



The Economics of Child Care

Oregon Joint Task Force on Access to Quality Affordable Child Care

June 2, 2020

Simon Workman, Director, Early Childhood Policy

Center for American Progress

www.americanprogress.org



CAP Early Childhood Policy

- The Center for American Progress is an independent nonpartisan policy institute dedicated to improving the lives of all Americans through bold, progressive ideas and concerted action.
- Early Childhood Policy team
 - Conducts research into the current state of child care and other early childhood issues in the U.S.
 - Develops new policy solutions at the state and national level that address the needs of children and families
 - Advocates for expanded access to affordable, high-quality child care for all families and other policies that would improve the lives of young children and their families.

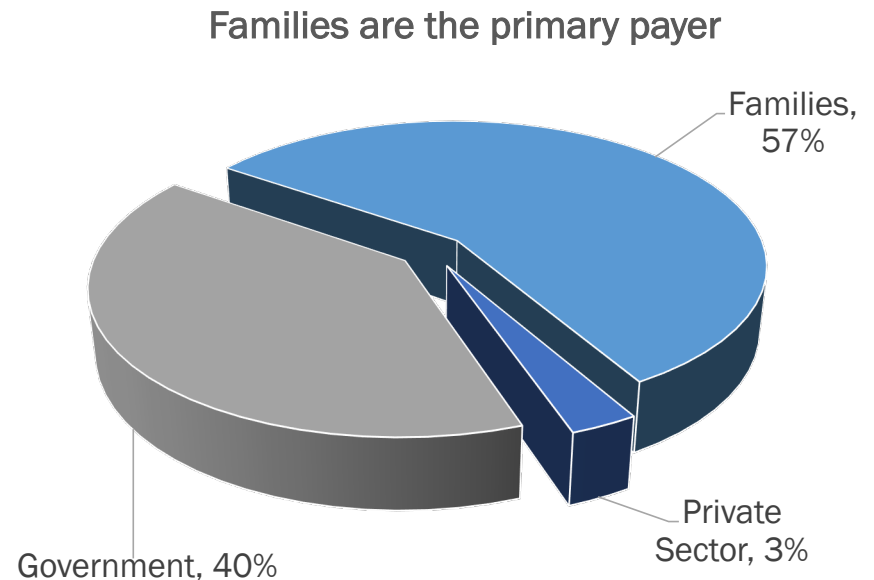


ECE Finance 101



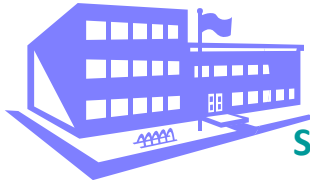
National ECE Market

- The ECE market is mainly private sector businesses (85-90%)
 - Most are small businesses, lack economy of scale
 - Multi-site organizations are about 10% of industry
 - Publicly operated sites are less than 5% of industry
- National market revenue \$47 billion, plus \$52 billion spillover
 - Oregon: \$500 million direct revenue, \$490 million spillover

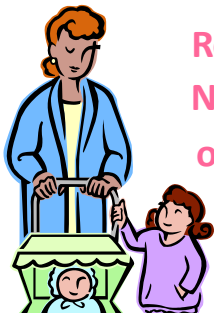


The Early Care and Education Market

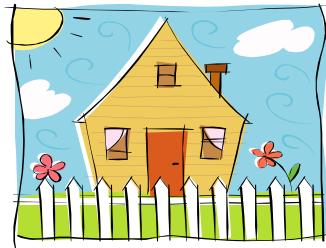
After-school
program



School-based
PreK



Relative,
Neighbor
or Nanny



Family Child
Care Home

Nanny
Service



Non-Profit
Child Care
Center



Head Start
Center

Private
preschools



For-profit Child
Care Center





Market facts: Consumer demand

- Families are biggest buyers of ECE, price-sensitive consumers
- Higher quality ECE costs more than most families can afford, which lowers demand for quality
- ECE market encourages price competition – low tuition fees – which discourages supplier investment in quality
- Market rate system for setting subsidy rates limits resources available to providers in low-income communities.



