CHILD CARE AFFORDABILITY
A LOOK INTO CHILD CARE BUSINESS COSTS

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ABOUT THIS BRIEF

Qualistar Colorado has produced this brief through a grant from The Women's Foundation of Colorado. Additional support for this effort has come from the Colorado Children's Campaign. This ongoing investigation into child care affordability issues was prompted by The Women's Foundation of Colorado's *The Status of Women & Girls in Colorado* report and Child Care Aware® of America's *Parents and the High Cost of Child Care* report, both of which identified child care affordability as a challenge for Colorado families, particularly single mothers. This second brief in a three-part series provides an analysis of child care affordability and operating costs in Colorado in the context of costs in other states. A culminating report in late 2014 will summarize the findings from this work and will include recommendations for improving child care affordability in Colorado.

CHILD CARE AFFORDABILITY

Colorado ranks as one of the least affordable states for full-time, center-based child care for preschoolers and for infants when affordability is calculated as the average price of care as a percentage of median family income.[i] On average, married couples in Colorado with one infant and one preschooler spend 15 percent of their income on infant care and another 11 percent on preschool-age care.[ii] For single mothers, the prices of infant care and preschool-age care equate to 48 percent and 36 percent of income, respectively.[i] However, both child care prices and affordability vary greatly across the state. Married couples with children using center-based care pay anywhere between 7.5 percent (San Juan County) and 20.3 percent (Saguache County) of their income for infant care and between 5.5 percent (San Juan County) and 16.7 percent (Routt County) of their income for preschool-age care. Single mothers pay between 19.9 percent (Teller County) and 94.5 percent (Gunnison County) of their income for infant care and between 11.9 percent (Ouray County) and 85.6 percent (Gunnison County) of their income for preschool-age care.[iii,iv]

Table 1: Price of Center-based Child Care as a Percentage of Median Income

	Colorado (statewide average)		United States (range of state averages)	
	Infant	Preschool	Infant	Preschool
Married Couples with Children	15.0%	11.3%	7.0% - 18.6%	6.0% - 14.1%
Single Mother Families	48.8%	36.9%	25.6% - 61.6%	22.6% - 47.7%

Sources: Qualistar Colorado and its network of Child Care Resource and Referral (CCR&R) partners, Child Care Aware® of America: Parents and the High Cost of Child Care: 2013 Report.

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In order to determine how affordability might be improved, it is necessary to understand why the price of care appears so high in Colorado. This requires an examination of 1) the measure of affordability, 2) whether the costs incurred by Colorado families are substantively different than in other states, and 3) why cost drivers vary across state lines.

CALCULATING AFFORDABILITY

Child care price as a percentage of median income is a simplified calculation of child care affordability. Measures of central tendency such as *average* and *median* describe a large set of data by a single measurement and, in this case, are not necessarily reflective of any one family or child care program. Cost of living is another confounding factor in the affordability equation, as families in two different states earning the same incomes do not necessarily have the same purchasing power for child care or other basic expenses. Also worth noting is that the affordability calculation falsely implies that all families pay the full price of child care. In reality, families have varying access to resources that assist with child care affordability, such as publicly-funded preschool programs, child care subsidies and various tax credits. Nevertheless, viewing affordability as a relationship between price and income is a common approach that can help states gauge the degree to which their child care system is meeting families' needs. In order to examine the affordability problem in our state using this approach, it is necessary to investigate the two variables used in the calculation: income and child care price.

INCOME

It does not appear that Colorado families' affordability challenges are more acute because families here are earning less. The median income among married couples with children in Colorado is 6 percent higher than the national average, and single mothers in Colorado earn almost 9 percent more than the national average.[iv] In fact, the median income for married couples with children in Colorado exceeds that in 36 states; the median income for single-mother families exceeds that in 37 states and the District of Columbia.[v] Additionally, despite the fact that Colorado's child poverty rate is growing at one of the fastest paces in the country, 32 states still have a higher percentage of children living below the poverty line.[v]

Table 2: Median Incomes in Colorado and the United States

	Median Income for Married Couples with Children	Median Income for Single Mother Families
Colorado	$85,137	$26,089
United States (range of state medians)	$62,819 - $111,875	$16,752 - $35,921

PRICE

The difference between child care prices in Colorado and prices in other states is more conspicuous than the differences in income. At $12,736 and $9,619 respectively, the average price for full-time, center-based child care in Colorado in 2013 was higher than in 43 other states for both infants and preschoolers.[iii,i] Preliminary estimates for 2014 indicate the average price for infant care in Colorado now tops $13,000.

