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Quality Costs How Much? Estimating the Cost of Quality Child Care in New Jersey



A RESEARCH STUDY



Giving Every Child A Chance

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ADVOCATES CHILDREN OF NEW JERSEY

35 Halsey Street Newark, NJ 07102 (973) 643-3876 (973) 643-9153 (fax) advocates@acnj.org www.acnj.org

Staff contributing to this report

Diane Dellanno, Policy Analyst Kristen Brady, Research Assistant Jaime Kaiser, Student Intern

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Quality Costs How Much?

Estimating the Cost of Quality Child Care in New Jersey

Introduction

Quality child care for young children is essential. During a child's first five years, the brain develops more than at any other time of their lives; therefore, it is imperative that children spend those early days in a nurturing, stimulating environment. Decades of research demonstrate that children who experience high-quality child care have a better chance of arriving at kindergarten with the foundation they need for school and life success.

However, while it has been established that quality early learning experiences matter, the quality of care in New Jersey's child care centers and family child care homes varies greatly across the state. Annually more than 400,000 New Jersey children age 5 and under are in need of some form of child care because both parents work; therefore, it is critical to ensure access to high-quality child care options.

In 2013, as part of a statewide effort to improve and rate the quality of care young children receive, New Jersey launched a child care quality rating and improvement system (QRIS) named Grow NJ Kids. This system is designed to provide resources for early learning programs to help raise their quality and continuously improve their programs, as well as critical information to help parents select a quality provider. Programs are rated on a 5-star scale with 1 star programs meeting basic licensing standards and 5 star programs demonstrating higher quality practices. Similar systems have been initiated in 49 states and the District of Columbia.

With funding from a 4-year federal Race to the Top Early Learning Challenge grant, New Jersey expects to enroll approximately 1,800 early learning programs in Grow NJ Kids, or about 22 percent of all sites serving infants and young children by the time the grant ends in 2017. As stated in the Race to the Top Early Learning Challenge application, the state plans to continue Grow NJ Kids after grant completion with a goal of enrolling "all publicly funded programs within eight years of roll out." As of

December 2016, 944 child care centers and 167 family child care homes were participating in the program.

But what would it cost to ensure all children are cared for in high-quality child care settings?

To answer this question, Advocates for Children of New Jersey (ACNJ), in collaboration with national early childhood financing expert Anne Mitchell and New Jersey child care providers and stakeholders, conducted a costestimation study to examine what it would cost to operate a child care center or a family child care home at the various levels of Grow NJ Kids. This innovative approach has been used by early care and education advocacy organizations in several states, including Ohio, Rhode Island, Washington, Louisiana and Delaware, to help inform child care policy and financing. The cost-estimation method is also recommended in the reauthorized federal Child Care and Development Block Grant Act of 2014 as a valid and reliable means of estimating costs to provide child care services and determining payment rates for child care subsidies.

Data from the New Jersey Cost of Quality study will be utilized to:

- Identify issues and challenges involved in creating a high quality early care and education system;
- Determine if the current New Jersey child care subsidy reimbursement rate is sufficient to support the costs of operating a quality program; and
- Make recommendations regarding resources necessary to support and sustain a quality rating and improvement system.

Methodology

In order to understand and estimate the costs involved in delivering child care services in a center or home, a variety of state-specific data was collected and analyzed.

Borrowing from methods commonly utilized by public school systems, the study relied on both "professional judgment" and "successful school" approaches. Professional judgment asks educators to review school standards and then identify the resources needed to meet those expectations and educate the students. The successful school method examines and analyzes the actual costs of operating schools that are currently meeting standard expectations.

To obtain input from the field, a diverse group of early care and education professionals from across the state, including directors of community-based centers and owners of family child care homes, Abbott preschool programs, Early Head Start/Head Start programs, quality improvement specialists, child care resource and referral personnel, subsidy specialists, and early childhood advocates were invited to attend a full-day stakeholder meeting facilitated by Anne Mitchell of Early Childhood Policy Research. Since the rating tool is different for centers and homes, one meeting was held specifically for child care centers and another for family child care homes.

At these meetings, participants met in small groups to review the Grow NJ Kids rating tool and identify one-time costs as well as ongoing or recurring expenses, called cost-drivers, at each level of Grow NJ Kids in all five categories of the scale:

- 1. Safe, Healthy Learning Environments
- 2. Curriculum and Learning
- 3. Family and Community Engagement
- 4. Workforce/Professional Development
- 5. Administration and Management.

Cost drivers in quality rating and improvement systems (QRIS) tend to fall into the following three categories:

Qualifications: Nearly all QRIS have increasing personnel qualifications by level.

Ratios: Reduced ratios for all, or for younger children, are in some QRIS; these are often at the higher levels. Reducing ratios reduces revenue and increas-

es the cost per child since costs are spread among fewer children.

Time: Most QRIS include some criteria that add staff time beyond what state regulations require, e.g., staff meetings, paid planning time, child assessment, parent engagement, and transition activities.

To determine if an item on the GNJK rating tool was a cost driver, the groups were asked to consider the following questions:

- Does the GNJK item require more than licensing requirements?
- Is this an on-going cost per year (per child, per class-room/home or per site)?
- If it takes staff /owner time, is it changing the use of current time or adding time?
- Can it be incorporated into current practice (i.e. included in content of regular staff meeting or a focus of professional development)?

Following the meeting, child care centers and family child care homes were invited to complete a survey regarding their annual expenses such as salaries, benefits, and non-personnel costs, as well as information on enrollment, bad debt, revenues, and attendance. This data was then compiled and analyzed to determine if there were any significant differences among programs throughout New Jersey.

A smaller advisory committee, composed of attendees from the initial stakeholder meeting, reviewed the expense and revenue data collected. The resulting data was then used to create a base scenario for a child care center and for a family child care home that can be modified to reflect variations in size, population served, revenue sources, and quality level according to the QRIS scale.

The data from the base scenario was then entered into the Provider Cost of Quality Calculator (PCQC), a webbased interactive tool designed to help understand the cost of operating early care and education programs at

different levels of quality as defined by a state's QRIS. The PCQC produces an annual revenue and expense statement for a center or home of a specified size, age mix, and quality level. All the typical expense and revenue categories for an early learning/child care program are included in the calculator and can be customized to the characteristics of any state or other jurisdiction. The PCQC models the essential determinants of financial sustainability: revenue sources sufficient to cover costs, full enrollment, and full revenue collection. A key feature of the PCQC is inclusion of operational efficiency factors for enrollment and revenue collection, which can be adjusted.

As with any estimation tool, the accuracy of the output is dependent on credible and accurate data and is informed by the field survey results and focus group feedback from early care and education experts. It is important to note that the PCQC does not account for the initial cost of attaining a particular rating, but utilizes state-specific data on expenses and revenues to develop a reasonable estimate of the cost of ongoing operation at a given level. The calculator requires the user input data into nearly 200 fields that capture personnel and non-personnel expenses and revenue streams of a typical center/home. The calculator includes default values specific to New Jersey for a small portion of the fields, while a majority of the fields utilize the data collected from the study's sample.

The New Jersey Cost of Quality Study: Child Care Center

Budgets were collected from a total of 47 diverse early care and education programs representing fifteen of the twenty-one counties: Bergen, Camden, Cape May, Cumberland, Essex, Gloucester, Hudson, Hunterdon, Mercer, Middlesex, Monmouth, Morris, Ocean, Passaic and Union. For analysis purposes, programs were divided into three regions: north, central and south. The north included Bergen, Essex, Passaic, Hudson, Morris, Sussex and Warren counties; Hunterdon, Somerset, Union, Middlesex, Monmouth, and Mercer comprised the central region; and the south included Ocean, Burlington, Atlantic, Cape May, Cumberland, Salem, Gloucester and Camden counties.

