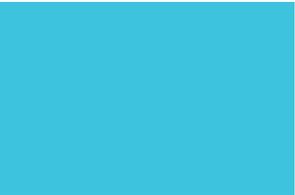




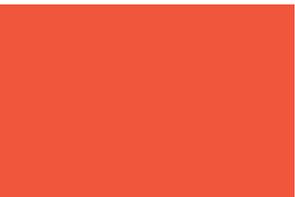
# CHILD CARE FUNDING & FINANCE IN PENNSYLVANIA



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



Prepared by **Research for Action** • June 2017  
Della Moran • Joshua Lin • Ashley Campbell • David Lapp



RESEARCH  
for ACTION

## ABOUT RESEARCH FOR ACTION

Research for Action (RFA) is a Philadelphia-based nonprofit organization. We seek to use research as the basis for the improvement of educational opportunities and outcomes for traditionally underserved children and students. Our work is designed to strengthen early education, public schools and post-secondary institutions; provide research-based recommendations to policymakers, practitioners, and the public; and enrich civic and community dialogue. For more information, please visit our website at [www.researchforaction.org](http://www.researchforaction.org).

## ACKNOWLEDGMENTS

This report was funded with generous support from the **Heinz Endowments**. The Heinz Endowments supports efforts to make southwestern Pennsylvania a premier place to live and work, a center for learning and educational excellence, and a region that embraces diversity and inclusion.

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**Research for Action (RFA)** would like to thank the **Pennsylvania Office of Child Development and Early Learning (OCDEL)**, for providing data and insight into Pennsylvania's complex child care landscape. In particular, we are grateful for the support of Suzann Morris, OCDEL Deputy Secretary; Becky Mercatoris, Director of the Bureau of Early Learning Services; Sue Polojac, Director of the Race to the Top Early Learning Challenge Grant; and Terry Shaner-Wade, Director of the Office of Bureau of Subsidized Child Care Services. We would also like to thank the **BUILD Initiative** and State Services Director, Gerry Cobb, for her guidance and expertise.

Thank you to the many members of the RFA team who contributed: David Lapp, Josh Lin, Ashley Campbell, Megan Morris, and our intern, Nadia Harden.

Many local early education experts also helped to inform our research design and finished product: Diane Barber of the Pennsylvania Child Care Association (PACCA), Tyrone Scott and Drew Martin of the Delaware Association for the Education of Young Children (DVAEYC), and early learning consultant Amy Friedlander.

This report would not have been possible without the cooperation of six high-quality child care providers from across the state who opened their doors to us and shared their experiences budgeting for the cost of care. Special thanks to the four extraordinary women who also generously shared their center's financial documents and agreed to be highlighted in our case studies: Mary Graham of Children's Village, Ann O'Brien of Montgomery County Early Learning Centers, Jo Marie Henry of Bullfrogs and Butterflies, and Sister Barbara Ann Boss of the Seton Center. You have strengthened this report immensely, as you do the lives of children and families every day.

**Della Moran, Policy Associate**  
June 2017

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# TABLE OF CONTENTS

- EXECUTIVE SUMMARY ..... *i*
  
- THE IMPACT & CHALLENGE OF PROVIDING HIGH-QUALITY CHILD CARE..... **1**
  
- EARLY EDUCATION FUNDING IN PENNSYLVANIA ..... **2**
  - Public Funding for High-Quality Pre-K ..... **3**
  - Public Funding for Child Care ..... **4**
  - Private Pay Tuition ..... **10**
  
- LEARNING FROM THE LITERATURE ..... **10**
  - Best Practices in Provider Finance: The Iron Triangle..... **10**
  - Lingering Challenges: Cash Flow & Compensation..... **11**
  
- FINANCIAL REALITIES: A SIX-SITE SNAPSHOT..... **12**
  - Sample ..... **13**
  - Methods ..... **14**
  
- SUMMARY OF FINDINGS ACROSS SITES..... **14**
  - Cost of Care & Funding by Age Group ..... **14**
  - Common Challenges to Quality & Financial Stability ..... **15**
  - Best Practices in Managing Early Childhood Care Finance..... **17**
  
- STORIES FROM THE FIELD ..... **19**
  - Case Study: *Montgomery Early Learning Centers* ..... **20**
  - Case Study: *The Seton Center* ..... **22**
  - Case Study: *Children’s Village* ..... **24**
  - Case Study: *Bullfrogs & Butterflies* ..... **26**
  
- POLICY IMPLICATIONS AND NEXT STEPS ..... **28**
  - Policy Implications..... **28**
  - Future Data Collection ..... **29**
  - Examining Funding Adequacy..... **29**
  
- ENDNOTES ..... **30**

## EXECUTIVE SUMMARY

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.





## THE IMPACT & CHALLENGE OF PROVIDING HIGH-QUALITY CHILD CARE

In recent years, high-profile advocacy campaigns and unprecedented investments have put preschool education front and center in the Pennsylvania legislative landscape. This attention is well-warranted from a research perspective. Since as far back as the 1970s, rigorous studies have documented the wide-ranging impacts of high-quality pre-K education programs on child outcomes in school and beyond. More recently, advances in neuroscience have led to breakthroughs in our understanding of child development and the ways in which responsive adult-child interactions actually build neural connections in the young brain, strengthening life-long communication skills and mental health.<sup>i</sup>

At the same time, research suggests that more attention should be paid to the ways in which safe environments and engaging interactions shape young children long before preschool, beginning at birth and continuing through the time that many infants and toddlers spend in child care. Longitudinal studies of the federal Early Head Start program have shown that participating low-income children from birth to three demonstrated better outcomes later in life than those who attended only preschool at ages three and four.<sup>ii</sup> Studies have also

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*Research and experience suggest that the impact of investments in early childhood will only be maximized if they are adequate to allow child care providers to deliver high-quality care.*

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shown, not surprisingly, that the quality of child care and early education settings in which infants and toddlers receive care is predictive of their cognitive outcomes in the preschool years.<sup>iii, iv</sup> What's more, in Pennsylvania, 50% of public pre-K is delivered in community-based child care settings, making pre-K expansion reliant on the capacity of high-quality providers to supply slots.

In this context, Governor Tom Wolf and the Pennsylvania Legislature have made significant investments in both preschool and child care in recent years. In his 2017 budget, the Governor is proposing an additional \$75 million in support for state-funded pre-K and a \$35 million increase in funding for child care. This new child care funding would reduce the number of low-income families on the waiting list for subsidized care and support the ongoing costs of the state's Quality Ratings and Improvement System, Keystone STARS.<sup>v</sup>

While these proposed investments in improving access to care and program monitoring are essential, they are far from sufficient. Research and experience suggest that the impact of investments in early childhood will only be maximized if they are adequate to allow child care providers to deliver high-quality care. Providers must be able to attract and retain qualified teachers, provide a low ratio of adults to children, support implementation of a coherent curriculum, and maintain facilities that provide a safe and engaging learning environment. None of these comes cheap, yet state reimbursement rates remain painfully low.

Meanwhile, despite a growing market for high-quality child care,<sup>vi</sup> there is a very real limit to what parents in any given community can afford to pay. Providers are simply unable to charge parents substantially more than their competitors and remain viable in the market. In 30 states, Pennsylvania included, the average annual cost of center-based care for an infant is already more expensive than tuition and fees at four-year public colleges.<sup>vii</sup> The challenge carries over to public funding sources as



well, since reimbursement rates for public programs, including child care subsidy, are commonly set based on the rates providers charge in the private market, rather than on what it actually costs to deliver services and meet quality standards. This puts providers in a real pinch and results in low compensation of personnel and financial instability across the sector.

In this policy brief, we explain the complex system of funding for child care providers in Pennsylvania. Next, we review existing literature on the costs of providing care for young children and how those costs differ for providers as they increase in quality. In particular, we examine aforementioned issues related to personnel, which is both the largest cost driver for providers and one with the greatest demonstrated impact on child outcomes. Finally, we explore the ways that 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.

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*The financial struggles of the exemplary providers highlighted here make two things abundantly clear: the true costs of quality child care are high, and current public funding streams remain too low to cover those costs and allow for financial sustainability.*

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In the absence of statewide data on provider finances and staffing, we approach these questions through the lens of six high-quality, center-based child care providers of different shapes and sizes and different Pennsylvania communities. We present findings on best practices and common challenges across all six providers based on interviews with center directors and staff. Four participating providers also shared their audited financial statements and internal budgeting documents with us, and for each we present a financial snapshot and corresponding case study. We hope their experiences will be

instructive as the state considers whether current funding levels are adequate, how best to set reimbursement rates for public early education programs, and other ways to better support the child care workforce and the delivery of high-quality services to children and families.

While further statewide data collection is necessary to inform evidence-based policy-making, the financial struggles of the exemplary providers highlighted here make two things abundantly clear: the true costs of quality child care are high, and current public funding streams remain too low to cover those costs and allow for financial sustainability.

## **EARLY EDUCATION FUNDING IN PENNSYLVANIA**

The providers highlighted in the case studies below draw resources from a variety of state and federally-funded early education and child care revenue streams, each of which have different purposes and eligibility thresholds, serve different age groups, and provide different levels of funding per child to participating child care centers. These programs are each administered by separate offices, but all fall under the purview of the Pennsylvania Office of Child Development and Early Learning (OCDEL). In this section, we briefly describe each source of revenue and highlight important differences between what they pay for and how they can be utilized by Pennsylvania child care providers. We also map the decision rules and eligibility requirements that impact which programs and which individual children are able to take advantage of each public funding stream in the flow charts labeled Figure 1, Figure 2, and Figure 3.

## PUBLIC FUNDING FOR HIGH-QUALITY PRE-K

### Head Start and PA Pre-K Counts

The Pre-K Counts and Head Start programs were both designed to allow low-income families to enroll their three- and four-year-olds in high-quality early education settings that boost school readiness.

Pre-K Counts and Head Start are not entitlements. In order to take advantage of these programs, parents must apply to enroll their child. The state then pays participating providers directly for enrolled children, bypassing the family entirely. However, across the Commonwealth, almost two thirds (64%) of 3- and 4-year-olds who are eligible for Pre-K Counts or Head Start remain unable to attend, as funding limitations lead to a scarcity of open slots.<sup>viii</sup>

On the provider's end, participating in Head Start and Pre-K Counts is also a competitive process. Beyond meeting the state's benchmark for high-quality care, as defined by a Keystone STARs 3 or 4 quality rating, providers must comply with each program's additional requirements about instructional time (both programs require a minimum of five hours daily for a full-time slot), screening and supports, family engagement, and staff education and credentials. Pre-K Counts, in particular, requires that all lead teachers be certified, creating a substantial added cost to the provider. Providers who meet these standards may be designated for a set number of full- and/or half-day slots for the 180-day school year and are responsible for filling those slots in order to receive the reimbursement. Annual reimbursement rates for each program vary slightly by contract, but average \$8,500 per full-time child in Pre-K Counts and \$9,200 per full-time child in Head Start.

Table 1 highlights similarities and differences between the two funding sources.

**Table 1. Head Start and Pennsylvania Pre-K Counts**

Program	Eligibility	Ages Served	Length of Service	Reimbursement Rate
Head Start	Families below 100% of poverty	Three- and four-year-olds	School day/school year (180 days)	\$9,200/year*
Pre-K Counts	Families below 300% of poverty	Three- and four-year-olds	School day/school year (180 days)	\$8,500/year

\* Actual rates vary by contract and currently range from \$7,200 to \$12,600.

In summary, Head Start and Pre-K Counts programs:

- Offer providers average annual reimbursement rates per child of \$9,200 for Head Start and \$8,500 for Pre-K Counts;
- Are paid based on annual contracts for a set number of enrollment slots;
- Only support care for 180-day school year;
- Only support care for preschool children;
- Require a minimum of five hours of instruction per day; and
- Require staff with higher levels of education and promise higher employee compensation.<sup>1</sup>

<sup>1</sup> In addition to meeting existing staff requirements to maintain their STAR level, programs must ensure that all Pre-K Counts lead teachers are state certified and that at least 50% of lead Head Start teachers have bachelor's degrees.



