



March 2024

Putting the Pieces of the Family Child Care Puzzle Together: Budgets, Rate-Setting, and Sustainability

By Rebekka Zydell, Leadership and Educational Consultant

New Jersey cannot afford to lose even one family child care (FCC) provider as access to high-quality child care is more challenging for parents today than before the COVID-19 health emergency. Staffing shortages and rising expenses make it increasingly difficult for FCC providers to keep their doors open, requiring these business owners to draw on all professional and personal resources to stay afloat. Despite the critical role FCC providers play in children's development and parents' ability to maintain employment, public supports designed to help them thrive are missing an essential piece: they do not address the unique characteristics of FCC, such as sole proprietors, microbusinesses, unstable housing situations, low-profit margins, market limitations, and fluctuating revenue (Adams & Hernandez-Lepe, 2021).

The FCC business model has left the child care industry and invested stakeholders puzzled, wondering why, given the investment of resources, FCC providers are still battling financial woes. Why is the goal of stability yet to be actualized? What more is needed? The FCC business model is complex, and the variation in business skills among providers is vast. Business and administrative operations are essential to quality early care and education (ECE) programs (Stoney & Blank, 2011). Running ECE programs involves substantial knowledge about small business operations, including internet technology, billing, accounting, enrollment services, facilities maintenance, and human resources. Establishing and maintaining business operations of ECE programs enables ECE providers to build business capacity, improve job quality, retain talented staff, deepen community engagement, enhance quality, and promote long-term sustainability (Opportunities Exchange, 2019).

Better Understanding the Needs of the Family Child Care Community

Advocates for Children of New Jersey (ACNJ) set out to understand what makes FCC uniquely different from traditional small businesses and identify training and technical assistance strategies that best align with the FCC business model. Building on the work done in October 2023 to assess the impact of federal COVID-19 child care funding, ACNJ worked with a small group of seven registered FCC providers who are leaders in their community, have significant experience operating an FCC business, and have had previous FCC business training. ACNJ held a three-hour FCC business session focused on four components: household budget, business budget, calculating the cost of child care, and tuition rate-setting. Combining lessons learned from industry experts, participating FCC providers lent their

firsthand experience to ensure the nuisances of their business were appropriately addressed. The aim was twofold: to provide anticipated business training based on lessons learned from the ARP Stabilization Grant application, distribution, and record-keeping process, and to learn from experienced FCC providers about their unique needs to identify gaps between traditional small business training approaches and the FCC business model.

The seven participating FCC providers were from the state's northern, central, and southern areas; all were women and represented racial/ethnic minority backgrounds. In regards to their highest educational level, two had some college or no degree, two had an associate's degree, two had a bachelor's degree, and one had a master's degree. Five of the seven providers have been in the business for more than 20 years, one provider had been in business between 15 to 19 years,

and one had been in business between five and nine years.

The session was held via Zoom on a weekday evening. A pre-survey was distributed at the start of the session, zoom polls were used throughout, and a post-survey was distributed at the conclusion. A PowerPoint presentation highlighted the unique business characteristics of FCC, and implications were discussed.

How FCC Providers Perceive Their Work

Understanding the attitudes and perceptions of FCC providers offers context for their broad range of business acumen. When we asked providers to rank in order of importance the reason they cared for children, “a way to help families” outranked “a way to earn an income,” yet 100% of respondents perceived themselves as running a business. The survey responses indicate that FCC providers often consider the needs of enrolled families before their own business needs.