Table 1. Location of Centers in the State

Total Number of			
Centers	North	Central	South
47	13	21	13

Of the 47 centers, 26 centers were either for-profit or not - for-profit community-based programs; 20 centers were identified as an Early Head Start, Head Start, or Abbott program (or a combination thereof); and one center was operated by the US Department of Defense. Please note for the purpose of this report, the Head Start/Early Head Start, Abbott and Military programs will be referred to as "publicly funded," and the for-profits/not-for-profits will be referred to as "community-based."

Table 2. Centers by Funding Status

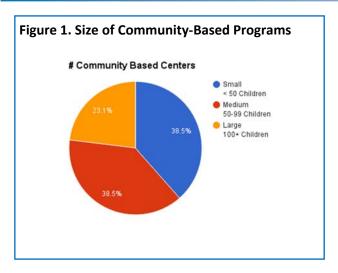
Total Number of Centers	For-Profit	Not-For- For-Profit Profit		Head Start/ Early Head Start/Military
47	14	12	8	13

The number of children enrolled per center ranged from 26 children to 221 children with a mean of 90; community-based programs tended to serve fewer children with an average of 67, whereas publicly funded programs served an average of 115.

Centers were grouped by size: centers with fewer than 50 children were considered small; centers serving 50-99 children medium; and centers serving over 100 children large. The average number of classrooms per center for the total sample was 7; community based programs housed an average of 6 classrooms and publicly funded had on average 8 classrooms.

Table 3. Type of Center by Size

	Total Number of Centers	Small < 50 Children	Medium 50- 99 Children	Large 100+ Children
Number of Community- Based Centers	26	10	10	6
Number of Ab- bott/Head Start/ Early Head Start/ Military	21	1	10	10



There was nearly an equal distribution of ages served, with 24 programs serving children from infancy through preschool-age, while 23 served only preschool-age children. At the time of the study, five of the community-based programs were accredited by the National Association for the Education of Young Children.

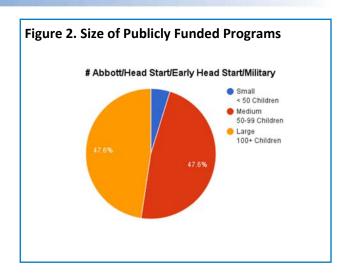
Table 4. Age-Group Served

	Total Number of Centers	Infants, Toddlers and Preschoolers	Preschool Only (30 - 60 months)
Number of Community- Based Centers	26	20	6
Number of Abbott/Head Start/Early Head Start	21	4	17

Cost Drivers in Grow NJ Kids for Child Care Centers

The cost-drivers identified for each level of Grow NJ Kids for child care centers were as follows:

Level 1: No additional costs. Includes basic costs associated with meeting licensing requirements mainly determined by requirements for group sizes and ratios by child ages, and the staff qualification minimums specified in regulations.



Level 2: Costs to attain a Level 2 were determined to be minimal to the early care and education program. At this level, a program is expected to:

- Conduct a self-assessment using the Environment Rating Scale (ERS) with an average score of 4 with no subscale below 3 (scores can range from 1-7 on the ERS).
- Prepare to adopt a research-based, validated curriculum that is aligned with the NJ Birth to Three Standards and/or the NJ Preschool Teaching and Learning Standards. State-approved curricula include HighScope, Creative Curriculum, Tools of the Mind, and Curiosity Corner.
- Utilize the Strengthening Families Protective Factors
 Framework to assess engagement of interactions
 with parents and families.
- Register all classroom staff in the NJ Registry .
- Engage in appropriate business and administrative practices and conduct a self-assessment using the Program Administration Scale earning a score of 3 (scores on the PAS can range from 1-7).

While several of these criteria may require additional staff training, primarily for the director or other designee, current licensing requirements specify that the director, teachers, and program supervisor must have 20 hours of ongoing professional development each year. Therefore,

the activities and training needed to achieve a Level 2 score could be met through this existing mandate. The other costs associated with Level 2 were considered to be one-time efforts and part of the daily responsibilities of the director, not an ongoing additional work activity.

Levels 3-5: A star rating of 3, 4 or 5 is awarded to a center based on a combination of factors including:

- Meeting specific threshold scores on the Environment Rating Scale or Classroom Assessment Scoring System (CLASS);
- Number of training hours in a state-approved curriculum; and
- Points earned by meeting standards across the five categories of GNJK (Level 3 = 30-59 points; Level 4 = 60-85 points and Level 5 = 86-100 points).

The Grow NJ Kids indicators are based on a points system rather than a block system. In a block system, all indicators in a category must be met in order to achieve credit for the category; whereas a points system allows programs to accumulate points in a variety of categories. This allows programs to select their area of focus among each category and dedicate resources to achieve specific indicators.

The primary cost drivers identified in Levels 3, 4 and 5 were related to staff qualifications and to the additional time needed to implement the activities expected at each level. To attain higher scores, teachers with higher qualifications will be needed and will command higher compensation, both wages and benefits. The ratios and group sizes set in New Jersey's regulations are considered reasonable and therefore were not addressed in Grow NJ Kids.

Other cost drivers identified at Level's 3-5 include:

 Performance-Based Child Assessment - this is a set annual expense based on the assessment tool associated with the curriculum selected and is calculated per child at the same rate for each Level 3-5.

- Ongoing cost of educational materials and equipment required to maintain an Environment Rating Scale score of 3, 5 and 7. (See Appendix A for specifics).
- Family Engagement costs related to hosting workshops, support groups, advisory committee meetings and conducting home visits (i.e. refreshments, security, travel, and added insurance).

In addition, if a center experiences high staff turnover, there will be on-going expenses related to training in the selected curriculum for new staff members. Appendix B provides a complete list of the identified cost drivers for Levels 3-5 by category. The list also includes one-time costs related to improving quality such as curriculum, facility modifications and policy changes.

After reviewing each level and the related requirements, the stakeholders determined that the greatest amount of resources will be required for a program to move from a Level 2 to a Level 3. To attain a Level 3, programs will need to: train staff on a chosen curriculum, purchase the bulk of educational, curriculum and training materials, and invest time in creating new policies. The costs associated with Levels 4 and 5 are primarily associated with having more credentialed staff with exposure to advanced training and use of more sophisticated evaluation, supervision, and accounting procedures.

Personnel and Benefits

The cost of operating an early care and education program is driven largely by labor costs: the number of staff (determined by staff: child ratios) and staff compensation (salary and benefits). The salary and benefits of an early care and education center typically account for the majority of total expenses. Staffing patterns utilized in the analysis were informed by New Jersey's child care center licensing regulations which are based on size of the center and ages of children served.

According to 2013-2016 New Jersey child care regulations, centers are required at a minimum to have:

- A sponsor/sponsor representative who may serve as the director and/or other staff member.
- A director who may serve as another staff member.

Table 5 outlines the additional staff requirements.

Table 5. Staff Requirements by Licensed Capacity

Licensed Capacity	Head Teacher	And/or	Group Teacher	And/or	Consulting Head Teacher
6-15	1	Or	1	Or	1
16-30	1	Or	1	And	1
31-60	1				
61-120	1	And	1		
121-180	1	And	2		
181-240	2	And	2		
241-300	2	And	3		

Although a center may have other staff, the PCQC only incorporates salaries for six occupations: Director, Education Coordinator/Assistant Director, Classroom Teacher/Head Teacher, Teacher Assistant/Group Teacher, Admin-

istrative Assistant, and Health Consultant. Since New Jersey no longer supports health care consultation, this title was excluded from the analysis.

The following assumptions were used in the development of the budgets:

Assumption: Salaries will increase with Grow NJ Kids Levels

After closely examining the expected staff credentials and additional activities required at each sequential stage of Grow NJ Kids, it was determined that both compensation and amount of staff time necessary to maintain quality will increase with each level. The budgets were constructed to reflect these increasing requirements.

