Arkansas Early Childhood Education Cost Models 2023

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Report Summary

More than 11,000 children in Arkansas are estimated to receive child care subsidies each month, provided through the Child Care and Development Fund (CCDF) and administered by the Arkansas Department of Education, Office of Early Childhood (OEC).[1] Subsidies assist families in paying for early childhood care and education (ECCE) arrangements by reimbursing child care providers though the use of vouchers so low-income parents can work or attend training and education programs. Provider payment rates, set by the OEC, are one of the key determinants of access to ECCE programs for families receiving CCDF subsidies. When payment rates are low relative to market prices or are insufficient to cover a program's operational costs, providers may choose not to serve children using subsidies, which then negatively impacts families' access to services.

To help determine if subsidy payment rates are appropriate, a process called cost modeling is used to estimate providers' cost to provide care under various circumstances. These estimates are then used to make recommendations to OEC administrators for setting reimbursement rates so that they, 1) ensure equitable access of children receiving CCDF vouchers to ECCE programs, and 2) provide sufficient financial reimbursement to support providers in improving the quality of their programs through the Arkansas Better Beginnings Quality Rating and Improvement System.[2]

This report provides the results of cost modeling projections, which factor in newly released changes to the Better Beginnings, for three geographic regions: rural, urban, and Northwest Arkansas.[3] Using the current reimbursement rates and a variety of data regarding wages, inflation, classroom demographics, and program revenue, our models project the following for Arkansas's ECCE programs.

Center-Based Programs

Our findings suggest that the outlook for center-based programs in all three regions will be troubled if reimbursement rates are not adjusted. Rural center-based programs are unable to operate without financial loss at Better Beginnings Levels 2, 4, 5, and 6.

Urban center-based programs are slightly more positive in their outlook because they can operate on a larger scale. However, like rural centers, current reimbursement rates cannot support operation at Levels 5 and 6.

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[1] Administration for Children and Families (DHHS) Office of Child Care. (2022). FY 2020 preliminary data table 1 - Average monthly adjusted number of families and children served. U.S. Department of Health and Human Services. https://www.acf.hhs.gov/occ/data/fy-2020-preliminary-data-table-1

[2] https://www.childtrends.org/publications/market-rate-surveys-alternative-methods-data-collection-analysis-inform-subsidy-payment-rates

[3] https://arbetterbeginnings.com/wp-content/uploads/Better-Beginnings-Provider-Rules.pdf

Northwest Arkansas centers, faced with higher personnel and non-personnel expenses, have trouble with solvency at higher levels of quality. Like their counterparts in other parts of the state, current reimbursement rates do not support operation at Levels 5 and 6.

However, in all three regions, Level 3 programs show significant profit and stability in comparison with higher Better Beginnings levels. This has the adverse consequence of disincentivizing development of higher-quality programs as Level 3 programs, which require less effort to attain, are the most profitable, while higher levels are unattainable without significant in-kind financial support.

We recommend increasing rates for rural centers at Levels 2 and 4, where the data show the broadest difficulties. Additionally, our findings suggest revising reimbursement at higher levels 3, 4, 5, and 6 in such a manner as to support quality improvements. While we have made recommendations for revisions, it should be noted here that these recommendations are strictly to cover the cost of care and do not take into account revisions that would actively incentivize higher quality program development.

Family Child Care Homes

The outlook is better for family child care homes (FCCHs). In all three regions, our data show relatively positive projections from the current rate structures. Assuming an average 68-hour work week, reimbursement rates allow small FCCH programs to generate an income that sits at or above the state minimum wage. Larger programs are, by comparison, able to yield hourly wages commensurate with the annual salary of a teacher in a center-based pre-kindergarten program. These numbers vary across regions but are all generally similar.

These positive data do not currently indicate a need for significant adjustments to reimbursement rates for FCCH in rural, urban, or Northwest Arkansas.

Conclusions and Considerations

It would appear that action must be taken to ensure the solvency and future growth of center-based programs throughout the state. Cost modeling estimates suggest minimum increases in reimbursement rates from 2%-33% depending on the region and Better Beginnings level of the program. (A 2% increase would cover the costs of operating at Level 5 in an urban center-based program, while an increase of 33% is recommended for a rural center-based Level 2 program). These increases, while much needed to cover operating costs, are insufficient to incentivize developing higher quality programs in line with the goals of Arkansas Better Beginnings, and as such, we make the recommendation to develop a reimbursement structure that will better support quality improvement in rural, urban, and Northwest Arkansas center-based programs. in Providing children higher quality care means fewer children per educator, thereby reducing the potential revenue for programs. Rates will need to be increased in the future both to ensure the reimbursement rate is sufficient to allow access to services and to adequately reimburse programs as they climb the quality ladder.

Cost Model Background & Development

Early childhood care and education (ECCE) is expensive and exceeds what many families can afford. To assist low-income parents who work or attend job training and education, states subsidize the cost of care using the federal Child Care and Development Fund (CCDF). In Arkansas, the Department of Education, Office of Early Childhood (OEC), manages this funding. The OEC establishes criteria for subsidy use and reimburses ECCE programs that provide service to eligible children.

In 2022, ECCE subsidies, also referred to as vouchers, were used by more than 11,000 Arkansas children.[1]

A CCDF priority is that families who use vouchers have equal access to the same quality and types of care as other families. If voucher reimbursement rates are lower than what other families pay, or if reimbursement rates do not cover the cost of providing care, fewer ECCE providers will choose to participate in the voucher program. Therefore, states are required to evaluate reimbursement rates every three years.[2]

Prices Vs. Costs

Prior to 2014, states were required to base reimbursement rates on ***market price*** studies. These studies gather data about what ECCE programs charge families and what families pay for different types of care.

The data are used to examine variations in prices based on:

- Program types, whether based in a home or a center.
- Geographic regions.
- Children at various ages.
- Whether programs meet quality standards above the state's minimal health and safety requirements.

