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The True Cost of High-Quality Early Childhood Care and Education in Michigan

Authors: Amanda Danks, Lauren Stargel, Danielle Shaw Attaway, Karen Manship, Janice Keizer, and Tia Byers

Introduction

In 2020, the Michigan Department of Education (MDE) Office of Great Start was awarded the Preschool Development Grant Birth through Five (PDG B-5) renewal grant. As part of the initial [needs assessment](#) conducted by the American Institutes for Research® (AIR®), early childhood care and education (ECCE) costs were highlighted as a challenge across the state. Families reported high out-of-pocket costs for high-quality care. Providers also reported difficulty covering their costs of providing high-quality care.

In response to these findings, MDE conducted research to better understand the costs of high-quality ECCE in Michigan. Although the state conducts an annual market rate study, it only reports the rates *charged by* providers and does not capture the true cost of providing high-quality ECCE. As a next step, MDE contracted with AIR to conduct a cost study to better understand the features and true costs of high-quality ECCE in Michigan.

The cost study used multiple data sources to estimate the per-child cost of providing high-quality ECCE by age (infants and toddlers or preschoolers), setting (home- or center- or group-based), and region (each of the four Early Childhood Support Network [ECSN] regions and the city of Detroit). The study addressed five research questions:

1. What is the per-child cost of providing high-quality ECCE in Michigan's mixed-delivery early childhood education system? How do costs vary by age and in different settings (home-based and center-based care)?
2. How do costs vary by region of the state?
3. What are the largest drivers of the cost of high-quality ECCE?
4. How do high-quality ECCE programs fund their current practices?
5. What are the challenges and barriers to providing high-quality ECCE in Michigan?