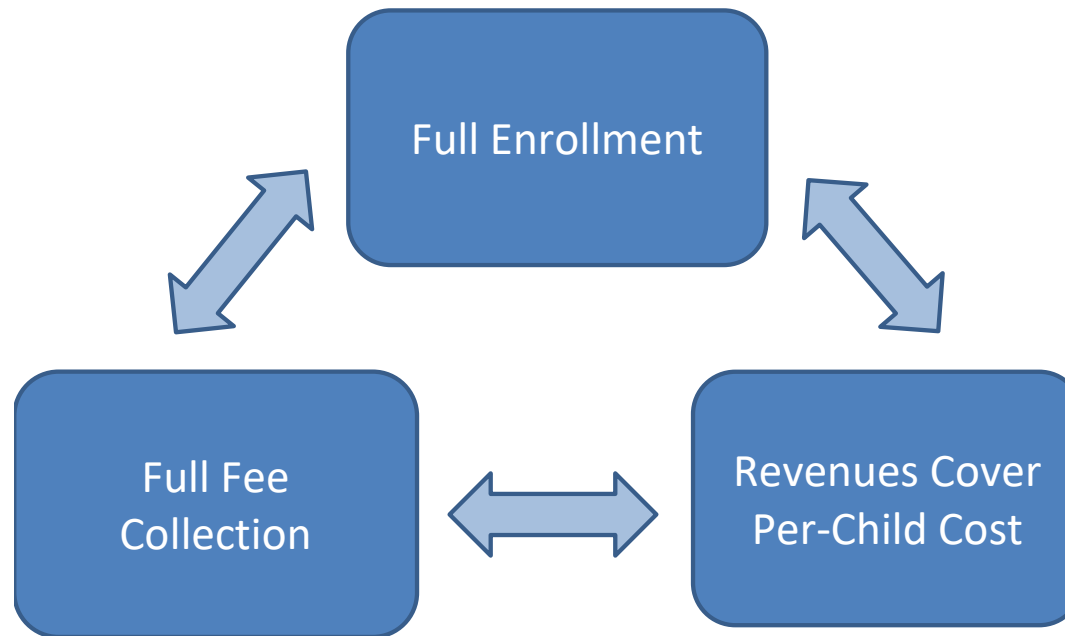
Impact of the ECE market on equity

- Bifurcated system
 - Providers in higher-income neighborhoods can set rates closer to the true cost of care, pay higher wages
 - Providers in lower-income neighborhoods limited by what families can afford to pay, and by low subsidy reimbursement rates.
- Subsidy rates based on market price limits ability of providers serving most vulnerable children to operate a high-quality, financially sustainable program
- Results in higher number of child care deserts in low-income communities, increased instability during market disruptions.



Provider financial stability

The 'Iron Triangle'





What drives cost? And what drives revenue?

Cost Drivers

- Ratios and class size (ages of children)
- Staff salary and benefits, staffing patterns
- Nonpersonnel (occupancy, supplies, materials, equipment, food, etc.)
- Per-child costs: child assessments and family engagement activities.
- Time for planning, assessment, etc.

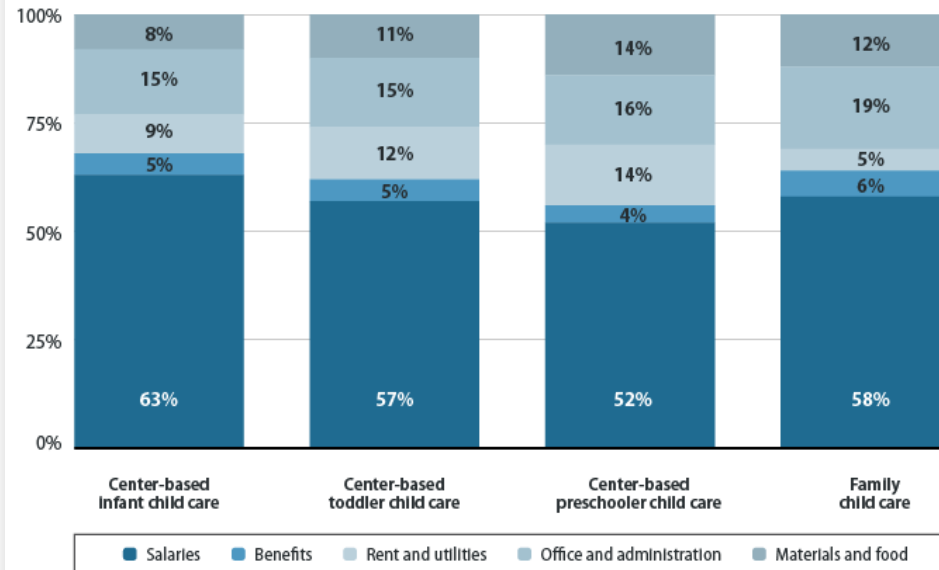
Revenue Drivers

- Parent tuition
- Subsidy payments
- Bad debt (collection) and enrollment efficiency
- Quality-based financial awards
- Child and Adult Care Food Program (CACFP)

Where does your child care dollar go?

