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## SUMMARY

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The Department of Defense (DoD) has developed an impressive system for delivering quality child care to the children of DoD employees. This system currently provides care to nearly 200,000 children on a daily basis, ranging in age from six weeks to 12 years. To care for these children, the DoD operates Child Development Centers (CDCs) around the world, supports a network of Family Child Care (FCC) homes, and offers before- and after-school, holiday, and summer programs for school-age children.

The military child-care system is the largest system of employer-sponsored child care in the country, and it has received wide recognition for the high-quality and affordable care it provides. At the same time, the DoD has been under pressure to control expenditures and has explored how the cost of support activities such as child care might be reduced. In the mid-1990s, part of this examination included discussions on the feasibility and potential value of outsourcing military child care. Although the impetus to outsource has waned as policymakers realized that there were limited opportunities for cost savings through outsourcing of child care, given the strict staffing requirements in the delivery of high-quality care, information about the cost of child care remains an important management and policy tool.

As policymakers consider the various options for providing child care for DoD employees, detailed information regarding the cost of providing such care can help in formulating policy designed to provide an optimal mix of care options.

## STUDY PURPOSE

The objective of this study is to develop estimates of the costs associated with providing care in DoD-operated CDCs, in FCCs,<sup>1</sup> in school-age care (SAC) operated by Child Development Programs (CDPs), and in centers operated by outside providers under contract to the DoD. Separate child-care cost estimates were made for children of different ages, even though a long-standing DoD policy bases CDC parent fees<sup>2</sup> on total family income rather than on the age of the children in care.

This report is designed to assist the DoD and Service policymakers in assessing the trade-offs associated with alternative arrangements and in creating policies that optimize the mix of care options given child-care policy goals. A secondary purpose of this work is to place DoD-sponsored child care in the context of employer-sponsored care provided by other government agencies and private employers.

This report provides, for the first time, an analysis of child-care costs across all the Services. A U.S. General Accounting Office (GAO) report examined military child-care costs but focused exclusively on the Air Force (GAO, 1999). Service reports on child care provide some cost information, but those reports generally focus on appropriated funds (government) expenditures, and they report only on costs for a single slot<sup>3</sup> averaged across child age.

## SCOPE OF THE STUDY

We examined the combined amount that parents and the DoD spend to provide child care for DoD children. We report cost estimates

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<sup>1</sup>Family Child Care is provided by military spouses within their government housing. Recently, some FCCs have been authorized to operate outside a military installation. FCC is part of the Child Development System (CDS) and is overseen by CDS employees. The care providers are not military employees but are independent workers providing a service that must conform to government rules.

<sup>2</sup>Parent fees are paid out of pocket. A fee policy determines the amount of the payment, which is based on total family income. Parent fees are distinguished from child-care costs, which include parent fees plus amount spent by the DoD for delivering child care.

<sup>3</sup>A “slot” is a full-time-equivalent space that may be used by a single child or shared by multiple children, depending on how the center or FCC operates.

across Services and across the age ranges served in CDCs and in FCC. The analyses and findings presented in this report are based on the data collected for this study. The primary cost data were obtained from a self-administered survey mailed in late 1999 to CDP managers at a representative sample of 69 DoD installations across the Services and to managers of contractor-operated centers that serve DoD children. These data are limited to DoD child-care provision sponsored by CDPs. Only those school-age care programs operated by CDPs (often in CDCs) are included in our analyses. Child care sponsored by Youth Programs, which sponsor the vast majority of programs for school-aged children (including before- and after-school, summer, and holiday programs), are not included. Our estimates of cost per school-aged-care slot should be interpreted accordingly.

In addition to the cost survey and analysis, we gathered information, including cost data, on employer-sponsored care provided by a small number of civilian employers. We visited seven employer-sponsored child-care centers in the civilian sector. The purpose of the visits was to provide insights on how civilian employers assume and manage child-care costs.

We did not attempt to identify cost drivers or best practices, which are key components of full-blown cost studies. To conduct a cost study that comprehensive, we would have had to substantially increase the burden on our respondents. We did, however, collect the data necessary to single out the installations that operate most effectively. If it is of interest to better understand the practices that enable some installations to deliver child care more efficiently than others, further work may involve revisiting those installations to determine how those best practices contribute to delivering child care at a lower cost.

## **FINDINGS**

Our findings are divided into two general categories—findings on care provided in DoD-operated and contractor-operated centers, and findings on care provided in DoD-licensed FCC homes.

## Center-Based Care

Our analyses generated cost estimates for DoD-run center-based care that were similar to estimates generated by the GAO in a recent study of Air Force CDCs (GAO, 1999). The cost of caring for children in the youngest age group (infants) is highest, and the cost per child decreases with successively older age groups (see Chapter Four for a definition of the various age groups). In center-based care, the estimated cost per infant is approximately three times higher than the cost per school-age child. Because the DoD parent fee policy does not depend on the age of the child, we find that, on average, parent fees cover a small proportion (only 29 percent) of center-based infant care. The percentage of total costs covered by parent fees increases with the age of the child, to the point at which parent fees cover 76 percent of the cost of school-age care.