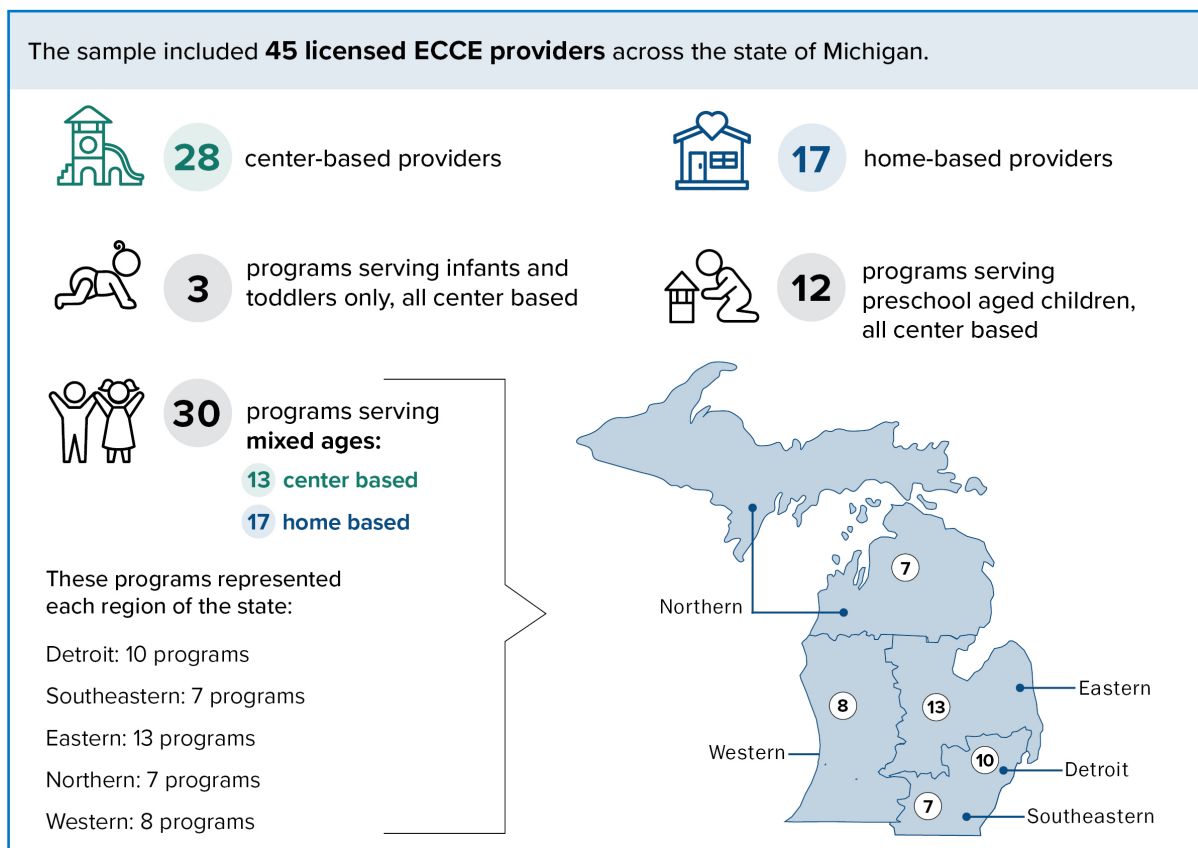
SAMPLE AND METHODS

The study used data from 45 licensed ECCE programs identified as high quality. For this study, programs were identified as high quality if they were accredited by a national organization or if they met six indicators of quality from the state's Great Start to Quality validation study that were most predictive of positive child outcomes ("Few and Mighty" indicators; Exhibit 1). The study also intentionally included providers from the four Early Childhood Support Network regions (eastern, northern, southeast, and western), and from Detroit separately, to estimate differences in cost by region. To understand key cost drivers across the state, we analyzed the costs associated with each resource type, including personnel, facilities, materials and equipment, and other costs (e.g., training materials and subscriptions, meals).

Exhibit 1. “Few and Mighty” Indicators Within Michigan’s Quality Rating and Improvement System: Practices Defining High-Quality ECCE

- 1 Program provides formal communication to inform parents of children’s developmental progress in a way that meets their diverse needs (e.g., literacy level, language, culture)
- 2 Program has written plan for integrating cultural competence and valuing children’s culture
- 3 Program completes an annual developmental screening for each child
- 4 Program has partnerships to provide or connect families to appropriate comprehensive services
- 5 Program uses an evidence-based curriculum
- 6 Program provides ongoing training to teachers to use the curriculum

Data used for this analysis included 90-minute interviews conducted with program directors or owners, analyses of budget documents, surveys of teachers and caregivers, and extant pricing information. Interviews included questions about the personnel and nonpersonnel resources that programs used to provide high-quality care, challenges to funding their program, barriers to providing high-quality care, and how they overcame those barriers. Teacher surveys were administered to learn how much time teachers worked in the prior week on tasks associated with providing high-quality ECCE, such as direct care of children, planning activities, administering child assessments, and participating in professional development or family engagement activities.¹



¹ Interview participants were given a \$50 gift card for their participation. All teacher survey respondents were entered into a drawing for four individual \$25 gift cards.

Calculating the True Cost of High-Quality ECCE

This study used the ingredients approach (Levin et al., 2018) to calculate the true cost of high-quality ECCE across Michigan. This systematic approach collects information about the personnel and nonpersonnel resources used to manage a program and calculates the associated costs. Personnel costs include inputs such as number of staff and staff qualifications. Nonpersonnel costs include things like meals provided, materials and equipment, and facilities costs. To calculate the true cost, we first used data from the participating providers to estimate the quantity and quality of each personnel and nonpersonnel resource used by a program. Then, we

estimated the cost of each of these resources using reported wages (or imputed wages when information was not provided), a minimum wage rate for volunteers, and extant pricing data for nonpersonnel resources (e.g., data from national online retailers, commercial and residential real estate databases). All prices used were specific or applicable to the region in Michigan where the program is located. Finally, we divided the estimated program cost by the number of children served (infants, toddlers, and preschoolers) in each program to arrive at the per-student cost for high-quality care for that program. Costs per preschooler and per infant and toddler were estimated separately. Final costs per child for each age group were then averaged across all programs in each region and for the state.²

TRUE COST

True cost is defined as the dollar value of all resources used to provide high-quality early childhood care and education. True cost is not just what a provider charges a family or receives in the state child care subsidy; true cost is what it actually costs to provide high-quality early learning experiences—the value of personnel and nonpersonnel resources used to manage a program, including resources that are actual expenditures or donated or volunteered, as well as resources that last for multiple years.

It costs between \$11,000 and \$21,000 per child per year to provide high-quality ECCE in Michigan, depending on age, setting, and location.

The costs of providing high-quality early learning experiences in Michigan range between \$11,410 and \$21,021 per child, per year. As a reminder, we interviewed only high-quality programs, so these true costs may be different for lower quality programs. When analyzing the true cost for high-quality providers, we found differences by program type and child age. In general:

- **It costs more to provide high-quality ECCE in home-based programs than in centers.**
- **For centers, it costs more to serve infants and toddlers than preschool-age children.**
- **The state subsidy rates do not always align with the true cost of providing high-quality ECCE.**

On average, the costs to provide high-quality care are higher for home-based ECCE than for center-based care.