Data for New Jersey specific early care and education salaries was retrieved from the US Bureau of Labor Statistics (May 2015) and compared with data collected from the study sample. The Bureau of Labor Statistics (BLS) calculates the average/median salaries of early care and education professionals from a variety of programs throughout the state and includes salaries from community-based child care centers, as well as Abbott, Head Start and Early Head Start programs. Table 6 compares the information retrieved from the BLS and the data collected from the study's sample. The sample data was categorized into publicly funded, community-based, and total sample. As illustrated in Figure 3, salaries varied dramatically between the publicly funded and communi-

Table 6. Average and Median Salary Based on Position, Type of Program, and Data Source

Position	Community-Based Sample		Publicly-Funded Sample		Total Sample		BLS	
	Avg	Med	Avg	Med	Avg	Med	Avg	Med
Director	\$40,381	\$39,000	\$65,370	\$62,500	\$54,464	\$50,000	\$64,260	\$49,210
Education Coordinator/ Assistant Director	\$34,676	\$32,175	\$44,054	\$41,671	\$37,587	\$39,487	N/A	N/A
Head Teacher	\$25,818	\$26,325	\$47,540	\$45,000	\$36,679	\$30,600	\$40,730	\$35,160
Asst. Teacher	\$19,221	\$18,768	\$28,963	\$26,319	\$23,391	\$20,825	\$24,560	\$22,070
Administrative Assistant	\$29,142	\$29,155	\$29,446	\$26,500	\$28,622	\$29,000	\$34,110	\$31,000

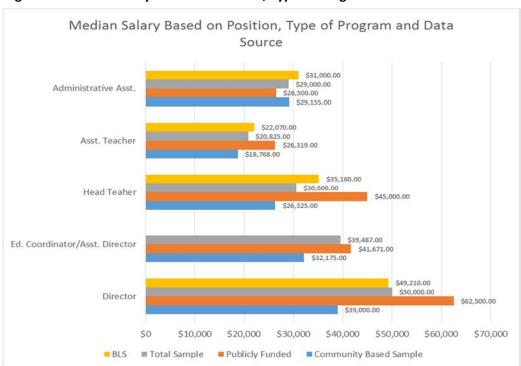


Figure 3. Median Salary Based on Position, Type of Program and Data Source

ty-based centers while the study's total sample closely resembles the BLS data.

Although the total sample data closely resembled the BLS data for New Jersey, it was decided to utilize the salaries reported by the community-based programs for the base scenario in this study for several reasons. First, community-based centers represent the majority of early care and education centers throughout the state. Additionally, the revenue streams and resources available to publicly-funded programs differ drastically from the community-based programs. Finally, publicly-funded programs are required to meet higher standards and staff must attain higher levels of education resulting in compensation that tends to be higher than community-based centers.

Based on the assumption that salaries will increase as centers attain higher levels of the QRIS, Level 1 salaries were set to reflect the 10th percentile of salaries reported by community-based centers, Level 2 the 25th percentile, Level 3 the 50th percentile, Level 4 the 75th percentile and Level 5 the 90th percentile (see Table 7). The Education Coordinator/Assistant Director position was included at Level 3 to reflect the need for additional staff at higher levels of quality. The Education Coordinator/Assistant

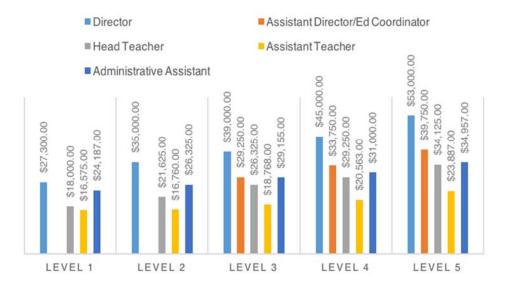
Director position salary was set at 75% of the Director's salary at each level of the QRIS.

The progression in salary across the levels reflects the more complex demands and expectations required at each increasing level of the rating scale. A center will likely need more qualified staff to maintain operations at a Level 3 and should pay them accordingly. In addition, to obtain the higher CLASS and Environment Rating Scale scores required at Levels 4 and 5, programs will most likely need staff who possess a bachelor's or a master's degree. Attracting and retaining staff with these qualifications will require higher wages.

Table 7. Salary Based on GNJK Level

Grow NJ Kids Staff Salary	Level 1	Level 2	Level 3	Level 4	Level 5
Director	\$27,300	\$35,000	\$39,000	\$45,000	\$53,000
Ed Coordinator/ Assistant Director			\$29,250	\$33.750	\$39,750
Head Teacher	\$18,000	\$21,625	\$26,325	\$29,250	\$34,125
Teacher Assistant	\$16,575	\$16,760	\$18,768	\$20,563	\$23,887
Administrative Assistant	\$24,187	\$26,325	\$29,155	\$31,000	\$34,057

Figure 4. Salary Based on GNJK Level



Assumption: Benefits increase with Grow NJ Kids Levels

In addition to increased compensation, it is also assumed that staff benefits, such as paid vacation time, sick time, health insurance, tuition/professional development reimbursement, or retirement plan contributions, will increase at higher levels of quality. According to the GNJK scale, centers can receive 1 point if they provide at least 1 benefit at Level 3, and 2 points if they provide at least two benefits at Level 5.

The PCQC already accounts for some benefits. The calculator assumes staff will have 10 paid holidays and 5 days of paid leave. Additionally, federal and state mandatory benefits were included in the personnel calculations in all of the model budgets. Social Security and Medicare (FICA) are set at current federal rates while Unemployment, Disability, Worker's Compensation and Family Leave Insurance are based on current New Jersey rates.

Benefits reported by study participants from both the community-based programs and the publicly-funded programs varied widely ranging anywhere from a low of \$200 per employee to a high of \$7,695 per employee. Assuming per person employer contributions will gradually increase as centers progress from level to level, the base budget was set at the PCQC recommended \$1,000 per employee and was increased by \$1,000 for each subsequent level (see Table 8).

Table 8. Benefits by Level

	Grow NJ Kids Benefits					
Annual contribution to insurance and Level other benefits (dollars per staff)						
1	\$1,000					
2	\$2,000					
3	\$3,000					
4	\$4,000					
5	\$5,000					

Assumption: Teaching staff time increases with Grow NJ Kids Levels.

Several indicators in Grow NJ Kids require additional staff time to implement. Teachers generally work 8 hour days; however, centers typically require about 20% more staff time to cover breaks and the full daily operating hours of a center which can be 10 or more hours. As a result, the Level 1 base budget was set to include this industry standard (20% additional staff time).

The amount of additional staff time needed increased slightly at Level 2 to account for the time needed for interaction with the Grow NJ Kids quality improvement specialist working with the program, completion of the

Environment Rating Scale, and increased family engagement activities. The budgets for Levels 3-5 included more hours of floater-assistant time accordingly to allow time for the teachers to conduct the required child assessments and family engagement work, and for all staff to have more planning and meeting time (see Table 9).

Table 9. Additional Staff Time Required by GNJK Levels

Grow NJ Kids Levels	Percent of Additional Staff Time
1	20%
2	22%
3	30%
4	35%
5	40%

Revenue Sources

In order to cover the costs related to providing higher quality child care (i.e. increased salaries, benefits, training, curriculum, etc.), it is assumed that programs will need to increase their revenue. The primary revenue sources available to support the cost of operating any early learning program include:

- 1. Private tuition paid by families;
- Public state and federal funds for child care subsidy (i.e. NJ Cares for Kids, Work First NJ); and

3. Public federal funds for food/food service (USDA Child and Adult Care Food Program [CACFP] reimbursement for all children).

