and rural classifications, as well as regionally representative, as seen in the table below. The tables show that 19% of all family child care programs are in central Minnesota. Within the survey sample, 20% of family child care programs were in central Minnesota.

**Table 1: Survey Sample vs. Actual Frequency, by Geography**

Geography	Center Survey Sample	Center Actual Frequency	Family Child Care Survey Sample	Family Child Care Actual Frequency
Central Minnesota	11%	11%	20%	19%
Northeast Minnesota	8%	5%	4%	5%
Northwest Minnesota	1%	2%	6%	6%
Southeast Minnesota	12%	12%	20%	20%
Southwest Minnesota	5%	5%	10%	10%
Twin Cities Metro	58%	62%	31%	33%
West Central Minnesota	4%	4%	8%	8%

**Table 2: Survey Sample vs. Actual Frequency, by Social Vulnerability Index (SVI)**

Social Vulnerability Index	Center Survey Sample	Center Actual Frequency	Family Child Care Survey Sample	Family Child Actual Frequency
Low	21%	22%	25%	25%
Low to moderate	26%	26%	26%	28%
Moderate to high	27%	23%	29%	27%
High	26%	29%	20%	20%

**Table 3: Survey Sample vs. Actual Frequency, by Parent Aware Participation**

Parent Aware Rating	Center Survey Sample	Center Actual Frequency	Family Child Care Survey Sample	Family Child Care Actual Frequency
Four-Star	49%	44%	12%	5%
Three-Star	4%	2%	6%	3%
Two-Star	3%	2%	7%	4%
One-Star	2%	1%	2%	2%
Signed Participation Agreement <sup>67</sup>	3%	2%	2%	1%
Not Rated	38%	49%	71%	83%

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<sup>67</sup> This reflects programs that have signed up to participate in Parent Aware but have not complete the Rating process yet. As this was such a small portion of providers, this group was not included as a separate group in analysis and modeling.

**Table 4: Survey Sample vs. Actual Frequency, by CCAP Participation**

<b>CCAP Participation</b>	<b>Center Survey Sample</b>	<b>Center Actual Frequency</b>	<b>Family Child Care Survey Sample</b>	<b>Family Child Care Actual Frequency</b>
Does not participate	20%	39%	65%	75%
Participates in CCAP	80%	61%	35%	25%



## Appendix B: Cost Model Input Summary

The following tables illustrate the cost indicators that were included across the standard cost models for family child care and centers. As discussed in the report, FCF created costs models that looked at variations in cost by geography, program quality and a range of case studies.

### Family Child Care

The following tables summarize some of the inputs in the family child care model. Enrollment efficiency in the Family child care models was 85%.

**Table 1: Family Child Care Model Enrollment**

Age Group	Number of Children
Infant	1
Toddler	1
Preschool	8
School Age	2

**Table 2: Quality Variations in the Family Child Care Model**

Cost Input	Not Rated	One-Star	Two-Star	Three-Star	Four-Star
Supplies <sup>68</sup>	\$1,907	\$1,964	\$2,079	\$2,746	\$3,367
Training/ Professional Development	\$342	\$344	\$377	\$403	\$462
Professional membership dues	\$59	\$123	\$123	\$130	\$130
Child Assessment Tool	\$0	\$0	\$0	\$274	\$274

**Table 3: Geographic Variations in the Family Child Care Model**

Cost Input	Rural	Small Town	Large Town	Urban
Annual vehicle expenses	\$3,700	\$1,200	\$990	\$2,654
Annual mortgage interest, property taxes, and depreciation or rent/lease	\$7,678	\$8,776	\$9,609	\$11,893
CCAP Price Cluster	Cluster 1	Cluster 2	Cluster 2	Cluster 4

### Child Care Centers

The following tables summarize some of the inputs in the child care center model. Enrollment efficiency in the center models was 85%.

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<sup>68</sup> There is not a curriculum specific PCQC category in the family child care model. Costs related to curriculum would be included in the "Supplies" input.

**Table 4: Child Care Center Model Enrollment**

Age Group	Number of Classrooms
Infant	1
Toddler	1
Preschool	2
School Age	1

**Table 5: Non-Classroom Staff Included in Model**

Non-Classroom Staff Role	Hours Worked per week
Director	44
Cook	32
Administrative Assistant	32
Accountant	8

**Table 6: Personnel Costs**

Staffing Related Cost	Cost Model Input (per staff)
Health Insurance	\$2,537
Employee Discount for the Care of Own Children	\$1,208
Paid Time Off	80 hours
Paid Professional Development Release Time	24 hours