On average, it costs about \$20,000 per child (an estimated \$21,021 for infants and toddlers and \$20,814 for preschoolers) to provide high-quality care in home-based programs (see Exhibit 2). Costs are lower in center-based programs—estimated to be \$17,629 for infants and toddlers and as low as \$11,410 for preschoolers. This pattern is consistent with the estimates of the true cost of care in each setting in Michigan for toddlers and preschoolers, conducted previously by the Center for American Progress.³ Typically, families pay more for center-based care than for home-based care (Burroughs et al., 2021; Workman, 2021), but the true cost of providing high-quality care is higher in home-based

² Data from two programs whose costs and circumstances were outliers, including one program serving only one child because of COVID-19 impacts, were dropped from these averages.

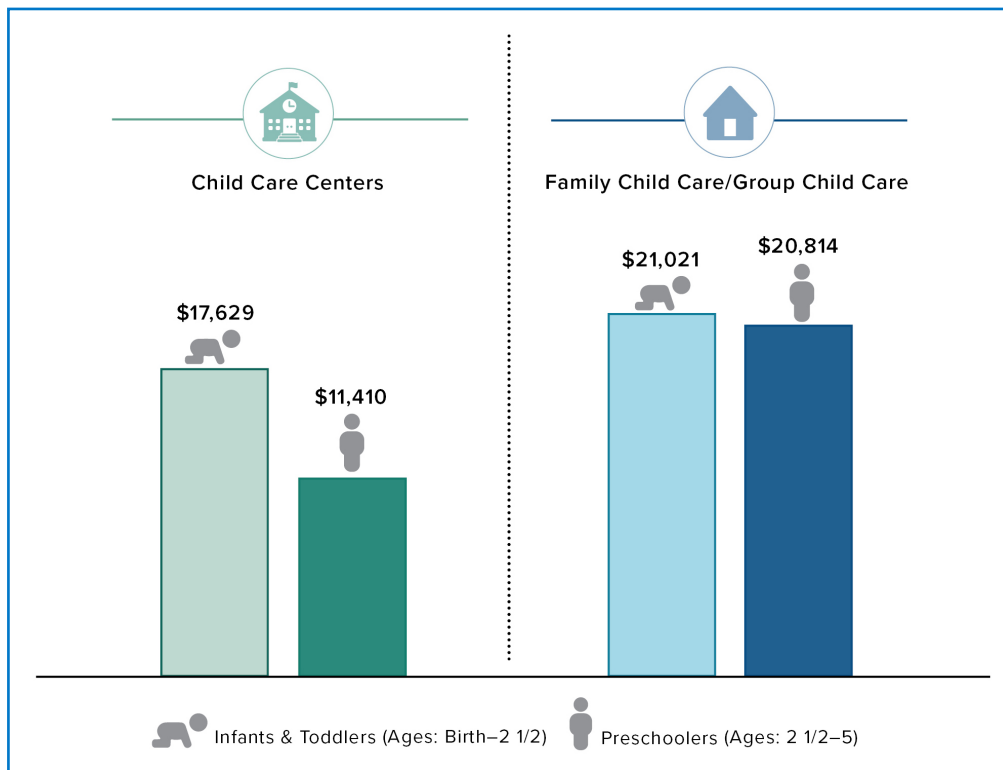
³ See <https://www.costofchildcare.org/>. This tool estimates that the true cost of infant care in a center is higher than in a home-based setting.

programs according to data collected in this study. This finding is likely due to lower adult-to-child ratios or lower enrollment licensing capacity limits required of home-based providers than of centers. For example, centers may be able to serve upward of 100 children depending on the facility, and home-based providers are capped at serving six children in family child care and 12 children in group child care (Michigan Department of Licensing and Regulatory Affairs, Child Care Licensing Division, 2019). Larger providers may experience lower costs per child because of economies of scale.

For centers, it costs more to serve infants and toddlers than preschool-age children, but this is not true in home-based programs.

On average, it costs roughly \$6,000 more to serve infants and toddlers than preschoolers in high-quality center-based programs (Exhibit 2). This finding is also likely connected to the lower adult-to-child ratios required for licensing when caring for infants and toddlers compared with preschool-age children. For example, the state-mandated child-to-adult ratio for infants and toddlers is 4:1, but for preschool-age children it is 7:1. The fact that staff salaries are the biggest cost driver for all ECCE programs in this study (described in a subsequent section) explains most of the difference in costs between serving infants and toddlers and older children in centers. However, we did not see this pattern in home-based care. Instead, costs by age were similar, with only a \$200 difference between serving infants and toddlers compared with preschool-age children.