VOUCHER PROCESS
for Eligible Families and ECCE Programs

1. Licensed early childhood care and education programs apply to participate in the voucher system. The state verifies whether they meet quality standards. If so, they are added to a list of approved programs.
2. Families apply for assistance, and the state reviews their eligibility. Income, family size, employment, and need for child care are considered.
3. Eligible families choose which eligible program they would like to enroll their child in.
4. The ECCE program delivers services and bills the state. Programs may also charge parents a small co-payment using co-payment rates established by the state.
5. The state issues reimbursement to the program.

CCDF recommends that reimbursement rates based on market price studies be set at 75th percentile of the market rate or above for each type of care. At that level, families who receive assistance are assumed to have similar options for child care as other families.

Although market price studies are helpful to learn what families pay for a child's care, they fail to address whether the amount charged for a child covers the ECCE's cost to deliver services to the child. For example, infants require more hands-on supervision than preschoolers. If programs asked families to fully cover costs for infant care, few families would enroll. Because of that, some programs charge only what families can afford and offset losses from infant rooms with profit they make from classrooms with older children, where class sizes are larger, and teachers may supervise more children at once.

Other methods programs use to offset losses are to pursue grants, fundraising, or in-kind donations. For example, a church or a community center might allow an ECCE program to use their facility rent-free. These financial supports impact what ECCE programs charge parents, and therefore findings from market price studies, but they are not available to all providers and communities at the same level.

Recognizing these limitations, the Child Care and Development Block Grant (CCDBG) Act of 2014 gave states the option to base their rates on a *cost analysis*, with or instead of a market price study. In 2018, CCDBG rules were updated to require that states conduct a *narrow cost analysis* to determine what it costs programs to deliver child care at two or more levels of quality:

- A base level of quality that meets health, safety, staffing, and quality requirements, and
- One or more higher levels of quality as defined by the state agency.[2,3]

> *"We expect Lead Agencies to use information from their cost analyses to evaluate the gap between costs and payment rates as part of their strategic, long-term approach to setting rates that support equal access.*
>
> *Using cost information to narrow the difference between the cost of delivering services and the payment rates can help reduce the barrier to families for finding care by maintaining an adequate supply of providers who can afford to participate in the subsidy program."*
>
> ***- Child Care and Development Block Grant Act of 2014***

The Purpose of Cost Modeling

Arkansas was an early adopter of conducting a cost analysis. The University of Arkansas for Medical Sciences, Family and Preventive Medicine, Research and Evaluation Division (UAMS RED), developed the first state ECCE cost models in 2015. Development of the models was informed by the foundational work of Louise Stoney and Anne Mitchell at the Alliance for Early Childhood Finance.[4]

The UAMS RED cost models estimated program expenses and pretax revenue (shown in Table 1) under different circumstances. The estimates can be used to set reimbursement rates for vouchers to ensure equitable access of children receiving CCDF vouchers to ECCE programs and to provide sufficient financial reimbursement to support providers to improve the quality of their programs through Better Beginnings, Arkansas's ECCE quality rating and improvement systems.

Table 1.
Expenses & revenue sources for child care and education programs

Personnel Costs	Non-Personnel Expenses	
Wages/Salary	Rent/Lease	Education supplies
Mandatory benefits	Utilities	Education equipment
Social Security	Building insurance	Office supplies
Medicare	Maintenance, repairs, and cleaning	Office equipment
Unemployment	Audits	Payroll/Contract services
Workers' compensation	Governmental fees/permits	Credit card processing fees
Health insurance	Food & food prep	Advertising
Reserve fund	Kitchen supplies	Postage
	Consultants/Training	Miscellaneous*
	Transportation	
Revenue		
Private-pay tuition		
Child Care Assistance Program (CCAP) payments (subsidies for income-eligible families)		
USDA Child & Adult Care Food Program funds (CACFP)		

*Expenses that did not fit into these categories were grouped in the miscellaneous category

ADVANTAGES OF COST MODELING
for Determining Voucher Reimbursement Rates

1. **Assesses actual costs**
   A cost modeling study examines the various cost components involved in running a child care program, such as staffing, facility, supplies, utilities, and administrative expenses. By understanding the real costs, lead agencies can determine the appropriate voucher rates that cover these expenses.

2. **Considers quality standards**
   A cost modeling study takes into account the required quality standards and regulations that child care programs need to meet. It helps determine the cost implications and true value of services when higher quality standards are met in areas such as staff qualifications, teacher-child ratios, and ongoing professional development.

3. **Ensures sustainability**
   By considering the actual costs associated with running a child care program, lead agencies can set voucher rates that support program sustainability. Setting rates solely based on market prices may result in insufficient funds to deliver quality care, leading to financial instability, staff turnover, or even program closures. A cost modeling study helps avoid such situations and promotes long-term sustainability for child care programs.

Revising the Cost Models for the 2023 Regulatory Landscape

There have been multiple uses and revisions to Arkansas's cost models since their initial development. In 2016, the models were used to formulate voucher reimbursement rates for different age groups in rural and urban regions according to the quality level of their program. In 2019, the models were updated to project the cost of care associated with minimum wage increases passed by Arkansas voters in 2018, which included annual increases in the minimum wage from 2019-2021 to an $11 minimum that took effect in January 2021.

In January 2023, Arkansas released revisions to the Better Beginnings system.[5] The primary changes to the system include the addition of three higher levels of quality (Levels 4, 5, and 6) and greater use of scores on standardized measures such as *Environmental Rating Scales*® [6,7,8], *Program Administration Scale*[9], *Business Administration Scale*[10], and *School-Age Program Quality Assessment*[11]. Additionally, for center-based providers, Levels 4-6 have requirements to serve fewer children per teacher. These requirements impact operational costs for programs that opt to meet the higher levels. Therefore, UAMS RED adapted models to include the costs associated with each of the new levels of quality.

Another revision involved adding separate models for Northwest Arkansas. The UAMS RED 2019 market price study found significant differences between prices for Northwest Arkansas and other parts of the state.[12] In 2022, a separate voucher reimbursement structure was developed for programs in Benton and Washington Counties. The current report includes projections for three geographic areas: statewide rural, statewide urban, and Northwest Arkansas.

2023 Cost Model Assumptions

The following section details the 2023 data-input decisions and assumptions used to model typical program characteristics in Arkansas. Because our results are based on these typical-case models, some programs will fall above or below economic projections depending on their specific circumstances.

