Early Head Start- Child Care Partnership Grant Application Issue:
Financial Impact on Potential Child Care Partner's Infant/Toddler/Twos Program

Alliance for Early Childhood Finance
June 2014

The EHS-CC Partnership can have significant financial impact on child care center and family child care partners, positive and negative. On the positive side, the center will gain access to quality improvement supports for teaching staff and classrooms and many comprehensive services (for the EHS children). Presumably the increase in salary needed to move from one teacher and one assistant in each classroom to two teachers will be covered by Early Head Start funds. On the negative side, in most states, child care center partners will need to reduce their group sizes to meet the EHS standards and as a result will lose a significant amount of revenue.

Family child care providers are affected similarly, gaining supports for quality improvement but generally losing some revenue to meet the EHS requirements.[1] Large family child care homes will also have increased expenses for the salary increase of the assistant becoming a teacher meeting EHS requirements.

Centers

The following example shows the impact on the infant, toddler and two-year olds classrooms in a typical center and in the same center meeting EHS group sizes and teaching ratios.

The typical center, the base case, is in the QRIS and has 8 classrooms meeting state ratios and group sizes; these are set at the most common levels across states. Each classroom has one teacher and one assistant. The cost per classroom for all occupancy and administration expenses is the same in both cases. The center's revenue is from subsidy and parent tuition, with 25% coming from subsidy and 75% from tuition, a common split. The rates for both are in the moderate range. The center is operating at typical enrollment efficiency of 85%. This is meant to be a completely average center.

To illustrate the impact as simply as possible, we focus <u>only</u> on the 3 classrooms for children under age three, with the teacher and assistant salaries are set at a moderate level. In the EHS case, the assistant is replaced by a teacher making the same moderate salary as the other teacher.[2] The revenue split between tuition and subsidy and the rates for each remain the same in both cases.

<u>The difference is that the reduction in group size results in loss of revenue for 6 children.</u> The net annual revenue for the 3 classrooms for children under age three is slightly negative in the base case (about $16,000). This is typical since the tuition and subsidy rates for younger and older children do not reflect the actual cost of serving them – but are set so that the revenue from the many older children is supporting the younger children. This loss would be made up by the revenue from the older children.

---

[1] A small FCC home may have no more than 2 children under age 2, maximum of 6 children; the provider must meet EHS teacher qualifications. A large FCC home may have no more than 2 children under 18 months, maximum of 12 children. Both the provider and the former assistant must meet EHS teacher qualifications.

[2] If these teacher salaries need to be increased further to meet average EHS teacher salaries ($25,495 per the 2013 EHS PIR), that is clearly an allowable EHS expense.

When the center meets EHS group size, the additional loss in net revenue is $77,864.[3]

Assuming the center has 25% of its under threes in EHS (6 children, all receiving subsidy), this loss amounts to $12,977 per EHS child. Increasing the percentage of EHS children (also receiving subsidy) will result in an even greater overall loss in net revenue; however the loss per EHS child will decrease moderately, since the loss will be spread over more children.

This loss in net revenue that results from meeting EHS group size and ratio requirements is a legitimate EHS grant expense.

Financial Impact on Potential Child Care Partner's Infant/Toddler/Twos Program in a CENTER

Quality Center (in QRIS)

Child Ages	*# Children*	*Classrooms*	*Ratio 1:*	*Group Size*
Infants	8	1	4	8
Toddlers	10	1	5	10
Twos	12	1	6	12
Threes	32	2	8	16
Four	54	3	9	18
	116	8		

Expenses ONLY for Infant/Toddler/Twos Classrooms

Teachers	3	$28,500	$85,500
Assist Teachers	3	$22,000	$66,000
Salaries			$151,500
Benefits	12%		$18,180
Occupancy Costs		3 classrooms	$82,500
Administration Costs		3 classrooms	$52,500
			$304,680

Revenue

	Subsidy	Private Tuition	
Percent	25%	75%	
Infants	$20,280	$78,000	
Toddlers	$22,100	$87,750	
Twos	$26,520	$105,300	$339,950
	85%	efficiency	**$288,958**

[3] In some centers, their current licensed space for children birth through three years may be large enough to subdivide into two groups, thus maintaining the EHS group size of 8 or less required but retaining slots in the room. This guidance is offered by Illinois, where rooms that have been licensed for 12 infants have been large enough to allow a subdivision and create two groups one of 8 and one of 4. This model does require moving from three teachers to four teachers but may result in less financial loss to the program. The Head Start Center Design Guide includes guidance on subdividing that should be considered in investigating this option (p.71).

