CONNECTICUT VOICES FOR CHILDREN

Fairfield County Community Foundation

Child Care Center Fiscal Health Survey

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For the Fairfield County Community Foundation[1]

I. Rationale for the Study

High labor costs, parent fees that are less than the cost of providing care, and high staff and child turnover are all defining characteristics of a child care business currently. In addition, child care providers rely on two primary sources of revenue– family fees and Care4Kids child care subsidy vouchers – that fluctuate radically and make their budgets vulnerable. In fact, child care businesses are the only educational institutions that run primarily on parent fees and subsidies which, by their nature, are unreliable and depressed. Taken together, this should predict disaster. And in fact, the number of licensed family day care providers in Connecticut has declined by 2,000 in the last decade (from about 5,000 in 1997 to about 3,000 in 2005) and many Connecticut child care centers are reporting deficits that can force them out of business. Infoline 2-1-1, Connecticut's resource and referral network, reports that between July 1, 2005 and December 31, 2005, of the fifty-three child care centers that closed, 79% (27 centers) cited "business not profitable" as the reason.

In 2005-06, CT Voices for Children received support from The Graustein Memorial Fund to research and report on the barriers to and solutions for the efficient management of "high quality" child care centers and family day care homes, including models for common budget structures, shared services, and easier utilization of and payment from the Care4Kids child care subsidy program. Through a process of consultation with directors from high quality child care centers, and reflective of the research on center budgets, CT Voices designed a model child care center budget and offered it for use by Connecticut child care centers.[2] In addition, CT Voices published a report on best models of shared services for child care centers, including improving economies of scale, staffing, and accounting practices.[3]

Finally, our research found that Care4Kids, the child care subsidy program funded by the CT Department of Social Services, is one of the largest and -- at the same time -- more inconsistent funding streams in a child care provider's budget. Changes in state-defined eligibility thresholds, in the amount of the subsidy payment itself, and in families' enrollment status in the program make it challenging to rely on Care 4 Kids as an income source,[4] yet most providers are forced to do just that.

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1 Support for this project was generously provided by the Fairfield County Community Foundation.

2 P. Oliveira, *Child Care Center Operating Budget Basics: Defining Expenses and Revenues to Estimate the Cost of Child Care* (CT Voices for Children, 2006), available at www.ctkidslink.org/pub_detail_284.html

3 P. Oliveira, *New Strategies to Help Child Care Centers Succeed in the Challenging World of Small Business* (CT Voices for Children, 2006), available at www.ctkidslink.org/pub_detail_263.html

4 P. Oliveira, *The Child Care Subsidy Program Policy and Practice: Connecticut Child Care Providers Identify the Problems* (CT Voices for Children, 2006), available at www.ctkidslink.org/pub_detail_294.html

In the face of these daunting challenges, child care centers struggle to find some financial stability. Research finds that the foundation of fiscal health of a child care center depends, primarily, on its ability to succeed on five factors:[5]

1) Enrollment is at capacity, with a waiting list in place
2) Tuition is based on the full cost of care
3) Fees are paid on time
4) The programs' bills and taxes are paid on time
5) The program has a cash reserve to cover operating expenses for three months.

Importantly, research shows that it is not enough to simply provide technical assistance or financial training to centers to help them to attain a sound financial footing for their business. Rather, the challenge is to find (or free up) the resources needed to strengthen child care businesses so that they can thrive and grow. Nationally, a number of child care centers are experimenting with alternative management approaches to help programs increase their fiscal health through shared services and by achieving certain economies of scale in their administrative activities. These approaches, termed "collective management strategies," enable centers to reduce many of their administrative tasks, allowing more money to be targeted at enhancing the quality of care and allowing more time to be devoted to promoting child development.

An important funder of early care and education in Fairfield County, the Fairfield County Community Foundation became interested in collective management strategies and approached CT Voices for Children to study this issue in Fairfield County's early childhood sector.

Project proposal. Based on the learning resulting from previous work at CT Voices for Children, this project set three goals:

1) **Identify Barriers to Financial Stability**. Briefly assess and report on the fiscal health of a small sample of child care centers in the Fairfield County region, based on the providers' self-reported accounts of their business on the five indicators of financial health. This would allow us to identify the greatest barriers to financial stability for this region.
2) **Identify Existing Strategies and Tools**. Report on the existing use, by the participating sample of providers, of collective management strategies and other accounting tools, such as the use of (or interest in using) financial services to assist in collecting payments electronically, with debit/credit cards, and online.
3) **Recommend Strategies to Address Barriers**. With this knowledge of existing barriers and management strategies that are and are not working, recommend a pilot to implement appropriate shared service strategies or other administrative and management options that would address the barriers identified.