Five of the six child care providers highlighted in this brief receive Pre-K Counts funding to serve low-income three- and four-year-olds. Three also receive Head Start funding.

## PUBLIC FUNDING FOR CHILD CARE

In comparison to funds available for pre-K, public funding to help low-income families afford high-quality care for infants and toddlers is less consistent and robust. Nevertheless, all six providers we visited relied on these funding streams to support care for children aged zero to three, as well as for school-age children 12 and under before and after their regular school day. The three primary public funding programs are summarized in Table 2 and discussed in more detail below.<sup>2</sup>

**Table 2. Public funding for child care**

Program	Eligibility	Ages Served	Length of Service	Reimbursement Rate
<b>Child Care Works (CCW)</b>	Families below 200% of poverty who meet work requirements	Birth to five (child care)  6-12 (school-age before and after care)	Full day/full year (260 days)	Varies by age group and by county <sup>3</sup>  Infants: Average daily base rate for full-time care (more than 6 hours) is \$26.20.  Preschoolers: Average base rate is \$23.28
<b>Keystone STARS</b>	Licensed child care centers can opt in to state monitoring. STAR 3 and 4 centers receive tiered reimbursement, or a “quality add on” to their base subsidy rate.	Birth to five (child care)  6-12 (school-age before and after care)	Full day/full year (260 days)	Tiered reimbursement adds roughly: \$5 daily per child to the base rate for STAR 3 centers  \$8 daily to the base rate for STAR 4 <sup>x</sup>
<b>Child &amp; Adult Care Food Program (CACFP)</b>	Available for centers serving more than 25% low-income children to provide them healthy snacks & meals	Birth to five (child care)	Not applicable	Varies by meal.  Maximum daily rate in PA for a child receiving two meals and a snack is \$5.73 a day <sup>4</sup>

<sup>2</sup> One important source of public funding for early care not listed here is Early Intervention (EI). EI allows children birth to five to be screened for developmental delays and provides them with additional services and learning supports. As EI does not provide revenue to child care providers directly, it is not relevant to the discussion and analysis here.

<sup>3</sup> For all county CCW rates by age group, see: [http://www.dhs.state.pa.us/cs/groups/webcontent/documents/document/p\\_022773.pdf](http://www.dhs.state.pa.us/cs/groups/webcontent/documents/document/p_022773.pdf)

<sup>4</sup> For full list of CAFCP reimbursement rates, see: [https://www.fns.usda.gov/sites/default/files/cacfp/cacfp\\_rates2016-17.pdf](https://www.fns.usda.gov/sites/default/files/cacfp/cacfp_rates2016-17.pdf)

## Child Care Works

Like Pre-K Counts and Head Start, Child Care Works (commonly referred to as “child care subsidy,” CCIS, or CCW) is also not an entitlement, and unmet need for CCW is significant. In spring 2016, the waiting list for subsidy topped 13,800 children.<sup>x</sup> Unlike Pre-K Counts and Head Start, CCW was not designed as an educational program but rather as a work-support program for low-income parents. Once a family is enrolled in CCW, they may choose to use that subsidy for care at any licensed child care center, regardless of STAR quality level. Parents are charged a small co-pay on a sliding scale.<sup>5</sup>

Also unlike Pre-K Counts and Head Start, children enrolled in CCW can receive up to 260 days of care per year. Providers are paid a part-time rate for children who utilize less than six hours of care per day, and a full-time rate for those who stay for more than six hours. State reimbursement passes directly to providers and is based on the actual number of days the child spends in care. In other words, the state reimburses them on a fee-for-service basis. During the 180-day school year, CCW reimbursement may also be combined, or **braided**, with Head Start or Pre-K Counts funding to support children enrolled in both programs who require more than six hours of care per day. For children who are not enrolled in Pre-K Counts or Head Start but need more than six hours of care per day, providers must choose whether to make the full-day CCW reimbursement stretch for more hours or to charge parents, many of whom may be low-income, for additional time in care.

Annual CCW reimbursement rates are far lower than those provided by Head Start or Pre-K Counts. In Pennsylvania, rates vary by age of the child and by county and cannot exceed a provider’s own private pay rates. The federal government recommends that subsidy reimbursement rates approach the 75th percentile of private pay tuition rates in order to ensure that low-income families have access to at least two-thirds of the provider options in their community.<sup>xi</sup> However, rates across most of the Commonwealth do not approach that benchmark. On average, they hover around 33% of private pay tuition, and rates have been stagnant for over ten years since they were frozen in 2007.<sup>xii</sup> The result: providers who serve predominantly low-income communities in Pennsylvania receive even less funding per child, on average, than their peers in middle-class communities who rely on private pay. They also receive, after inflation, less today than they did in 2007.

**“Braiding” two or more funding sources to support the total cost of care for an individual child requires that revenues are allocated and expenditures are tracked by each source. A provider must ensure that each program is charged its fair share of both program and administrative costs.**

## Keystone STARS Tiered Reimbursement

As has been the case in other states, Pennsylvania’s Office of Child Development and Early Learning (OCDEL) has utilized funding from their Quality Ratings and Improvement Systems, Keystone STARS, to incentivize quality improvement, providing higher subsidy reimbursement rates as programs move up the quality ladder. Given the Commonwealth’s low base reimbursement rates, these “quality add-ons” or “tiered reimbursement rates” for STAR 3 and 4 centers are essential and have been increasingly targeted during the rate freeze to keep high-quality providers viable. In fact, when including these tiered reimbursements, the majority of STAR 4 centers in Pennsylvania do receive rates at or approaching the federal benchmark of 75% of private pay rates.<sup>xiii</sup> This is not the case for lower-rated programs. Still, tiered reimbursement rates make a relatively small dent when compared to the increased costs

<sup>5</sup> For information on how Pennsylvania’s subsidy copays compare to other states, see: Karen Schulman, Helen Blank, “Building Blocks: State Child Care Assistance Policies,” *National Women’s Law Center*, 2015, p. 34. <http://bit.ly/2seaSOi>



incurred as providers seek to meet the higher standards associated with quality. A 2015 study of 147 Philadelphia-area child care providers by the Non-Profit Finance Fund found that, for many providers, the gap between available funding and cost of care increased overall as quality of care went up, creating a disincentive for providers to climb the STARS ladder.<sup>xiv</sup>

### **Child & Adult Care Food Program (CACFP)**

In addition to subsidy and tiered reimbursement payments, centers that serve more than 25% students who qualify for free or reduced-price lunch may also receive federal funding to help provide healthy snacks and meals. Participating programs must follow stringent reporting requirements.

In summary, public funding for child care:

- Offers low-quality providers very low daily reimbursement rates;
- Offers somewhat higher rates to higher quality providers through STARS tiered reimbursement;
- May be combined with Pre-K Counts and Head Start to provide “wrap around” hours;
- Is paid on a fee-for-service basis based on daily enrollment;
- Supports care for 260 days per year (including over the summer);
- Supports care for children birth through age 12;
- Varies by age and by county; and
- Can be supplemented with CACFP federal funding for healthy meals.

The following three flow charts map the complex decision rules and eligibility requirements that impact which programs and which individual children are able to take advantage of each public funding stream highlighted above.

Figure 1. Flowchart of provider program eligibility

## What public funding can a provider receive?

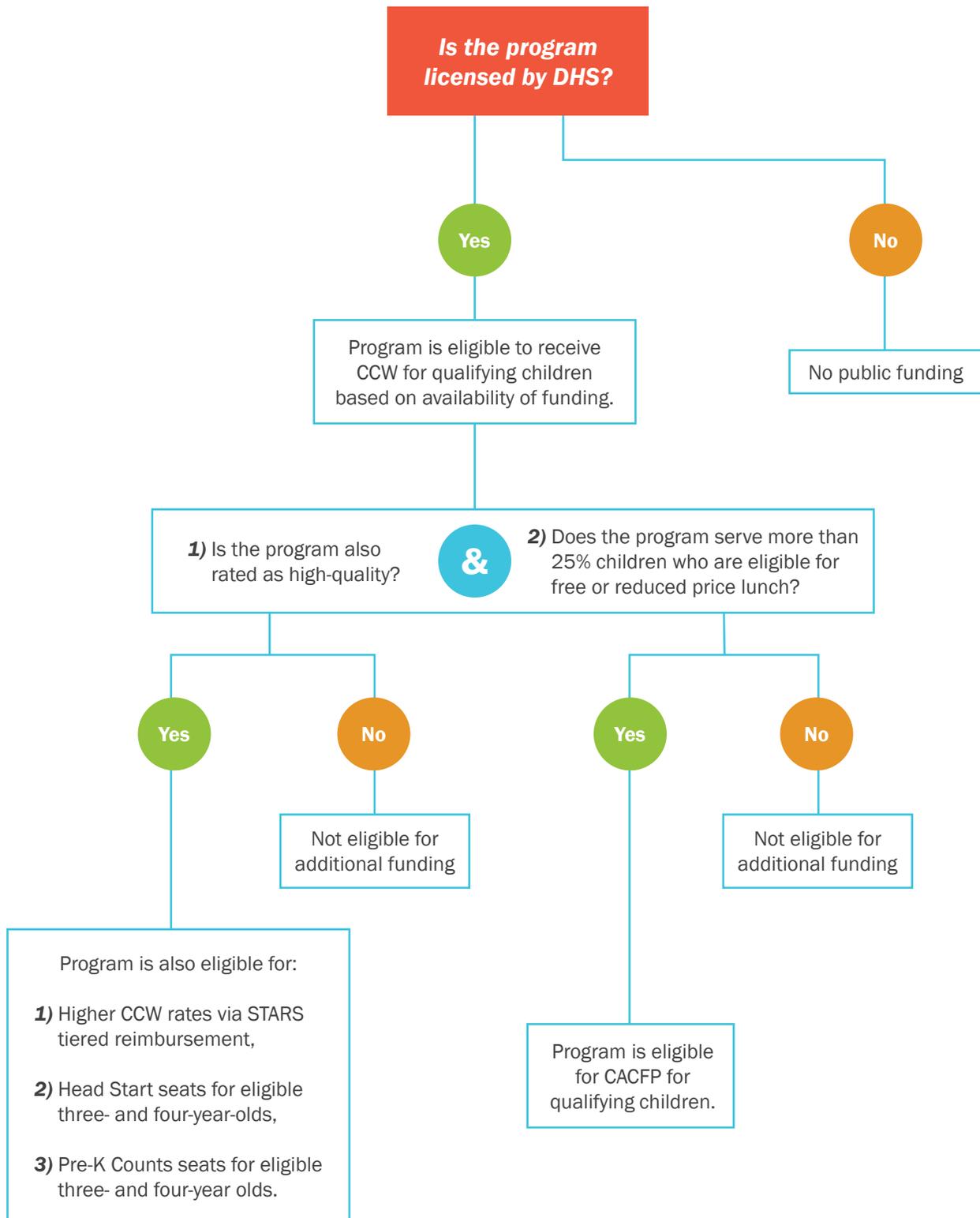




Figure 2. Flowchart of child/family eligibility for infant, toddler, and school age children