A few centers also reported income from grants, donations and fundraising activities; the range was from a few hundred to \$175,000 per year. Since this type of revenue is generally unique to non-profits, it was not included in the cost model. However, the not-for-profit programs in this study's sample reported that they rely on this type of revenue in order to remain operational.

Assumption: Private tuition rates increase with Grow NJ Kids Levels.

In order to determine annual tuition costs for the calculator, several resources were reviewed and analyzed. After reviewing the data collected from this study's participants and the Child Care Aware of New Jersey's most recent The High Price of Child Care 2013 report, it was determined the information from the Child Care Aware of NJ survey provided more recent, robust and reliable data. The 2012 average tuition rate reported for each county was ranked from the lowest to highest and then adjusted to reflect rates as of September of 2016 using the US Bureau of Labor Statistics' inflation calculator. Next, the average 2016 adjusted tuition rates by county were broken down into the 50th, 60th, 70th, 80th and 90th percentiles which then informed the data used for the calculator. The 50th-90th percentile ranks were used to set rates for Levels 1-5 respectively of the GNJK scale (see Table 10).

Table 10: 2012 and 2016 Average Annual New Jersey Child Care Tuition By Age

	2012 Tuition Rates				016 Tuition I ed for inflation	
Percentile	Infant	Toddler	Preschooler	Infant	Toddler	Preschooler
50 th	\$11,128	\$10,556	\$9,256	\$11,664	\$11,065	\$9,702
60 th	\$12,168	\$10,972	\$9,620	\$12,754	\$11,501	\$10,084
70 th	\$12,272	\$11,492	\$9,776	\$12,863	\$12,046	\$10,247
80 th	\$13,364	\$12,376	\$11,076	\$14,008	\$12,972	\$11,610
90 th	\$14,300	\$13,416	\$11,388	\$14,962	\$14,062	\$11,937

Table 11: Annual Tuition Rates for the GNJK Levels by Age

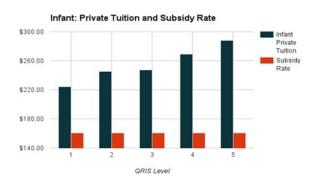
Grow NJ Kids Level	Infant	Toddler	Preschool
1	\$11,664	\$11,065	\$9,702
2	\$12,754	\$11,501	\$10,084
3	\$12,863	\$12,046	\$10,247
4	\$14,008	\$12,972	\$11,610
5	\$14,962	\$14,062	\$11,937

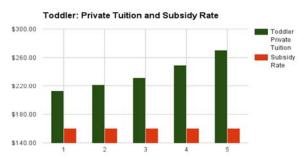
Assumption: Child care subsidy rates vary only by child age

The subsidy rates used in the model are those funded through the federal Child Care and Development Fund, Temporary Assistance for Needy Families (TANF), and state dollars commonly known as NJ Cares for Kids (NJCK) or WorkFirst New Jersey. The rates are dependent on a child's age and have remained unchanged since 2008. Depending on a family's income and work status, a child may receive the full subsidy amount or the family may be responsible for a co-payment which is paid directly to the child care center. The assumption is that centers collect the full subsidy amount for each child receiving the subsidy. Table 12 illustrates the current subsidy rate and the estimated cost of tuition at each level of quality.

Data was not available to determine the average number of subsidy children enrolled per center; therefore, the model used an estimate of 25% of a center's total enrollment as receiving a subsidy. This percent was selected to align with the percent of low income children a for-profit center must enroll in order to participate in the Child and Adult Care Food Program (CCAFP).

Figure 5: Weekly Private Tuition Compared to Subsidy Rates





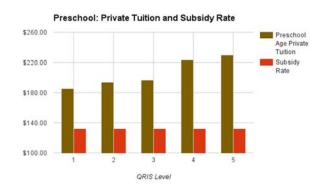


Table 12. Weekly Center Private Tuition Rates by Quality Level Compared to Subsidy Rates (Infants, Toddlers and Preschoolers)

	Infant		Todo	ller	Preschool Age	
QRIS Level	Private Tuition	Subsidy Rate	Private Tuition	Subsidy Rate	Private Tuition	Subsidy Rate
1	\$224.31	\$160.60	\$212.78	\$160.60	\$186.57	\$132.40
2	\$245.27	\$160.60	\$221.16	\$160.60	\$193.91	\$132.40
3	\$247.37	\$160.60	\$231.64	\$160.60	\$197.06	\$132.40
4	\$269.38	\$160.60	\$249.46	\$160.60	\$223.26	\$132.40
5	\$288.24	\$160.60	\$270.43	\$160.60	\$229.55	\$132.40

Assumption: The income range of families served by the center affects revenue.

In New Jersey, families with income below 200% of the federal poverty level and who are working and/or in a training program at the time of the initial application are potentially eligible for a child care subsidy through the federal Child Care and Development Fund, also known as, New Jersey Cares for Kids, or WorkFirst New Jersey. New Jersey reviews a family's application annually; as long as a family's income falls under 250% of the FPL at the time of reauthorization, the child(ren) will continue to receive the subsidy. All other families are assumed to be paying the full private tuition rates.

The proportion of children receiving a subsidy and those paying full tuition is a variable in the model. It can be adjusted to model different situations. For example, to model programs with no subsidy revenue, the family income mix is set to 100% paying full tuition.

Assumption: Programs participate in the Child and Adult Care Food Program (CACFP).

The federal Child and Adult Care Food Program, administered through the New Jersey Department of Agriculture, enhances the quality of child care programs by supporting the cost of providing nutritious meals and snacks to eligible children. Well balanced meals and snacks are provided to children and the center is reimbursed at three different rates: free meals (highest reimbursement rate) for children whose family income is below 130% of the federal poverty level (FPL); reduced-price rate for children whose family income is between 130% and 185% of FPL; and paid meal rate (lowest reimbursement rate) for children whose family income is above 185% FPL.

The only programs <u>not</u> eligible for CACFP are for-profit centers enrolling fewer than 25% low-income children. The model assumes that centers will participate in the program and claim up to two reimbursable meals (breakfast, lunch, or supper) and one snack, or two snacks and one meal per day.

Size, Age and Efficiency Factors

Assumption: The number of children and the ages of children served affect revenue.

The age mix of children and enrollment size of a center are variables in the model. In general, larger programs are more cost-efficient than smaller ones in that fixed costs such as administration are spread among more children.

As illustrated previously, tuition rates vary by child age; infant tuition rates are higher than toddler rates, which are higher than preschool rates. Staffing patterns are based on staff to child ratios and group sizes. Because infants have a smaller staff to child ratio (1:4) with a maximum group size of 12, centers with numerous infant classrooms will need to employ more staff members and serve fewer children which increases personnel costs. Comparatively, preschool classrooms have a staff to child ratio of 1:10 and a group size of 20 which result in fewer staff for more children.

The centers in this study ranged in size from fewer than 50 children to more than 200. However, the average size was close to 5 classrooms and 81 children. We used this data to then create the base scenario for the calculator. For the purpose of this study, the 'base scenario' represented as closely as possible the average size center with 88 children and 5 classrooms: 1 infant room (12 children), 2 toddler rooms (36 children), and 2 preschool rooms (40 children). Please note, NJ's Child Care Manual states the group size for toddler classrooms is 20 children and a ratio of 1 staff for every 6 children. However, due to the calculation protocol used in the calculator, the base scenario included only 18 toddlers per classroom.

Assumption: Full enrollment and timely collection of all revenue are essential to a program's financial sustainability.

Financial sustainability for a center is largely determined by three factors: full enrollment every day; tuition and fees collected in full and on-time; and annual revenues that sufficiently cover annual expenses. In order to remain viable, centers must set tuition rates that will cover the full cost of operation. In each budget, the maximum potential revenue from all sources is calculated and then reduced by a percentage to model the fact that 100% enrollment (and 100% revenue receipt) is not typically achievable. In practice, this factor depends on a center's ability to quickly fill vacancies and to collect full payment from all payers. The enrollment efficiency factor is set initially at 85% in all budgets and can be varied.