**Table 7: Quality Variations in the Center Model**

Cost Input	Not Rated	One-Star	Two-Star	Three-Star	Four-Star
Director Wage	Geographic base (see below)	3% higher than base	6% higher than base	9% higher than base	12% higher than base
Lead Teacher Wage	Geographic base	1.25% higher	2.5% higher	3.75% higher	5% higher
Assistant Teacher Wage	Geographic base	1.25% higher	2.5% higher	3.75% higher	5% higher
Aide Wage	Geographic base	0.75% higher	1.5% higher	2.25% higher	3% higher
Annual Paid Time Off	80 hours	80 hours	88 hours	96 hours	104 hours
Training Fees (per staff)	\$312	\$330	\$348	\$366	\$382
Dental Insurance (per staff)	N/A	N/A	N/A	N/A	\$417
Retirement Contributions (per staff)	N/A	N/A	N/A	N/A	1% of salary
Education Benefits (per staff)	N/A	N/A	N/A	N/A	\$154
Education Supplies (per child)	\$102	\$102	\$102	\$168	\$168
Child Assessment Tool (per child)	\$0	\$0	\$0	\$23	\$23
Curriculum (per child)	\$0	\$0	\$0	\$61	\$61

Cost Input	Not Rated	One-Star	Two-Star	Three-Star	Four-Star
Family Engagement (per child)	\$0	\$0	\$0	\$9	\$9
Professional Memberships and Subscriptions	\$267	\$340	\$340	\$340	\$340

**Table 8: Geographic Variations in the Center Model**

Cost Input	Rural	Small Town	Large Town	Urban
Annual rent, lease or mortgage (per square foot)	\$8.02	\$6.65	\$6.97	\$14.21
Director hourly wage	\$23.38	\$20.31	\$21.07	\$26.31
Administrative assistant hourly wage	\$17.35	\$17.35	\$17.35	\$19.62
Cook hourly wage	\$16.40	\$15.89	\$15.89	\$17.31
Accountant hourly wage	\$20.32	\$17.01	\$17.01	\$22.45
Lead teacher hourly wage	\$17.20	\$16.65	\$16.81	\$19.61
Teacher assistant hourly wage	\$13.98	\$13.86	\$13.70	\$16.73
Teacher aide hourly wage	\$13.54	\$11.95	\$12.69	\$15.09
Substitute hourly wage	\$17.40	\$17.44	\$17.48	\$20.73
CCAP Price Cluster	Cluster 1	Cluster 2	Cluster 2	Cluster 4

### Case Studies

The tables below summarize the inputs that were changed across each of the case studies. Additional details on specific changes made in case studies can be found in the report. Tables 9 and 10 indicate the ways that inputs changed in case studies, in comparison to the standard model.

**Table 9: Family Child Care Case Studies**

Case Study	Program Enrollment	Paid Assistant	Equipment and Supply Costs	Training	Other
Specialized Infant and Toddler Family Child Care class B2 license	Decreased		Increased		
Specialized Infant and Toddler Group Family Child Care class D license	Decreased	Included	Increased		
Low Preschool Enrollment	Decreased				

Case Study	Program Enrollment	Paid Assistant	Equipment and Supply Costs	Training	Other
COVID-19				Decreased	CCSG revenue, Increased CACFP revenue
Group Family Child Care class C3 license	Increased	Included	Increased		
Operating Outside of their Home			Increased		Increased insurance, repair and maintenance, and telephone and internet costs. No CACFP revenue
New Program (operating less than 3 years)	Decreased		Increased	Increased	Increased repairs and maintenance, Interest on start-up related debt
Operating in Language Other than English	Decreased		Increased		
80% CCAP Participation					Increased CACFP revenue, uncollected revenue
Providing Inclusive Care for Children with Special Needs	Decreased		Increased	Increased	Increased food costs
Caring for Children with High Economic Need					Decreased tuition. Increased CACFP revenue, occupancy costs.

**Table 10: Child Care Center Case Studies**

Case Study	Program Enrollment	Additional Staff	Equipment and Supply Costs	Training	Other
One Preschool Class	Decreased				
Four Classroom Rural Center	Decreased				
COVID-19				Decreased	CCSG Revenue, Staff Bonuses, Increased CACFP revenue
Large Center	Increased	Included			
Operating in Language Other than English	Decreased		Increased		Increased teacher wages. Translation services

<b>Case Study</b>	<b>Program Enrollment</b>	<b>Additional Staff</b>	<b>Equipment and Supply Costs</b>	<b>Training</b>	<b>Other</b>
80% CCAP Participation		Included			Increased CACFP revenue, uncollected revenue
Providing Inclusive Care for Children with Special Needs		Included	Increased	Increased	Increased food costs
Alternative Hour Care	Decreased	Increased wages and hours worked	Increased		Increased operating hours, utility costs, food costs
Caring for Children with High Economic Need					Decreased occupancy costs, tuition. Increased CACFP revenue.