## What public funding can an infant, toddler, or school-age child receive?

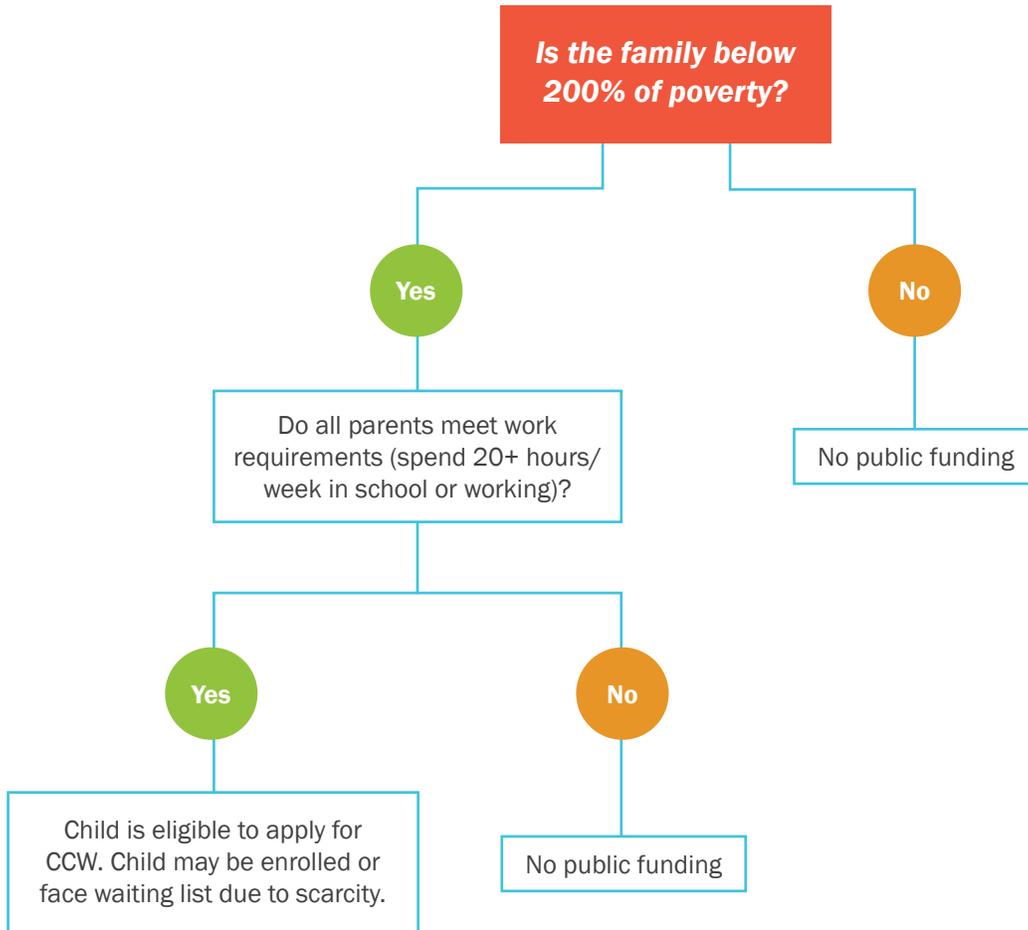
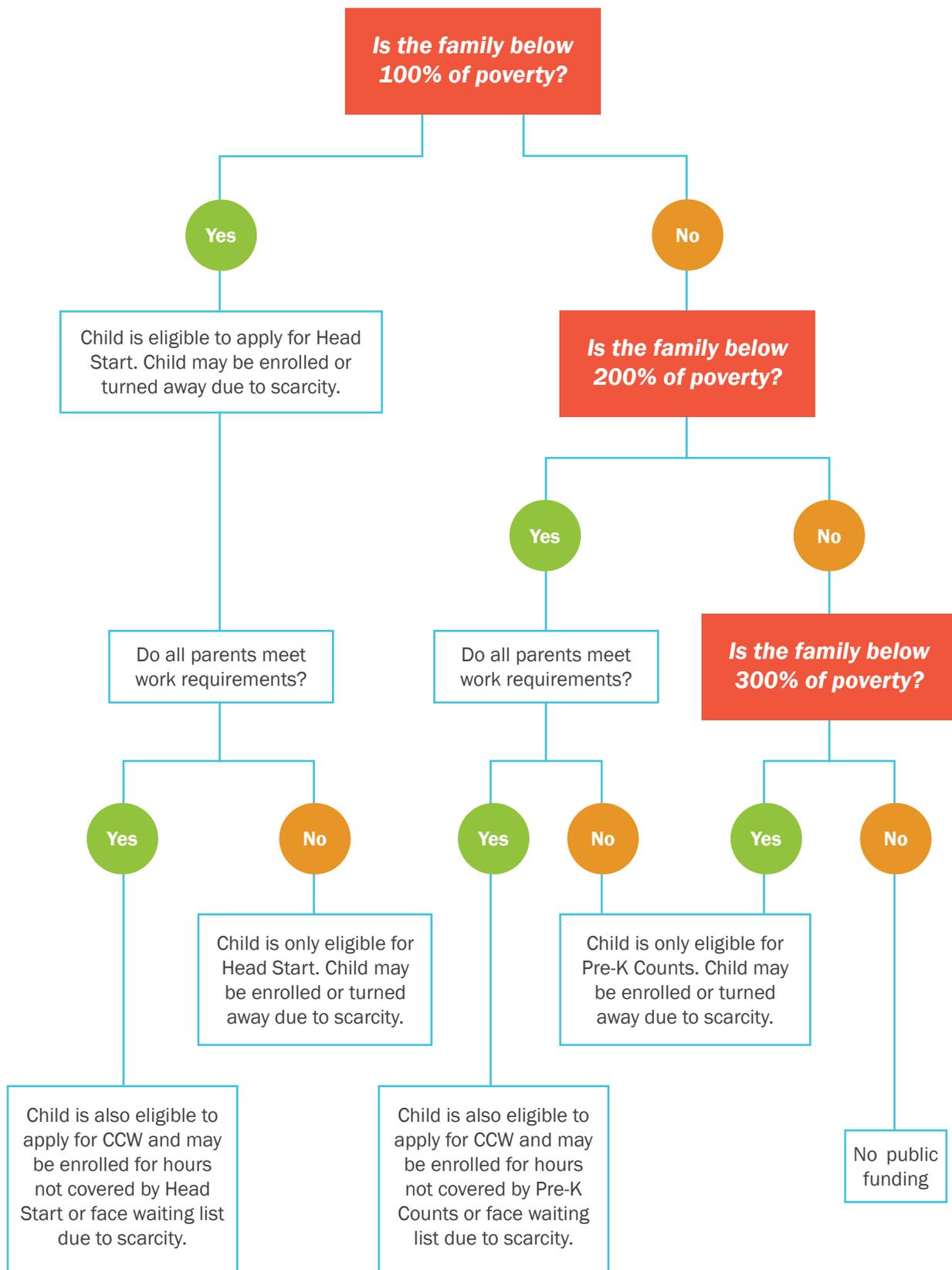


Figure 3. Flowchart of child/family eligibility for preschool children

## What public funding can a preschool child receive?





## PRIVATE PAY TUITION

Of course, as the flow charts above demonstrate, many families in Pennsylvania either do not qualify for public assistance to help pay for child care and early education, or are unable to access public programs due to long waiting lists or lack of participating providers in their community. These families pay private tuition directly to child care providers, generally on a weekly basis. All six of the providers in our sample rely on a balance of subsidized and private pay families to support their operations, but each sets its own private pay rates by age group.

### **Pennsylvania's Market Rate Survey**

By law, the Pennsylvania Office of Child Development and Early Learning (OCDEL) must conduct biannual surveys to capture information on the rates that providers charge families in the private market.<sup>6</sup> These surveys are optional for providers, suffer from low participation rates in some counties, and thus provide a limited snapshot of the true market cost of child care. However, the last two iterations of the survey do reveal several important trends.

In Pennsylvania:

- Infant costs are higher than costs at other care levels. In general, the younger the age of the child, the higher the cost of child care, due to regulations that require lower child-to-adult ratios in classrooms serving infants and toddlers than in those serving pre-K and school-age children.
- The highest costs of child care are found in the Southeast Region, while the lowest costs are found in the Northwest Region.
- Child care costs in urban areas are higher than in rural areas.

The implications of these trends will be explored further below in the context of their impact on the providers profiled in our case studies.

## LEARNING FROM THE LITERATURE

Whether public or private, revenues to support early care and education from all the sources outlined above are tied directly to per-child enrollment and are, therefore, highly variable. Each provider must find ways to maximize these revenues in order to make ends meet. Below, we highlight best practices and lingering challenges from a review of the literature on child care finance and the early education workforce.

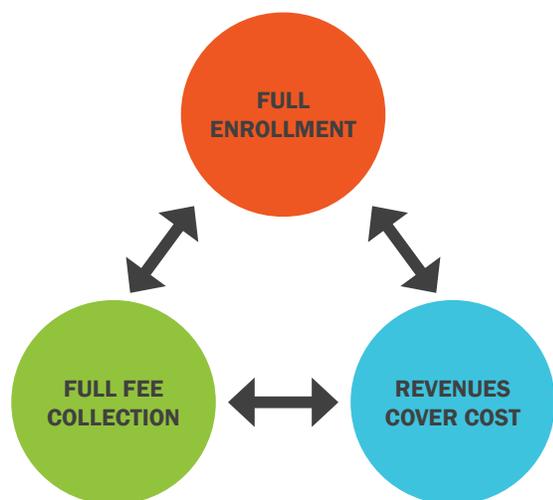
### BEST PRACTICES IN PROVIDER FINANCE: THE IRON TRIANGLE

Leading child care finance experts recommend three main strategies for collecting every possible dollar, all three of which must work in harmony for a provider to ultimately reach financial sustainability. Widely known as the “iron triangle,” this holy grail of ECE finance involves maximizing enrollment, collecting all tuition fees in a timely manner, and ensuring that revenues cover the per-child cost of care.<sup>xv</sup> In practice, this is rarely plausible. In describing each element of the iron triangle below, we identify reasons why so few providers achieve these goals.

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<sup>6</sup> For more on Pennsylvania's Child Care Market Rate Survey, see: <http://bit.ly/2rUpNQn>

Figure 4. The Iron Triangle



### 1. Maximizing enrollment

Maintaining full or nearly-full enrollment involves managing the constant but unpredictable flux of children in and out of a classroom without violating ratio requirements. To do so, a center must have staff capacity to carefully track attendance, engage in outreach and marketing to new families, and keep an up-to-date waiting list at all times. Even so, there is an inevitable lag between when a child leaves and when the center is able to enroll another child in his/her place. This lag is exacerbated by the statewide CCW wait list—as children leave a program, that slot is not able to be filled by another CCW child until funding becomes available. Thus a program must find a private-pay family, or cover the cost of care for a child on the CCW wait list, until CCW funding becomes available.

Given these challenges, even diligent providers commonly average around 85% of full enrollment daily and must employ other strategies to maximize revenue.

### 2. Collecting all fees

Collecting 100% of private pay tuition and subsidy copay fees may sound basic, but it is often a daunting task. Centers with larger administrative capacity may have a staff member devoted to client billing, but in many small centers the job of tracking payments and invoicing clients falls to an already over-burdened director.

### 3. Covering the full cost of care

It may sound obvious that a business's revenues should cover its expenses, but in the world of child care, where rates are driven by limitations on what parents can pay, this simple goal can prove elusive. Most center directors are former educators with little to no training in accounting or basic business practices, who are often left to manage complex budgets and multiple funding sources with little support. In order to ensure that revenues cover the full cost of care, savvy providers utilize a host of strategies, from braiding multiple funding streams to building efficient administrative capacity. But this goal becomes more elusive as the quality of care increases.

## LINGERING CHALLENGES: CASH FLOW AND COMPENSATION

### Cash Flow

While many high-quality programs spend a tremendous amount of time and energy implementing some or all of the strategies described above, few approach true financial stability. A study conducted in 2015 by the Non-Profit Finance Fund found that, among a sample of 147 child care providers in the Philadelphia region, providers had limited cash reserves to weather the volatility of the ECE business model.<sup>xvi</sup> On average, their year-end cash balances could cover only one month's worth of operating expenses, or one third of the recommended minimum benchmark of three months.<sup>xvii</sup> This lack of financial solvency and sustainability can create cash flow challenges in the short term, but also has long-term impacts on the early childhood workforce.



