COST OF CARE MODELING PROJECT METHODOLOGY

DEVELOPED BY

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BACKGROUND

There are significant costs associated with providing high-quality child care. These costs must be balanced with keeping child care programs affordable for parents. To do this, providers are faced with tough choices on how to finance quality care while keeping programs accessible for families.

Addressing these financial tradeoffs has been an area of focus at the national and state levels for a number of years. Nationally, the federal Office of Child Care developed a "Cost of Quality Care Calculator" to help policy makers, state child care agencies, researchers and community partners better account for and model the financial impacts of various indicators of quality child care programs. While the Cost of Quality Calculator is still available, the federal government is undertaking a new project to develop an updated tool to support this line of inquiry, with a target completion date in 2019. In Vermont, Vermont Birth to Five and the Vermont Community Loan Fund have been providing technical assistance to child care providers to support them in developing sound business models while also improving quality.

In response to the need to be able to provide more information on this issue, Let's Grow Kids, Vermont Birth to Five, and the Vermont Community Loan Fund formed a work group to analyze how different child care providers balance these competing costs, and what a child care program would look like, financially, if the program implemented national and state best practices.

OVERVIEW

The cost of care work group developed three different models for home-based providers and center-based providers to demonstrate how adjusting key factors such as tuition rates, staff wages and benefits, and whether a program offers food can result in different financial outcomes for a program:

- Level 1 Models:
    - These models provide an averaged snapshot of the current experiences of Vermont child care providers. To develop both the home-based and center-based Level 1 models, the work group reviewed financial information from 3, 4 and 5 STAR child care programs in Vermont, some with national accreditation through the National Association for the Education of Young Children (NAEYC) or the National Association for Family Child Care (NAFCC).
- Level 2 Models:
    - Adjustments in this model focus on better supporting staff and strengthening business practices and how these adjustments impact revenue factors.
- Level 3 Models:
    - These models demonstrate what happens to a program's budget when a large number of best practices associated with quality programming are implemented.

Overall, these models demonstrate that as a program integrates more best practices, costs increase, necessitating an increase in revenue (tuition) to off-set rising expenses.

METHODOLOGY

All of the models were developed based on the assumption that the program has 4 or 5 STARS and/or national accreditation under Vermont's current quality rating and improvement system called STARS (STep Ahead Recognition System).

To evaluate the cost of providing quality care in Vermont, the work group reached out to center-based and home-based providers to obtain program budgets, tax returns and other financial data to inform the project.

After standardizing the program financial information, the group used the federal government's Cost of Quality Care Calculator to evaluate program expenses against nationally-established best practices for core budget areas. The group also identified key elements of quality, based on STARS and components of quality highlighted in national accreditation by groups like NAEYC and NAFCC.

Models were then developed to represent the primary sources of revenues and expenses for high-quality child care programs in Vermont. Line item figures are based on the experiences of programs currently in operation in Vermont and on industry best practices identified through a variety of sources (including the national Child Care Cost of Quality Care Calculator, STARS best practices, etc.).

Center-Based Program Models

All of the models assume a center-based program that serves 50 full-time children, of whom 25% are eligible for tuition assistance through the Child Care Financial Assistance Program (CCFAP) and free or reduced meals through the Child and Adult Care Food Program (CACFP). The models also assume that the program is 4 or 5 STARS and is a prequalified Pre-K program.

These models also assume that children receiving tuition assistance through Vermont's Child Care Financial Assistance Program (CCFAP) are not asked to pay the difference between the CCFAP tuition assistance rate and the full tuition rate for the program (often referred to as a co-pay). This decision results in a financial loss for the program for CCFAP-eligible children.

All of the models also assume that the program owner is also the program director and that program staff have received training or formal education in line with STARS standards.

Home-Based Program Models

All of the models assume a 5 STAR, prequalified Pre-K, home-based program that serves 6 full-time children and 3 part-time after-school children. It is assumed that 25% of the program's children are eligible for tuition assistance through the Child Care Financial Assistance Program (CCFAP) and free or reduced meals through the Child and Adult Care Food Program (CACFP).

These models also assume that children receiving tuition assistance through Vermont's Child Care Financial Assistance Program (CCFAP) are not asked to pay the difference between the CCFAP tuition assistance rate and the full tuition rate for the program (often referred to as a co-pay). This decision results in a financial loss for the program for CCFAP-eligible children.

It is also assumed that the provider has some formal training in early childhood care and learning but has to contract with a licensed teacher to offer a prequalified Pre-K program.

Key Assumptions and Caveats:

In addition to the assumptions and caveats stated above, there are several caveats that should be accounted for when reviewing this analysis.