II. Survey Methodology

A verbally-administered survey was designed specifically for this study and used to collect data in July 2007. Fairfield County Community Foundation program staff assisted with the compilation of a target list of child care centers to participate in the survey. A series of 16 questions allowed child care center administrators/directors to provide self-report data on their current fiscal management and accounting

[5] Brower, M.R. & Sull, T.M. *Five Fundamentals of Financial Health* (Child Care Information Exchange, 2003)

practices, including enrollment, tuition, fees and bill payment. Another five questions assessed administrator's current use and interest in using collective management strategies and tools. Survey questions are provided at the end of this report.

Dr. Peg Oliveira verbally administered all surveys. All participants received an explanation of the survey, and rationale for the study prior to survey administration. In total, administrators from 15 programs in Fairfield County completed the survey.

III. Sample

Recruitment of the study sample was from programs across Fairfield County. The final sample provided data from fifteen programs in total: five programs in Danbury, five programs in Bridgeport, two programs in Norwalk, two programs in Greenwich, one in Stamford and one in Bethel.

The size of the programs sampled range from as small as 20 children to as large as 1,250 children.
All of the programs in the sample serve preschool children (3 years to 5-years-old), while only 5 (33%) serve infants and toddlers/twos (birth- to 36-month olds).

It should be noted that there is some sampling bias, in that those centers feeling most burdened were the least inclined to agree to participate in this study. Thus, results may be lacking some information from the most needy programs, and the programs that would most benefit from improvements from implementation of new management strategies or shared services.

IV. Survey Results

A. How do programs measure on indicators of fiscal health?

As noted above, research finds that the foundation of fiscal health of a childcare center depends, primarily, on its ability to succeed on five factors. Our survey found the following results on fiscal health measured by these five factors:[6]

1. Enrollment is at capacity, with a waiting list in place. The centers surveyed are not struggling to fill their open spaces. In fact, sufficient childcare center capacity appears to be an impending problem in Fairfield County. Thirteen of the fifteen programs were at full capacity with a waiting list in place. Only two programs reported having the ability and willingness to take in new children at the time of the survey (summer). Waiting lists ranged from 12 children to 500 children.

2. Tuition is based on the full cost of care. The full cost of care estimates what would be needed as income, per child, to pay all the center's bills. Only three of the fifteen administrators were able to calculate the per child cost of providing care in their center. This suggests that the cost of providing care is not a factor when setting tuition costs. Instead, more subjective factors are influential variables.

How Do You Set Fees?	
Based on the cost of care	3
Based on what parents can afford to pay	8
Based on what other programs in the area charge	4

Four of the participating sites do not set their own fees, but rather use scales set by the CT Department of Social Services or the State Department of Education. For the remaining

[6] Brower, M.R. & Sull, T.M. *Five Fundamentals of Financial Health* (Child Care Information Exchange, 2003)

eleven sites, an overwhelming majority (8) report setting tuition fees based on "what parents can pay," and only a small minority (3) consider "the cost of providing care" when setting fees. Four sites also stated that fees are based somewhat on what other sites in the neighborhood are charging, to be competitive with the local market.

Differences exist in administrators' reports regarding how often sites raise their fees. Despite the increasing cost of living in Fairfield County and therefore also the overall cost of providing care, two sites state that they *never* raise their fees. One states that it rarely raises fees and another notes that fees have not been increased in ten years. The remaining sites range from annually raising fees (between $1 and $5 per week) to only raising fees every two to five years when absolutely necessary for the survival of the business. All answers suggest that fees are probably not keeping pace with rising costs.

A 2003 survey of Connecticut early care centers showed that prices charged for child care in many of our towns do not cover the full cost of services rendered. In 80% of the centers in poorer communities, the cost of running the childcare business exceeded the price charged for care, and 20% of the centers in wealthier communities reported that costs exceed price.[7] In short, centers in the largest, poorest cities are far less able to charge the "true cost" of providing quality child care. Yet even in our wealthier suburbs, quality cannot be guaranteed, wages are often artificially low, and programs are reluctant to price themselves out of the market.

In 2007, Connecticut's 2-1-1 Infoline[8] reports that the average weekly cost of full-time, center-based care for an infant or toddler in Connecticut is $212.56. The average weekly cost of full-time, center-based care for a preschooler is $172.32. Fees reported by participants in this study for infants and toddlers ranged from $207 in Danbury to $365 per week in Stamford for the three sites that served this age group, and set their own fees. Fees for preschoolers ranged from $100 per week in Bridgeport to $308 per week in Stamford. A 2005 analysis of the true cost of providing child care according to research-based best practice estimates an annual operating cost of $16,183 per preschool aged child.[9] As such, despite tremendous variation in fees, no center actually charges the full cost of care as determined by research estimates.