Exhibit 2. Estimated True Cost of High-Quality ECCE in Michigan, by Setting and Age Served (Local Prices)



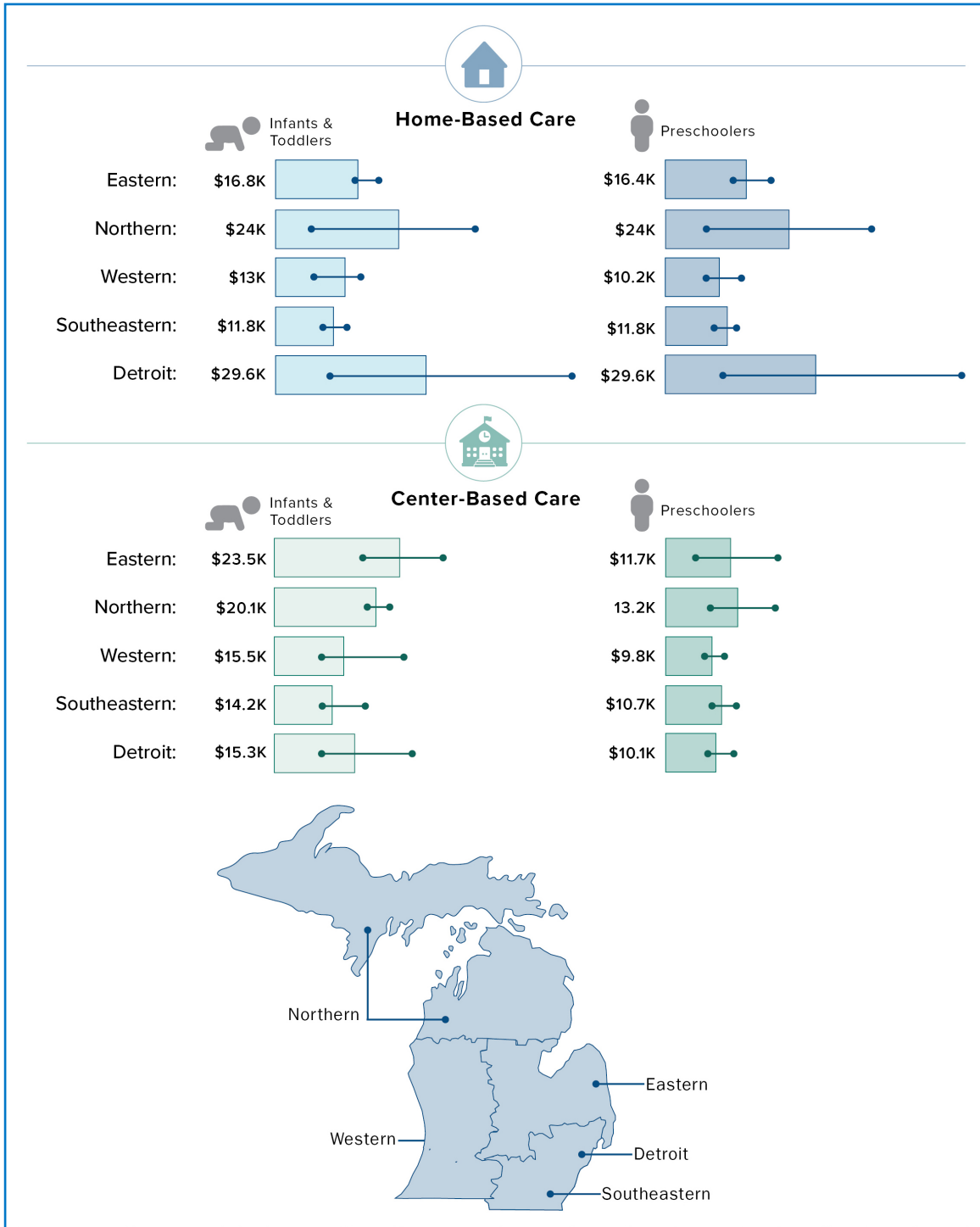
Note. All costs are represented in 2022 dollars.

The cost of providing quality care and education varies across Michigan: Costs are highest in Detroit and the northeast region and lower in the southeast region (excluding Detroit).

The true cost of providing high-quality ECCE across the state varies (Exhibit 3). For example, it costs approximately \$18,000 more to provide high-quality home-based care (for both infants and toddlers and preschoolers) in Detroit than it

costs in surrounding communities in the southeast region (including Livingston, Oakland, Macomb, Jackson, Washtenaw, Wayne, Branch, Hillsdale, Lenawee, Monroe, and Genesee Counties). There are also cost differences in center-based programs across the state. For example, it costs \$8,000 more to provide high-quality, center-based care and education for infants and toddlers in the eastern region of the state than in the southeast region (excluding Detroit; see Exhibit 3). This variation is due largely to differences in the compensation provided to staff, including salaries and benefits. These estimates should be interpreted with caution, given the small sample size for each type of care setting within each region.