Adjustments for Economic Conditions

Updates to the 2019 cost models for center-based facilities and family child care homes (FCCH) were made to reflect the current economic landscape. These included:

- Updated tuition to reflect the current payment for child care subsidies (July 2023).
- Updated Child and Adult Care Food Program (CACFP) rates (valid through June 30, 2024).[13]
- Calculated rate of inflation from the time of the original cost models using yearly inflation data for 2022.[14] UAMS RED adjusted all non-personnel expenses by that rate per year estimation.
- Updated staff wages using the 2022 State Occupational Employment and Wage Estimates from the Bureau of Labor Statistics (BLS).[15]

Reimbursement Rate Inputs

For the current models, UAMS RED input the tiered reimbursement rates set by OEC in 2023. These rates differ based on geography (rural, urban, and Northwest Arkansas region) but not on program type (center or FCCH). The rates increase as program quality increases.

For centers and FCCHs, private tuition was set to full-time voucher reimbursement rates for programs at all levels of Better Beginnings. Level 1 programs meet the minimum health and safety regulations for licensing and cannot accept vouchers. For those programs, tuition was set to the 90th percentile for urban and rural settings based on results of the 2019 Market Price Survey (Table 2).[16] For school-age classrooms, 66% of the full-time rate was used to account for the distribution of school-year and summer enrollment.

Table 2.
Full-time rates & percentile of the 2019 market price by child age, geography & quality rating

	BB Level 1			BB Level 2			BB Level 3		
Rural	**Rate**	**Center %ile**	**Family %ile**	**Rate**	**Center %ile**	**Family %ile**	**Rate**	**Center %ile**	**Family %ile**
Infant	$21.05	59	74	$22.11	65	85	$24.21	77	89
Toddler	$19.66	59	63	$20.65	60	76	$22.61	74	89
Preschool	$17.40	51	54	$18.27	52	65	$20.01	71	83
School-Age	$16.53	53	52	$17.36	61	61	$19.01	72	78
Urban	**Rate**	**Center %ile**	**Family %ile**	**Rate**	**Center %ile**	**Family %ile**	**Rate**	**Center %ile**	**Family %ile**
Infant	$28.56	54	84	$29.98	62	85	$32.84	73	93
Toddler	$26.67	50	86	$28.00	62	87	$30.67	70	95
Preschool	$23.60	50	74	$24.78	56	75	$27.14	68	89
School-Age	$22.42	60	81	$23.54	70	82	$25.78	80	92

UAMS RED used the urban model as a base to create a separate voucher reimbursement structure for programs in Benton and Washington Counties. The models include modifications of the following expenses:

- Increasing non-personnel expenses using the Bureau of Economic Analysis Regional Price Parities data to account for higher costs of goods and services specific to the region.[17]
- Using Bureau of Labor Statistics wage data specific to the region.[18]

Adjustments for Better Beginnings Revisions

All models were updated to include changes to the Better Beginnings Quality Rating and Improvement System in three areas: adult-child ratios, higher teacher qualifications, and non-personnel expenses associated with environmental assessments.[19]

Adult-child ratios

Teacher-child ratios are important to cost modeling because higher-quality programs assign fewer children to each teacher. This increases personnel costs and decreases tuition revenue. The changes to Better Beginnings rules for center-based programs include ratio requirements for Levels 4-6 (Table 3).

Table 3.
Staff-to-Child Ratio for Center-Based Providers in Better Beginnings

Age Groups	Levels 1-3	Level 4	Level 5	Level 6
0-18 Months	1:5	1:4	1:4	1:4
18-36 Months	1:8	1:7	1:6	1:6
3 Years	1:12	1:11	1:10	1:10
4 Years	1:15	1:12	1:10	1:10
5+ Years	1:18	1:18	1:18	1:16

Up to **two teacher-child groups** are allowed in one classroom, so this was the number chosen for cost model input. For example, the cost model for a 0–18-month classroom at Level 4 would include 2 teachers and 8 infants.

There are no ratio requirements for FCCH programs in the revision to Better Beginnings. UAMS built a level that is not in the Better Beginnings system to determine whether reimbursement was sufficient for programs to meet these National Association for Family Child Care (NAFCC) accreditation standards:

1. A qualified assistant is present when there are more than six children in care.
2. No more than 12 children are in care at any one time.
3. When there are six or fewer children present, no more than two may be under age 2.
4. When there are seven or more children present, no more than four are under age 2.

Therefore, for FCCH models, small NAFCC programs were estimated with one infant, one toddler, two 3-year-olds, one 4-year-old, and one 5-year-old. Large NAFCC programs were estimated with two infants, two toddlers, three 3-year-olds, three 4-year-olds, and two 5-year-olds.

EOC administrators should be aware that NAFCC ratio standards are in the review process and subject to change. If so, the cost models for higher-quality FCCHs will need to be updated.

Teacher qualifications

Programs that meet higher levels of quality need to employ staff with more pre-service education and ongoing professional development. This increases costs associated with staff compensation and benefits. Retirement and health care plans are also needed to retain well-qualified teachers. When programs provide these benefits, they score higher on the Better Beginnings assessments of administrative quality (the *Program Administration Scale* for centers and the *Business Administration Scale* for FCCHs). UAMS RED input personnel costs that would be associated with meeting Better Beginnings Levels 4-6.

Costs associated with environmental ratings

The new higher levels of Better Beginnings include achieving higher scores on assessments of environmental quality using the *Environmental Ratings Scales*.[5,6,7] In each of the cost models, non-personnel expenses, such as learning materials and classroom equipment, were adjusted to support the scores required at Levels 4, 5, and 6.

Adjustments of Operational Inputs

OEC administrative data provided in May 2023 informed cost model updates related to program operations. These data include information about the number of classrooms and ages served and the family income of enrolled children.

Age Distribution Within Programs

UAMS RED estimated the distribution of classrooms in centers based on program capacity and ratios required by minimum licensing standards (Table 4).

