

Brookings

Child Care Collaborative

CENTER COST ANALYSIS



BROKEN BUSINESS MODEL

For years our country has been faced with difficulties associated with the child care system. Child care in the U.S. is the rare example of an almost entirely private market in which the service offered is too expensive for both consumers and the businesses that provide it.

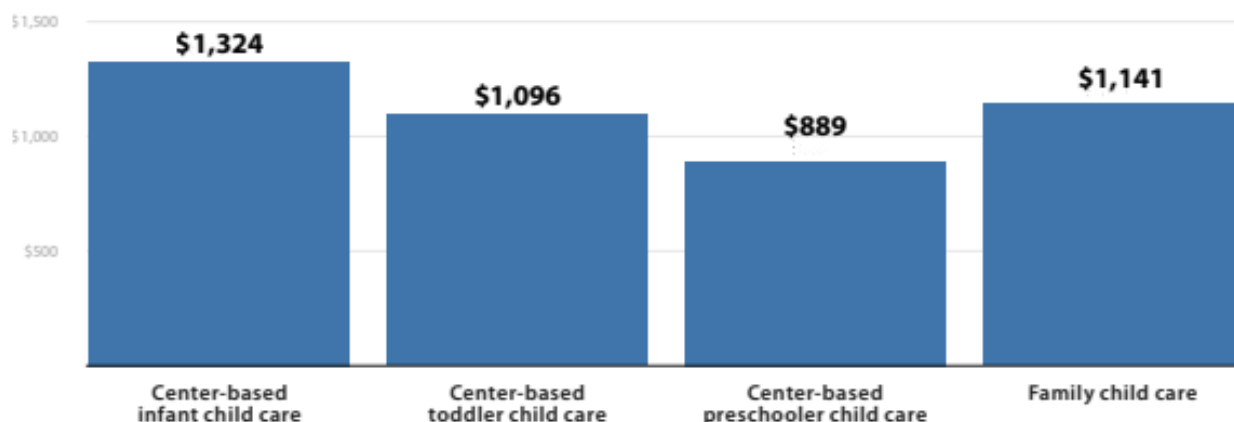
THE IMPACT

This reality is reflected in two alarming facts: In most states, putting a child in a licensed child-care facility costs more than in-state college tuition, yet the people who provide that care make an average of about \$24,000 a year, less than a fast-food worker or janitor, even though 87% of them have some form of higher education. Every year a quarter of the industry's workers leave. All this adds up to an exceptionally precarious business model; according to a 2021 study by the U.S. Department of the Treasury, the typical child care center's profit margin is only 1%. At just over \$1,300 per month, families would need to pay nearly \$16,000 per year on average to cover the true cost of child care; this is approximately 21 percent of the U.S. median income for a family of three.

FIGURE 1

The cost of licensed child care is out of reach for most families

U.S. average monthly cost of licensed child care, by age and setting



Note: Family child care costs are not broken out by age due to the nature of the setting, which operates as one single classroom.

Source: Author's analysis based on Center for American Progress, "Cost of Child Care," available at www.costofchildcare.org (last accessed June 2021).

WHERE

DO CHILD CARE DOLLARS GO?

Families who spend thousands of dollars each year on child care are often surprised to hear that their children's teachers make poverty-level wages. However, analyzing child care providers' budgets shows why this is the case. The Center for American Progress developed an interactive cost estimation tool to illustrate the economics of child care, estimate the true cost of child care in each state, and better understand why high-quality child care is out of reach for many families. Table 2 details a sample budget of an infant classroom in a hypothetical child care program, using data from the interactive. With parents paying \$1,300 per month per child, providers have just under \$82,000 available to cover salaries and benefits over the year. If the infant classroom is open from 8 a.m. to 6 p.m., 10 hours a day, and has two teachers at all times, this translates into around \$31 per hour to cover the salary and benefits of not only those two teachers but also the non-classroom personnel who support program operations. This is inadequate to pay staff a living wage and illustrates that despite the high cost to families, the economics of child care mean that the teachers in this scenario are still likely to qualify for public assistance.