- **Revenue:**

- **Tuition**
  - This assumes the program collects full tuition for every child. Differences between full tuition rates and payment received by the program for children receiving tuition assistance through the Child Care Financial Assistance Program (CCFAP) are noted in the expenses section of the budget.
    - The preschool tuition rate represents programming exclusive of state-funded Pre-K.
  - Tuition also includes the amount the program would receive from the state, $3092, for Pre-K for eligible children. This amount has been annually adjusted across all months for the sake of modeling.
- **Registration Deposits**
  - We assume that the program experiences annual turnover equivalent to half of the program's preschool population. We assume that incoming families would be asked to pay a waitlist or registration deposit to hold their spot that is not applied to the child's monthly or annual tuition. We also assume that those children eligible for CCFAP/CACFP would be granted a registration deposit waiver.
- **Food Program Revenue**
  - The models assume that the program participates in the Child and Adult Care Food Program, which provides free or reduced meals for eligible children. We assume that 25% of half the infant group (half of those between the ages of 13 months and 23 months), 25% of toddlers, and 25% of preschoolers would be eligible for CACFP reimbursement. The model also assumes that half of the CACFP eligible children qualify for the CACFP free meal rate and half qualify for the reduced meal rate. Based on 2015–2016 CACFP rules, the program would receive $5.57 per free meal rate eligible child per day, $4.45 per reduced meal rate eligible child, and $0.65 per non-income qualifying child for breakfast, lunch and one snack.
  - Food program revenue is adjusted to reflect vacation days.
  - Home models assume the provider does not participate in CACFP.
- **Grants/Fundraising**
  - Some programs receive grant funding or hold fundraisers to support their budgets, particularly non-profit child care programs. These models do not include additional grant or fundraising income.
- **Other Revenue**
  - This could include loans or other sources of income for the program.

- **Expenses:**
  - **Salaries**
    - The salary line items are broken down by the staff's primary role – classroom or center-wide support. The salary information included in this section accounts for gross salaries. We assume that all applicable taxes would be paid by the program as part of standard payroll procedures.
  - **Employee Benefits and Expenses**
    - Health Insurance: Some models include health insurance
    - Worker's Compensation: Estimated at 1.45% of Gross Salaries
    - Retirement Contribution: Some models include retirement account contributions
      - For center models, the models assume employer matching contributions
      - For home models, it is assumed the percent shown is how much the provider contributes to the account
    - Reduced tuition for employee children: All of the models assume that the programs offer a 25% discount on tuition.
  - **Training and Professional Development**

        - Professional development is an important resource for child care providers. Program allocations for professional development increases across the cost models.
    - **Travel and Transportation**
        - This line item includes expenses such as travel for program field trips, vehicle maintenance and repair, and staff mileage reimbursement for work-related travel, including travel to professional development workshops or trainings.
    - **Staff Wellness and Team Development Activities**
        - This line item includes expenses to foster a healthy, collaborative workplace such as providing a meal at a program's monthly staff meeting, hosting a staff and family holiday party, etc.
    - **Rent**
        - Rent was estimated based on allowance of 75 square feet of space per child (combines individual space – space immediately around a child – and shared spaces such as kitchen facilities, bathrooms and hallways). The center-based models assume that most programs are able to rent space at the rate of $17 per square foot.
    - **Telephone and Internet**
        - The monthly cost listed in all center-based models is based on Comcast's small business telephone and internet bundle plus applicable taxes and fees.
    - **Utilities and Services**
        - Costs include utilities such as electricity and/or gas or other heating fuel, and services such as trash removal, lawn care, and snow removal.
    - **Cleaning and Maintenance**
        - Cleaning and maintenance fees assume that the program contracts with a cleaning service to clean the full facility.
    - **Liability Insurance**
    - **Debt Service**
        - Many programs take out loans to make capital expense purchases. This line represents an average monthly payment amount for a child care program.
    - **Accounting and Legal**
        - These expenses include payroll service, taxes, and any necessary legal consultation.
    - **Advertising and Hiring Ads**
        - Expenses include things such as hiring ads (particularly for the Level 1 and 2 models due to low wages, which result in high turnover) and advertising for the program.
    - **Office Supplies and Equipment**
        - Includes items such as leasing a copier, toner, office paper, pens, etc.
    - **Food**
        - This line includes only the cost of food items and excludes labor costs associated with food preparation (salary information for a cook is included in the Center-Wide salary line). Food expenses are estimated at $7 per child per day and includes breakfast, lunch and one snack. Some programs spend more than this each day, especially if the program provides organic, locally sourced food options.
        - Food expenses are adjusted to reflect vacation days.
    - **Educational Supplies and Equipment**
        - These expenses include classroom supplies such as paint, paper, markers, crayons, etc. as well as resources such as Teaching Strategies GOLD materials, a progress evaluation tool used by prequalified Pre-K providers, and other programming resources used by higher STARS recognized programs such as Strengthening Families resources.
    - **Repairs to Program-Owned Equipment**

        - Assume this covers non-facility repairs to things such as play equipment, furniture, etc.
    - **Allowance for bad debt and vacancy**
        - It is best practice to estimate 3% per month. This includes all classrooms plus the annually adjusted Pre-K payment. Pre-K payment is included to account for losing part of a payment if a child transfers to another program or drops out of the program.
    - **CCFAP Loss**
        - As noted in the overview, the models assume the program does not ask families to pay the difference between the CCFAP tuition assistance rate and the actual tuition rate charged by the program.
        - CCFAP allows programs to code up to 15 closed days a year as part of standard operations, which matches with the program operations calendar provided in each model. We assume that any additional days the program is closed due to circumstances such as inclement weather that result in any additional losses due to not receiving CCFAP payments are accounted for in the allowance for bad debt and vacancy line.
    - **Capital Expense Fund**
        - A best business practice is to set aside funds for future capital expenses such as new play equipment, renovations, etc.
    - **Miscellaneous Expenses**