Exhibit 3. Estimated Annual Per-Child Costs of High-Quality Care in Michigan, by Setting, Region, and Age (Local Prices)



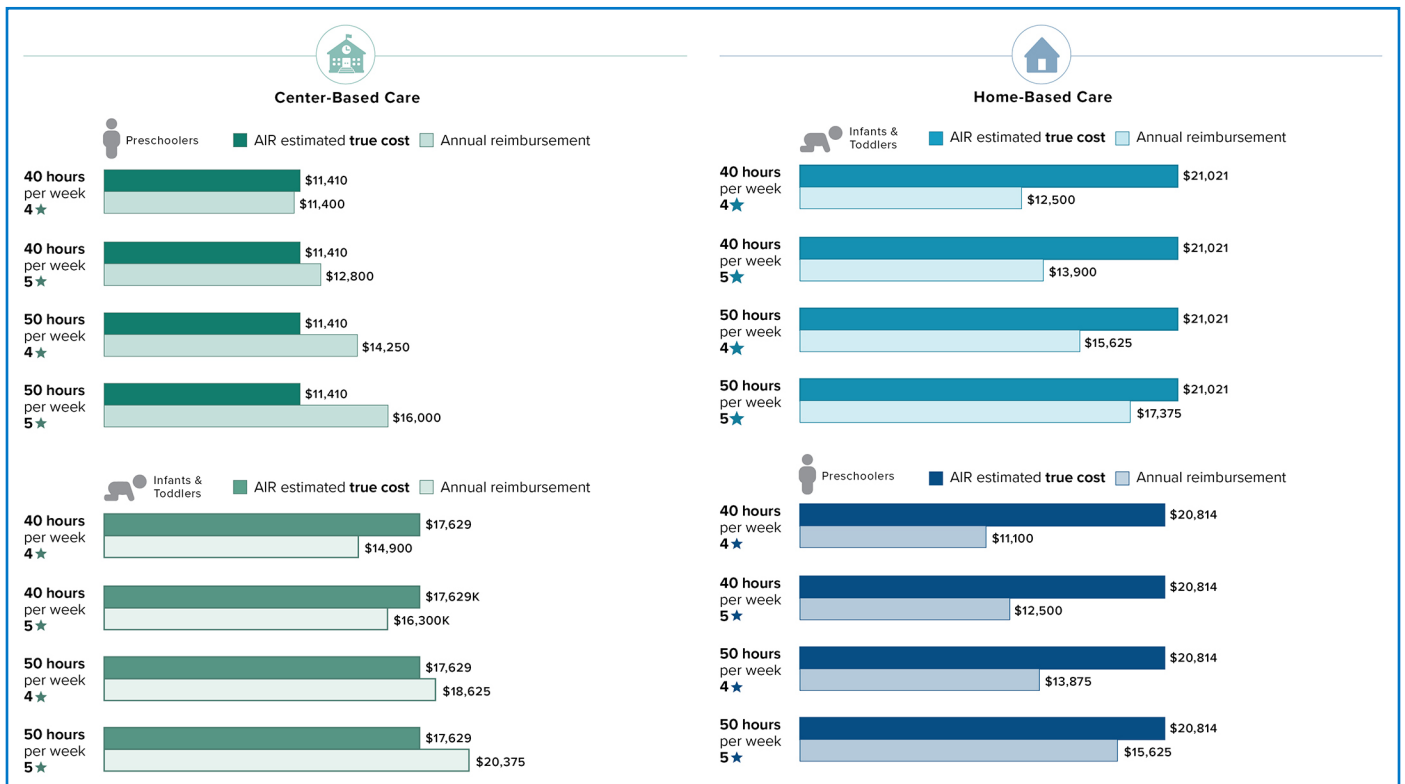
Note. Costs represented here are rounded to the nearest \$100 and should be interpreted with caution, given the small sample size from each region.

Current subsidy rates may not be adequate to cover the estimated true cost of high-quality care, especially for home-based providers.

Subsidy reimbursements provided to home-based facilities rated as high quality (4 and 5 stars) on the state’s quality rating and improvement system (Great Start to Quality) are consistently lower than the true costs calculated in this study, as illustrated in Exhibit 4. The gap between the reimbursement rates and the true cost of providing quality care and education is thousands of dollars per child. For home-based providers, the smallest gap is \$3,600 per child and the largest gap is almost \$10,000. To stay in business, many child care providers also serve private pay families or do not accept subsidies at all.

These comparisons of costs and subsidies are different for centers. The reimbursement rates for centers are much closer to the true cost of providing high-quality ECCE for children attending 40 or more hours per week (see Exhibit 4). However, if a child attends for fewer than 40 hours a week (an option often chosen by families with young children) but not so few hours that their slot can be “shared” and other hours paid for by another enrolled child, the reimbursement does not cover the cost of high-quality care.