12% RENT, UTILITIES, MAINTENANCE

23% MATERIALS & ADMINISTRATION

65% PERSONNEL

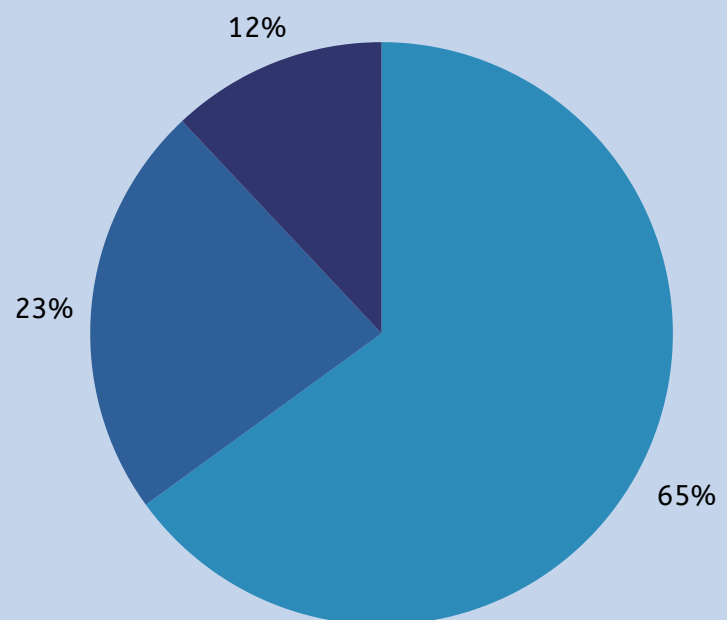


TABLE 2

U.S. average costs for a hypothetical classroom in a child care center serving eight infants

| Expense | Monthly cost per child | Annual cost per child | Annual total classroom cost |
|---------------------------|------------------------|-----------------------|-----------------------------|
| Rent and utilities | \$128 | \$1,536 | \$12,288 |
| Materials and food | \$127 | \$1,524 | \$12,192 |
| Office and administration | \$215 | \$2,580 | \$20,640 |
| Benefits | \$64 | \$768 | \$6,144 |
| Salaries | \$790 | \$9,480 | \$75,840 |
| Total | \$1,324 | \$15,888 | \$127,104 |

Source: Author's analysis based on Center for American Progress, "Cost of Child Care," available at www.costofchildcare.org (last accessed June 2021).

CLOSER TO HOME

Each state conducts a survey of providers as part of the process for setting child care subsidy rates. The results of these surveys provide data on the current market prices charged to private-pay families. Comparing both the base-quality level and the higher-quality level shows that the market price of center-based infant child care does not cover the estimated true cost of care that meets base quality or licensing standards, let alone the cost of a higher-quality program.

TABLE 4

The true cost of high-quality family child care exceeds the current market price

State-by-state comparison between current annual market price of child care and the true cost of child care in a family child care home setting

| | Current price | | | True cost | |
|----------------|---------------|---------|---------------------------|--------------|--------------|
| | Infant | Toddler | Preschooler (4-year-olds) | Base-quality | High-quality |
| New Mexico | \$8,080 | \$7,863 | \$7,629 | \$13,100 | \$28,400 |
| New York | \$9,794 | \$9,086 | \$8,566 | \$16,400 | \$36,200 |
| North Carolina | \$7,730 | \$7,257 | \$6,829 | \$14,000 | \$24,800 |
| North Dakota | \$7,764 | \$7,570 | \$7,440 | \$9,800 | \$27,200 |
| Ohio | \$7,649 | \$7,473 | \$6,604 | \$12,200 | \$27,500 |
| Oklahoma | \$7,236 | \$6,872 | \$6,360 | \$11,200 | \$24,600 |
| Oregon | \$7,848 | \$7,848 | \$7,392 | \$13,000 | \$37,200 |
| Pennsylvania | \$9,497 | \$8,798 | \$8,225 | \$12,300 | \$31,700 |
| Rhode Island | \$10,078 | \$9,683 | \$8,970 | \$10,500 | \$40,400 |
| South Carolina | \$5,965 | N/A | \$5,694 | \$12,000 | \$22,500 |
| South Dakota | \$5,491 | \$5,491 | \$5,304 | \$12,500 | \$21,600 |
| Tennessee | \$7,518 | \$7,176 | \$6,772 | \$11,300 | \$24,600 |
| Texas | \$8,970 | \$8,497 | \$8,016 | \$15,100 | \$26,300 |
| Utah | \$7,200 | \$6,664 | \$6,300 | \$9,400 | \$27,000 |

TABLE 5

Child care subsidy reimbursement rates are insufficient to cover the true cost of child care in most states

State-by-state comparison between current subsidy rates and the true cost of quality child care