The proportion of revenue that is uncollectible, commonly called 'bad debt,' can be varied in the model as well. The industry standard is to keep bad debt to less than 3% of revenue; programs with clear tuition payment policies and effective collection practices may do better. In the PCQC, the bad debt is initially set at 3% and can be varied.

Non-personnel Expenses

Information was also collected on the annual cost of food, kitchen supplies, education supplies and equipment, office supplies and equipment, insurance, postage, and advertising. In addition, the survey examined the cost of rent/lease, utilities, maintenance, telephone and internet, audits, fees and permits, payroll services, accounting fees, training and professional development.

The data provided by New Jersey community-based centers did not vary significantly between the region, size of a center, and/or profit status and thus informed the non-personnel fields in the base model. Non-personnel items are grouped into four categories:

- 1. Those that vary by the number of children (e.g., classroom materials, food, office supplies);
- 2. Those that are related to the number of classrooms in a site (e.g., occupancy costs including rent, utilities and maintenance);
- 3. Those that are site-wide (e.g., audit, permits/fees);
- 4. Those that vary per staff (e.g., training costs).

Assumption: Scores on the Environment Rating Scales are related to the presence of specific items such as books, science materials, gross motor equipment, etc.

Centers may have upfront costs associated with initially purchasing materials aside from typical supplies and equipment each year in order to attain higher scores on the Environment Rating Scale. The calculator accounts for education supplies and equipment per child per year which would be used to then replace the items as needed.

Assumption: Maintaining Levels 3, 4 or 5 requires using a child assessment system.

Beginning at Level 3, the model includes the cost of a child assessment system. This rate was set at \$35 which represents the average cost per child in most assessment systems.

Base Model

The PCQC requires the user create a "base scenario" which reflects the typical child care program in New Jersey. For the purpose of this study, the model reflected a center that serves 88 children and has 5 classrooms: 1 infant room (12 children), 2 toddler rooms (36 children), and 2 preschool rooms (40 children). The model also assumed 25% of the children were receiving a child care subsidy, and 15% of the children received free meals through the Child and Adult Care Food Program while 10% received the reduced meal price. Additionally, the base scenario incorporated the assumptions mentioned in the above text into the model.

Findings

1. The typical center portrayed in this study is not sustainable at the higher levels of Grow NJ Kids.

To determine sustainability by quality level, costs related to operating an average size center in New Jersey were entered into the PCQC. The comparison of financial sus-

tainability is based on the net annual revenue of this typical center at each level of quality.

In the scenario below, utilizing the community-based data and applying the assumptions stated above, the typical center will be able to end the year with a positive net revenue at Levels 1 and 2, but will be completely unsustainable at higher-quality levels (Levels 3, 4 and 5). It is important to note that centers are only able to make a profit at Levels 1 and 2 due to lean staffing patterns, meager salaries and minimal benefits. Level 1 only includes teaching staff, an administrative assistant, and a Director, who are paid close to, or just above minimum wage, and all receive minimal benefits. The salaries in Level 2 reflect wages slightly above minimum wage and the benefits are just nominally better than Level 1.

Please note, the industry standard is to have a net revenue as a percentage of the total at or above 7%. This profit provides centers with savings to account for unforseen needs that may arise such as facility repairs, such as fluctuations and enrollment, uncollected fees, etc.

Figure 6a. Net Annual Revenue for Base Scenario at GNJK Levels

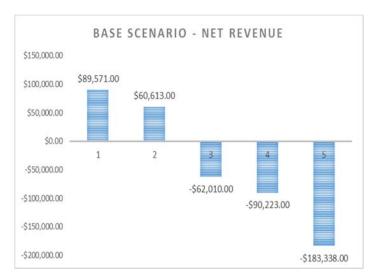
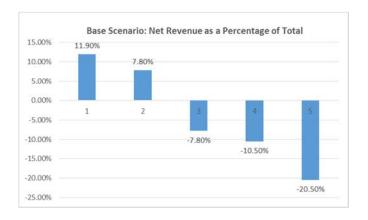
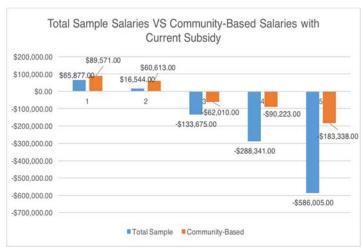


Figure 6b. Base Scenario – Net Revenue as a Percentage of Total



When the model is adjusted to use the salaries from the total sample which includes both publicly funded and community-based salaries, programs are less sustainable at Levels 1 and 2, and significantly less sustainable at Level 3 and higher. (see Figure 7).

Figure 7. Net Revenue by GNJK Levels Using Total Sample Salaries vs Community-Based Salaries



2. When the number of children receiving a child care subsidy at the typical center is increased, the center is not sustainable at the higher levels of GNJK.

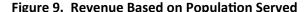
Next, the base scenario was modified to examine the impact of participation in the child care subsidy program. The base model was adjusted to look at sustainability at the following subsidy participation rates: 25% of families receiving a subsidy (all private tuition and no involvement in CACFP), 50% receiving subsidy and 100% receiving subsidy (Note: it is assumed centers receiving subsidy are also participating in the CACFP). As indicated in the chart below, centers serving 50% or more subsidy children will only be able to reach a healthy year-end revenue at Level 1; centers with 50% subsidy children could still earn a profit at Level 2, but all programs will be completely unsustainable at higher-quality levels with the current subsidy rate.

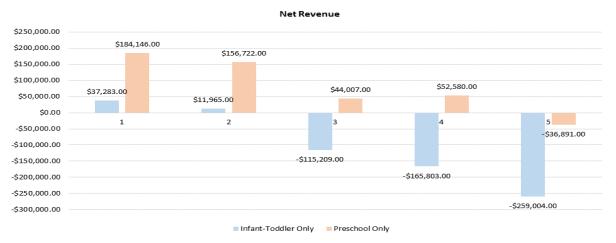
When the typical center was modified to serve preschoolers only, the center was more sustainable than when the center was only serving infants and toddlers or mixed age groups.

To determine how the age mix of children in a center impacts expenses and revenues, the model was adjusted to look at centers serving only infants and toddlers and centers serving only preschoolers. Other than changing the age mix, all variables from the base model remain the same. The infant/toddler program includes a total of 5 classrooms, 2 infant and 3 toddler, and the preschool only programs have 5 classrooms total. As illustrated in Figure 9, centers serving infants/toddlers only are not sustainable beginning at Level 2, while preschool only programs are able to make a profit at all levels except Level 5.



Figure 8. Annual Net Revenue Based on Percent of Subsidy Families Served

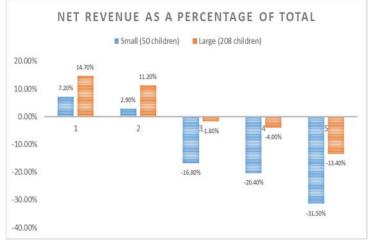




4. Larger child care centers were more likely to sustain quality at higher levels of GNJK than smaller centers.

Understanding that the size of the child care program has a role in the sustainability of a program, with larger programs assumed to be more cost-efficient due to economies of scale, the model was further adjusted to compare sustainability of smaller programs versus larger programs. In Figure 12, a large center with a total of 12 classrooms, 3 infant, 4 toddler, and 5 preschool rooms, is compared to a small center with a total of 3 classrooms, 1 of each age group. All other variables remained the same. As shown in Figure 10, although larger centers are not sustainable starting at level 3, they are losing significantly less money each year compared to their smaller counterparts.

