CONNECTICUT VOICES FOR CHILDREN

The Crisis in Funding for State-Funded Child Development Centers

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Low-income families in Connecticut can enroll their children in a variety of programs that provide learning opportunities for their young children. These programs, all providing similar services at comparable levels of quality, are Head Start, School Readiness, and State-Funded Child Development Centers.[1] If families are poor enough, they can get a subsidy from the Connecticut Department of Social Services (DSS) and take it to any early childhood program in the state. To these families, it does not matter what the program is called or how it is funded. What matters is that the parents can afford it, that their children will be safe and well cared for, and their children will be learning at the same time. This short report focuses on the Child Development Centers, as they are in a state of acute fiscal crisis.

Connecticut's Department of Social Services (DSS) has fifty-three contracts with state-funded Child Development Centers that serve over 4,000 low-income children each month in 112 sites across the state. Full day child care is provided to 1,076 infants/toddlers and 2,533 preschoolers. Part day child care is provided to 54 infant/toddlers, 342 preschoolers and 372 school age children. Of the 112 facilities, 64 are accredited and 16 have had a validation visit or are awaiting a validation visit.[2] Connecticut's state-funded Child Development Centers are reporting deficits. Indeed, some are in jeopardy of closing. A review of their budgets over a three-year period suggests that current revenues are inadequate to maintain current levels of quality care. A number of factors may be causing these businesses to experience this financial crisis.

The present study analyzed existing data and collected new data to investigate the centers' revenue sources and how changes in these revenues over time are impacting the "bottom line" of Connecticut's state-funded Child Development Centers.[3]

Data Sources

Existing data reported in the Connecticut Department of Social Services "Status of Child Care in Connecticut" annual reports and the Connecticut state budget were used to identify the revenues of the state-funded Child Development Centers over time. Results from a survey of fifteen state-funded Child Development Center contracts (30% of all contracts) were used to define primary revenue sources and investigate effects of changes in these sources on center budget profits and deficits.

History and Mission

State-funded Child Development Centers were established in 1968 to provide comprehensive services for economically-challenged families and children. The program was Connecticut's initial "school readiness" effort and has been instrumental in helping families to transition from welfare to work

Program Revenues

State-funded Child Development Centers rely primarily on five sources of revenue: grants from DSS, Care4Kids child care subsidies, parent fees, center-sponsored fundraising, and in-kind contributions.

a. DSS State-Funded Child Development Center Grants. Connecticut makes a significant investment in state-funded Child Development Centers -- about $23 million of state and federal funds annually.[4] As the cost of providing care has increased and quality requirements have expanded, however, the program has not had a corresponding increase in funding.

To the contrary, the program has experienced a consistent decline in funding over the past five years. FY 04 funding is $3.9 million (14.4%) less than FY 00 funding. Adjusted for inflation, the decline is even steeper; real (inflation-adjusted) FY 04 funding is $6.52 million (22%) less than FY 00 funding.

DSS' Grants to Centers: Total Federal & State Funding				
2000	**2001**	**2002**	**2003**	**2004**
$27M	$25M	$25M	$24.4M	$23.1M

The reduction in the *state's* contribution to these grants (as distinct from the federal funds that DSS also includes in the grants) is one contributor to the fiscal crisis. In fact, the Governor's proposed FY 06 General Fund budget for state-funded Child Development Centers is $400,000 less than actual funding in FY02 and $100,000 less than this year's (FY 05) budget.[5] Adjusted for inflation, this year's (FY 05) General Fund investment in state-funded Child Development Centers is 10% ($770,000) *less* than the investment in FY 02.

DSS' Grants to Centers: State General Fund, Only				
FY02 Actual	**FY04 Final**	**FY05**	**FY06 Current Services**	**FY06 Governor Proposed**
$7.1M	$6.7M	$6.8M	$6.8M	$6.7M

Because revenue is directly related to number of children served, it is not possible for the state-funded centers to take in fewer children to save money. In fact, the opposite seems to be happening.

According to DSS, the ***Child Development Centers are serving more children with less money***. As shown in the table below, average per child funding has dropped by $243 (or 4.5%) over the past five years,[6] and by $958 (or 16%), adjusting for inflation.

	Expenditure	# of Children Served	Average Per Child	Average Per Child (2004$)
1999	$24 M	4,491	$5,344	$6,059
2004	$23.1 M	4,528	$5,101	$5,101

Analyses of center budgets provide information to confirm these data. More than half (60%) of surveyed contractors reported a decrease in revenue from their DSS child care grant from 2002 to 2004. Twenty percent reported "flat" funding which – adjusted for inflation - also represents a reduction in funding.

Per child reimbursement rates are intended to cover a portion of the cost of care, and it is assumed parents and centers will cover the remaining costs. It appears, however, that the current per child rate is insufficient to cover what centers and parents cannot. State reimbursement for a preschooler in a DSS-funded Child Development Center slot is about $2,500 less than for a child in a School Readiness program, despite the two programs serving the same population of economic need and requiring similar quality and breadth of service.[7]

b. Care 4 Kids, the Child Care Subsidy Program. Recent efforts to close the state's budget deficit also have resulted in reduced, and insufficient, funding for Care4Kids. As shown below, between FY 02 and FY 05 Care 4 Kids funding was cut by $53.5 million (or 44%). Adjusting for inflation, the reduction was nearly half of all funding -- $61.5 million (or 47%). Intake was closed and the eligibility threshold reduced. Reductions in Care4Kids have eroded the stability of this as a funding source for Child Development Centers.