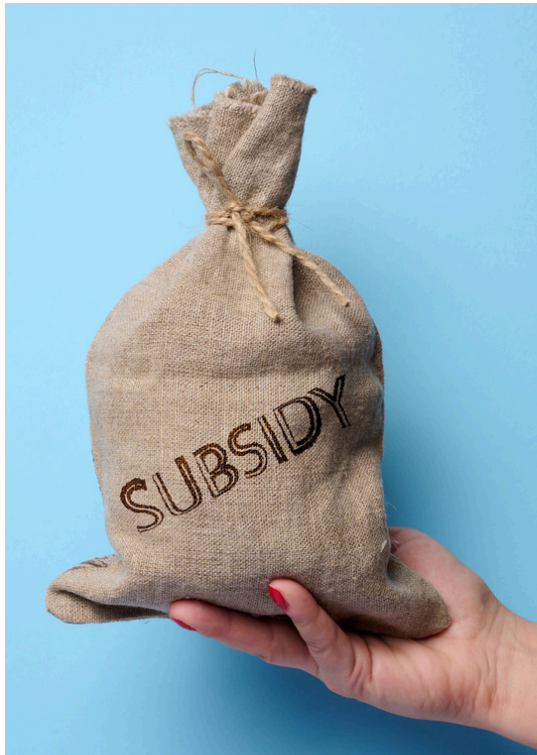
| | Child care center, infant | | | Child care center, preschooler (4-year-olds) | | | Family child care, infant | | |
|----------------|---------------------------|------------------------|------------------------|--|------------------------|------------------------|---------------------------|------------------------|------------------------|
| | Annual subsidy | % of base-quality cost | % of high-quality cost | Annual subsidy | % of base-quality cost | % of high-quality cost | Annual subsidy* | % of base-quality cost | % of high-quality cost |
| Rhode Island | \$10,560 | 54% | 27% | \$8,820 | 70% | 36% | \$9,377 | 89% | 23% |
| South Carolina | \$9,876 | 72% | 43% | \$8,676 | 98% | 63% | \$7,326 | 61% | 33% |
| South Dakota | \$9,480 | 97% | 41% | \$8,424 | 87% | 60% | \$7,020 | 56% | 32% |
| Tennessee | \$11,556 | 69% | 47% | \$7,428 | 69% | 48% | \$6,235 | 55% | 25% |

Note: Base-quality scenarios use default data from www.costofchildcare.org representing a program meeting state licensing regulations. The high-quality scenario includes all quality variables available in the interactive model. No age breakdowns are provided for family child care true cost data due to the nature of family child care programs that operate as a single, multiage classroom. "N/A" indicates that no price data are available for the selected state or age group.

Source: Price data were retrieved from Child Care Aware of America, "State Fact Sheets: Child Care Data for all 50 States, D.C. and Puerto Rico" (Arlington, VA: 2020), available at <https://www.childcareaware.org/wp-content/uploads/2020/09/2020StateFactSheets-UPDATE-AllStates-09242020.pdf>; Cost data were retrieved from Center for American Progress, "Cost of Child Care," available at www.costofchildcare.org (last accessed June 2021).

LIMITED SUPPORT

For-profit child care centers and family (residential) child care providers often have limited access to external support, relying almost exclusively on family tuition payments and child care assistance subsidies as their primary sources of revenue. This reliance on tuition and subsidies, which may not cover the full cost of quality care, puts additional financial pressure on these providers. As a result, they often struggle to grow or improve services, further limiting access to quality child care in many communities.



SUBSIDIES

Child care assistance in South Dakota is available through the Child Care Assistance Program (CCAP). To be eligible, a family must:

- Earn less than 209 percent of the federal poverty level (about \$52,000 per year for a family of three).
- Work at least 80 hours per month or attend an education or training program.
- Have a child age 12 or younger, or an older child with special needs

In Brookings we estimate this leaves a gap for around 30% of local families who still struggle to afford care and do not qualify for any assistance.

BUSINESS STRUCTURE

Primarily structured as private, for-profit centers, many are limited in additional assistance programs. Most for-profit centers are ineligible for grant and fundraising opportunities.

However, unlike most for-profit businesses, given historical challenges, providers also struggle to qualify for programs that support these institutions like:

- Low-Interest Rate Loans for start up or expansion.
- Line of Credit through a Lender.





START UP EXPENSES

Traditionally high initial costs, such as purchasing equipment, securing space, and covering legal fees, can quickly deplete a startup's capital, leaving little room for operational expenses. Without sufficient financial reserves, all new businesses often face challenges maintaining cash flow, increasing their vulnerability to failure. This financial strain is a major reason why approximately 20% of all small businesses fail within their first year, and around 50% do not survive past five years.