## Compensation

Nationally, high-quality ECE providers spend an average of 65-80% of their overall operating budget on personnel, including staff salaries, benefits, and training. This makes personnel their single largest cost driver, and one which is determined, to a large extent, by mandated adult-to-child ratios for each age group. However, providers can't pay staff more than they can earn from the total private pay tuition and public funding they receive. So, despite decades of research that has demonstrated that well-compensated teachers and high-quality adult-child interactions have big impacts on student outcomes,<sup>xxviii</sup> ECE staff remain woefully undercompensated.

Early childhood educators earn significantly less than workers of comparable education in other fields.<sup>xix</sup> A recent federal study found that Pennsylvania preschool teachers, excluding those in special education, fell in the lowest bracket for annual median pay, earning \$21,930 to \$23,890.<sup>xx</sup> PA child care teachers earned even less; their median pay was only \$19,590 annually, less than parking attendants or manicurists.<sup>xxi</sup>

What's more, many child care workers do not receive employee-funded benefits or paid time off. Nationally, only 15% of child care workers receive health insurance through their job (compared with 50%, on average, across other occupations).<sup>xxii</sup> Not surprisingly, then, a 2012 Berkeley study found that almost one half (46%) of all child care workers relied on some form of public benefits to support their own families.<sup>xxiii</sup> This troubling reality may sometimes create an environment in which providers opt to interview and ultimately hire less-qualified applicants in anticipation of mismatched salary expectations.<sup>xxiv</sup>

Compounding these problems, child care centers experience average teacher turnover rates of 30%, fully double that of K-12 schools, driven primarily by low compensation.<sup>xxv</sup> High teacher turnover may create a barrier to quality improvement and can have real impacts on continuity of care and the quality of the adult-child relationships.<sup>xxvi</sup> In a survey conducted by the Early Childhood Education Workforce Transformation Initiative<sup>7</sup> of 407 child care staff in the Philadelphia region, nearly half had considered changing careers. Of those who had, the overwhelming majority (87%) reported that increased earning potential would make the sector more appealing, and over half (56%) suggested a need for more advancement opportunities.<sup>xxvii</sup>

## FINANCIAL REALITIES: A SIX-SITE SNAPSHOT

Unfortunately, due to a lack of reliable data it remains difficult to fully analyze exactly how provider finance practices in Pennsylvania compare to industry best practices, and to determine which policy solutions could best address lingering challenges. Providers are not required to report financial or staffing data to the state beyond the scope of individual contracts. Non-profit providers are subject to annual audited financial statements, but for-profits may not have standardized budgets, cash flow statements, or salary scales, let alone any incentive to share these transparently.

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<sup>7</sup> The Early Childhood Education Workforce Transformation Initiative is a partnership of Delaware Valley Association for the Education of Young Children (DVAEYC), Montgomery Early Learning Centers (MELC), and Public Health Management Corporation (PHMC) funded by the William Penn Foundation to study the early childhood education sector in Southeastern PA.

## SAMPLE

As a first step towards filling in these knowledge gaps, RFA and OCDEL worked together to identify six providers of different shapes, sizes, and community contexts from across the Commonwealth. Providers were selected based on their willingness to participate and compensated for their time. Only centers with a quality level of STAR 3 or 4 were eligible.

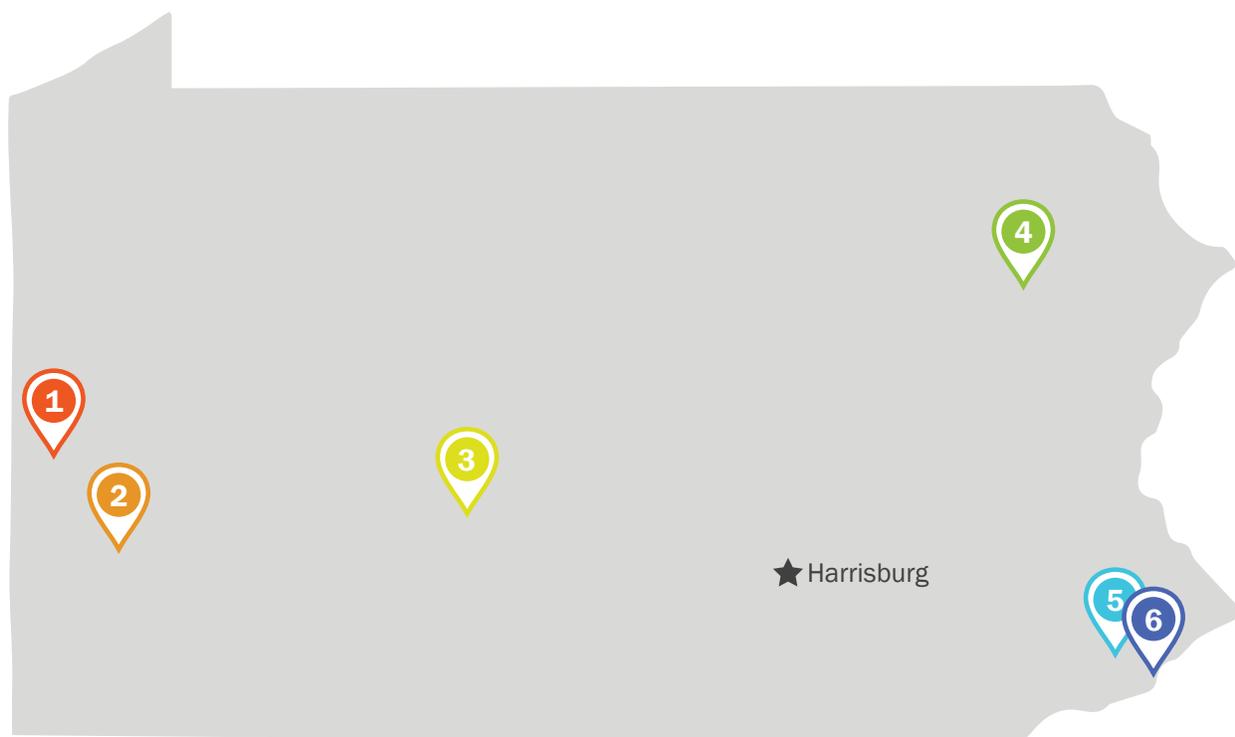
The following summary findings and four individual case studies draw from that mixed-methods analysis.

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.

Given the small size of our sample, the results are informative but should not be assumed to be representative of statewide trends.

**Figure 5. Participating Providers Across Pennsylvania**



**1.** Small for-profit in Beaver County

**2.** Large faith-based non-profit in Allegheny County

**3.** Mid-size for-profit in Blair County

**4.** Multi-site for-profit in Luzerne and Lackawanna Counties

**5.** Multi-site non-profit in Montgomery and Philadelphia Counties

**6.** Large non-profit in Philadelphia County



## METHODS

At each site, RFA conducted in-person interviews with center directors and staff and collected qualitative data. Four of the six sites also shared audited financial statements, internal budgets, and other quantitative data on enrollment and staffing for our review.

Our team analyzed financial and staffing data from providers in the context of statewide data from PDE and local school districts, as well as county-based subsidy reimbursement rates.

Further details about our calculations are described in the Technical Appendix available on RFA's website ([www.researchforaction.org](http://www.researchforaction.org)).

## SUMMARY OF FINDINGS ACROSS SITES

Based on interview responses from six providers and an analysis of financial data from four of those providers, the following trends emerged.

### COST OF CARE AND FUNDING BY AGE GROUP

Figures 6 and 7, below, summarize our findings related to cost of care across sites.

The cost of care is primarily driven by teacher salaries and mandated ratios at each age level.

As can be seen in Figure 6, the average daily cost of care for school-age children across sites is \$27. That cost increases for each subsequent age group and is highest for infants. **The cost of care is 2.74 times as great for infants as it is for school-age children.**

Figure 6. Average Daily Cost by Age Group

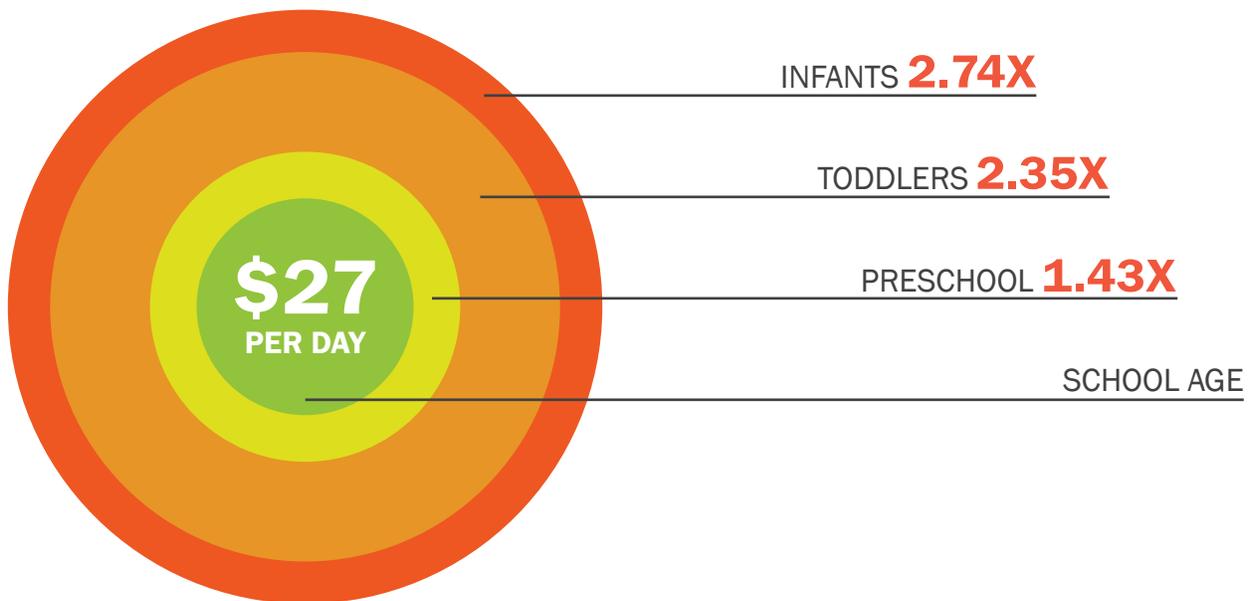
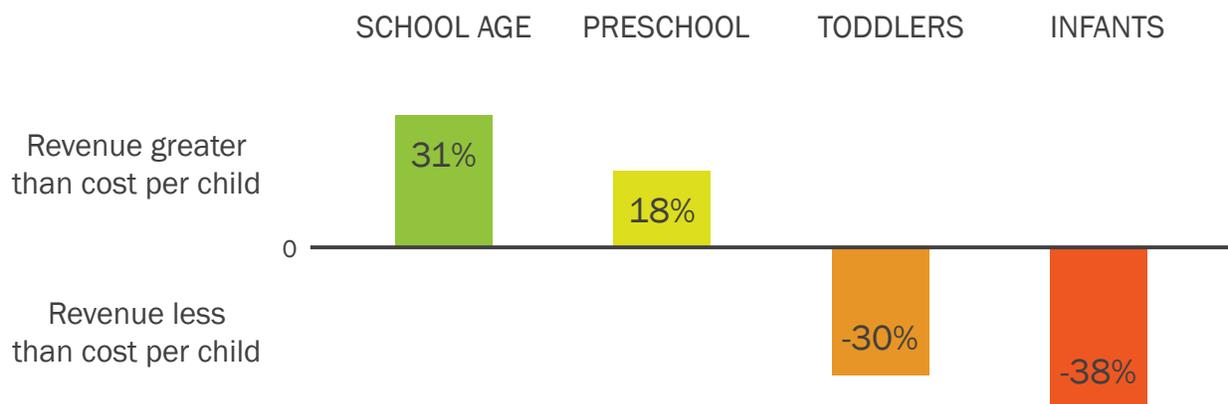


Figure 7 illustrates that there are fewer available revenue streams that fund the care of infants and toddlers than there are for pre-K children, exacerbating the gap between revenues and the cost of care.