- Programs in rural areas are typically licensed to provide care in 3.5 classrooms, which include two rooms with infants and toddlers (ages 0-3), one room with prekindergarten children (ages 3-5) and half a room with school-age children.
- Programs in urban areas are typically licensed to provide care in 5 classrooms, which include two rooms with infants and toddlers (ages 0-3), 2 rooms with prekindergarten children (ages 3-5) and 1 room with school-age children.
- Programs in Northwest Arkansas are typically licensed to provide care in 5 classrooms, which include two rooms with infants and toddlers (ages 0-3), two rooms with prekindergarten children (ages 3-5) and 1 room with school-age children.

Table 4.
Distribution of Center Capacity and Estimated Number of Classrooms* by Age and Region

Program Location	Average # 0-3	0-3 Rooms	Average # PreK	PreK Rooms	Average # 5+	5+ Rooms	Total Children	Total Rooms
Rural	22.1	1.7	30.2	1.1	14.6	0.4	67.0	3.2
Urban	28.7	2.2	42.6	1.6	31.3	0.9	102.6	4.7
Northwest AR	31.2	2.4	45.5	1.7	33.5	0.9	110.2	5.0
All Centers	26.9	2.1	38.9	1.4	26.1	0.7	92.0	4.2

*Assumes two caregivers per classroom

Licensing data for FCCHs are more difficult to interpret because programs are licensed for the maximum number of children in care based on the number of adults in the program and not the age distribution of children. To determine enrollment patterns for the cost model, UAMS RED interviewed training and technical assistance providers and operators of small and large family child care homes. Small FCCHs were assigned eight children (one infant, two toddlers, three 3-year-olds, two 4-year-olds, and one 5-year-old), and large family homes were assigned the maximum allowed: 16 children (four infants, three toddlers, three 3-year-olds, three 4-year-olds, and three 5-year-olds). These enrollment patterns were used for all FCCHs.

Income Distribution of Children

UAMS used OEC administrative data to estimate the number of private-pay enrollments versus the number of children for whom programs receive voucher and CACFP reimbursements in centers and FCCHs (Table 5). It is not possible to know family poverty level from the data available, therefore public-pay enrollments were equally divided into partially- and fully-paid CACFP reimbursement.

Table 5.
Proportion of Private-pay Tuition by Age

	Centers				FCCHs
Program Type	**Infants/Toddlers**	**PreK**	**School Age**	**Average**	**Mixed Ages**
Rural	82%	85%	84%	83%	76%
Urban	67%	72%	71%	70%	77%
Northwest AR	75%	78%	88%	80%	85%
All Programs	73%	76%	76%	75%	78%

UAMS RED entered these assumptions into the cost models. Results in the following sections forecast pretax profit and loss for centers and FCCHs in urban, rural, and Northwest Arkansas geographic regions at different Better Beginnings quality levels.

2023 Projections for Centers

Forecast for Rural Centers

Based on current OEC reimbursement rates and the previously described adjustments to our model, the financial outlook for rural centers is troubled. When modeled as the average program based on licensed capacity, the current reimbursement rates for programs are insufficient to support operation at Levels 2, 4, 5, and 6 (Figure 1).

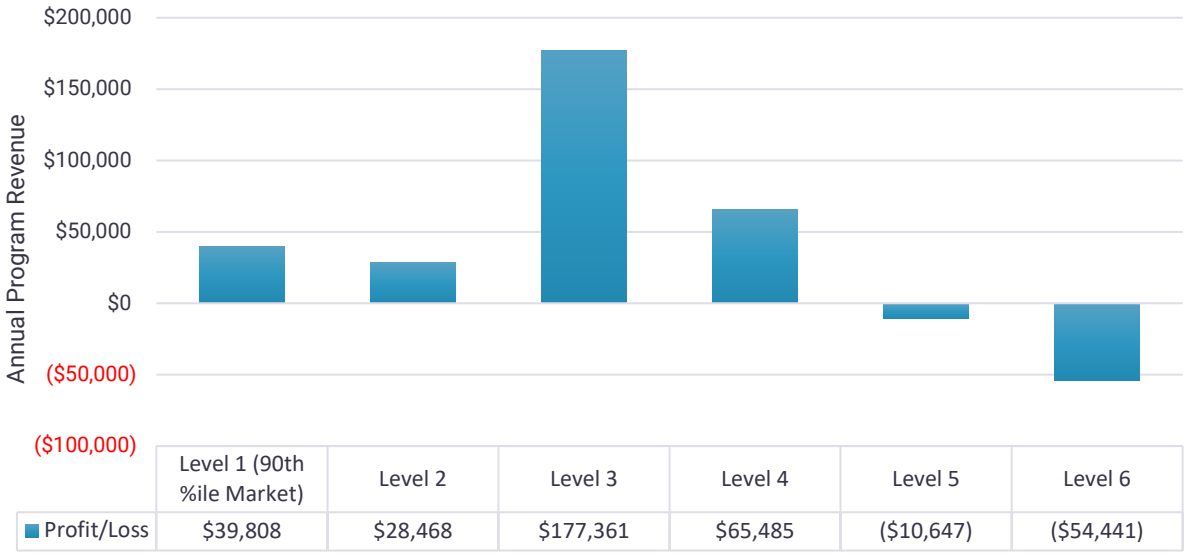
Figure 1. Net Revenue for Rural Centers

Additionally, there is no financial incentive for centers to increase the quality of their program beyond Level 3, as it is the most highly profitable for providers and requires less effort than Levels 4-6. Providing care at Levels 4, 5, and 6 is not attainable without substantial in-kind or financial support for program operations.

Forecast for Urban Centers

Based on current OEC reimbursement rates and the previously described adjustments to our model, the financial outlook for urban centers is slightly more positive for urban than for rural centers. This is, in part, due to the economy of scale in urban centers compared to those in rural settings. In other words, urban programs care for more children on average than rural programs. When modeled as the average program based on licensed capacity, the current reimbursement rates for programs are insufficient to support operation at Levels 5, and 6 (Figure 2).