FIGURE 2

Salaries and benefits make up the largest share of child care program expenses
Model 1: Program meeting minimum state licensing standards



Source: Child care center costs are based on data from the interactive, "Where Does Your Child Care Dollar Go?", available at www.costofchildcare.org (last accessed November 2018). Family child care costs are based on the authors' unpublished cost model.



Source: CAP, "Where Does Your Child Care Dollar Go?," 2018.

Impact of COVID-19 on economics of child care

Lower group sizes

- Less revenue per classroom but same staffing

Enrollment changes

- Uncertainty, challenge of maintaining 'full' enrollment

Increased expenses

- Sanitation, staffing

Decreased Income

- Reduced subsidy and tuition receipts

Understanding the cost of quality child care in Oregon

What impacts the cost of high-quality in Oregon?

Licensing standards

- Ratios and group size
- Space requirements

Quality standards

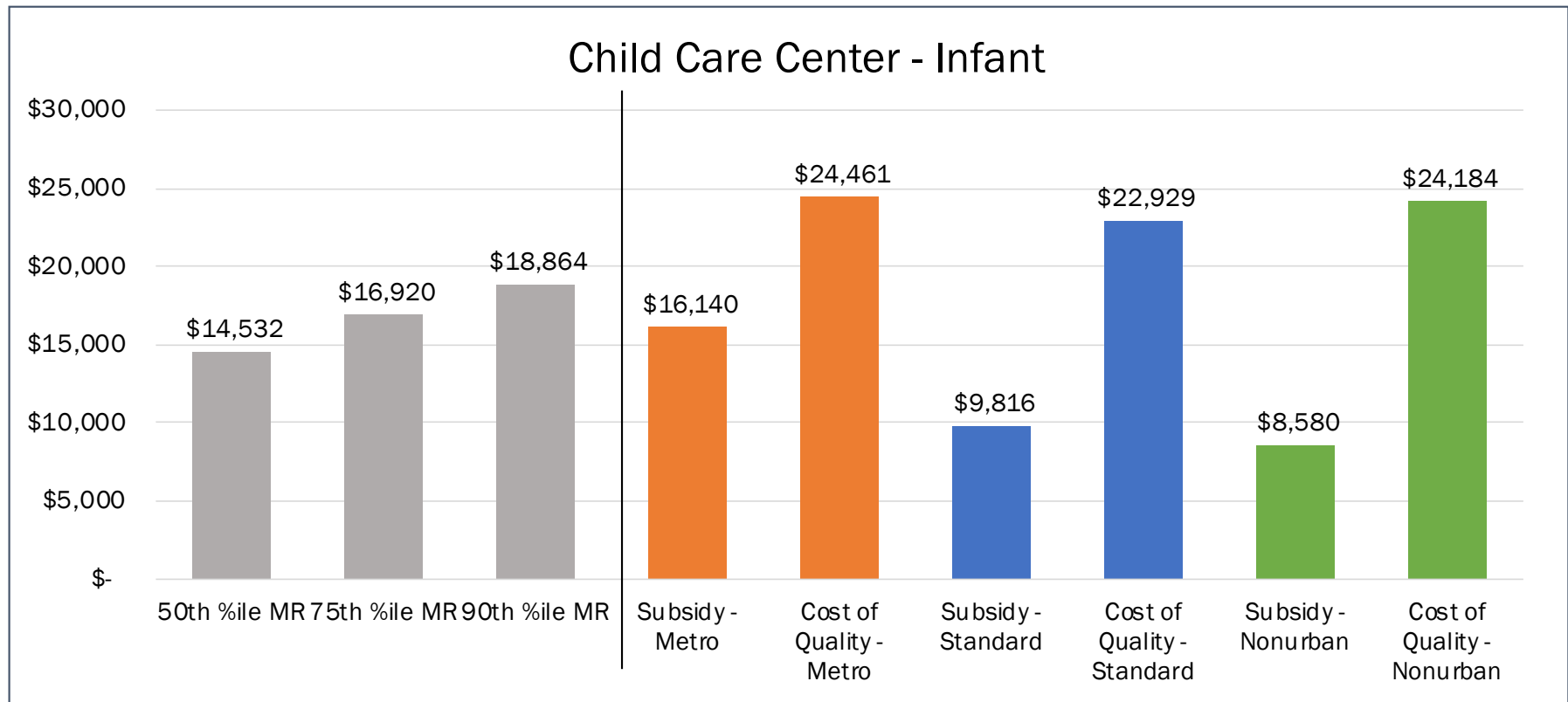
- SPARK
- Oregon PreK (OPK)
- Head Start