Exhibit 4. Subsidy Reimbursement Rates Compared With Estimated True Cost for Center-Based and Home-Based High-Quality ECCE



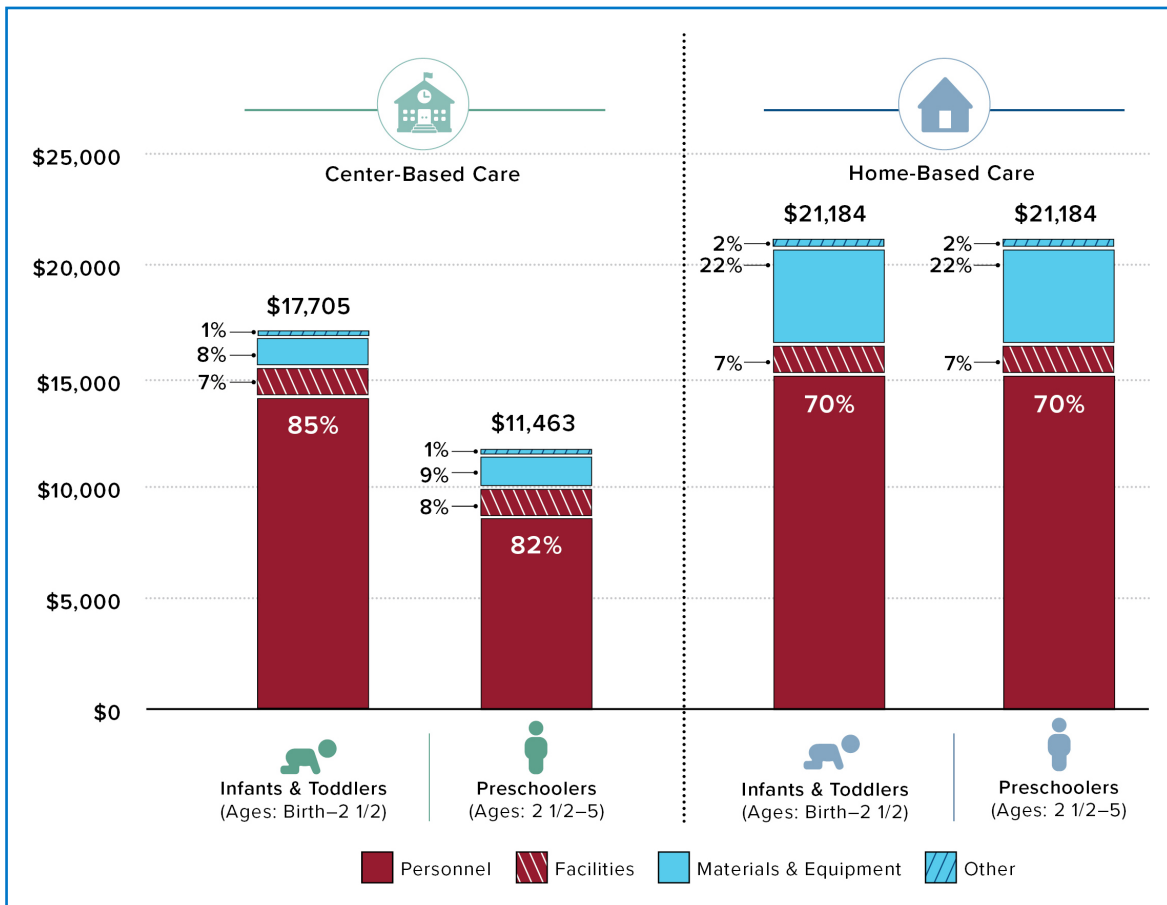
Personnel costs are the largest cost driver for high-quality ECCE in homes and centers.

Personnel costs are the highest costs for all programs, making up about 69% of the estimated annual per-child cost in homes and nearly 83% in centers (Exhibit 6). Personnel costs include all staff whom directors reported were involved in ECCE services, including volunteers, support staff, and paid contractual staff (e.g., snow management, lawn services). Personnel costs include the value of staff and volunteer time used for direct care and instruction, as well as program administration. We also found that personnel costs are about \$5,500 higher per infant or toddler compared to per preschooler. We did not see such differences by age of child served in home-based programs. This finding, again, is likely

due to the small child-to-adult ratios required to provide high-quality care and education to infants and toddlers in center-based programs.