Figure 2. Net Revenue for Urban Centers



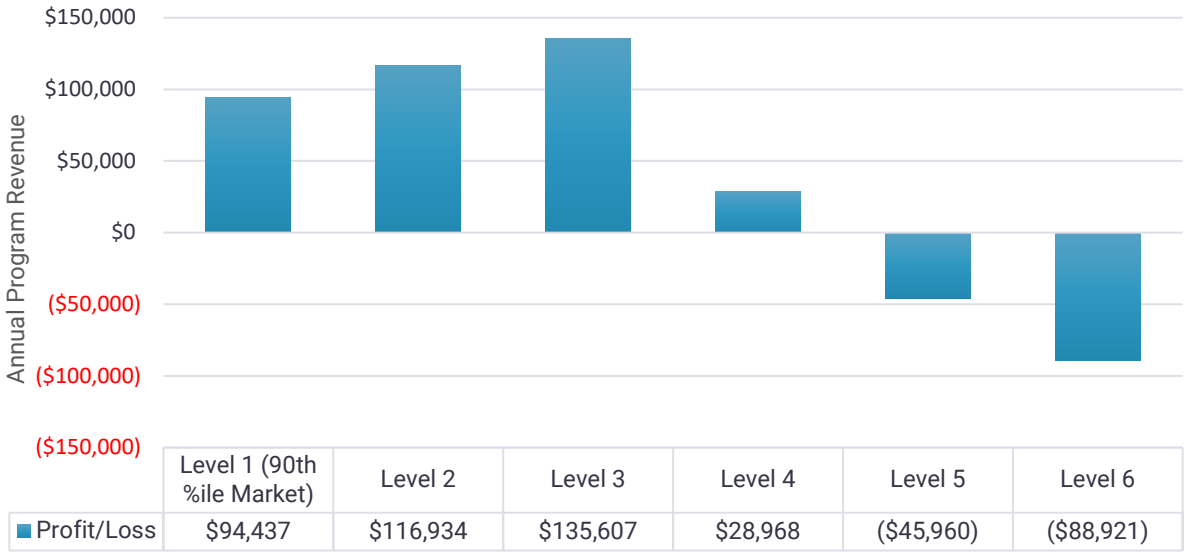
	Level 1 (90th %ile Market)	Level 2	Level 3	Level 4	Level 5	Level 6
Profit/Loss	$39,808	$28,468	$177,361	$65,485	($10,647)	($54,441)

Like projections for rural programs, there is no financial incentive for centers to increase the quality of services beyond Level 3. Reimbursement rates at Level 3, a level which requires less effort to attain, is the most highly profitable for providers. Further, Levels 5 and 6 would be unattainable without substantial in-kind financial support for program operations.

Forecast for Northwest Arkansas Centers

The financial outlook for centers in Northwest Arkansas is slightly less positive than for urban centers. The higher non-personnel and personnel expenses for the region make programs in Northwest Arkansas less solvent than those in other urban areas. When modeled as the average program based on licensed capacity, the current reimbursement rates for programs are insufficient to support operation at Levels 5 and 6 (Figure 3).

Figure 3. Net Revenue for Northwest Arkansas Centers



	Level 1 (90th %ile Market)	Level 2	Level 3	Level 4	Level 5	Level 6
Profit/Loss	$94,437	$116,934	$135,607	$28,968	($45,960)	($88,921)

Like center-based models in other areas of the state, the financial incentive for centers to increase the quality of services is essentially null. At the current reimbursement rates, Level 3 is the most profitable for providers and requires less effort than Levels 4-6, and Levels 5 and 6 would be unattainable without substantial in-kind financial support for program operations.

Recommended Actions for Center Rates

Considering the projections above, OEC could consider implementing the following recommendations:

1. **Increase voucher reimbursement rates for rural centers at Level 2.**
   Increasing rates for rural Level 2 to the same rate as urban centers was insufficient for programs to break even. Unfortunately, the number of children in rural programs is fewer, which increases the cost of care per child. Estimating a 33% increase in the reimbursement rate for Level 2 was needed to break even. Minimally, increasing the payment to the urban rate could be considered.

2. **Reimburse programs in a manner that supports quality improvement.** Currently, the reimbursement rates are set at $1 more per child per quality level above Level 3. However, the number of children served in programs decreases from Level 3 to Level 6 (Table 6), which drastically reduces program revenue and increases per-child costs.

Table 6.
Annual Revenue Change by Quality Level Using Better Beginnings Ratio Requirements and Typical Maximum Capacity

	Max Number of Children Served for Typical Programs*	Annual Revenue**	Revenue Change from Prior Level***
Rural			
Level 2	74	$490,620	
Level 3	74	$788,840	$298,220
Level 4	64	$698,880	$(89,960)
Level 5	58	$648,440	$(50,440)
Level 6	55	$629,200	$(19,240)
Level 3 to 6			**$(159,640)**
Urban and Northwest Arkansas			
Level 2	116	$995,280	
Level 3	116	$1,236,560	$241,280
Level 4	104	$1,135,680	$(100,880)
Level 5	96	$1,073,280	$(62,400)
Level 6	90	$1,029,600	$(43,680)
Level 3 to 6			**$(206,960)**

*Based on ratio requirements in Better Beginnings and typical enrollment pattern in licensing.
**Assumes 100% enrollment at prekindergarten rate.
Compared to the previous level of Better Beginnings. ***This figure is only lost revenue and does not include differences in operational costs for higher level programs.

It costs more to provide quality at Levels 4-6 for all geographies. Compared to Level 3 funding:

- In *rural settings*, it costs 26% more to provide Level 4 quality, 44% more to provide Level 5 quality, and 58% more to provide Level 6 quality.
- In *urban settings*, it costs 17% more to provide Level 4 quality, 29% more to provide Level 5 quality, and 42% more to provide Level 6 quality.
- In *Northwest Arkansas*, it costs 16% more to provide Level 4 quality, 29% more to provide Level 5 quality, and 42% more to provide Level 6 quality.

This rate structure does not incentivize providers to move up through the quality system. The current Level 3 rate is set too high for the care provided. Level 4 care is roughly correctly reimbursed. Increasing all payments at Levels 5 and 6 is needed for programs to remain solvent.