ECONOMIES OF SCALE

Many child care providers face challenges in achieving economies of scale due to fixed costs like staffing and maintaining strict child-to-teacher ratios, which cannot be adjusted as enrollment grows. Their ability to expand is often limited by physical space constraints or a shortage of qualified staff, making it difficult to scale without significant financial or operational changes. Additionally, child care providers lack access to cost-saving networks, such as food coops or group insurance, leaving them with fewer resources to reduce expenses. This financial strain can limit opportunities for growth, reduce access to funding, and hinder their ability to provide high-quality early learning programs. In recent years, more providers have started to partner with businesses or religious institutions to support overhead costs however still identify challenges with scalability and workforce.



FILLING

IN THE GAPS

The Brookings Child Care Collaborative (BCCC) follows the Collective Impact model, bringing together multiple non-profit organizations to create a sustainable solution for child care. This collaborative structure allows for increased opportunities for funding assistance, economies of scale, and has significantly reduced the typical startup expenses faced by individual providers. By pooling resources and expertise, BCCC has established a financially viable model that prioritizes both reducing child care costs for families in need and ensuring fair wages for the child care workforce. This approach enables the program to reach more children and provide high-quality care over the long term.



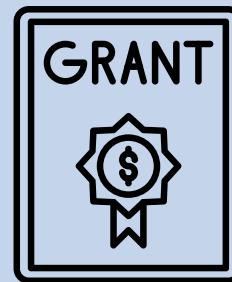
PARTNERSHIPS

By working through established organizations, this model offers sensible solutions to share facilities, operational expenses and expertise across partners. The holistic approach of the Collaborative will attract both supply and demand of the child care market while allowing more financial solutions of support as trusted teams, early learning, quality care and workforce participation are core values of the Collaborative.



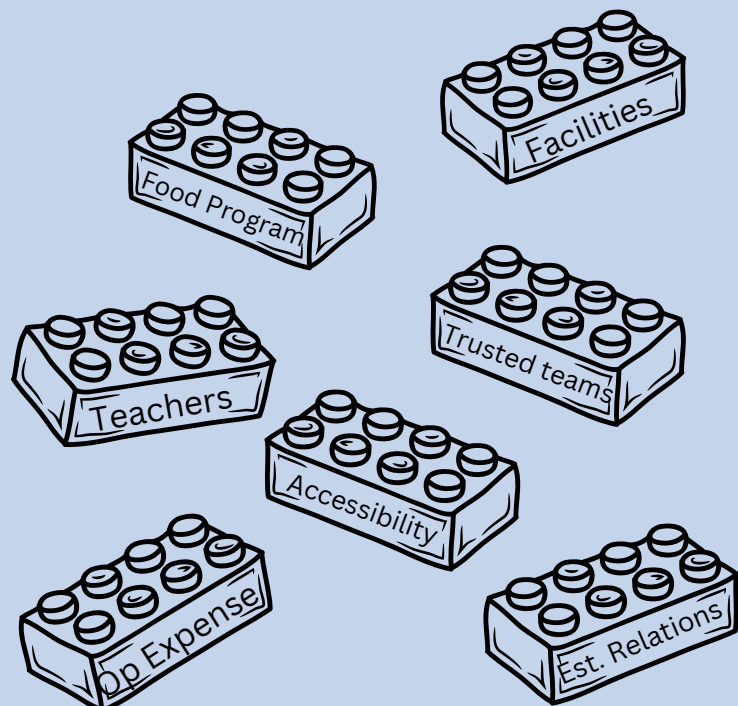
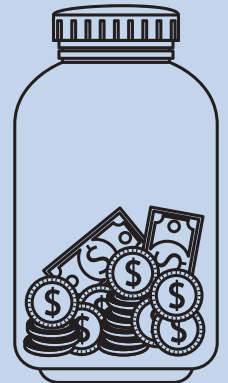
FAMILY
TUITION

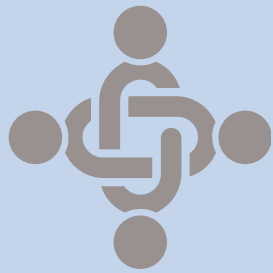
SUBSIDIES



GRANT
OPPORTUNITIES

FUNDRAISING &
SCHOLARSHIPS





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