FY02 Actual	FY04 Final	FY05	FY06 Current Services	FY06 Governor Proposed
$121.6M	$60.9M	$68.1M	$71.6M	$70.6M

Of the surveyed contractors, 80% reported significant decreases in their revenue from the Care 4 Kids program from 2002 to 2004. Reported reductions ranged from 23% to 93%.

c. Parent Fees. The Child Development Centers also rely on parent fees, and this reliance has increased as state funding has declined. Parent fee scales have not been adjusted upward in ten years. Despite this, the lowest income parents, whom the program was intended to serve, cannot afford the existing rates.

Although fee scales for individual families have not been increased, almost 50% of surveyed contractors report increases in revenues from parent fees. Those contractors reporting between 50% and 93% cuts in Care 4 Kids all reported increases in revenue from parent fees. ***While state revenue sources are decreasing, parent fees are increasingly being relied on as a source of income.*** Anecdotally, centers report that in order to make the most of the sliding rate scale, they are forced to accept children at the *upper* end of the fee scale, who will bring in the greater parent fees, and *not accept children from the lowest income families*, who would contribute the lowest fees.

Quantifying the Deficits

Of the fifteen state funded Child Development Center contracts surveyed, thirteen reported deficits in 2004, and *some may close* unless relief is provided. Reported deficits ranged from $2,000 to over $550,000.

Extrapolating from these data, an average deficit of $95,000 in each of the fifty-three DSS contracts would result in an estimated total deficit of $5.03 million. More likely, with most deficits running around $40,000, the estimated aggregate statewide deficit for these Centers would be closer to $2.5 million.

Consequences of These Deficits

The lack of a stable fiscal base leaves Connecticut's Child Development Centers with no cash flow to draw upon for emergencies or quality improvements. Centers report that a primary method of saving money has been to accept children with higher required parent fees (i.e., from families with higher incomes), and to refrain from offering pay increases or benefits to their staff. Centers also are defaulting on CHEFA and other loans, putting their credit ratings at risk. Ultimately, growing deficits may force sites to close.

Saving State Funded Child Development Centers

Research now tells us what is needed to make a real difference in the lives of children, and specifically for low-income children. State-funded Child Development Centers provide such outcomes. Eighty three percent of the Centers are demonstrating (or are well on track to achieving) a level of quality equivalent to Connecticut's much-respected School Readiness programs, as measured by NAEYC accreditation. If centers are forced to close, children most in need will not receive the level of care that is essential to their healthy growth and development. Parent fees are at a maximum, and costs cannot be cut any more without sacrificing quality. Additional resources are essential to protect the State's current and historical investment in these low-income children and families.

"Due to flat funding and the loss of Care 4 Kids monies from almost $9,000 a month down to $2,400 a month, we have been operating at a deficit and this deficit has been steadily growing… I have been the primary source of extra funding, with a substantial amount owed to me .... We have also had to make program cuts… not replacing staff, reducing staff hours and benefits, and reducing staff educational reimbursements. Most other lines have already been cut to the bone. Obviously none of the reductions are good for the program. Funding deficits should not be placed on the shoulders of staff who are already underpaid and overstressed!"

- Pat Clow, Director, Southfield Children's Center, Inc., Newington

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[1] As noted in this report, "state-funded" Child Development Centers rely in large part on federal funds that are received by the Connecticut Department of Social Services and, combined with state General Fund dollars, distributed through grants. The School Readiness programs also are funded with General Fund dollars, but through the State Department of Education (SDE), while Head Start programs rely on federal funds, but also receive some funding from SDE. In this sense, all three programs are "state-funded" although the proportion of state and federal funding varies by program, and has varied over time.

[2] Of the remaining programs, three are not eligible for accreditation because they have not been operational for the minimum of one year that is necessary to seek accreditation, while five are exempt from NAEYC accreditation, five have been deferred by NAEYC and are working with the Accreditation Facilitation Project to achieve accreditation, and eight have requested and have received "good cause" extensions. We have no information on six facilities because one contractor has yet to apply for DSS funding for 2005, while five others are school-age programs.

[3] The author thanks Judith Goldfarb, Executive Director, Hartford Area Child Care Collaborative, for her assistance in this report, and the Hartford Foundation for Public Giving for its financial support for this research.

[4] Connecticut Department of Social Services, *The Status of Child Care in Connecticut.* (2005). www.dss.state.ct.us/pubs/index.htm#Reports.

[5] Connecticut Voices for Children, *A Quick Review of Early Care Funding.* (2005). www.ctkidslink.org/pub_detail_210.html.

[6] Connecticut Department of Social Services, *The Status of Child Care in Connecticut* (2005). www.dss.state.ct.us/pubs/index.htm#Reports.

[7] *DSS 2004 Contracts and SDE September School Readiness Report.* (October 2004). DSS Child Care Team.