NET Annual Revenue for 3 Classrooms =	**$15,723**

Same Center at EHS quality with 3 EHS Classrooms

Child Ages	*# Children*	*Classrooms*	*Ratio 1:*	*Group Size*
Infants	8	1	4	8
Toddlers	8	1	4	8
Twos	8	1	4	8
Threes	32	2	8	16
Four	54	3	9	18
	110	8		

Expenses ONLY for Infant/Toddler/Twos Classrooms

Teachers	3	$28,500	$85,500
Teachers	3	$28,500	$85,500
Salaries			$171,000
Benefits	12%		$20,520
Occupancy Costs		3 classrooms	$82,500
Administration Costs		3 classrooms	$52,500
			$326,520
Revenue			
	Subsidy	Private Tuition	
Percent	25%	75%	
Infants	$20,280	$78,000	
Toddlers	$17,680	$70,200	
Twos	$17,680	$70,200	$274,040
	85%	efficiency	**$232,934**
		NET Annual Revenue for 3 Classrooms =	**$93,586**

Net Revenue loss attributable to EHS	**$77,864**
Per EHS Child (if 6 children are EHS)	**$12,977**

Homes

Homes are small for-profit businesses; the provider's income is the net revenue after expenses; the business is paying for part of the home expenses. Family child care homes have direct business expenses (education supplies and materials, food, office supplies, etc.) and shared business expenses (cost of maintaining their home). Direct expenses are fully deductible; shared expenses are reduced by the time-space percent. The time percent is calculated by dividing the total hours per year that the home is used for child care by the total hours in a year. Providers typically work with children (usually 50-55 hours per week) plus spend time on business activities such as purchasing food or doing bookkeeping (usually another 4-5 hours each week). The space percent is calculated by dividing the amount of the home used for child care in square feet by the total space in the home. Space used for child care means all the rooms that are used for child care; most providers use about half of their home regardless of how large the home.

If the home enrolls enough children to require an assistant, the salary and mandatory benefits for the assistant are additional direct expenses.

The average home's revenue is from subsidy and parent tuition, with 25% coming from subsidy and 75% from tuition, a common split. The rates for both subsidy and tuition are in the moderate range. The home is operating at typical enrollment efficiency of 85%.

To illustrate the impact on a home as simply as possible, we assume the home enrolls 8 children, infants through four-year-olds, and does not require an assistant. In this case, the net annual revenue, the provider's annual income is just over $30,600.

When the home becomes an EHS partner, the provider must meet the EHS teacher requirements and can enroll only 6 children, with no more than 2 under age 2. The revenue split between tuition and subsidy and the rates for each remain the same in both cases. In the EHS case, the home's net annual revenue, the provider's annual income, is just over $17,600. This is a loss of $12,984.

The home has 2 of its children under age four in EHS (2 children, receiving subsidy), this loss amounts to $6,492 per EHS child. Increasing the percentage of EHS children (also receiving subsidy) will result in an even greater overall loss in net revenue (provider income); however the loss per EHS child will decrease moderately, since the loss will be spread over more children.

This loss in net revenue that results from meeting EHS group size and ratio requirements is a legitimate EHS grant expense.

Financial Impact on Potential Child Care Partner's Infant/Toddler/Twos/Threes Program in a FCC HOME

	Quality Home (in upper range of QRIS)	
	Max of 8 alone	
Child Ages	*# Children*	
Infants	1	
Toddlers	2	
Twos	2	
Threes	2	
Fours	1	
	8	children

Expenses

Annual operating expenses	$22,000

Revenue	Subsidy	Private Tuition	
Percent	25%	75%	
Infants	$2,210	$7,215	
Toddlers	$3,900	$12,870	
Twos	$3,510	$11,544	
Threes	$3,250	$10,530	
Fours	$1,625	$5,265	$61,919
	85%	efficiency	**$52,631**

Net Revenue (Provider's Income) = $30,631

Weekly Rates:	Subsidy	Private Tuition
Infants	$170	$185
Toddlers	$150	$165
Twos	$135	$148
Threes	$125	$135
Fours	$125	$135

Same Home at EHS quality

no more than 2 under age 2, max 6 children

Child Ages	*# Children*	
Infants	1	
Toddlers	1	
Twos	2	
Threes	2	
Fours	0	
	6	children

Expenses

Annual operating expenses	$22,000

Revenue	Subsidy	Private Tuition	
Percent	25%	75%	
Infants	$2,210	$7,215	
Toddlers	$1,950	$6,435	
Twos	$3,510	$11,544	
Threes	$3,250	$10,530	
Fours	$0	$0	$46,644
	85%	efficiency	**$39,647**

Net Revenue (Provider's Income) =	**$17,647**

	$12,984	= Net Revenue difference
	$6,492	= Amount per EHS child required to make up the difference
If	2	of the children are EHS

Given the provider is now the teacher, with higher qualifications, she probably deserves to make more than just the difference.