We found substantial variation across installations in the cost per slot of providing care in CDCs. Our analyses revealed that installations with larger CDCs have lower per-child costs. Our analyses also reveal that it costs more to provide care on installations located in areas with a high cost of living, and it costs less to provide care on installations located in areas with a low cost of living. Our analyses revealed weak evidence of differences across Services in the cost per child of CDC care. After controlling for other factors, such as average center size and cost of living, our analyses suggest that costs at Navy and Air Force installations are higher than costs at Marine Corps installations, but the statistical significance of those results is relatively weak. The remoteness<sup>4</sup> of an installation and mix of age groups cared for on an installation did not have a significant relationship to the per-child cost by age group.

While we surveyed all contractor-operated centers serving DoD employees located on DoD installations, this data source was limited because there are few such centers. The information we did gather provided no evidence that contractor-operated centers reduce costs for parents or the DoD. Although the costs of care for young children (infants and pre-toddlers) appear to be lower in these centers, young

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<sup>4</sup>Remote installations were identified by combining information about population density in an installation's local area with information on the distance to the nearest city. Chapter Three contains a discussion on remote installations.

children make up a small portion of all the children served in them. On the other hand, the cost of care for older children appears to be about the same or even higher in contractor-operated centers than in DoD-run CDCs.

Although our analyses indicate that providing high-quality center-based care is costly, our site visits to civilian employer-sponsored child-care centers suggest that DoD child care is more cost efficient than the care provided by the private employers we studied. These site visits also revealed that employers face stark trade-offs in balancing quality, accessibility, and cost. Many employers choose to make very high-quality care available at a highly subsidized rate to a very small percentage of employees. We observed no employer providing high-quality low-cost care to a large proportion of employees, as the DoD does routinely.

### **Family Child Care**

We also gathered data on the per-child cost of care provided in DoD-licensed FCC homes. We found the cost of FCC care to be substantially lower than the cost of center-based care, particularly for the youngest children. Per-child cost in FCC homes did not vary dramatically by Service or across children's ages.

## **CONCLUSIONS AND RECOMMENDATIONS**

Child care is a costly benefit and the costs are even higher for younger children. At the same time, the incremental cost of high-quality care over mediocre or poor-quality care is quite small. What we know about the benefits of high-quality care to children suggests that providing high-quality care is a very good investment, particularly in light of the small incremental cost involved.

Care provided in centers is particularly costly. Our analyses revealed that costs across centers vary substantially while also highlighting some cost differences across the Military Services. We did not observe a consistent difference between the cost of contractor-operated centers versus the cost of DoD-operated centers. Cost differences across centers appear to be significantly influenced by the number of children being served at a given center, with lower per-child costs in

larger centers. CDC costs are also influenced by the cost of living in the local area, with higher per-child costs observed at installations located in areas with a higher cost of living.

Our survey of the care centers revealed dramatic differences across installations in the cost of care per child. While some of the variation reflects idiosyncratic differences in expenditures (for example, one center went through a major renovation and all the costs of the renovation were incurred in the study year), much of the variation is not explainable by such factors. An examination of this variation represents a useful opportunity for DoD CDCs to learn from one another and potentially identify opportunities to reduce costs without sacrificing quality.

Our data indicate that the cost of care in FCC is considerably lower than the cost of CDC care. Cost is not so closely tied to a child's age in FCC; consequently, cost savings for the youngest children are the most substantial. However, cost comparisons with CDCs must be made with certain reservations.

Our analyses revealed that the cost of contractor-operated centers clearly falls within the range of costs observed for DoD-run centers. The cost per infant in the contractor-operated centers is generally lower than the cost per infant in DoD-run centers, whereas the cost per preschooler in the contractor-operated centers is generally higher than the cost per preschooler in DoD-run centers. There is, therefore, no evidence that contractor-run centers are 10-percent cheaper to run than DoD-run centers, which is a DoD requirement for outsourcing.

We urge the DoD to use the cost data provided in this report in concert with clearly articulated child-care system goals to develop policy that will produce an optimal mix of child-care options. It is clear, for example, that FCC care, particularly for infants, is cost-efficient. A more aggressive subsidy policy, as well as other approaches that the Services are currently pursuing, could increase the attractiveness of this option to both parents and providers. Our data also indicate that CDC size is an important cost driver. The DoD may want to develop policy that encourages larger and more cost-effective CDCs.

Military child care provides high-quality care to high numbers of children. Generous subsidies enable this care to be affordable as

well. With the cost data provided in this report, the DoD has an additional tool at its disposal that can help it to improve system efficiency while maintaining the quality, affordability, and reach that make military child care a model for the nation.