Table 3: Average Price of Center-based Child Care in Colorado and the United States

	Average price for infant care	Average price for preschool-age care
Colorado	$12,736	$9,619
United States (range of state averages)	$4,863 - $16,430	$4,312 - $12,355

Child care administrators report using a variety of factors to help them set their prices.[vi] High-quality child care is expensive to provide. Most child care programs cannot charge prices high enough to cover all their costs because families would not be able to afford it. That fact makes it difficult to set prices based on an actual budget. Nevertheless, many costs are standard ones that must be covered in order for a child care program to operate. Many of those operating costs vary by program size, business entity type and location, since child care regulations vary by state and sometimes by county.

THE COSTS OF DOING BUSINESS

Property Tax - Many child care programs across the country are small independent businesses. However, the proportion of multi-site for-profit child care companies has been growing over the past 20 years.[vii] These child care companies include national chains, regional chains, local chains and franchise enterprises. In Colorado, approximately 35-40 percent of child care centers are tax-exempt nonprofit organizations; the other 60-65 percent are legally structured as for-profit entities, a profile that is similar to that in other states.[vii] Each type of corporation offers certain benefits. Large multi-site companies have the benefit of economies of scale for back-office processes such as human resources administration, whereas nonprofits are exempt from many taxes and often have access to funding streams that for-profits do not. One cost that for-profit businesses in Colorado pay at a higher rate than businesses in other states is *property tax*. Commercial property taxes in Colorado are more than three times the property taxes paid by residential property, a ratio that is twice as high as the national average.[viii] This high tax rate results in, for example, an annual cost of over $35,000 per year for a particular large child care center in northern Colorado.

Licensing Fees - *Licensing fees* are basic business infrastructure expenses that differ from state to state. Almost two-thirds of states have licensing fees that must be paid in order for a license to be issued or renewed.[ix] Fee structures and amounts vary greatly. Child care centers pay $12 per child per year in Delaware; in Arizona, centers are saddled with a $7,800 charge for an initial license. In Colorado, centers are charged the same amount for initially obtaining a license and for continuing the license each year. As is the case in 21 other states, the amount of the fee in Colorado is based on the number of children that can be cared for at one time at the facility. Colorado centers that are licensed to serve up to 20 children pay $77 initially and annually; the largest centers (251 or more children) pay $528 each year for their license.

Background Checks - The hiring of staff is another business expense category that differs among states. All states have *background check* requirements for child care center staff. Colorado is one of 13 states that require a comprehensive background check that includes fingerprints to check state and FBI records, the child abuse registry and the sex offender registry.[ix] Criminal background checks are the most common element required by states; a check of the sex offender registry is the least common. In Colorado, the fees for comprehensive background checks total approximately $87 per staff member upon their hire.

Staff Wages and Teacher Qualifications - Child care is a relatively low-paying occupation. Single mothers in Colorado who work in child care often do not earn enough money to be self-sufficient,[x] and many have to rely on child care assistance or deep employee discounts in order to afford care for their own children. Child care is an extremely labor-intensive industry. Even though they are relatively low, wages comprise the biggest line item in most programs' budgets, primarily because of the large number of workers needed to maintain the required staff-to-child ratios and remain open for up to 12 hours each day. Child care professionals in Colorado appear to be faring slightly better than their counterparts in other states in terms of wages. The Bureau of Labor Statistics (BLS) reports three job categories related to center-based child care: director, preschool teacher, and child care worker. According to the BLS, child care workers in Colorado earn more on average than child care workers in every state except Vermont, California, New York, Massachusetts and the District of Columbia.[xi] Within the job category of "preschool teacher," Colorado teachers earn more than teachers in 33 states. Wages are heavily influenced by minimum teacher qualifications. Colorado preschool teachers earn 10.5 percent more than teachers in states with lower education requirements but only 2.8 percent less than teachers in states with higher education requirements.[xi] Wages for child care center directors across the country vary more than wages for teachers, likely because the requirements for that position are more diverse. Only five states require child care center directors to have college degrees. Colorado directors, who are required to have some college classes but not a degree, earn more on average than directors in three of the five states that require degrees.[xi]