A majority (12) of the programs have Care4Kids, Connecticut's Child Care Subsidy Program, administered by the Connecticut State Department of Social Services, as a revenue source. While most of these programs (10) report reconciling Care4Kids revenues at the end of each month (i.e. ensuring receipt of all owed money from DSS), two programs report that the Care4Kids payment process is so complicated that they do not understand what they are actually owed each month.

Most programs (11) report that the majority of revenues (60% - 90%) come from government subsidies (School Readiness, State Funded Center Grants, Care4Kids). Three of the programs report that the majority (between 60% and 90%) of revenues are from parent fees. Sites report setting their fees in a different manner (by the true cost, by what parents can afford, and by what others charge). Only one program reports that 55% of their revenue comes from private grants other than government subsidies.

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[7] P. Oliveira, *An Analysis of Child Care Center Budgets* (CT Voices for Children, 2003), available at www.ctkidslink.org/pub_detail_201.html.

[8] http://211childcare.org/professionals/FeeCT.asp

[9] *Meeting the Need, Accepting the Challenge*. (The Early Care and Education Finance Project of the Connecticut Early Childhood Alliance, 2005).

3. Fees are paid on time. Ensuring timely payment does not appear to be a major problem for sites in this survey. Only four programs (27%) report receiving late payments with any regularity (reporting that between 15% and 40% are late). In comparison, seven programs (47%) report receiving 100% of payments on time. Another 4 programs (27%) report that between 90% and 100% of payments are received on time. All programs have a late fee policy that results in either a fine for late payment or at least a letter reminding of the need for payment. Only two programs report having any significant debt at the end of the year due to late payments (ranging from $1,000 to $5,000).

4. The programs' bills and taxes are paid on time. According to self-reports, all programs pay bills and taxes on time. This study has no means of confirming the veracity of this data.

5. The program has a cash reserve to cover operating expenses for three months. All programs reported either being unable or unwilling to share information about their cash reserves for the purpose of this study.

B. What shared services strategies are programs currently using?

1. Electronic Fee Collection. Four of the fifteen programs currently allow parents the option to pay fees through credit and debit cards. However, no programs use online fee collection. The primary reason given for not using this tool is the prohibitive cost.

2. Collaboration. Only five programs report collaborating in any way with other programs in the state. The primary reason for not collaborating is administrators do not predict they can collaborate in useful ways. Ways of collaborating primarily focus on professional development opportunities, rather than management and billing.

C. Which shared services strategies are centers most interested in piloting?

1. Electronic Fee Collection. Five programs of the eleven that currently do not have the capacity to use electronic fee collection are interested in this option. One program that does use debit and credit cards would be interested in online payment.

2. Collaboration. Six of the fifteen programs would be interested in pursuing collaboration with other programs. The areas of most interest include a substitute pool and health benefits.

D. Where else are programs spending their time and resources?

Programs were asked to estimate the time spent on a variety of administrative and management tasks, and to name the tasks that seemed most time consuming. The most cited time-consuming tasks were the administration of the School Readiness grant and NAEYC accreditation achievement and maintenance.

V. Recommendations for a Shared Services Strategies Pilot in Fairfield County

In summary, this Fairfield County survey confirmed that child care center administrators are resourceful in using what little funds they have to provide child care services, pay their bills on time, and stay in business. Regardless, many struggle with maintaining a healthy fiscal base due, in part, to a lack of information on the true cost of providing the services they offer, and an inability to charge the full cost of care because parents could not afford it or the competition to keep fees low is too great.

Importantly, as previously noted, these results are based on the responses from program administrators that actually had the time to respond and as such may be lacking some information from the most needy programs, and the programs that would most benefit from improvements from implementation of new management strategies or shared services.

Regardless, the need for additional resources, beyond parent fees, is clear. Smarter or more efficient budgeting practices will not alleviate the problems that are associated with the insufficiency of overall funding and the low wages paid to child care providers. However, implementation of some creative new strategies, and potentially collective management strategies, could free up some time and resources, provide greater stability in an instable workforce with high turnover, and streamline the fee collection process for child care centers. Notably, most centers *did* report an interest in trying some new practices.

The following emerged as the most useful and most interesting possibilities for a future pilot of shared services strategies in Fairfield County:

1. Electronic fee collection
2. Substitute pool
3. Group health benefits

The information in this report can inform the efforts of the Fairfield County Community Foundation and other private and public funders to potentially design a pilot project to launch the use of shared service strategies (like substitute pools) and more efficient administrative tools (like online fee collection).