- In *rural settings*, increasing all payments at Level 4 by 6%, Level 5 by 19% and at Level 6 by 25% was needed for programs to break even.
- In *urban settings*, increasing all payments at Level 5 by 2% and payments at Level 6 by 7% was needed for programs to break even.
- In *Northwest Arkansas*, increasing all payments at Level 5 by 6% and payments at Level 6 by 12% was needed for programs to break even.

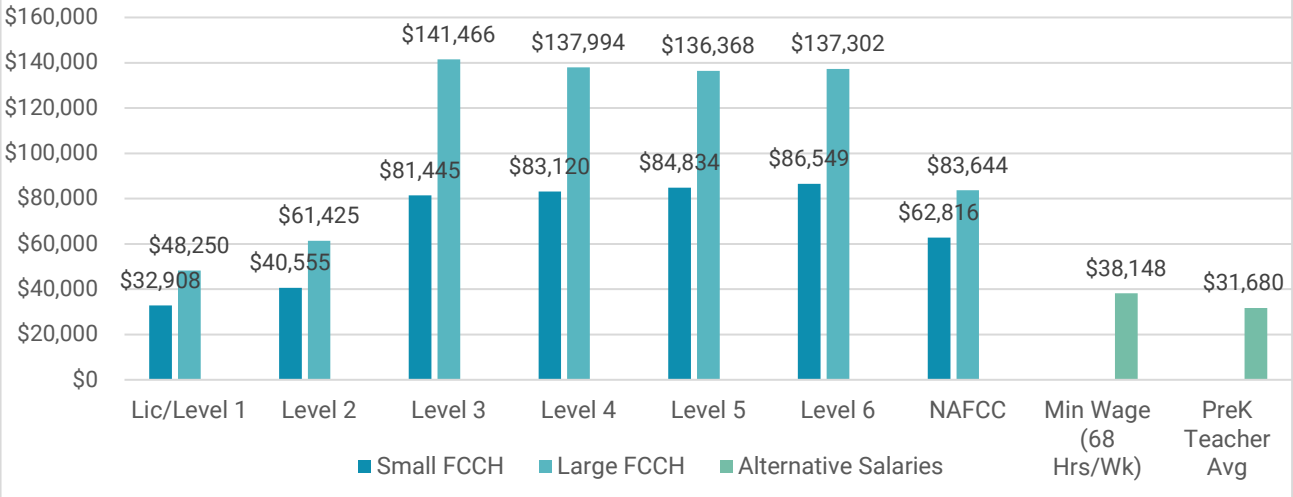
While these increases would at least cover the cost of care, they would not incentivize individual providers to move up through the quality system beyond Level 3, which is more profitable.

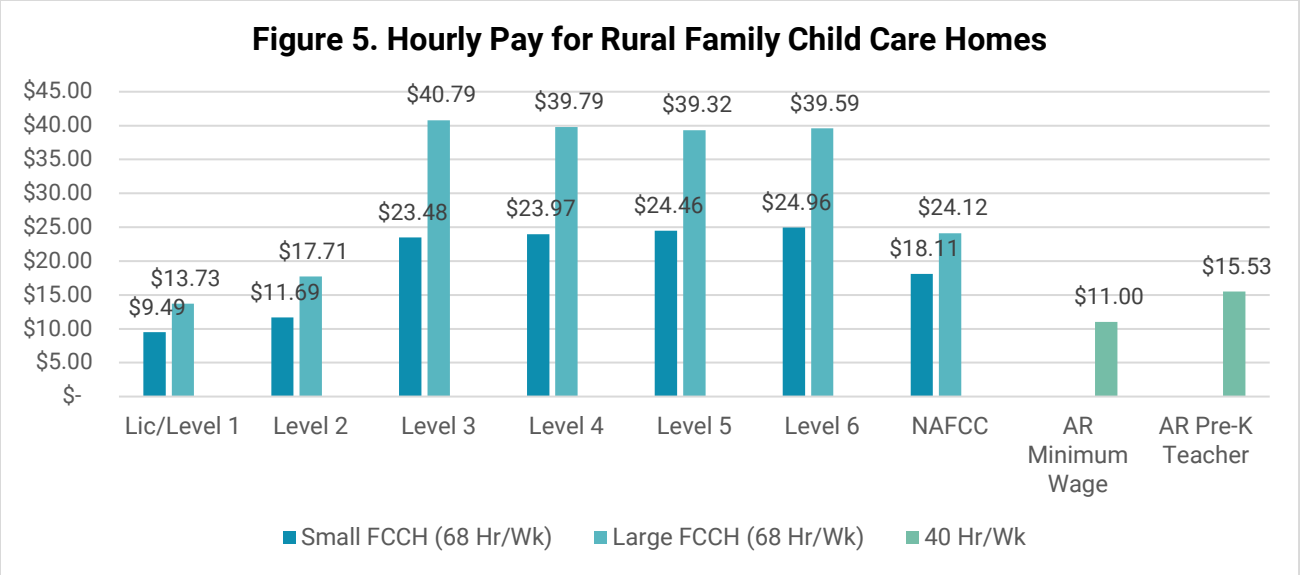
2023 Projections for Family Child Care Homes (FCCHs)

Forecast for Rural FCCHs

Based on current OEC reimbursement rates and the previously described adjustments to our model, the financial outlook for rural FCCHs is relatively positive (Figure 4). FCCH owners' pay comes from their annual business revenue. The revenues shown in Figure 4 produce the wages seen in Figure 5 based on the estimate of working 68 hours per week (11 hours per day with children and 13 hours per week for administrative and preparation tasks when children are not present.[20])