Staff-to-child Ratios and Group Size - There is considerable variance among the states in the *staff-to-child ratios* they require for child care centers. The National Association for the Education of Young Children's (NAEYC)[xii] standards are generally accepted as the national best practice standards in this area and are based on research that shows low ratios are an important predictor of caregiver interactions with children.[xii] Colorado's requirements come close to, but do not meet, NAEYC's ratio standards for all seven age categories. Eight states and the District of Columbia meet NAEYC's standards in at least two of the seven age categories; only 13 states meet five or more of NAEYC's standards.[ix] Licensing regulations in 35 states outline minimum ratios that are further away from the NAEYC standard than Colorado's regulations in one or more age categories. For example, NAEYC recommends one teacher for every 10 4-year-olds in child care centers. Colorado's licensing regulations for that age group require a ratio of 1:12; in 13 states that ratio is 1:15 or more.[ix] Also generally regarded as the national best practice standards are NAEYC's standards for group size, which is a term that refers to the number of children assigned to a classroom or other distinct space within a larger room.[xii] NAEYC recommends that states set *group size* limits based on children's ages (with smaller groups for younger children) in order to ensure safe, nurturing care. Though Colorado's regulations for group size do not meet NAEYC's standard for any of the seven age categories, 17 states do not even have a group size requirement for some or all age groups.[ix] NAEYC recommends a maximum group size of eight infants; in Colorado and four other states the maximum is 10. By limiting group sizes and ratios to levels at or near the national best practice standards, states show their commitment to children's safety. As a result, child care centers incur greater personnel costs, which impacts the prices they must charge families.

THE COST OF QUALITY

To illustrate the impact of quality indicators such as ratios, group sizes and teacher requirements on operating costs, consider a child care center classroom for 4-year-olds in Colorado, Utah and Massachusetts that is staffed by two teachers.[xiii] When operating at the maximum group size allowable, the largest group of children is in the Utah classroom and the smallest group is in the Massachusetts classroom. The less rigorous teacher qualifications in Utah is a primary reason that teacher wages there are 20-30 percent lower than in the two other states.[xi]

Table 4: A Comparison of 4-Year-Old Classrooms in Three States

	Colorado	Utah	Massachusetts
Minimum staff-to-child ratio[ix]	1:12	1:15	1:10
Maximum group size[ix]	24	30	20
Teacher education requirement[ix]	Some college coursework in Early Childhood Education	Less than a high school diploma	Some college coursework in Early Childhood Education
Average annual wage for a preschool teacher[xi]	$31,158	$24,253	$34,403
Annual price for full-time care for a 4-year-old[i]	$9,619	$6,024	$12,176

The child care center in Utah is able to charge considerably less for tuition because its staffing costs are significantly lower than the other states' costs. Also, with 30 children as opposed to the 20 and 24 in the other states' classrooms, the Utah center has more sources of income to cover its costs. In each classroom in this scenario, the combined teachers' wages equal approximately 27% of the total income from tuition, yet the price for care is 37% lower in Utah than in Colorado and 50% lower than in Massachusetts.

Health and Safety - To different degrees, states' licensing regulations address a number of additional health and safety standards. Colorado's center licensing rules include more basic *health and safety standards* (as defined by Child Care Aware® of America) than do the rules in 33 other states.[ix] Some of these health and safety requirements incur significant direct costs for child care programs. Playground safety provides one example. Because 200,000 children in the United States go to hospital emergency rooms each year due to falls from playground equipment,[xiv] many states have established requirements for the type and amount of resilient surfacing that child care center playgrounds must have. The purchase and maintenance of appropriate and adequate playground surfacing is expensive. Colorado's regulations for playgrounds state that permanently installed equipment over three feet tall must be surrounded by at least six inches of resilient surfacing.[xv] At a required depth of six inches, rubber mulch costs between $5.00 and $6.00 per square foot of playground space. In 2013, a child care center in a Colorado mountain community completed a $9,700 playground project that included the removal of dirt and grass surfaces and the installation of new surfacing. In 2011, a large child care center in Durango spent $33,000 to upgrade their playground surfacing from moldy wood fiber to new rubber mulch.[xvi] Centers in other states that do not have a surfacing requirement may choose not to maintain this high level of playground safety and, therefore, may not incur this expense.