Nonpersonnel costs, including facilities, materials and equipment, and other nonstaff resources that directors reported were being used in their programs, make up smaller proportions of costs in both setting types. Materials that directors reported using in their programs vary but typically include office equipment (computers and printers), food, curricula, craft supplies, playground equipment and toys, and books and other instructional materials. Some programs also provide diapers or transportation, but this service is rare.

Exhibit 5. Cost Drivers of High-Quality ECCE, by Setting and Age Served



Note. All costs are in 2022 dollars.

Although personnel account for most costs, compensation varies significantly between center- and home-based facilities.

All home-based owners/directors were also the lead (or only) teachers in their program, navigating both roles simultaneously. On average, home-based directors reported working 67 hours per week. With an annual median compensation of \$52,000, their hourly wage is approximately \$14.91. In centers, with the typical 55-hour work week, center-based directors receive a median wage of \$17.95 per hour. It is also important to note that substantial volunteer labor often goes into home-based care and that staff often play multiple roles, so these wages may not reflect the market value of all the program’s resources. Home-based owners/directors also reported relying heavily on volunteered time and donated resources, often provided by the owner/director’s family members. This model was reported as unsustainable, and interviewees urged policymakers to improve funding for home-based child care facilities.

Most providers operate their programs with a complex braided funding system that includes state and federal funds.

ECCE programs are funded by a mix of state and federal funding based on their program type and approach to providing services. For example, high-quality ECCE programs that serve 4-year-old children who are income eligible can access the Great Start Readiness Program (GSRP) funding. Other programs that serve families with low incomes are funded with federal Head Start and Early Head Start funds. Many programs blend both GSRP and Head Start funds to support full-day, 4-day-a-week programs for preschool-age children. Although Head Start funding supports qualifying programs serving children 3 to 5 years of age, Early Head Start funds are available to programs serving infants and toddlers under the age of 3 who meet specific qualifications. Early Head Start programs can operate in either center- or home-based settings.

Providers must be resourceful to find the necessary amount of funding to cover the true costs of high-quality care and education.

Some providers reported receiving in-kind support from parents or private grants. Other providers have established partnerships with local businesses to provide ECCE services for employees of those companies. The business partners then provide funding to supplement the costs of program necessities (e.g., facilities, maintenance, transportation). In addition, some providers collaborate with local school districts or institutions of higher education to provide care for children of enrolled adult students and employees of those programs. Both types of partnerships vary in terms of how the agreements are designed and executed.

Some providers can access funding through the Child Development and Care Program, a state-run subsidy program; however, providers emphasized the need for higher reimbursement rates and more stable funding.

In addition to GSRP, Head Start, and Early Head Start funding, the state offers a subsidy program to help families with low incomes access needed ECCE services. The subsidy serves families who are income eligible and reimburses providers for their care. However, as illustrated earlier, the reimbursement rates are often lower than the true costs of providing quality care across the state of Michigan. Many providers noted that increasing subsidy rates and GSRP funding and providing stable (consistent) funding sources for more programs would help to stabilize the ECCE workforce (i.e., increase retention and provide stability of caregivers for children), enable program expansion to support more families, and support the implementation of program practices that lead to consistent quality care for children.

Michigan provided short-term COVID-19 pandemic relief funds to ECCE providers; these funds were timely and greatly needed, given the crisis in the field but did not provide a sustainable solution to ECCE funding in the state.

Michigan offered supplemental funding to providers during the COVID-19 pandemic, funding that originated from federal support to the state. Providers who received that supplemental funding during the COVID-19 pandemic and other time-limited grants are grateful for that support, but they also pointed out that short-term solutions such as these do not address longer term needs (e.g., long-term salary and benefit increases needed to attract and retain well-trained employees) nor do they increase stability for families who rely on ECCE services because providers cannot make long-term decisions or commitments with short-term funds. Although providers had discretion over how to use the one-time

grant funds, many providers chose to invest in materials or staff training that they otherwise would not have been able to afford. Some providers used the funds to continue paying staff salaries during times of low enrollment because of COVID-19. Other providers funded bonuses because they could not commit to ongoing pay increases or offering staff benefits (which would attract and retain staff longer term) without additional and ongoing funding. Some providers distributed the grant funds equally among the families enrolled in their programs to help offset the cost of ECCE when many families were themselves experiencing economic hardship because of the pandemic.

Hiring and retaining qualified staff and having consistent and adequate funding are the two greatest challenges ECCE providers face to providing high-quality ECCE.