**For every infant served, centers face a shortfall of more than one third (38%) between their cost and available revenues.**

Figure 7. Average Gap between Available Revenues and Cost by Age Group



To offset this high cost gap and make ends meet, providers often opt to serve more preschool children than infants and toddlers and maintain school-age programs which may help subsidize the true cost of infant and toddler classrooms.

## COMMON CHALLENGES TO QUALITY AND FINANCIAL STABILITY

The most common challenges reported across sites were related to:

- Covering the full cost of care, especially for infants:** All six providers stated emphatically that even tiered subsidy reimbursement rates were inadequate to support the true cost of care for infants and toddlers. While two providers felt that Pre-K Counts and Head Start rates approached the cost of care for preschool children, a strong majority reported that those rates were only adequate when combined with subsidy wrap-around during the 180-day school year. Their financial data supported these conclusions, which are illustrated graphically on the top right of each case study.
- Stretching funds and shuffling programs in the summer months:** Providers face a dilemma in the summer months when Pre-K Counts and Head Start funds are unavailable. While some parents may be able to pay out-of-pocket for extended hours over and above the CCW day, many must find other, informal arrangements for care. As a result, providers are often forced to shuffle around children and staff to maintain appropriate ratios but minimize staffing costs in the summer months when fewer children mean less revenue. Teachers' hours may be limited, or they may be paid a lower wage during these unfunded months.
- Lowering child-to-adult ratios:** While all six providers reported that they carefully maintained state-mandated ratios for each age group, several mentioned a desire to work towards the lower ratios recommended by the National Association for the Education of Young Children, or NAEYC. Of course, that would increase their personnel costs and require substantial new revenue to support.<sup>8</sup>

<sup>8</sup> For state-mandated ratios by age group, see: <http://www.pacode.com/secure/data/055/chapter3270/s3270.51.html>  
 For NAEYC recommended ratios by age group, see: [https://www.naeyc.org/academy/files/academy/file/Teacher\\_Child\\_Ratio\\_Chart.pdf](https://www.naeyc.org/academy/files/academy/file/Teacher_Child_Ratio_Chart.pdf)



- **Recruiting qualified staff:** Providers universally reported that, even with existing ratios, the gap between reimbursement rates and the true cost of care forced them to sacrifice in terms of staff compensation. The respondents at all six sites also reported that their inability to offer more competitive wages and benefits made it difficult to hire staff with strong qualifications and experience. This fact contributed to turnover. While providers applauded efforts to raise requirements and salaries for teachers in pre-K classrooms, many worried that staff working with infants and toddlers are getting the message that their work is not as highly valued as that of their counterparts in pre-K.
- **Retaining qualified staff:** Several respondents also voiced frustration that they invested substantial time and money in helping teachers become certified to lead Pre-K Counts classrooms only to lose them to better-paid school district jobs once their certification was complete. The salary comparison graphic included in each case study illustrates how the providers' salaries for staff with associate, bachelor's, and master's degrees compare to average salaries for the same degree-holders statewide and in their local school district. Across the board, provider salaries are lower than statewide and district comparisons, and many fall at or below the PA poverty line for a family of three.
- **Living with financial volatility:** Providers at the six sites emphasized the near impossibility of maintaining 100% enrollment on any given day. They also bemoaned the volatility created by CCW's fee-for-service payment model that requires providers to budget based on estimated enrollment but only pays them based on actual enrollment after the fact. Two providers in particular encountered serious challenges related to CCW policies on the maximum annual number of paid absences per child and the maximum number of paid provider closures per year. Once a provider or individual child has exceeded these limits, subsidy rates are no longer paid. Providers understood that some regulations were necessary but felt these particular limits were inflexible and left providers vulnerable to unforeseen loss of projected revenue.
- **Managing program requirements with limited administrative capacity:** Staff at all six sites struggled to find capacity for the administrative tasks required to comply with a dizzying number of separate standards and reporting requirements for facilities licensing, state quality ratings, and each source of public funding, including CCW, Pre-K Counts, Head Start, and CACFP. Several directors recommended that program requirements could be better aligned to ease the administrative burden and allow more resources and staff time to be focused on the needs of children and families.
- **Maintaining materials and facilities:** Providers at several sites emphasized the tremendous cost of keeping classroom spaces, outdoor play areas, and facilities clean, well-stocked, and up to STARS standards. They also felt that while requirements in these areas increased substantially at the higher STARS levels and changed frequently, tiered reimbursement rates were inadequate to provide for the associated costs.
- **Paying for capital improvements:** All six providers also identified major facilities improvement projects that would improve the physical comfort, flow, and function of classrooms and play spaces but were on hold due to lack of resources. Without a source of public funding to support those capital projects, providers must seek foundation grants, dip into cash reserves or personal funds, or take out loans to finance them.

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## BEST PRACTICES IN MANAGING EARLY CHILDHOOD CARE FINANCE

Despite challenges, sites provided strong examples of industry best practices and creative problem-solving. These included:

- **Calculating their own cost per child:** Figuring out the cost side of the equation is a key first step to determining whether reimbursement rates are adequate, and can help a provider identify potential cost savings. Unfortunately, many providers do not actually know what it costs them to care for a given child, as this calculation is complicated and driven by the age of the child, the mandated adult-child ratio for their classroom, and the number of hours of care they receive per day. While some providers in our sample regularly assessed their own cost per child, others went through that exercise with us for the first time.
- **Setting private-pay tuition rates as high as possible based on the local market:** The state recommends that providers reexamine their private pay rates by age group annually to ensure they are covering the full cost of care. Once again, in reality, family incomes and competition within the market may make it impossible to raise rates to that level, especially for infants and toddlers. Providers in our sample varied widely in terms of how frequently and thoroughly they assessed their own rates, but all reported concerns about the impact of their rate-setting decisions on the families they serve.
- **Offering programs for older children:** Since all six providers were unable to charge parents of infants and toddlers for the true cost of maintaining adequate adult-child ratios in those classrooms, they relied on pre-K and school-age classrooms to balance the budget. Higher ratios of students to teachers in pre-K and school-age classrooms made them significantly less expensive to operate. In addition, school-age programs could be staffed by less experienced teachers for fewer hours per day. Meanwhile, five of the six providers received additional funding for pre-K classrooms through either Head Start or Pre-K Counts. Taken together, these factors allowed the centers to “subsidize” the high cost of their youngest learners.
- **Charging subsidy families the difference between child care subsidy rates and private pay rates:** Pennsylvania does allow providers to charge families who receive subsidy the difference between their daily subsidy reimbursement and daily private tuition. Providers must decide if this policy is right for them, weighing their financial needs, organizational mission, and the ability of parents to pay. Only one of the six providers in our sample chose to do so.
- **Charging private pay families for meals:** Some providers, including two in our sample, also stretched CACFP funding (designed to cover the cost of healthy meals for low-income children) to cover the cost of meals for private pay families. The others offered private pay parents the option to pack their child’s meals or pay a supplemental meal fee.
- **Collecting fees from parents in a timely manner:** All six providers collected private pay tuition and subsidy copays from families on a weekly or biweekly basis to decrease the potential for debt or permanent loss of revenue. Several had moved to accepting credit card payments in an effort to maintain continuity of care when parents are in a bind. Of course, these centers also took on the burden of costs associated with credit processing.
- **Leveraging foundation resources and business partnerships:** Several of the providers in our sample had benefited from substantial foundation grants or business partnerships that allowed them to afford much-needed capital improvement projects. However, only two of six providers were able to afford administrative staff time for grant writing and development work to procure private funds. Others did without, did the job themselves, or relied on board members or volunteers.



- **Rewarding strong staff and continuing education:** Providers in our sample took advantage of one important resource at their disposal to reward strong staff and encourage them to continue their formal education: the Teacher Education and Compensation Program, or T.E.A.C.H. program. The program offers financial support for continuing education classes and books, and it provides ECE staff with raises or bonuses after completion of each successful education year.<sup>xxviii</sup> The providers also found creative ways to reward under-compensated staff with benefits such as 401K retirement savings accounts, paid holidays, and discounted child care services for their own children. Unfortunately, two of the sites remained unable to provide the most valuable benefit of all—health insurance coverage—to even their full-time staff members.
- **Building efficient administrative capacity:** As noted above, the costs of administration are many: program budgeting, billing, data collection, paperwork for monitoring and compliance, training and hiring staff, and so much more. Providers can minimize the burden of these administrative costs if they’re able to realize economies of scale. A central administrative team that supports multiple sites will inevitably be a smaller percentage of each individual site’s budget than if each site has to sustain its own individual capacities for each administrative task. While larger programs have a clear advantage here, some smaller programs may achieve similar results by engaging in a shared-services model, where back-office duties are shared amongst a network of small, independent providers. Currently, in Pennsylvania, policy barriers make it extremely difficult for providers to engage in a true shared-services model,<sup>xxix</sup> and none of the providers in our sample had attempted it. Still, the three largest programs in our sample did report substantially greater and more efficient administrative capacity. In particular, larger programs benefited from being able to employ administrative staff to handle client billing, HR, and financial management. Notably, recent changes to Keystone STARS, which shift qualification requirements away from the director and encourage the development of a “leadership team,” may help more providers move in that direction and make administrative compliance more flexible.<sup>9</sup>
- **Braiding public funding:** Perhaps most importantly, as previously discussed, providers serving pre-K children who also qualify for child care subsidy can use those funds to provide “wrap-around” care before and after the pre-K school day and during the summer. By “braiding” these funding streams, a provider can receive a much greater daily reimbursement rate per child. However, as depicted in the graphic in each case study, children who qualify for braided funding represent relatively small percentages of enrollment for most providers. Thus, while maximum braided funding rates well exceed the average cost of care per child, providers continue to struggle. What’s more, a provider that decides to braid funding also incurs the increased cost of ensuring that revenues are allocated and expenditures tracked for each funding source across the fractured system. The provider must avoid duplication of funding of service costs and must ensure that each funding source is charged its fair share of program and administrative costs. Reporting requirements and timelines for reporting also vary across each funding source. Four of the six sites we visited relied on braiding Pre-K Counts or Head Start funding with child care subsidy for children who qualify for both programs. Providers reported differing levels of comfort with that process, but all considered it necessary to continue their operations.

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<sup>9</sup> For more on changes to STARS, see: [https://www.pakeys.org/pages/get.aspx?page=Refining\\_STARS](https://www.pakeys.org/pages/get.aspx?page=Refining_STARS)

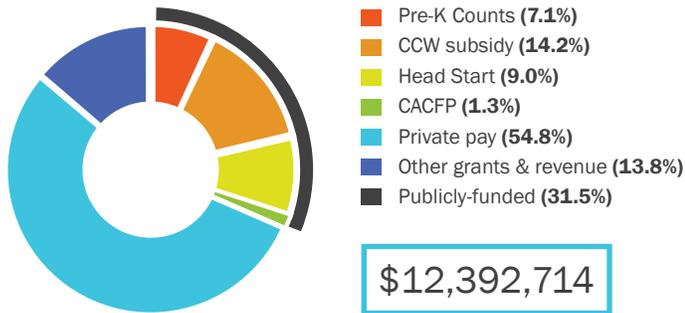
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# STORIES FROM THE FIELD

**The experience of each high-quality child care and early learning center is unique. On the following pages are four individual stories which, although not broadly representative, are informative for policymakers seeking to understand the difficult task centers face in reconciling available revenues with the expenditures necessary to provide high-quality care.**

# MONTGOMERY EARLY LEARNING CENTERS

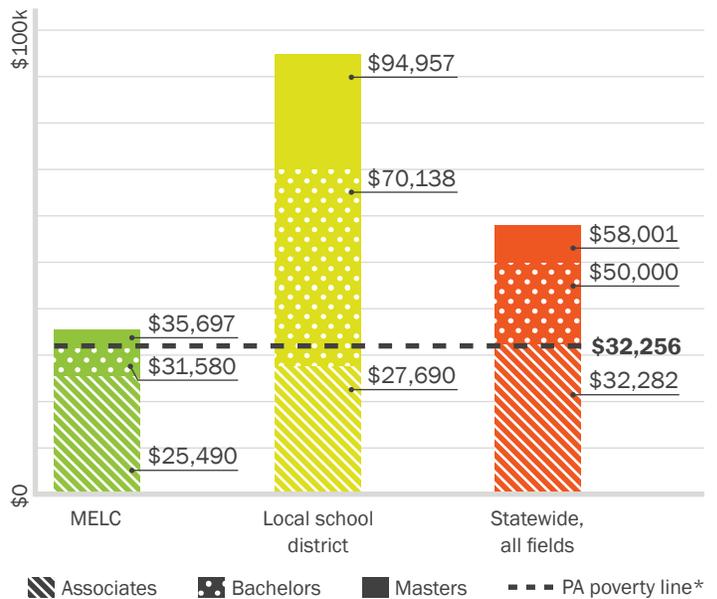
## REVENUES



## EXPENSES



## SALARY COMPARISONS



Montgomery Early Learning Centers (MELC) has been working in Southeastern suburban communities for over 50 years, beginning as a non-profit provider of school-age before- and after-care and eventually growing to also serve infants, toddlers, and pre-K children. Today, MELC runs five child care centers in Montgomery and Philadelphia counties, and three additional school-age programs in partnership with local school districts, at a total of 18 sites. Each site serves a different community, and their needs, funding levels, and expenses vary significantly.