Lost Revenue - Operators of child care businesses recognize the importance of maintaining full enrollment and collecting tuition on time and in full in order to keep their businesses solvent. *Lost revenue* is a common cost for child care programs largely because of the transient nature of the population they serve. Most programs build uncollectible tuition into their budgets as an expected expense because of the likelihood that some families will leave their program on short notice, without having paid their child care bill. There is no evident indication that lost revenue from non-payment is any more marked in Colorado than in other states. However, one source of lost revenue for Colorado centers in particular is the state's child care subsidy program, the *Colorado Child Care Assistance Program (CCCAP)*. CCCAP is substantially underfunded, with an appropriation that lags behind inflation, the ever-increasing cost of child care and the growth in the number of families needing child care assistance.[xvii] The National Women's Law Center conducted an analysis that compared the market price for child care to the subsidy program's reimbursement rate in one metro area in each state.[xviii] Findings from the analysis were that CCCAP reimburses child care centers in Denver 39 percent less than the market rate for infant care and 41 percent less for preschool-age care,[xix] and that only three other states reimbursed their child care centers at a lower percentage of the market rate.[xviii] Additionally, CCCAP does not pay providers for as many absences or holidays as private paying families are charged. A large center that serves a significant number of CCCAP families can lose tens of thousands of dollars of revenue each year.[vi] Often child care programs that serve children of families participating in CCCAP have to charge private paying families more in an effort to offset the loss of income. Fortunately, a new bill passed in the 2014 legislative session will bring about many improvements to CCCAP for Colorado families and child care providers.[xx]

FUNDING SOURCES

Tuition is the primary source of income for virtually all child care programs. Whether tuition is paid for by families, by a subsidy program or by other initiative such as a state's public preschool program, the vast majority of money that comes into child care programs does so on a per-child tuition basis. General operating support is difficult for centers to find. Access to private funding sources such as foundations is limited to nonprofit child care programs and often is targeted for a specific initiative or improvement. Public funding for child care is a patchwork system that varies across states and across levels of government. One federal funding source, the Child Care and Development Fund (CCDF), awards funds to states to support low-income families' access to quality child care. CCDF requires that states spend at least four percent of their CCDF allocation on quality activities in an effort to ensure that there is an adequate supply of high-quality care. Child care programs directly receive some of that funding. The most common quality activities funded through CCDF include targeted technical assistance and one-time grants, awards or bonuses to achieve or sustain quality.[xxi] Another federal funding source is the Race to the Top - Early Learning Challenge Fund. To date, 20 states including Colorado have received these competitive federal grants to design and implement integrated systems of high-quality early learning programs and services. Through this grant, Colorado child care programs will have access to incentives, quality ratings and quality improvement activities such as trainings and coaching. The impact of the Early Learning Challenge Fund on affordability in Colorado and across the country is not yet known, because the four-year grant projects are still underway in all 20 recipient states.

INFORMING ACTION

A number of the business infrastructure elements outlined in this brief are worthy of further investigation in the quest to find relief for Colorado families struggling to afford child care. Unfortunately, the factors that tend to produce higher quality care, such as sound health and safety practices and high teacher qualifications, are also those that incur higher operating costs. Colorado is an established leader in some of these areas and is striving to improve in others, as evidenced by recent increases in the education requirements for both teachers and directors. Any attempts to improve affordability by sacrificing quality would be counterproductive to the goals our state has for young children. The fact that most families cannot pay more than they already do for care, however, means that solutions to the child care affordability issue must lie elsewhere. Promising strategies such as tiered reimbursement that pays high-quality providers at a higher rate, paired incentives for families and providers that work together to support children's success, and employer-sponsored child care that benefits the company, its workforce and the greater community are already underway in Colorado and across the country. These solutions and other innovative strategies for overcoming the affordability problem will be explored in this project's culminating report in the coming months.