“I’m an LLC and I don’t draw a paycheck for myself.” —FCC Provider

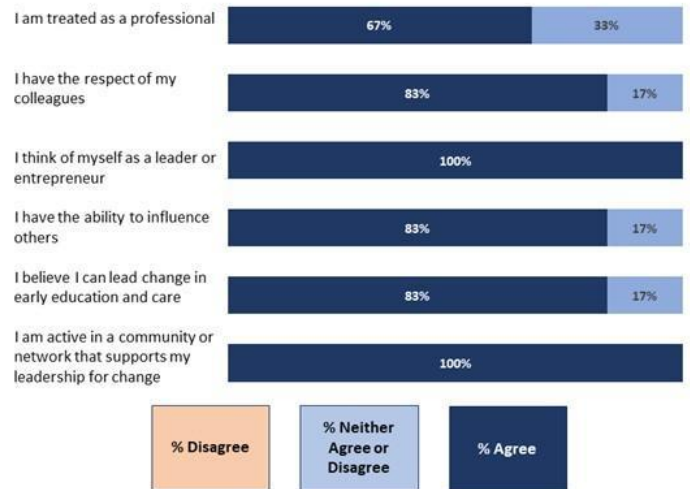
Leadership Mindset

In addition to identifying the need to increase knowledge of business and administrative skills, ACNJ set out to assess the leadership mindset of FCC providers. A leadership mindset promotes self-efficacy as leaders and entrepreneurs, which increases the capacity to take risks and try new practices (Douglass 2017, 2018). Participating FCC providers reported high levels of agreement with leadership status, demonstrating they are growth-minded and primed to initiate change and adopt new strategies. Thinking “outside the box” is necessary for improving competencies.

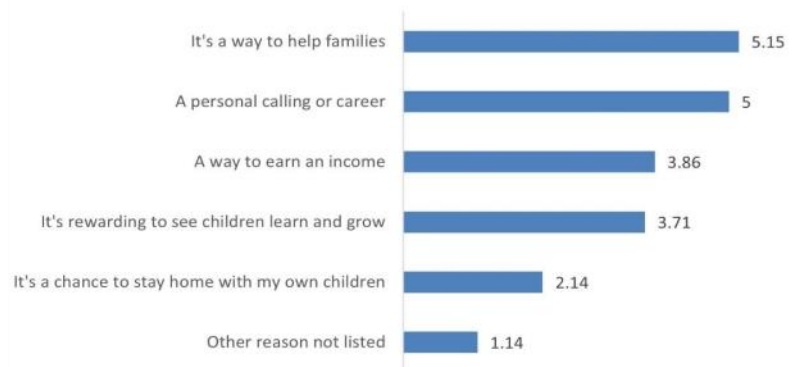
Budgeting and Tuition Rate-Setting

Findings from ACNJ’s previous work suggest that FCC providers often encounter challenges associated with business acumen and skills, such as budgeting and tuition rate-setting. An inventory of these FCC provider business resources reveals that most providers have a business plan and household and business budgets.

FCC Focus Group Participants Report High Levels of Leadership Mindset



FCC Focus Group Participants Rank the Reason They Care for Children



However, there appeared to be a disconnect between budget planning and implementation. Most need to implement these items or skillfully apply the information garnered to their business decision-making process.

Furthermore, none of the participating providers have a business coach. The absence of a business coach suggests that despite initiatives to work with home-based child care providers, most providers still need formal quality improvement support. “Individualized services such as in-home, on-site coaching, and consultation are hypothesized to be core elements of high-quality support to home-based child care. Unlike center-based child care providers, who work under the guidance of a director or supervisor, most home-based providers work alone and may benefit from the support and guidance of one-on-one visits to their homes” (Bromer & Korfmacher, 2017).

Inventory of FCC Focus Group Participants' Business Resources

No		Yes
XXXX	I have a business plan	✓✓✓
XXXXX	I am implementing a business plan	✓✓
XX	I have a household budget	✓✓✓✓✓
XXXX	I am implementing a household budget	✓✓✓
XX	I have a business budget	✓✓✓✓✓
XXX	I am implementing a business budget	✓✓✓✓
XXXXXXXX	I have a business coach	