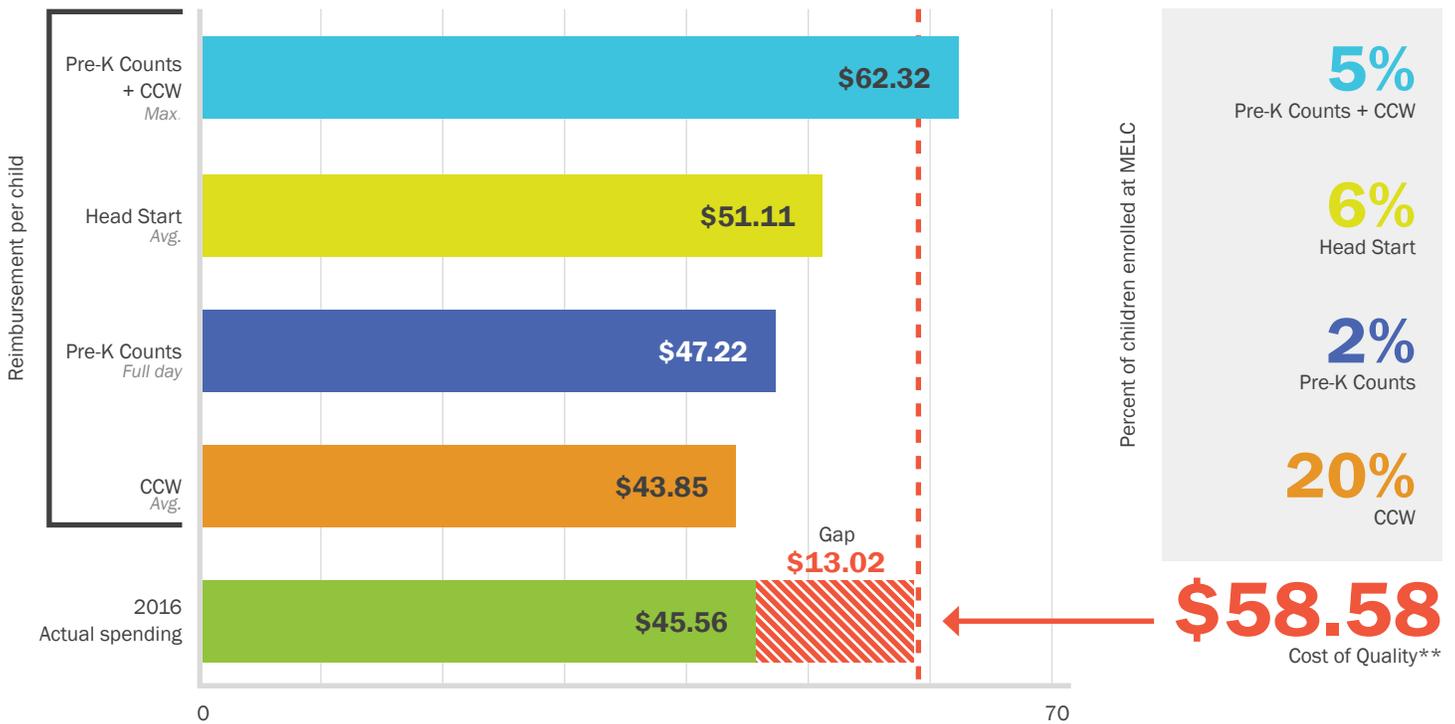
As Theresa Snyder, one of MELC’s two program directors explains, “Each program serves different families and faces different challenges in meeting needs and maximizing enrollment. In our suburban sites there is the challenge of marketing our program to private-pay parents in the community who have other choices of varying quality and price.” The situation requires a real balancing act: maintain the high-quality programming and attractive facilities that parents want, but never price themselves higher than a nanny-share. To do so, MELC staff must be

thrifty and creative. “We tend to do a lot of trying to figure out how to put broken things back together or extending the life of old equipment and materials.”

Meanwhile, in the more under-resourced communities they serve, MELC staff face challenges that come with serving a more transient population. Kids experiencing instability at home may accumulate many absences, and some simply stop showing up without explanation, making it difficult to maximize enrollment. Teachers and support staff work hard to address the individual needs of students, many of whom have experienced trauma already. They know if they can do that, children are less likely to experience social and academic challenges once they enter school. CEO Ann O’Brien sees this commitment to providing high-quality care to all MELC children, regardless of the zip code where they live, as “the core of her organization’s mission.”

It’s a mission they are able to pursue, in large part, because they have built an economy of scale. “Center by center, some of our sites are losing money, but because of

## DAILY REIMBURSEMENT RATES VS. COST OF QUALITY



\*Represents SNAP eligibility for family of three in PA

\*\*Estimate includes cost of wages increases competitive to local school districts and achieving NAEYC-recommended ratios

our size and diversity we are able to manage financially,” O’Brien explains. A centralized administration allows for more profitable centers to support less profitable, more costly ones. It’s up to CFO Tom Sulpizio to make the dollars add up and navigate the requirements of various funding streams. And while braiding funding allows some programs to get closer to the cost of care, O’Brien is adamant that, “It’s a myth that braided funding is the silver bullet. It’s kind of like saying to someone, ‘Go get five jobs and then your salary will be totally adequate.’” Still, MELC has more support than many providers to juggle those “five jobs.”

MELC’s central administration not only helps manage budgeting and finance, but it also takes substantial burdens off of individual center staff in terms of recruiting, hiring, and training. Without that, “the job of being a center director is extremely demanding, and it’s so hard to keep talented people.”

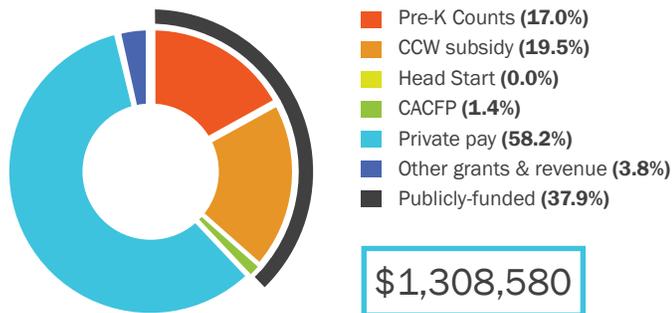
*“More than anything else, the quality of the staff determines the quality of the program.”*

But O’Brien and her leadership team are frustrated that as long as state reimbursement rates remain inadequate to cover the cost of care, their staff will continue to be undercompensated for their hard work.

MELC strives to pay competitive wages, but O’Brien still regrets that her hard-working staff are not paid nearly as well as their public school counterparts, and some still fall below the poverty line. In addition to salary, MELC is committed to providing a strong compensation package, including paid leave, a 401K plan with an employer match, and discounts on child care for employees. They also offer health insurance, which is “a huge cost, but absolutely essential to ensure that staff have access to affordable, high-quality medical care.” In the end, the cost is worth it if it means staff stay, and children and families benefit. “More than anything else, the quality of the staff determines the quality of the program. Our staff are amazing. Wages most certainly do not reflect their value.”

# THE SETON CENTER

## REVENUES



## EXPENSES

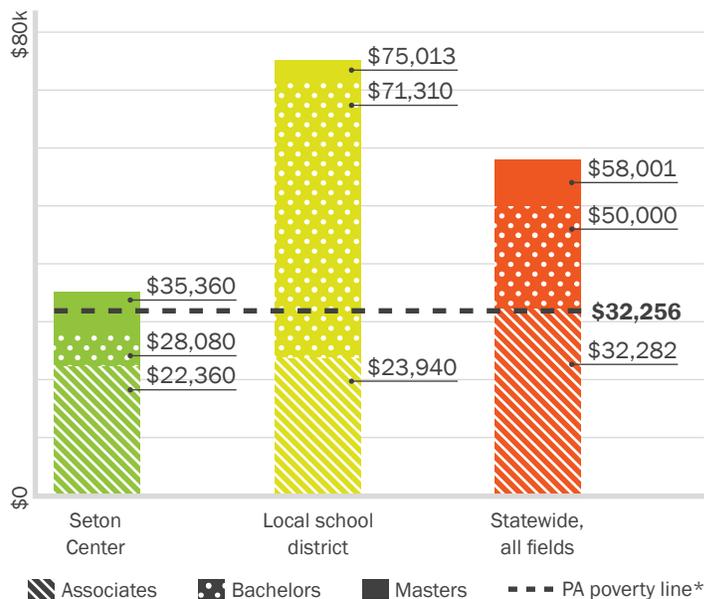


Located in Pittsburgh’s Brookline neighborhood, the Seton Center provides child care and before- and after-school programs to children from six weeks to 12 years old. But Seton Center isn’t just for kids; as longtime CFO Mary Ann Heneroty explains, “It actually started with just a senior center. Then there was a small child care program, and I always say, then they hired Sister Barbara and before you knew it there were three floors and a waiting list.”

Today, Seton Center’s programs also include adult care for seniors who can’t stay by themselves during the day. This unique combination builds intergenerational connections, something CEO Sister Barbara Ann Boss thinks benefits everyone involved. “The seniors just light up when the little children go over there. And it’s hugely beneficial for the kids too—they’re learning to build bridges across the generations and breaking down walls of fear.” It also creates a more diversified and stable financial model, one that can weather the volatility of enrollment changes and reliance on public funding that make child care such a tough business. As Heneroty explains, “It’s a cash



## SALARY COMPARISONS



flow thing. The only thing that kept us alive during last year’s nine months budget impasse was the fact that we had a variety of programs here. If we would have been depending on one, we couldn’t have made it.”

Heneroty and Sister Barb have also been intentional about diversifying the ages of the children they serve in child care. “I don’t know how anyone makes enough money on infants and toddlers to cover the cost of those ratios, especially for children on subsidy,” says Sister Barb. “We do that as part of our mission.” Heneroty elaborates, “Mother Seton was the founder of the Catholic school system in the United States and her philosophy was that poor families should have equitable access to high-quality education. She and the Sisters of Charity were very practical. They were all about, how do we make this work for kids?”

So, how does the Seton Center make it work? They bring in enough revenue on pre-K programs, which benefit from funding through Pre-K Counts, and school-age programs, which are less costly overall, to balance the budget. They

## DAILY REIMBURSEMENT RATES VS. COST OF QUALITY



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\*\*Estimate includes cost of wages increases competitive to local school districts and achieving NAEYC-recommended ratios

are also lucky. The Sisters of Charity own their building and charge them just one dollar a year for rent.