Figure 10. Revenue Based on Size

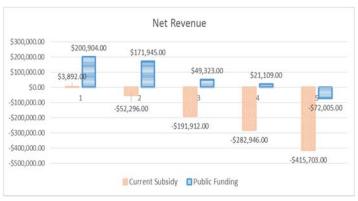


5. The type of funding centers receive greatly impacts the ability of centers to sustain quality.

As anticipated, the type of funding a center receives greatly impacts their ability to sustain quality. Publicly funded programs have a more reliable and robust funding source that enables them to provide high quality services.

Figure 11 compares the base model serving 100% of children on a subsidy with the current subsidy rate for each age group (\$160.60 for infants and toddlers and \$132.40 for preschoolers) with the base model that has a subsidy rate that mirrors the consistent funding a publicly-funded program receives per child per week. For the publicly funded scenario, a subsidy rate of \$263 was used as a subsidy amount for infants, toddlers and preschoolers. As indicated in Figure 11, a community based program with a more robust subsidy rate is able to reach all levels of Grow NJ Kids up to Level 4.

Figure 11. Net Revenue Based on Funding



6. Participation in the Child and Adult Care Food Program can impact a center's ability to remain sustainable.

Figure 12 takes a closer look at how participation in the Child and Adult Care Food Program can impact a center's sustainability. As illustrated, centers serving 100% subsidy families that are also enrolled in the CACFP programs are more sustainable than a center with the same composition of students that does not participate in CACFP.

7. Maximizing enrollment and minimizing bad debt can help centers sustain quality.

The "Iron Triangle" in the child care industry impacts the health of a child care center. The Iron Triangle takes into consideration full enrollment, full fee collection, and revenues to cover per child costs. Without all three components a center will have difficulty making ends meet. On average, enrollment efficiency is generally close to 85% throughout the child care industry. With fewer enrollees, the program is collecting less money and is therefore not able to cover its expenses. Figure 13 looks at the base model at 85% enrollment compared to 95% enrollment although not at a fiscally healthy level. As illustrated, a

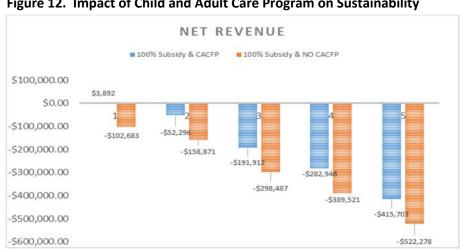
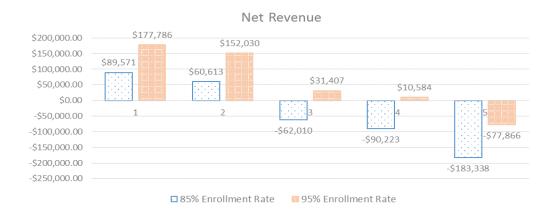


Figure 12. Impact of Child and Adult Care Program on Sustainability

Figure 13. 85% Enrollment vs 95% Enrollment



center with 95% enrollment will be able to sustain quality up to Level 4.

Another integral component of the child care industry is bad debt. Bad debt is the proportion of revenue that is uncollectible. The industry standard is to keep bad debt to less than 3% of revenue; programs with clear tuition payment policies and effective collection practices may do better. This graph compares the base model which reflected the industry standard of 3% bad debt compared to a center that has 10% bad debt. As shown, bad debt significantly influences the overall revenue of a program and prohibits centers from sustaining at higher levels of GNJK.

The current subsidy rates need to be increased substantially in order to help sustain quality improvements.

In order to determine what it would take to bring programs receiving subsidy into the sustainable range, subsidy rates were adjusted as follows:

- Infants (0-18 months) the current subsidy rate of \$160.60 was increased by 5% annually beginning in 2009 and ending in 2016. The resulting rate, \$237.28, was then used to establish the rate for Level 2 centers. This rate was then increased by 3% for each subsequent level to create a tiered reimbursement system. The rate was then decreased by 3% to establish a Level 1 rate.
- Toddlers a new toddler was proposed for ages 19 to 30 months. The current infant/toddler subsidy rate of \$160.60 was increased by 3% annually beginning in 2009. The resulting rate \$203.41 was then used to establish the rate for level 2 centers and the same process was then used to determine the remaining levels of GNJK.
- Preschool the current subsidy rate of \$132.40 was increased by 5% annually beginning in 2009 and ending in 2016. The resulting rate, \$195.62 was then used

Figure 14. 3% Bad Debt vs 10% Bad Debt

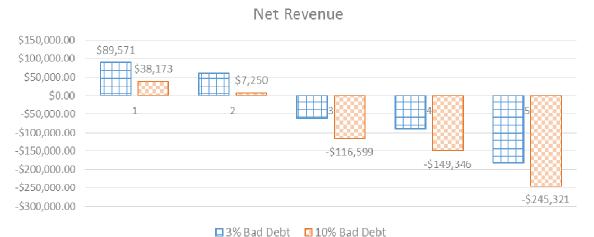


Table 13. Proposed Subsidy Rates

Infant	Toddler	Preschool
\$230.16	\$197.30	\$189.75
\$237.28	\$203.41	\$195.62
\$244.40	\$209.51	\$201.49
\$251.74	\$215.80	\$207.53
\$259.30	\$222.28	\$213.76
	\$230.16 \$237.28 \$244.40 \$251.74	\$230.16 \$197.30 \$237.28 \$203.41 \$244.40 \$209.51 \$251.74 \$215.80

to establish the rate for Level 2 centers. This rate was then increased by 3% for each subsequent level and decreased by 3% to establish a Level 1 rate.

While the proposed subsidy rate increases result in a more robust profit at Levels 1 and 2, it still was not sufficient to sustain quality at the higher levels (see Figure 15).

As shown in Table 14, the total amount of revenue needed to cover all personnel and non-personnel expenses, known as the break even point, was calculated for Levels 1, 3 and 5. This illustrates the large gap between the current subsidy rate and the actual funding needed to help centers sustain quality.

Figure 15. Current Rates vs. Hypothetical Rates

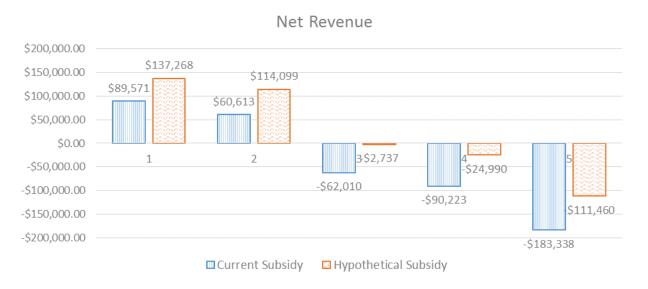


Table 14.

Age Group	LEVEL 1	LEVEL 3	LEVEL 5
Infant	\$254.25	\$332.65	\$428.00
Toddler	\$186.25	\$241.65	\$307.00
Preschool	\$141.25	\$181.65	\$225.00

Family Child Care Homes

Family child care homes are small for-profit businesses owned and operated by a provider who voluntarily registers with the state and agrees to comply with a set of regulations. Family child care homes are a critical component of New Jersey's early care and education system serving approximately 10,000 children annually. As of December 2016, there were 1,907 registered family child care homes operating throughout the state.

Study Sample

Using the same methodology as was utilized with child care centers, budgets were collected from a total of 9 family child care providers representing Essex, Mercer, Union, Burlington, Somerset and Middlesex counties; 2 homes were based in the northern part of the state, 5 in the central part, and one in the southern region.

In New Jersey, registered family child care providers can enroll up to 5 children, with no more than 2 children being under the age of 12 months. The average number of children served in the sample size was 4 and the ages of the children ranged from infants to school-age children. All of the homes in the sample accepted the state subsidy. Three of the nine providers surveyed also participated in the Child and Adult Care Food Program.