Figure 4. Net Annual Income for Rural Family Child Care Homes

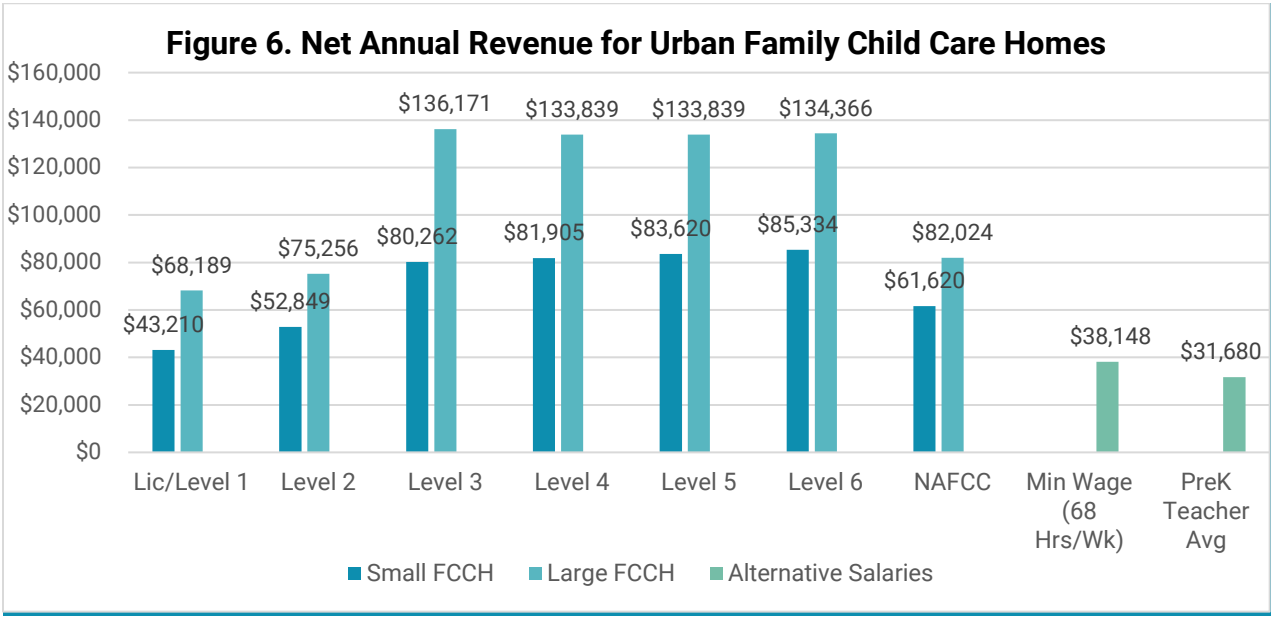


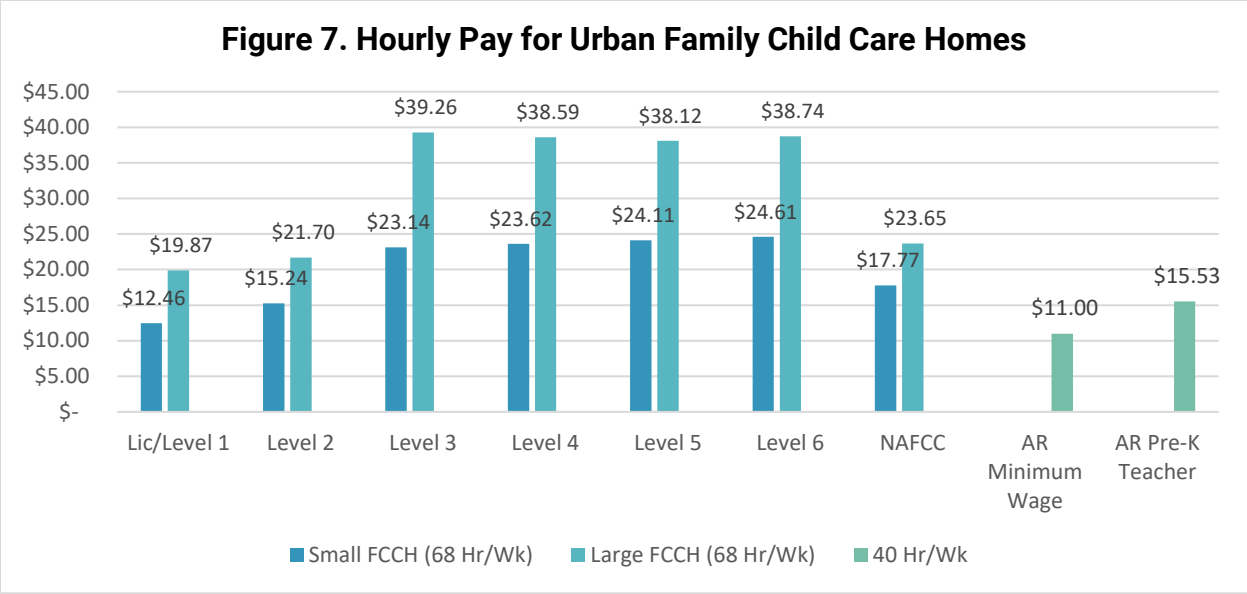


The reimbursement rate for small FCCH programs operating at Level 2 is roughly equivalent to working 68 hours at minimum wage, but operating a larger FCCH yields an hourly wage that is commensurate with the annual salary of a teacher in a center-based prekindergarten program.

Forecast for Urban FCCHs

Based on current OEC reimbursement rates and the previously described adjustments to our model, the financial outlook for urban FCCHs is positive (Figure 6). The reimbursement rate for small FCCH programs operating at Level 2 yields an hourly salary (estimated at working 68 hours per week) well above minimum wage (Figure 7).





Forecast for Northwest Arkansas FCCHs

Based on current OEC reimbursement rates and the previously described adjustments to our model, the financial outlook for urban FCCHs is positive (Figure 8). The reimbursement rate for small FCCH programs operating at Level 2 yields an hourly salary (estimated at working 68 hours) above minimum wage (Figure 9).