Unfortunately, the Seton Center still operates close to the breakeven point, and Heneroty and Sister Barb remain unable to pay their employees what they think they deserve. Even their highest paid staff, full-time pre-K teachers, are paid far

less than their counterparts who teach grades K-3 in the Pittsburgh School District, making turnover a challenge. “By the time we get them certified they’re very valuable to the public schools, so every September we hold our breath,” Heneroty laments. She’s also concerned with the ripple effects of low wages. “The future of this country is in the hands of these little children, and they in turn are in the hands of our staff every day. If we don’t pay them fairly for that work, that’s a whole other generation of poverty we’re creating.”

*“The future of this country is in the hands of these little children, and they in turn are in the hands of our staff every day. If we don’t pay them fairly for that work, that’s a whole other generation of poverty we’re creating.”*

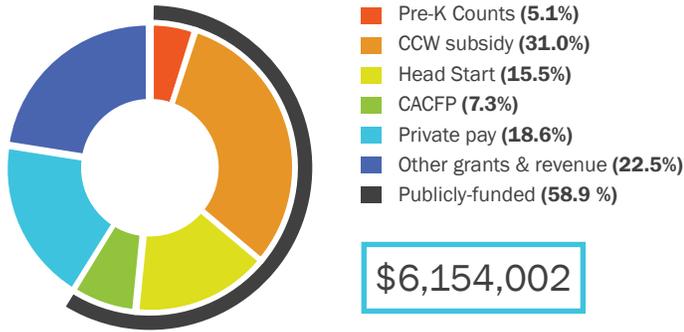
Meanwhile, Sister Barb worries about the message it sends when they pay pre-K teachers substantially more

than teachers in the infant and toddler classrooms. “At Seton there is an educational component to every classroom, whether we call that teacher a pre-K teacher or not. Higher wages for certified pre-K teachers are a great thing, but without any attention to the rest of the workforce, we’re producing serious inequity.”

Unfortunately, no simple answer emerges. Higher wages would require more revenue. When Sister Barb heard recent rumblings about the passage of a \$12 per hour minimum wage bill, she asked Heneroty to do the math. “The bottom line is, it would cost us an additional \$198,000 a year. Where do we get that? Do we raise child care rates by 45 percent?”

# CHILDREN'S VILLAGE

## REVENUES



## EXPENSES

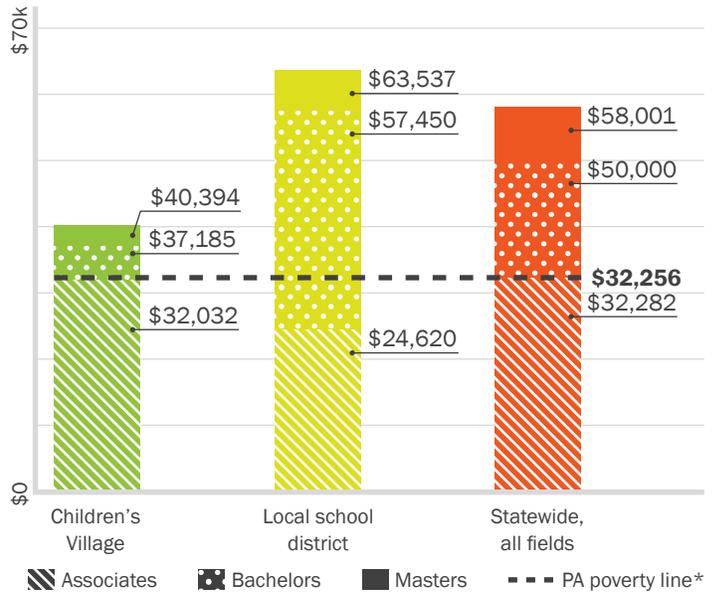


Children's Village has served children and families in the diverse and ever-changing community around Philadelphia's Chinatown since 1976. Many are immigrants, drawn to jobs in restaurants and retail nearby. As director for the last 29 years, Mary Graham has made it a priority to engage those families, adapting programs and hiring staff to communicate in their languages and outfitting her classrooms with art and books that reflect the young learners' diversity.

Serving students from disadvantaged backgrounds, many of whom are learning English, is part of Children's Village's mission. It's also expensive. The center employs a librarian, a psychologist, and five family services staff members to provide the additional supports that students and parents need. None of that would be possible, Graham acknowledges, without funding from Pre-K Counts and Head Start. As she's fond of pointing out, child care subsidy reimbursement rates provide less funding per hour, per kid, than it costs to park your car in Center City.



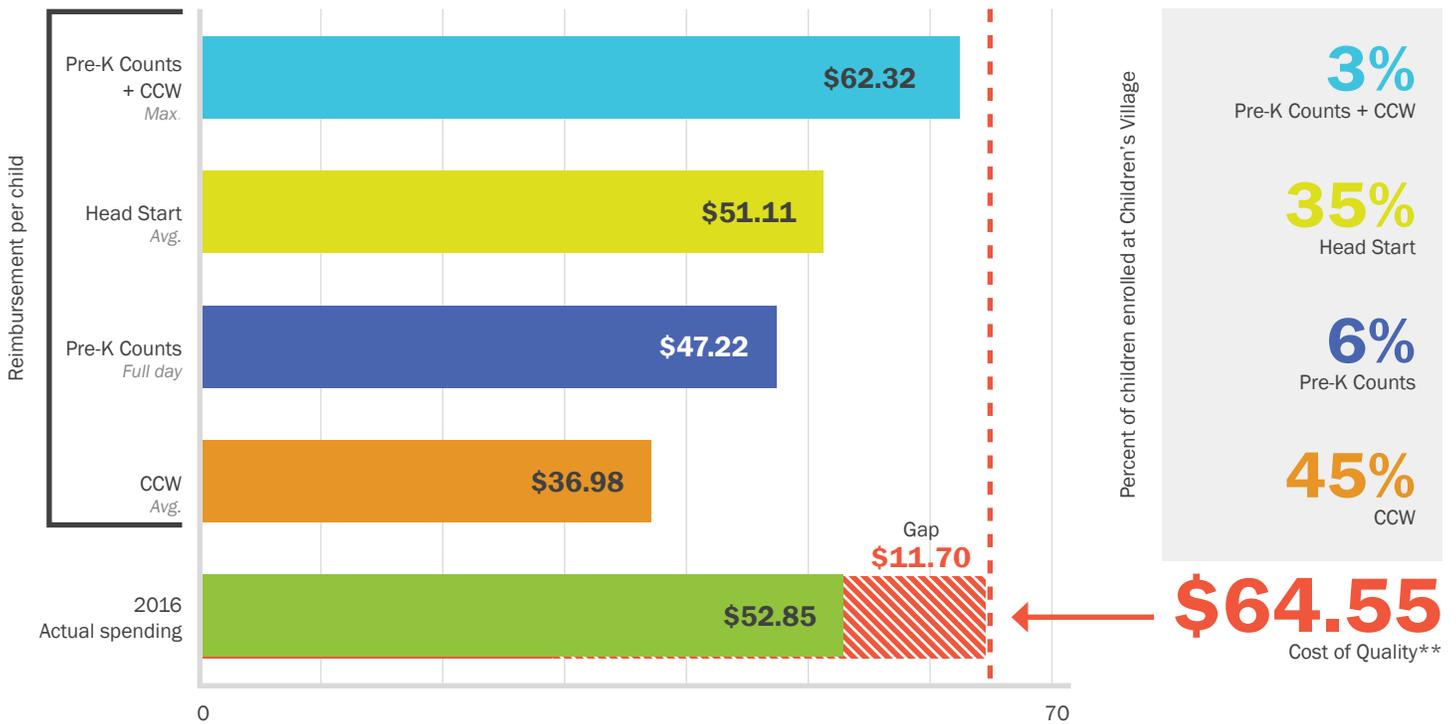
## SALARY COMPARISONS



Though never formally trained in business or accounting, Graham has become somewhat of a guru when it comes to braiding funding from public programs to support high-quality care. She even teaches a class for other center directors, helping them to better understand their own costs and to maximize available revenue by using child care subsidy as a "wrap around" to support the hours of care before and after Pre-K Counts and Head Start. She admits that the reporting requirements are substantial and require information management systems to input data and allocate everything across multiple programs, but she also thinks it's worth it. To ease the burdens associated with compliance, Graham has hired a full-time person to manage the data entry. It's a solution that costs less than paying teachers overtime to input their own data and allows them to focus more completely on their kids and classrooms.

Despite Graham's extraordinary leadership, Children's Village still struggles to make ends meet. In an industry where all revenues are dependent on daily enrollment, finances are inherently difficult to predict and manage.

## DAILY REIMBURSEMENT RATES VS. COST OF QUALITY



\*Represents SNAP eligibility for family of three in PA

\*\*Estimate includes cost of wages increases competitive to local school districts and achieving NAEYC-recommended ratios

Graham recalls that in 2013, she and her board were thrilled to end the year with a fund balance of over \$22,000. However, their excitement quickly evaporated, when, over the course of one week in February 2014, they lost \$30,000 in anticipated state funding when excessive snowfall forced them to shut their doors for three days.

“Those three days without subsidy payments swallowed up our entire annual fund balance,” Graham explains. “I still had to pay my teachers their salaries, I still had to pay my rent. There was no other way to make up for that loss of anticipated revenue.”

Last year, Children’s Village managed to end the year with a healthy fund balance, equivalent to roughly one and a half months of operating expenses. Graham would like to double that in order to comport with industry best practices and feel more secure, but she says that’s not her first priority. “The first sacrifice we all make when

reimbursement does not cover our real cost of care is in compensation,” she explains. “It’s not right.”

Graham pays her staff better than most and offers full medical insurance and a 401K, but her average salary for teachers with bachelor’s degrees is still almost \$20,000

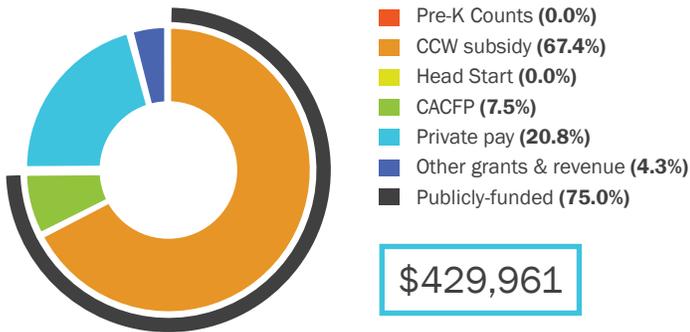
less than the salary at the School District of Philadelphia. “My teachers deserve parity with public school teachers with the same credentials, but in order to do that, I would need to raise an additional \$1.3 million a year.”

“Where would that money come from?” she asks. “Not from the families who are already struggling to get by.” Calculator in hand, Graham does the math herself, “The state would need to raise the subsidy rates by almost 80%!”

*“The first sacrifice we all make when reimbursement does not cover our real cost of care is in compensation. It’s not right.”*

# BULLFROGS & BUTTERFLIES

## REVENUES



## EXPENSES



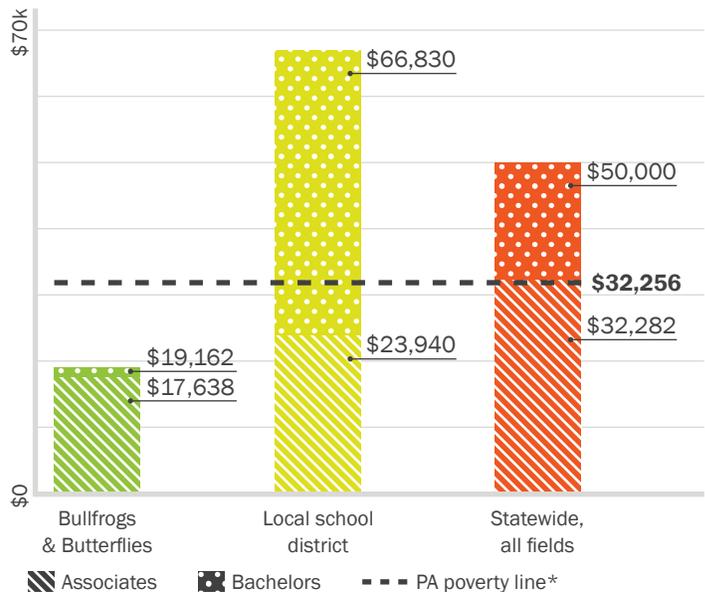
Joe Marie Henry started a family daycare in her home 28 years ago and has grown her business slowly and steadily into the STAR 3 center it is today. At present, Bullfrogs and Butterflies serves infants to school-age children in six cozy, bright classrooms in a quaint white building in New Brighton, PA.