ECCE providers cannot afford to offer salaries and benefits that match the education and training expected of (and needed from) skilled ECCE workers. Likewise, providers cannot pay wages that are competitive with other employers in their communities. For example, some program directors earn \$7.47 an hour, and retail and fast-food positions start at \$15 per hour. Often, ECCE staff with a bachelor's degree seek employment with public school systems rather than with community-based ECCE programs because of higher salaries and the offer of benefits. To counter the lack of benefits and low wages, many providers look for creative but inexpensive opportunities to encourage staff retention, such as finding ways to support staff members' career goals. Such support includes providing free ECCE to children of staff, being flexible with personal and family needs (e.g., allowing leave time when needed and flexible work schedules to accommodate school hours for staff with older children), and striving to promote family-friendly work environments. The current state of the ECCE workforce is a complex issue for directors to navigate because of the limited availability of staff and the alternative employment opportunities those staff have. For example, several providers shared that staff move from one program to another to take advantage of sign-on bonuses offered by employers. To address the disparities caused by insufficient benefits for ECCE staff, providers suggested that the state should develop a collective health-care insurance pool that would make it possible for owners of ECCE programs to offer benefits to employees at lower rates. In doing so, ECCE staff will feel more secure and confident in their ability to provide for their own health-care needs, as well as for their families' needs, which may help to reduce turnover in the field.



ECCE providers are challenged to afford the costs of mandatory state licensing fees.

Providers need to manage their programs within tight budgets that do not allow for unexpected expenses, advanced training of staff, or enhancements to their programs. Several providers pointed out that state licensing and quality improvement requirements are increasingly demanding, but reimbursement subsidies remain unchanged, not rising at the same pace as the expenses, time, and effort required to operate high-quality programs. Interviewees for this study appreciate the training resources provided by the state through resources like MiRegistry, but they also want other forms of support, such as affordable or free director and staff training and free background checks for newly hired staff. Overall, community-based and family child care providers said that they aspire to become and remain 5-star designees but must sometimes choose between pursuing this quality recognition or being able to offer ECCE at all, given that both programs and families have tight budgets.

Providers cannot charge higher tuition fees to families to make up the difference in costs.

ECCE providers aim to give the best quality care possible while juggling slim budgets and increasing expenses (i.e., food costs, health and safety expenses such as providing personal protection equipment for staff and children, labor costs, and supplies and materials). All providers rely on tuition paid by families to fund their programs, and, for some providers, tuition is the only source of funding. When asked about passing the increasing costs of ECCE on to families, directors reported that families struggle to afford the cost of ECCE at its current price and most families cannot pay higher tuition rates.



Summary and Policy Implications

This study used data from interviews and surveys to understand the costs of high-quality ECCE across the state of Michigan. The analysis shows that the average per-child cost of high-quality care was higher in home-based facilities than in centers by more than \$10,000 for preschoolers and about \$3,000 for infants and toddlers. The true costs were also higher for infants and toddlers than preschoolers in centers, but there were no large cost differences by ages served for home-based providers. Although these costs vary, having a mixed-delivery system with diverse types of care options is important for families in Michigan; additional support for high-quality ECCE throughout the system is important. Current reimbursement rates do not cover the true cost of care for home-based providers, and the current rates may be inadequate to cover all costs for center-based care as well, especially when children attend fewer than 40 hours per week.

In interviews, providers offered several recommendations for policymakers. First, they highlighted the need for increased investments in the ECCE workforce. ECCE providers are currently experiencing significant staffing shortages, difficulties offering competitive wages and benefits, and insufficient funding to support advanced training and the attainment of higher education degrees for the ECCE workforce. Many ECCE workers want to increase their knowledge and skills to better serve children and families in Michigan, but they cannot afford the financial burden associated with earning a college degree, given the low wages that are endemic to the field. To address this challenge, one provider recommended coordination of the GSRP online teacher certification program and MiRegistry because many ECCE staff are required to participate in trainings that are currently offered in both systems. In addition, there is strong sentiment among those interviewed for this study that the work of ECCE staff is as important and worthy as that of public school teachers and that their salaries should therefore be commensurate with their public school counterparts. Attaining pay equity would require higher reimbursement rates and more public investment in ECCE in general.

Many providers noted that increasing subsidy rates and GSRP funding would be a big relief. More funding would help reduce turnover in the ECCE workforce, enable program expansion to support more families, and support the implementation of program practices that lead to consistent quality care for children. Streamlining licensing regulations and providing financial support to programs to alleviate costs associated with inspections and other fee-bearing requirements would provide even more opportunities to increase program quality for many ECCE providers.

Although costs presented in this brief represent current resource usage, future research should include information about what resources would be needed to help providers move toward higher quality care. An adequacy-based approach to determining costs, in which providers indicate resources they would need to reach particular goals for children and the cost of these resources is estimated, could help further stem inequities and better inform state policy concerning child care subsidy rates. Such data collection would also help account for the potentially altered market for ECCE needs as we emerge from the COVID-19 pandemic.

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