CHILD CARE FUNDING & FINANCE IN PENNSYLVANIA:

Budgeting for Survival or Paying for the True Cost of Quality?

EXECUTIVE SUMMARY

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Efforts underway to expand access to high-quality child care and pre-K programs in Pennsylvania are aimed at improving school readiness for low-income children and mitigating the wide achievement gaps that plague them in the later grades. In order for those efforts to be successful, more early education providers must have the capacity and financial stability to serve children in high-quality settings. But what does it really cost to provide high-quality care, and are the reimbursement rates for public programs that allow providers to serve low-income children adequate to support quality? If not, what sacrifices are made?

Because there is no statewide data on provider finances, little is known about the true cost of high-quality child care and how high-quality Pennsylvania providers are currently making ends meet. As a first step towards filling in these knowledge gaps, Research for Action (RFA) studied how six early education providers of different shapes, sizes, and community contexts from across the Commonwealth financed high-quality child care.

SAMPLE & METHODS

Our small but diverse sample was made up of:

- Two large urban sites, one small urban site, one suburban site, and two rural sites;
- Three non-profits and three small business; and
- One faith-based organization.

Interviews with directors and staff at the six centers yielded important findings on existing best practices in finance and common challenges to paying for quality. Four participating providers also shared their audited financial statements and internal budgeting documents with us, allowing for site-specific budget snapshots, as well as some financial analysis across sites.

FINDINGS

Our findings identified how high-quality providers budget for quality and maximize their current funding, as well as the sacrifices they're often forced to make in the process. High-level findings include the following:

- **Infant and toddler care is more expensive to provide than pre-K or school-age care.** The cost of care is primarily driven by mandated ratios at each age level, and infants and toddlers require substantially more supervision and lower ratios. Across the four sites that provided financial data, the cost of care was 2.74 times as great for infants as it was for school-age children.
- **Current revenue streams and reimbursement rates are inadequate to support the care of infants and toddlers.** In Pennsylvania, reimbursement rates for Child Care Works (CCW), the only revenue stream that funds care for low-income infants and toddlers, are often inadequate to cover the true cost of care. Even with tiered reimbursement rates, all providers in our sample brought in less daily revenue per infant than they spent daily on the average infant's care. For every infant served, centers in our sample face a shortfall of more than one third (38%).

- **Providers are opting to serve more preschoolers.** To offset this high cost gap and make ends meet, providers often opt to serve more pre-K children than infants and toddlers and maintain school age programs which may help subsidize the true cost of infant and toddler classrooms.
- **Compensation in child care centers is far lower than in public school districts.** In the absence of adequate state funding, centers are not able to provide all employees with benefits or pay their lead teachers on par with similarly qualified staff at local school districts, leading to heavy turnover and the hiring of less qualified staff. Given research that emphasizes the importance of teacher quality and adult-child interactions for positive child outcomes, this should be very troubling to state policymakers interested in expanding access and improving quality in early learning.

POLICY IMPLICATIONS

- **Without increases to the Child Care Works (CCW) subsidy base rates, providers will continue to face a serious disincentive to serving more infants and toddlers in high-quality settings.** Child care subsidy is the only public funding stream supporting care for low-income infants and toddlers, and reimbursement rates have been stagnant for over ten years.
- **Braiding funding from multiple public programs to serve pre-K children requires financial acumen and creates an administrative burden on providers.** While braiding funding for pre-K programs is essential to maximizing revenues and covering the cost of care, it is not a cost-neutral strategy. Policy should recognize and compensate for the additional expertise needed as well as the administrative burden of braiding funding and maintaining integrated classrooms.
- **Working towards a child care workforce with higher degrees and worthy wages is essential, but complicated.** Policy efforts to systematically increase wages for early educators have primarily focused on raising degree requirements for teachers in public pre-K programs. By requiring that lead teachers be certified and compensated accordingly, states hope to raise the quality bar and curb staff turnover. Of course, centers employing certified pre-K teachers face a new and unintended challenge in hiring and keeping strong staff: They must directly compete with public school districts, most with exponentially greater resources. Policy efforts have also largely ignored teachers who work with infants and toddlers, in many cases receiving dramatically different pay than their counterparts in pre-K for similarly rigorous work.
- **Fee-for-service payment creates fiscal instability for providers.** The amount of resources centers receive from child care subsidy, in particular, is prone to unexpected changes in enrollment that mean providers may earn less revenue than they anticipated during budgeting. Contracting annually with providers for slots rather than paying on a fee-for-service basis would help ensure more financial stability for providers.
- **Child care providers are working within a broken business model.** Most child care directors are former educators with very little training in running a business, yet they

are asked to manage program budgets based on a complex web of funding streams. Not only are providers not well-equipped to handle that task, they are operating within the confines of a unique and limiting business model. Child care centers are providing a service whose true cost outpaces what consumers in the market can pay. If policymakers are serious about valuing early care and education, they must consider ways to address this untenable tension between the outcomes they want and what it costs to deliver those outcomes.

- **More statewide data collection is needed.** Several states have used a national tool called the Provider Cost of Quality Calculator (PCQC) to estimate average cost at different quality levels and explore whether rates are incentivizing or dis-incentivizing providers from improving quality. The PCQC could be used to collect statewide data on what high-quality providers spend. However, this data will not document the gap between what providers currently spend and the true cost of providing high-quality care. Since 65-80% of provider budgets are spent on personnel and staff are chronically underpaid, any true cost of quality or "adequacy" estimate should also build in salaries on par with local elementary schools for those staff members with the same degrees.

Ultimately, in Pennsylvania's mixed-delivery system, roughly 50% of high-quality, public pre-K slots are delivered in private child care settings. Policymakers interested in boosting school readiness and narrowing achievement gaps should understand that further pre-K expansion depends on a viable, high-quality child care sector and a well-supported workforce to power its impact.

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