Despite big growth, Bullfrogs and Butterflies remains a one-woman show. Henry oversees all aspects of daily operations, including budgeting, billing, program quality and compliance, the hiring and training of new staff, and coordinating staff schedules. Of course, on top of all of that, she's the instructional leader and the main contact with parents and families, helping her staff to navigate everything from children's behavior issues in class to problems at home. It's a job she loves, if only she could get more help.

"Finding good staff is extremely difficult," Henry explains. "I'm not even looking for a ton of experience, just 'teachability' and a passion for being with the children." Unfortunately, without any Human Resources



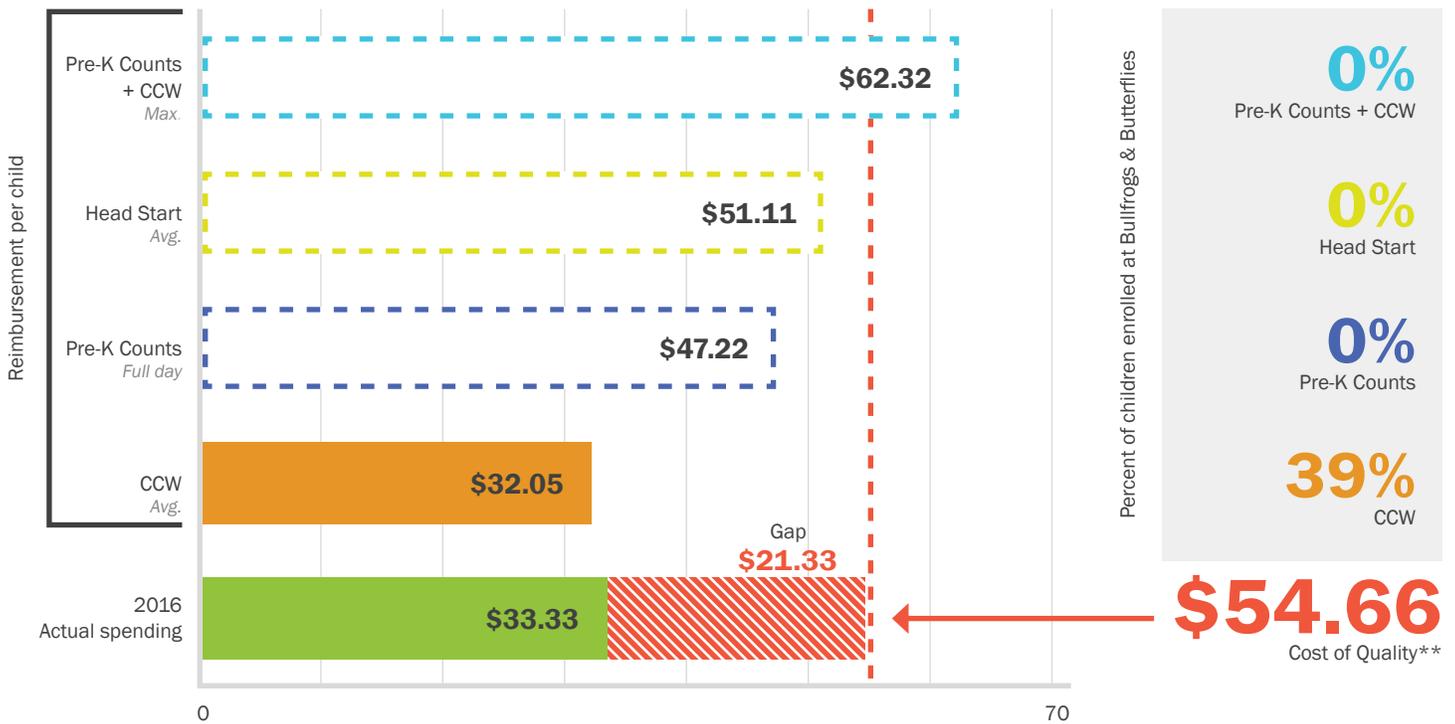
## SALARY COMPARISONS



support, interviewing and following up with applicants takes up a significant chunk of Henry's time, and it can take a financial toll as well. As she explains, "the time I spend with them, the time they're having to shadow another staff person, I'm paying for two people in the classroom." When she is able to hire strong new staff, too many already have one foot out the door. "The truth is, if they're getting their bachelor's degree, chances are, they're moving on to something else eventually. We don't pay enough for them to stay here."

Despite being STAR 3, the current education level of Henry's staff makes her ineligible for Head Start or Pre-K Counts. Instead, she relies entirely on CCW reimbursement and what parents can pay in private tuition. Yet costs keep rising. "Everything has gone up—everything! My electric bill, my gas bill, my food bill... Meanwhile, they haven't increased the subsidy base rate for over ten years." In the past, CCW also reimbursed providers like Bullfrogs and Butterflies, who offer extended or "non-traditional" hours, an extra \$7 a day per child. That supplemental funding was eliminated in 2011.

## DAILY REIMBURSEMENT RATES VS. COST OF QUALITY



\*Represents SNAP eligibility for family of three in PA

\*\*Estimate includes cost of wages increases competitive to local school districts and achieving NAEYC-recommended ratios

A psychology major with a motherly demeanor, Henry is a natural at nurturing staff, resolving conflicts, and working with children with challenging behaviors. What she never expected was how demanding the other part of being a director would be: running a business. “After all these years I still didn’t have that business sense. Finally, a few years ago, I took a business acumen class and it was an eye-opener for me. That’s the first time that I realized that, if I’m staying open longer hours than another place down the street, my \$35 a day from CCW has to stretch for 14 hours of staff coverage while theirs is paying for eight or nine hours... I had no idea how much of a difference that made. I was like, ‘No wonder I don’t seem to be getting ahead.’”

Even now that Henry has learned how to better weigh the financial impact of her policies and hours, she finds it difficult to make changes that would benefit her bottom line. Over the last five years she has kept private pay rates

relatively steady, has rejected the idea of charging private pay families an additional fee for snacks and meals, and is sometimes lenient with tuition collection when she knows a family is struggling. “As a businessperson, I could think one way. But as a real person that has feelings and a heart who looks at the kids and this family that’s trying

to make it? I mean I have a lot of accounts payable debt we’ve written off that people could not pay us. It’s just what you do.”

*“It’s like I never can get ahead enough to do the big stuff. It’s frustrating.”*

Henry pays herself out of the business’ profits at the end of the year, but often finds other demands on that money as well. “If I need to repair the roof, there’s no easy way to pay. In a good year I have a gross profit of \$40,000. I get taxed on that \$40,000 and, now, I only have \$20,000. It’s like I never can get ahead enough to do the big stuff. It’s frustrating. It’s very hard.”



## POLICY IMPLICATIONS AND NEXT STEPS

The story that emerges from these case studies is one of high-quality providers, driven by a passion for their work and the families they serve, who have each found creative ways to do a lot with a little. Unfortunately, even these providers, blessed with strong leadership and the ability to take advantage of multiple public funding streams, continue to struggle. In the face of demonstrated gaps between the true cost of care and current reimbursement rates, the most common sacrifice they make is in teacher compensation, leading to higher turnover among existing staff and difficulty hiring high-quality candidates.

### POLICY IMPLICATIONS

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. Lawmakers must work harder to craft policies and provide funding to support the non-profits and small businesses responsible for delivering high-quality child care and early education across the Commonwealth. Both qualitative and quantitative data from our small but diverse sample of providers suggest that state policy makers should consider the following policy implications:

- **Overall state funding levels are inadequate to support high-quality care for infants and toddlers.** 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. What's more, our analysis estimates that, on average, providers would need to increase their per child daily revenue by 56% in order to meet NAEYC's recommended classroom ratios (rather than mandatory minimum ratios) and pay teachers' salaries competitive with local school districts.
- **Braiding funding creates an administrative burden.** 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 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. They also risk engendering resentment among non-credentialed staff who are likely to feel the inequity of receiving dramatically different pay for similarly rigorous work in the infant/toddler classroom right next door.
- **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. The state could still build in mechanisms to require providers to make reasonable efforts to maximize enrollment, as many current Head Start contracts do.
- **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 we expect them to manage program budgets based on an impossibly 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.

## FUTURE DATA COLLECTION

Our analysis of six child care providers and the Pennsylvania child care landscape writ large serves to deepen the field's understanding of the difficulties that high-quality providers face in making ends meet and sustaining a well-compensated workforce in the current Pennsylvania policy and funding context. However, our research also raises more questions. For example, how much do the gaps between per child spending and revenues vary by provider type, size, and location? Are gaps smaller or larger for lower-quality providers? What kinds of resources and support do low-quality providers need to deliver higher-quality care? The answers to these questions are integral to crafting intentional, evidence-based policy.

One valuable and existing tool that could be put to use for a large-scale data collection effort is the Provider Cost of Quality Calculator (PCQC), a tool designed by early education experts Anne Mitchell and Louise Stoney to allow providers and policymakers to explore the ways that increased levels of quality impact a provider's bottom line. The PCQC can also help us better understand the dynamics on both the expense and revenue sides that impact the delivery of high-quality care.<sup>10</sup> This type of analysis has been conducted in a growing number of states, leading to proposed changes in reimbursement rates or funding models to better incentivize providers to serve all age groups at higher quality levels. Locally, the PCQC was used by Philadelphia's Commission on Universal Pre-K in 2016 to inform the new program's funding structure.

## EXAMINING FUNDING ADEQUACY

Analysis using the PCQC usually backs into a "cost of care" based on what providers are able to spend per child with current funding streams. However, no existing, rigorous studies have attempted to assess if that average cost of care is truly adequate to support quality, let alone a stable workforce or economic sustainability. Meanwhile, in K-12 education, "costing out studies," or assessments of funding adequacy, are common practice.

A true statewide "costing out study" on Pennsylvania child care and early education would require the development of a framework to quantify not only what centers spend now, but what they would need to spend in order to maintain high-quality learning environments, attract and retain degreed staff, and adopt best practices for business sustainability. That would mean a systematic look at wages across industries requiring similar skill sets, as well as a look at local school district wages for employees with similar credentials and experience. It would also mean an inquiry into the cost of implementing other best practices for ECE providers, such as building a healthy fund balance for emergencies, offering employees robust medical benefits and paid leave, and maintaining engaging, safe, and developmentally-appropriate facilities.

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<sup>10</sup> For more on the PCQC, see: <https://www.ecequalitycalculator.com/Login.aspx>



## ENDNOTES

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<sup>v</sup>“PACCA News & Updates,” *Pennsylvania Child Care Association (PACCA)*, last modified March 15, 2017, <http://us8.campaign-archive2.com/?u=07291036a3c07530d1947223d&id=62dcc9ef31&e=756725a57e>

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<sup>ix</sup>“Keystone STARS Grant & Award Structure Overview FY 16-17,” *Keystone Stars*, accessed May 1, 2017, <https://www.pakeys.org/uploadedContent/Docs/Early%20Learning%20Programs/Keystone%20STARS/Keystone%20STARS%20Grant%20and%20Award%20Structure%20Overview%2016-17%20.pdf>

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<sup>xii</sup>*Ibid.* Note: See *Table 4A (p 38)* for more details on how Pennsylvania’s subsidy reimbursement rates stack up nationally.

<sup>xiii</sup>PA Office of Child Development and Early Learning, “Market Rate Survey for the Child Care Works Subsidized Child Care Program,” *Bureau of Subsidized Child Care Services*, 2014.

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