Compensation

- Salaries and benefits, including regional variations

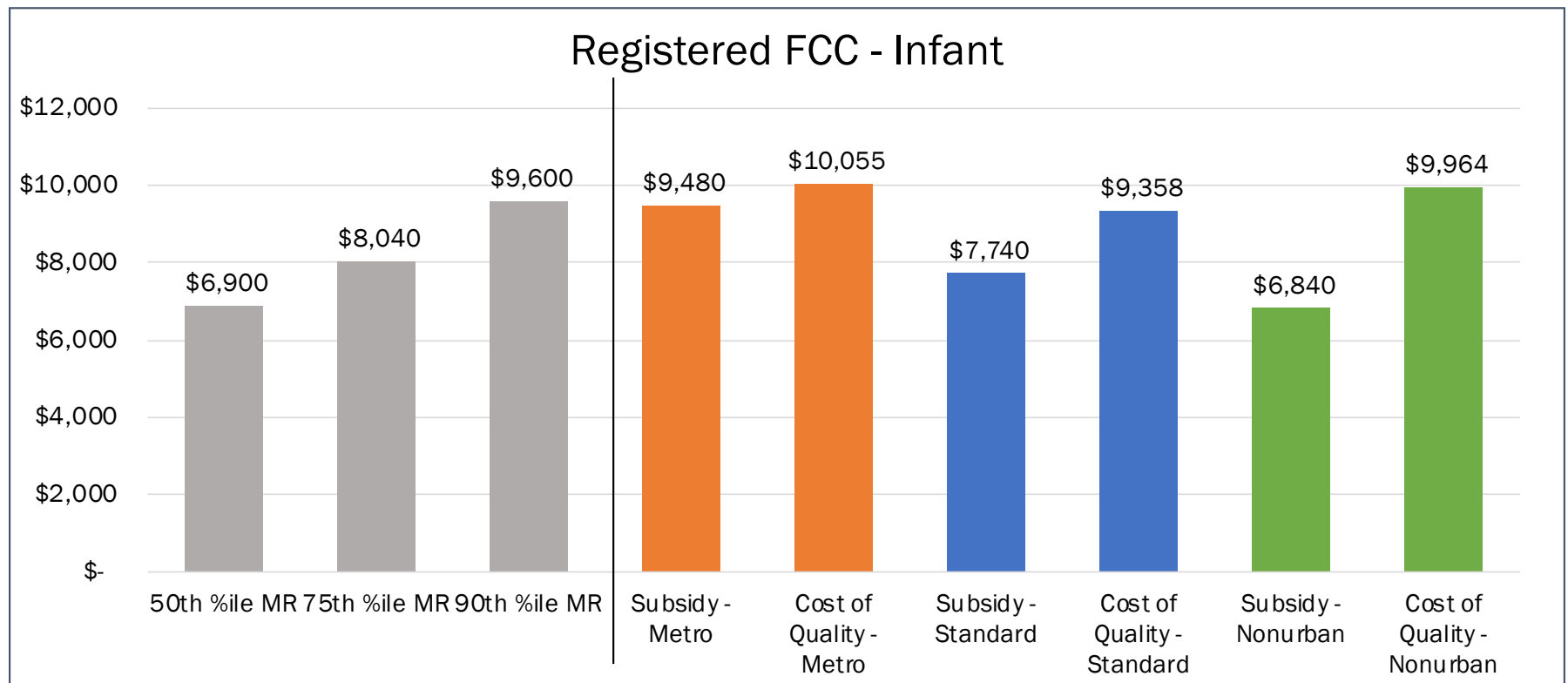


2018 Study Estimates and Comparison



Cost of quality estimates based on providers operating at SPARK level 5

2018 Study Estimates and Comparison



Cost of quality estimates based on providers operating at SPARK level 5



Addressing the gap: Providing financial security to a critical industry

Providers need a stable, sufficient funding stream that covers their costs

Subsidy system changes

- Alternative rate methodology – cover the true cost, including higher compensation
- Contracting for slots – stable income for providers

Increased public investment

- Need for public support to go beyond supporting low-income working families
- Cover gap between what families can pay and true cost, including quality



2020 Cost of Quality Study



2020 Cost of Quality Study

- Early Learning Division engaged CAP to conduct a full cost of quality study.
- Study will lead to development of a model that will estimate the true cost of quality in Oregon.
- Results can be used to inform subsidy rate setting, to highlight the need for additional public investment, and to align quality incentives with the actual cost of high-quality.



Study Process



Convene stakeholders



Determine key cost drivers



Collect data from providers



Collect local and state revenue data



Analyze data, create provider profiles



Present results



Questions?

Simon Workman
Director, Early Childhood Policy
Center for American Progress

sworkman@americanprogress.org

Cell: 720-934-0857

Office: 202-599-9698