Quick Take:
Fiscal Modeling

Helping states and communities estimate the true cost of services for children

What is fiscal modeling?

Fiscal models, also known as revenue and expense models, or cost models, are tools to understand the relationship between the expense of delivering programs, services or components of a system, and the revenues available to cover these expenses. At their simplest, a revenue and expense model will show how much current programming costs and integrate current revenue sources in order to identify potential gaps. However, models can also be used to estimate how the cost varies based on program characteristics and future policy choices, illustrating the impact of proposed reforms and estimating the additional revenue needed to cover these costs.

Why engage in fiscal modeling?

Identifying the true cost of providing programming for young children and families is critical to addressing the underfunding of the system. In the early care and education space, the market-based approach to setting tuition and subsidy reimbursement has exacerbated the inequities in the system, with provider revenue limited by the amount families can afford to pay. The same is true for other prenatal to five programs, where a contract or grant approach dictates how much revenue is available to a program, irrespective of the cost of delivering the service. Conducting a cost of quality study and developing a revenue and expense model can identify what it actually costs to meet state standards, age, region, and program level variations, and the additional costs related to increasing quality and workforce compensation. These results can be used to inform subsidy rate setting, contracting rates, financial incentives, and policy implementation decisions, as well as by advocates to illustrate the significant public investment needed to support a robust prenatal to five system.

How can you get started with fiscal modeling?

The type of revenue and expense model best suited for your state and community will depend on the ultimate purpose of your study. There are a number of online tools that include default state-level data that can be utilized to generate broad estimates of the cost of early care and education. P5 Fiscal Strategies helped develop several of these resources as well as additional tools
for home visiting and family support modeling and for estimating the systems level cost and cost to implement various initiatives. We are available to provide expert consultation on how to get the best use of these tools. For more in-depth customizable modeling, we recommend creating an Excel or web-based model that integrates state-specific quality standards and revenue sources and is informed by a robust stakeholder engagement process.

P5 Fiscal Strategies Revenue & Expense Modeling Approach

At P5FS we believe that revenue and expense models should not be developed in a vacuum, but instead must be developed as part of a collaborative process with deep engagement by state and community stakeholders. Our child care modeling approach builds on the established parameters in the Provider Cost of Quality Calculator to develop a customized excel-based model that reflects the current needs of the state and community. This model can be used to run several scenarios reflecting the current system and can also be updated as these needs change over time, or to model the impact of proposed policy changes.

A similar approach is used for Home Visiting and Systems modeling, where the work is embedded in the specific needs of the state or community, informed by data, and guided by the impacted stakeholders.

For more information about how P5 Fiscal Strategies can help you with revenue and expense modeling, please contact Jeanna Capito or Simon Workman at info@prenatal5fiscal.org.