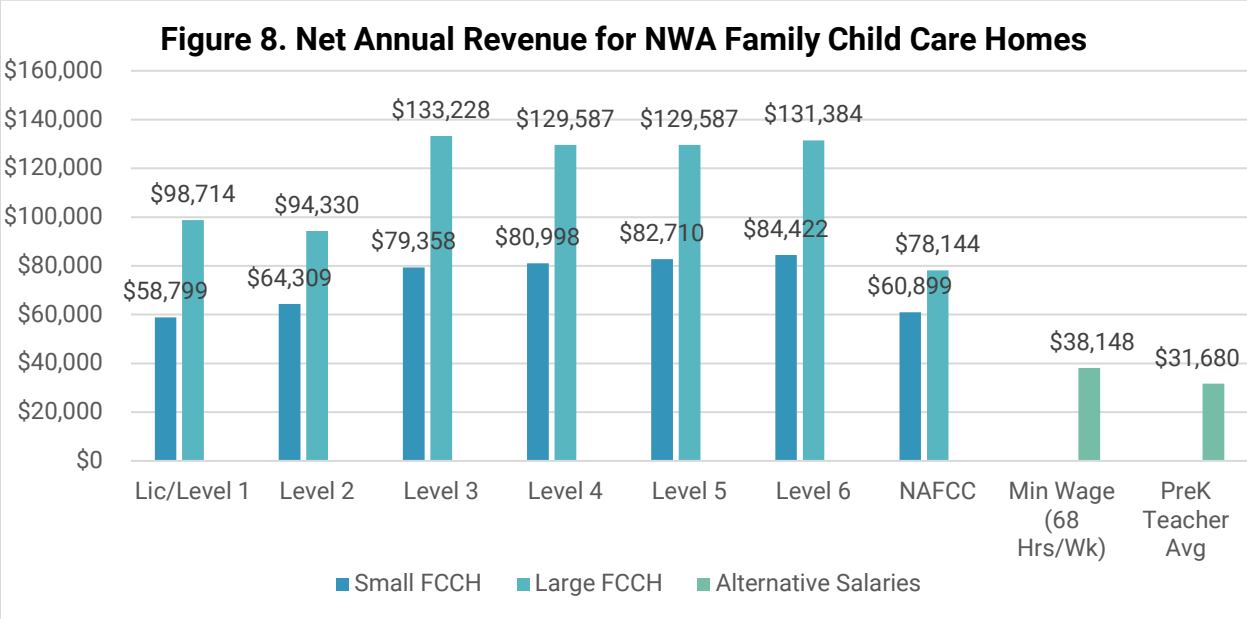
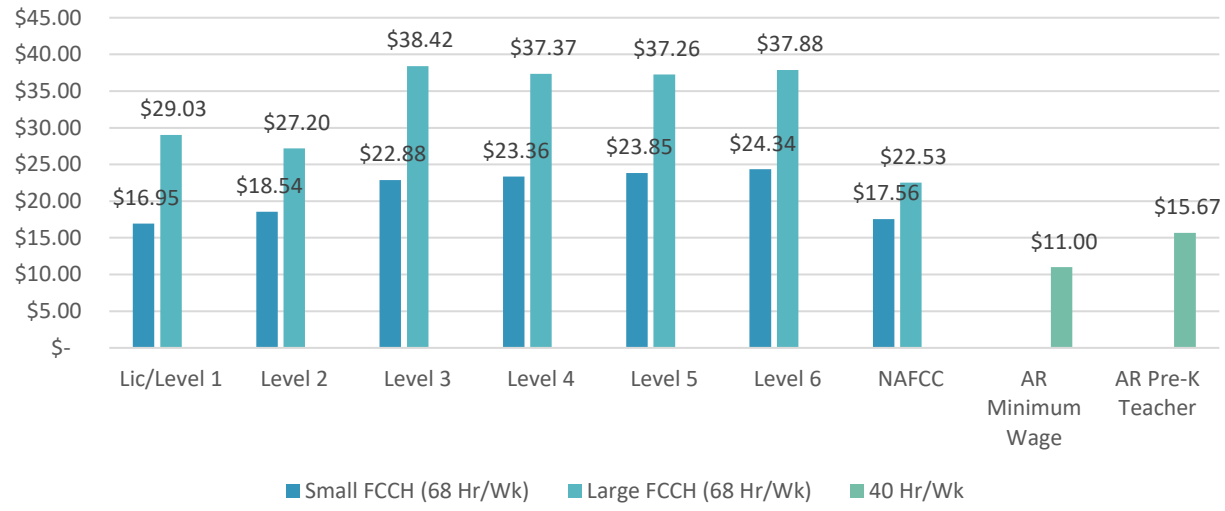


Figure 9. Hourly Pay for NWA Family Child Care Homes



Recommended Actions for FCCH Rates

Unlike the center projections, FCCH projections do not indicate a need for significant reimbursement rate adjustments. In all geographic areas and at all levels of quality, FCCH providers can be profitable.

Discussion

Cost models produced by UAMS RED on behalf of OEC are a CCDF-required methodology for determining voucher reimbursement rates. This type of cost analysis has advantages over traditional market price studies because it shows the true cost of providing services rather than what providers charge families, which is influenced by what providers feel they can charge, what parents can afford to pay, and in-kind program revenue.

It is important to establish a strong link between the state's Quality Rating and Improvement System, Better Beginnings, and voucher reimbursement rates. When reimbursement rates do not adequately cover the costs of providing higher-quality services, ECCE programs are discouraged from serving low-income children, leading to unequal access.

At minimum, reimbursement rates should be set to cover the cost of care. OEC has achieved this with FCCH rates at all quality levels and in all areas of the state, but center rates still fall short. At best, reimbursement rates should help generate incrementally higher profit with each

higher level. By offering financial rewards for higher quality, the state encourages programs to focus on continuous enhancement of learning environments, staff qualifications, and reliable services for all families. In this regard, Arkansas's current rates for centers miss the mark in all areas of the state.

Required teacher-child ratios for Better Beginnings Levels 4-6 have more impact on program profit and loss than other assessed items. If funds are not available to reimburse programs for "lost" enrollment slots, the state may unintentionally increase inequities among programs and families with different levels of economic advantage. In the past, Arkansas has braided quality improvement grants with voucher reimbursements to support programs in quality improvement efforts. If grants or other forms of financial support cannot be provided, we would recommend adjusting how ratios are used in Better Beginnings. Rather than using them as a mandatory indicator of quality at higher levels, they could be an optional path to earn points to quality.

By effectively integrating Better Beginnings levels and reimbursement rates, OEC can drive quality improvement, foster provider engagement in professional development, and create a more equitable landscape for low-income families seeking access to quality child care and early education services.

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