

Provider Budgets and Implications for Fund Design

In order to determine what an appropriate reimbursement rate should be and what opportunities there are for intervention to reduce costs, the cost of care to providers by type of provider and age of child must be known. The objective of the work done on assessing costs of care to providers was then to provide a reasonable cost of care to providers for providing quality care (reimbursement rate per child per week). Additionally, the best practice budgets developed could be useful to share with providers to help get a better sense of what the true costs of care are.

Childcare Centers (n=14, capacity 557)

Initially we contacted all fourteen childcare centers in Tompkins County, requesting copies of their budgets for 2001 and projections for 2002. Three centers (IACC, TC3, and the Drop-In Center) responded and were willing to provide copies of their budgets. Possible reasons for the low response rate include the fact that we contacted center directors directly instead of through DCC staff they were comfortable dealing with. We were successful in obtaining fee schedules for all fourteen centers (*see Table 1, attached to this memo*) and the capacity of all childcare centers by age group (*see Table 2*).

With limited budget information, and with the help of the DCC via Alene Wyatt, we were able to determine significant factors of total expenditure. Labor costs (salaries and benefits) were the single largest expense for all centers, comprising approximately 80% of childcare centers' budgets. The next largest expense item is occupancy costs, which vary considerably from center to center. Centers housed in colleges, community centers, churches or schools (about 62% of those in Tompkins County) have substantial portions of their occupancy costs covered by the larger organization. For example, IACC is housed in 3 different churches and therefore does not pay for rent, utilities or maintenance costs, while IC3 has a substantial mortgage utility and maintenance costs, but Cornell University owns their land and subsidizes their mortgage. Other significant and relatively fixed sources of expenditure are food, classroom and office supplies, audits and bookkeeping, cleaning services and insurance.

The presence of relatively fixed expenditures offers opportunity for intervention. In particular, contracting out accounting services could potentially save money by taking advantage of economies of scale. In addition, the provision of group insurance for all fourteen centers could also result in cost reductions. Differences in cost of care also have implications for the rate at which the fund reimburses centers. Specifically, the fund must decide whether to reimburse at actual cost of care to centers or a *reasonable* cost of care determined by analyzing the budgets of all of the centers. For example, IC3 voluntarily provides childcare services at a higher teacher to child ratio than is mandated. In doing so, IC3 both incurs additional costs and provides an enhanced service. Reimbursing at cost would effectively subsidize this decision.

Family Childcare Homes (n=79, approx. capacity 395)

Because budgeting practices for family childcare providers are understandably less rigorous than those of center directors, we were skeptical of finding primary data in this field. Alene Wyatt again provided us with a survey and a sample of the responses for family childcare providers in Tompkins County addressing income and expenses (1996). The responses were scattered at best (one provider reported caring for 2 children, having an annual income of \$50,000 and spending \$20 a month on

food). This confirmed something we already knew: that providers often don't know the cost of the care they provide and may even be unaware of their income/sources of revenue.

We then decided that instead of assessing what the actual cost of care is for family providers, we would determine what the cost *should be* to provide a reasonable quality of care. In doing so we included tangible, familiar costs such as food, office and household supplies and educational material as well as other more intangible (but real) costs such as depreciation of home and furniture, percentage of utilities used for business purposes (all using time-space percentages) and accounting costs. (The methodology for creating time-space percentages and an explanation of the use of this tool can be found in Tom Copeland's Childcare Tax Workbook). In doing so we hoped to produce a fair reimbursement rate that brings to awareness some of the hidden or internalized costs of providing childcare. The best practices budget developed can be found in Table 3, attached at end of this memo, and includes an itemized list of expenses and the source used in obtaining each expense.

Group Family Childcare Homes (n=28, approx. capacity 280)

Work on cost of care to group family childcare homes proceeded in much the same way as for family childcare homes. Again, because the cost of care was unknown, we used the best practices methodology to obtain a budget of what it should cost to provide quality care. Many of the costs for group family childcare homes were similar to family childcare homes and increased linearly depending on the number of children. Significant differences in expenses and the rate at which expenses increased/decreased were found in the need for additional employees in a group family childcare business to maintain legal ratios, and expenditures on equipment. Also, we assumed a higher time-space percentage because of the greater number of children and this therefore affected expenses for utilities, percentage of rent/mortgage used for business purposes and the depreciation for home and furniture/appliances. See Table 4 for the best practices budget for group family childcare homes.

Legally-exempt, Informal Childcare Homes (n= 72, approx. capacity 144)

Though legally-exempt (or license-exempt), informal care represents a significant percentage of the total availability of childcare services in the community. It is difficult to discuss the role this type of care plays because little data is available. Legally-exempt informal care may be of particular importance to low and middle income families for whom licensed care may be too expensive and inflexible to accommodate their needs. In many cases informal arrangements may provide a more practical alternative than licensed providers. The only data available on the number of informal providers in Tompkins County comes from the DCC, with whom informal providers can register for referral services.

As was the case for family and group family childcare providers, a best practices budget was engineered to determine the cost of care for informal providers (*see Table 5*). In this case, the time-space percentage changed again to reflect the fact that only two children were being cared for. Other significant changes in the budget involved the elimination of costs such as licensing fees, day care liability insurance and accounting costs.