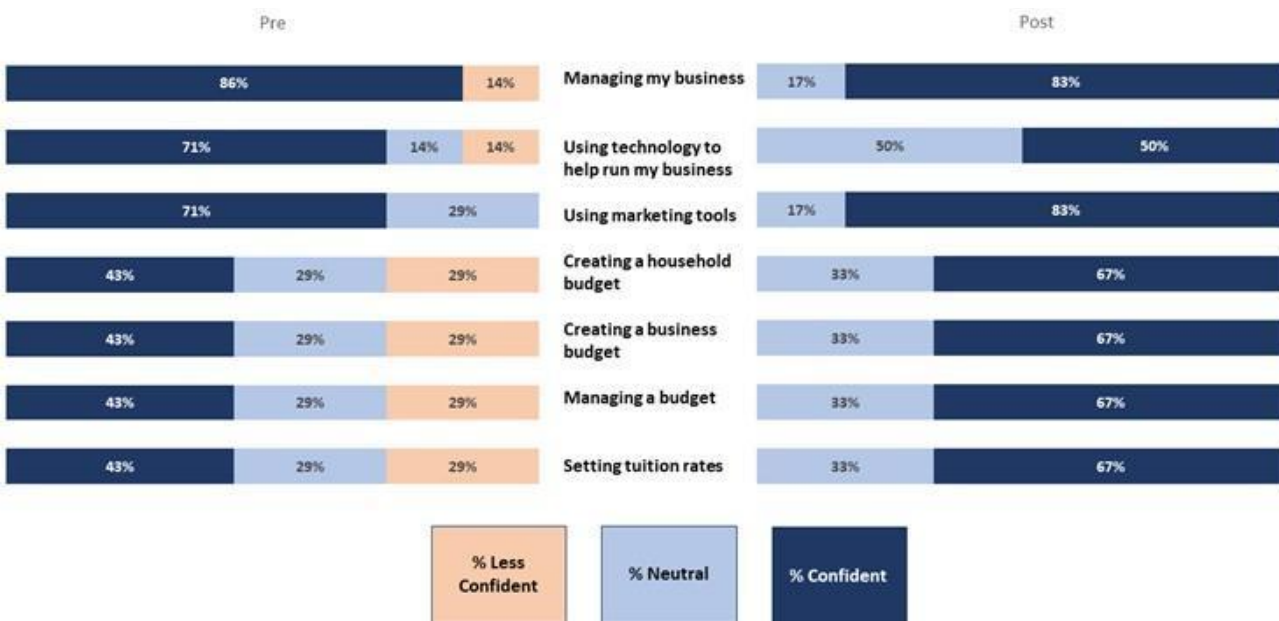


Inexperience with budgeting and tuition rate-setting directly impacts the stability of programs by making them financially fragile. ACNJ assessed provider confidence in business management, using technology, marketing, creating a household budget, creating a business budget, managing a budget, and setting tuition rates. No participating family child care provider reported feeling less confident after the three-hour business training session—evidence that for experienced providers, this strategically designed session was influential in advancing knowledge.

Appraising FCC providers' prior training revealed that most had previous FCC business budget training.

However, many did not have previous training with regard to household budget or establishing tuition rates. The lack of training suggests a need to increase knowledge of the business aspects of ECE programs essential to operating FCC programs, including household budgeting. It calls for innovative approaches to small business training as an FCC provider's household budget is intricately tied to their business budget and tuition rate-setting strategy.

Pre and Post Business Training Results: FCC Focus Group Participants Report Gains in Confidence



FCC Focus Group Participants' Prior Training

No		Yes
	Have you had previous family child care business budget training?	
	Have you had previous household budget training?	
	Have you had previous training on how to establish tuition rates?	

Impressions and Recommendations

The training session with FCC providers confirmed two things: (1) a one-size-fits-all approach to business training is ineffective, and (2) traditional small business supports are not seamlessly transferrable to the FCC business model. Even with a small group of seven FCC providers, all had

different experiences, skills, resources, knowledge, and needs. The provided business tool was designed with a three-tiered approach to developing household and business budgets and tuition rate-setting strategies. Based on the good-better-best system, meaning each option is more expansive than the previous, this approach meets providers where they are in their fiscal and business knowledge journey and gradually expands their depth and breadth of financial skills a little at a time to minimize the often daunting and overwhelming task. Adopting a similar approach statewide will ensure that all FCC providers, regardless of their background, receive the business training and technical assistance needed to stabilize and advance their program.

“I don't think they've ever given us something with a breakdown like that. The fact that you can see how much you make per hour for how many children, if you don't have enough children because if you have 2 infants, you're not allowed to have the other three. So that will give you an idea you have to charge the infants this amount of money to make up for the loss.” —FCC Provider

The Business Tool

An FCC business tool was developed by leveraging existing resources, consolidating them into an Excel workbook, and organizing them so that FCC providers could easily identify how each is intricately tied to the other. The tool focuses on five items: (1) household budget, (2) business budget, (3) time-space calculator, (4) cost of care calculator, and (5) rate-setting calculator. The household and business budget templates also offer tiered options based on the good-better-best system.