Cost Drivers for Family Child Care Homes

The family child care rating tool is similar to the point structure of the center-based tool. However, the cost drivers and quality measures differ. The primary cost drivers by level as identified by family child care stakeholders at the cost of quality meeting include:

Level 1: No additional costs. Includes basic costs associated with meeting family child care registration requirements.

Level 2: Costs to attain a Level 2 were determined to be minimal and include a modest amount of time to meet with a quality improvement specialist, conduct a self-assessment, and prepare a quality improvement plan.

Levels 3-5: As with centers, the Grow NJ Kids indicators are based on a points system that allows programs to accumulate points in a variety of categories. This allows programs to select their area of focus among each category and dedicate resources to achieve specific indicators.

A star rating of 3, 4 or 5 is awarded to a family child care home based on meeting specific threshold scores on the Family Child Care Environmental Rating Scale (FCCERS) and

points earned by meeting standards across the five categories of GNJK (Level 3 = 19-29 points; Level 4 = 30-40 points and Level 5 = 41-50 points).

The primary cost drivers identified in Levels 3, 4 and 5 were related to professional development activities and additional time needed to create lesson plans, evaluate the children, engage with parents, and implement better business practices.

Other cost drivers identified at Level's 3-5 include:

- Performance-Based Child Assessment this is a set annual expense based on the assessment tool associated with the curriculum selected and is calculated per child at the same rate for each Level 3-5.
- Ongoing cost of educational materials and equipment required to maintain an Environment Rating Scale score of 3, 5 and 7. (See Appendix A for specifics)
- Family Engagement activities

Personnel, Benefits and Professional Development

Unlike child care centers, the cost of operating a family child care home is not largely driven by personnel costs. Since the maximum number of children that can be served at one time in a family child care home is limited

to five, personnel in a family child care home is usually limited to just the provider. Substitutes/assistants may be used if the provider is sick or if the provider needs to attend a training or other off-site activity. Only one home in the study sample reported utilizing an assistant for part of the day. Because assistants are not the norm in NJ, the cost for an assistant was not included in the base scenario for the family child care cost model.

Because insurance costs vary drastically from provider to provider, the calculator does not account for that expense which was a large cost driver in the center based scenarios. The assumption used in the family child care model is that individuals spend \$500 per month on personal benefits, such as insurance, which equates to \$6,000 per year. Therefore, the net revenue was reduced by \$6,000 in order to reflect the actual money earned at the end of the year.

Beginning at Level 3, providers are required to earn their Family Child Care Child Development Associate (CDA). Additional professional development required at the higher levels include training in developmental screening, curriculum, pyramid model, social-emotional health, and additional "formal professional development that builds upon the required training for FCC registration."

Although the acquisition of credentials and college credits is currently supported through New Jersey's Early Learning Challenge Race to The Top grant, this is a time limited grant that is set to expire in December 2017. Providers in the sample reported spending an average of \$250.00 annually for on-going professional development costs which was included in the cost model.

Assumption: The amount of time a provider invests in the family child care program increases with Grow NJ Kids Levels.

The number of hours a family child care provider works was calculated based on the time from when the first child arrives in the morning until the last child leaves for the day. In addition, the number of hours a provider spends conducting child care-related chores when there are no children present such as purchasing food, lesson planning, meal preparation, bookkeeping, cleaning, and hours spent in professional development, are also included to deter-

mine the total number of hours a provider spends per week operating the family child care home.

According to the National Survey of Early Care and Education (2014), regulated family child care providers generally spend an average of 54 hours or more each week in direct care and an additional 10 hours per week on child care related activities when no children are present. Providers in the NJ sample reported spending an average of 67 hours or more each week on both direct and indirect activities.

As was the case with centers, it is assumed that the amount of time a provider spends on their business will increase as quality increases (see Table____)

Table15. Number of Hours per Week Spent on FCC Business

	Grow NJ Kids Levels				
	1	2	3	4	5
Hours Spent per Week	60	62	68	70	72

Revenue

Homes have access to the same range of revenue as centers including private tuition, subsidy, and the Child and Adult Care Food Program. As was the case with centers, private tuition rates used in the cost model were based on rates from Child Care Aware of NJ's 2013 High Price of Child Care study and then adjusted for inflation. Since there were no significant differences between rates for infants versus toddlers, only an infant-toddler rate was calculated.

Assumption: Private tuition rates increase with Grow NJ Kids Levels.

The same methodology used to determine annual tuition costs for child care centers was used to determine the rates for family child care. After reviewing the data col-

lected from the participants and reviewing Child Care Aware of New Jersey's most recent *The High Price of Child Care 2013* report it was determined the information from the market rate survey was the most recent, robust and reliable data. As a result, the average tuition rates for family child care homes reported in 2012 were ranked into the 50th, 60th, 70th, 80th and 90th percentiles and adjusted for inflation as of September 2016. These percentile ranks were used to set rates for Levels 1-5 respectively of the GNJK scale (see table 16).

Table 16. Family Child Care Tuition Rates

	2012 Tuition Rates		2016 Tuition Rat (adjusted for inflation 9/2016)	
Percentile	Infant- Toddler	Preschool	Infant- Toddler	Preschool
50 th	\$151.00	\$132.00	\$157.85	\$137.99
60 th	\$151.00	\$140.00	\$157.85	\$146.35
70 th	\$160.00	\$150.00	\$167.26	\$156.80
80 th	\$170.00	\$155.00	\$177.71	\$162.03
90 th	\$192.50	\$175.00	\$201.23	\$182.94

Assumption: Child care subsidy rates vary only by child age and centers receive the full subsidy amount.

The subsidy rates used in the model are those funded through the federal Child Care and Development Fund, Temporary Assistance for Needy Families (TANF), and state dollars commonly known as NJ Cares for Kids (NJCK) or WorkFirst New Jersey. These rates are dependent on the child's age and have remained unchanged since 2008. The assumption is that centers collect the full subsidy amount for each child receiving the subsidy. Table ____ highlights the current subsidy rate and the estimated cost of tuition at each level of quality.

Table 17. Current Subsidy Rate Compared to Private Tuition Rates

Infant/Toddler		Preschool		
QRIS Level	Private Tuition	Subsidy Rate	Private Tuition	Subsidy Rate
1	\$157.85	\$154.80	\$137.99	\$121.60
2	\$157.85	\$154.80	\$146.35	\$121.60
3	\$167.26	\$154.80	\$156.80	\$121.60
4	\$177.71	\$154.80	\$162.03	\$121.60
5	\$201.23	\$154.80	\$182.94	\$121.60

Data was not available to determine the average number of children receiving a subsidy enrolled per family child care home; therefore, the base model assumed two of the five children in the home received a subsidy.

Assumption: The income range of families served by the family child care provider affects revenue.

The eligibility criteria to receive a subsidy through the federal Child Care and Development Fund, commonly known as New Jersey Cares for Kids or WorkFirst New Jersey, is the same for families seeking a child care center subsidy. At the time of the initial application, a family's income must fall below 200% of the Federal Poverty Level and the family meets work/training requirements. A family's application for the child care subsidy is reviewed annually. At the time of redetermination, as long as the family's income remains under 250% of the FPL and the work/training requirement is met, the family continues to receive the child care subsidy.

As with child care centers, the proportion of children receiving a subsidy and those paying full tuition are variables in the calculator. The composition of tuition and subsidy revenue can be adjusted to model different situations.

Assumption: Family child care providers participate in the Child and Adult Care Food Program (CACFP).

The federal Child and Adult Care Food Program is available for family child care providers and the base model used for the calculator assumed all providers participated in the program. Similarly to child care centers, the nutritious meals and snacks are reimbursed at three different rates: free meals (highest reimbursement rate), reduced-price rate, and the paid meal rate (lowest reimbursement rate).

Size, Age and Efficiency Factors

Assumption: The number of children and the ages served affect revenue.

Family child care providers are permitted to have up to 5 children at one time with only two children under the age of 12 months per the one caregiver. The child care subsidy reimbursement is dependent on the child's age despite the overall ratio for family child care being 1 to 5. As a result, family child care providers receive a higher subsidy rate for infants and toddlers than preschoolers, but are limited in the number of infants and toddlers they can enroll which impacts the subsidy revenue stream.

Although the age and number of children enrolled in a family child care home impacts the revenue, it is not as dramatic as with child care centers simply because the ratio and group size is much smaller in family child care homes.

Assumption: Full enrollment and timely collection of all revenue are essential to a program's financial stability.

Similarly to child care centers, the financial stability of a family child care home is dependent on full enrollment every day, the timely collection of tuition and fees, and annual revenues that sufficiently cover annual expenses.

The enrollment efficiency and "bad debt" of a family child care home are variables in the calculator and can be altered to reflect different situations.

Non-personnel Expenses

Direct expenses for homes somewhat mirror those in the child care centers and include items such as education supplies and materials, food, office supplies, telephone and internet, advertising, and licenses/permits. Providers are required to purchase their own benefits such as health care, life insurance and pension. Actual expense data collected from the sample was used to inform the cost model.

As a home-based business, the provider also considers part of the expenses of the home (i.e rent/mortgage, property taxes, renters/homeowners insurance, utilities, home maintenance) as a business expense. The share of these expenses that is attributable to the family child care business, called the 'time-space percent' for federal income tax purposes, is based on the proportion of space in the home used for child care and the number of hours per week during which children are present.

Providers in the study group reported using an average of 50% of their homes for child care and an average of 67 hours per week that the home is used for child care. This results in a time-space percent of 40% which was applied to the shared expenses.

Assumption: Scores on the Family Child Care Environment Rating Scales are related to the presence of specific items such as books, science materials, gross motor equipment, etc.

Higher scores on the FCCERS-R result in more points accrued on the Grow NJ Kids scale. Family child care providers may have upfront costs associated with purchasing the specific items, but the ongoing cost to replace the

items as needed is included in the annual material/supply cost in the calculator.

Assumption: Maintaining Levels 3, 4, or 5 requires using a child assessment system.

Beginning at Level 3, the model includes the cost of a child assessment system. This rate was set at \$35.00 per child which represents the average per child cost in most assessment systems.

Base Scenario

The PCQC requires the user create a "base scenario" which reflects the typical family child care program in New Jersey. For the purpose of this study, the base scenario incorporated the assumptions mentioned above into the model and also assumed the provider was caring for 1 infant under 12 months, 2 toddlers ages 12-30 months, and 2 preschoolers over 30 months old. Enrollment was set at 85% and bad debt at 3%. It was also assumed that the number of children receiving the subsidy was set at 2 and the program was participating in the Child and Adult Care Food Program (CACFP).

Findings

1. The typical family child care provider is making a minimal profit at the end of each year.

As illustrated in figure 16, family child care providers make a minimal profit at the end of the year.

Figure 16 Net Annual Revenue by Quality Level.

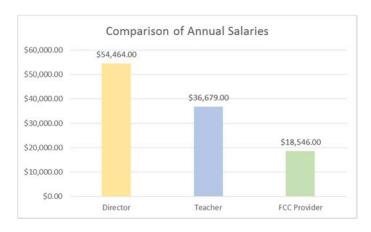


Determining the level of sustainability in a family child care home is drastically different than assessing the sustainability in center-based programs. As illustrated in the first section of this report, center-based programs are operating at a loss each year as the programs climb the levels of Grow NJ Kids. Although family child care providers are not losing money each year, the amount of time spent on their business increases which negatively impacts their hourly rate.

One method of determining the financial sustainability of a family child care provider is to compare the net revenue with the salary of a director and/or teacher of a child care program. The second method is calculating the hourly wage of a family child care provider which looks at the total hours worked per year and the net revenue.

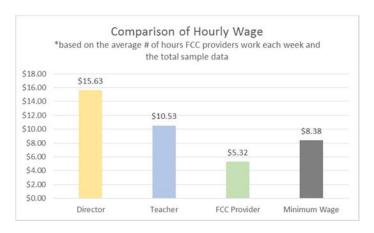
Figure 17 represents data from the study's total sample. The director and teacher salary are the average salaries reported for those positions in center-based child care programs while the family child care salary is the average net revenue reported by the family child care provider sample. As anticipated, family child care homes are making an annual salary that pales in comparison to their counterparts in child care centers.

Figure 17. Comparison of Annual Salaries



Utilizing the second method of determining the sustainability of a family child care program, the net revenue of a family child care home was divided by the average total number of hours the family child care providers reported they worked each year. As mentioned earlier, the sample reported that the providers spent an average of 67 hours per week on their program which equates to 3,484 hours per year. The average number of hours per year (3,484) was then used to determine the hourly wage of the family child care provider and the hourly wages of the director and teacher. As anticipated, the hourly wage of family child care providers is significantly less than their counterparts in center-based programs, but also do not even reach New Jersey's minimum wage requirement. Figure 18 illustrates the great discrepancy in hourly wages.

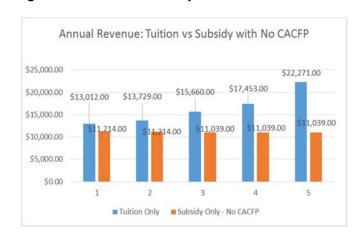
Figure 18. Comparison of Hourly Wages for Child Care Professionals



2. When the number of children receiving a child care subsidy increased, the net revenue of the program decreases at the higher levels of GNJK.

The base scenario was then modified to explore variations in the composition of the revenue streams. Figure 19 examines the impact of the participation in the child care subsidy program and *no* participation in the Child and Adult Care Food Program (CACFP). As expected, the family child care provider's net revenue is affected dramatically and providers make an exceptionally low profit at the end of the year.

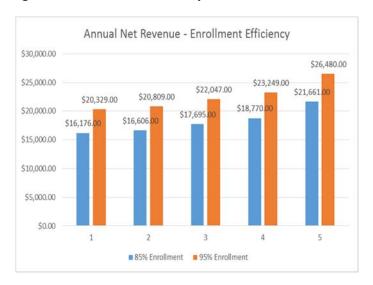
Figure 19. Tuition vs Subsidy



3. Maximizing enrollment and minimizing bad debt can help centers sustain quality.

Similar to the outcome in center-based programs, family child care providers who are able to mitigate the factors of the "Iron Triangle" by maintaining full enrollment and limiting bad debt are able to increase their net revenue at the end of the year. Figure 20 looks at the base model with 85% enrollment compared to 95% enrollment.

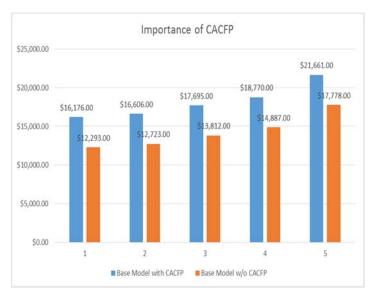
Figure 20. Enrollment Efficiency



4. Participation in the Child and Adult Care Food Program can impact a family child care provider's net revenue.

Figure 21 examines the importance of participating in the Child and Adult Care Food Program. The base model was used to compare a family child care program that participates in the program with a home that does not participate. Providers stand to gain close to \$4,000 annually from the federal program which helps offset the cost of providing food to the children.

Figure 21. Importance of CACFP



Conclusion

Results indicate that at current funding levels, most early care and education providers will not be sustainable at the higher levels of Grow NJ Kids, which is the States definition of quality. For programs that provide care for large percentages of children, whose families receive a child care subsidy, attaining quality is even more difficult. Additional funding as well as changes to current policy are needed to ensure a sustainable high quality child care system in New Jersey.