In evaluating the helpfulness of the business tool provided, participating providers unanimously found all aspects of the tool helpful. FCC providers appreciated the comprehensive explanation of how their household budget intricately ties to their business budget, which determines the cost of care and influences how tuition rates are set. When asked what the most helpful concept or idea was gained from the session, responses included “better ideas at budgeting,” “how everything is so easily divided,” and “ratios, income, cost, salary, rates, budgeting, and space were excellent.” Based on the knowledge gained from the session, participating providers reported they would use the business tool to create budgets, set rates, and be more organized.

Helpfulness of Tools Used According to FCC Focus Group Participants

NO		Yes
	Do you think the household budget tools are helpful?	
	Do you think the FCC Business Budget tools are helpful?	
	Do you think the Child Care Cost Calculator is helpful?	
	Do you think the FCC Rate Setting Tool is helpful?	

A focus on establishing an accurate household budget is critical to the FCC business model. Unlike child care centers, FCC providers operate out of one's home. Expenses such as rent or mortgage, utilities, insurance, transportation, food, technology, taxes, health care, and savings directly impact how much a provider needs to earn to maintain their household. An FCC provider's household budget works in tandem with their business budget, and according to training participants, this unique connection is one of the missing pieces of the FCC business training and technical assistance puzzle. Expanding FCC provider business training and technical assistance to include household budget development will go a long way toward stabilizing the sector.

"I like the Excel template that I can just plug numbers in. I am a pencil and paper person. I can plug numbers in but if I had to create that I couldn't have. That alone was extremely valuable." —FCC Provider

FCC providers identified a training and technical assistance gap in directly correlating budgeting, calculating the cost of child care, and setting tuition rates. FCC providers often accept the state child care assistance rate as payment in full regardless of the actual cost of child care. Furthermore, FCC providers are caught in a culture of rate-setting by age rather than by capacity. State ratios, another unique difference from traditional small businesses, strictly limit the number of children an FCC provider can care for. This limitation significantly impacts the revenue a provider can generate. Revenue can be further impacted if state child care reimbursement rates are based on attendance instead of enrollment.

"The rates, the way they come up with the rates is a subsidy thing. The subsidy rate is what the state is willing to pay per child per age. It doesn't necessarily mean that's what it costs. It's just that FCC educators are not aware that, because I wasn't aware at the beginning that, I thought that they were telling me how much to charge. When in fact that's not what it is. That's the maximum that they subsidize for the children. Not necessarily what the cost of child care is so, I think that is where the numbers came from, and I've always questioned why the difference. You have to charge the same amount of money because you're charging per spot. But a lot of providers think that's them telling them how much they should charge." —FCC Provider



Establishing Tuition Rates

The final piece to the puzzle is establishing tuition rates balanced with what paying families can bear and what programs are needed to maintain financial stability. This training and technical assistance must be tailored to the individual provider's needs. Enrollment is unpredictable, making contingency planning critical. How to use budgets to calculate the cost of care, interpret market rate data, set tuition rates, and establish a reserve account are all vital components that must be taught in tandem.

"Day care centers get more money than family child care providers. That's where the gap is because they are able to charge the difference between the state subsidy amounts. When we charge parents the difference, it is almost double, and that's where it becomes a problem. Even if we wanted to charge what we're supposed to charge, we can't because subsidy only gives us a certain amount, and it is so low compared to centers that the difference is just ridiculous. And it's only because they serve the community with more children. But it doesn't make any sense because they can't serve all the children. That gap is what causes the problem." —FCC Provider

Providers highlighted the stark differences between child care centers' resources and FCC's available resources.

Regulations limit FCC providers. Ratios, child care reimbursement rates, child and adult food program reimbursement rates, and the state's quality rating and improvement system, Grow NJ Kids, directly impact their ability to grow revenue. Developing training and technical assistance programs in partnership with experienced FCC providers, Child Care Resource and Referral organizations, and microbusiness professionals is essential for ensuring resources are relevant, practical, and effective.

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