ENDNOTES

i Child Care Aware of America. (2013). *Parents and the high cost of child care: 2013 report*. Retrieved November 21, 2013, from http://usa.childcareaware.org/sites/default/files/cost_of_care_2013_103113_0.pdf

ii Not all families pay the full price for child care because of subsidies and other tuition supports. Throughout this brief, references to child care prices indicate programs' full, regular rate they charge.

iii Throughout this brief, references to Colorado child care prices come from Qualistar Colorado and its network of Child Care Resource & Referral partners and were the prices on record as of January 2014.

iv U.S. Census Bureau, American Community Survey, 2012 five-year estimates. Table B19126.

v Population Reference Bureau analysis of data from the U.S. Census Bureau, 2012 American Community Survey. As reported in the Annie E. Casey Foundation's KIDS COUNT Data Center.

vi *Cost of Care*. (2014, February 20). [Focus group]. Colorado Springs, CO. Participants: Child care center owners, directors and teachers.

vii Neugebauer, Roger (2014). *Large For Profit Organizations Growing Slowly*. Child Care Exchange. Retrieved May 15, 2014 from http://www.childcareexchange.com/catatlog/articles

viii Tax Foundation. (2012). *Fiscal Impact: State and Local Property Taxes Target Commercial and Industrial Property.* Retrieved February 12, 2014 from http://taxfoundation.org/article/state-and-local-property-taxes-target-commercial-and-industrial-property

ix Child Care Aware of America. (2013). *We can do better: 2013 update: Ranking of state child care center regulations and oversight*. Retrieved May 23, 2014, from http://www.naccrra.org/sites/default/files/default_site_pages/2013/wcdb_2013_one-pager_april8.pdf

x Colorado Center on Law and Policy. *The Self-Sufficiency Standard for Colorado, 2011: Self-Sufficiency Standard Tables by County, All Family Types*. Retrieved January 15, 2014 from http://cclponline.org/pub_library/self-sufficiency-standard-for-colorado-2011/

xi United States Department of Labor, Bureau of Labor Statistics, (2013). May 2013 State Occupational Employment and Wage Estimates Colorado. http://www.bls.gov/OES/current/oes_co.htm

xii National Association for the Education of Young Children. (2014). *NAEYC Early Childhood Program Standards and Accreditation Criteria & Guidance for Assessment.* Retrieved May 15, 2014 from http://www.naeyc.org/academy/primary/viewstandards

xiii In all states some child care programs choose to operate at higher levels of quality than is required by licensing regulations. This example assumes all three classrooms are operating at the minimum standards for ratios, group sizes and teacher education levels.

xiv United States Consumer Product Safety Commission. (2013). *Public Playground Safety Checklist*. Retrieved June 17, 2014 from https://www.cpsc.gov/en/Safety-Education/Safety-Guides/Sports-Fitness-and-Recreation/Playground-Safety/Public-Playground-Safety-Checklist/

xv Colorado Department of Human Services. (2012). *RULES REGULATING CHILD CARE CENTERS (LESS THAN 24-HOUR CARE)*. Retrieved May 16, 2014 from http://www.colorado.gov/cs/Satellite/CDHS-ChildYouthFam/CBON/1251583639322

xvi Information from Qualistar Colorado Capital Fund (QCap) grant applications.

xvii Webster, M. and Ball, A. (2014). *Child care funding in Colorado has fallen behind by $54 million*. Colorado Center on Law & Policy. Retrieved June 5, 2014 from cclponline.org

xviii Schulman, K., & Blank, H. (2013). *Pivot point: State child care assistance policies 2013.* National Women's Law Center. Retrieved February 12, 2014 from http://www.nwlc.org/sites/default/files/pdfs/final_nwlc_2013statechildcareassistancereport.pdf. In this publication, "market rate" is defined as the 75th percentile of actual market prices. This is in keeping with the federal recommendation that state subsidy reimbursement rates be set at that level so that participating families have access to a broad range of child care programs.

xix Denver County pays some child care programs at a higher rate based on their quality. The reimbursement figures used here are the rates paid to Denver providers that have not have their quality assessed or otherwise do not participate in the tiered reimbursement program.

xx House Bill 1317- Colorado Childcare Assistance Program Changes, Colorado General Assembly. 2014. The bill makes several changes to CCCAP, including provider rates, parent co-payments, payment for child absences and holidays, income eligibility changes, eligible activities for parents using CCCAP, Colorado Works transition, exit income eligibility, child care authorization, waiting lists, evidence of income, presumptive eligibility, and eligibility for families receiving food assistance.

xxi Administration for Children & Families, *First Look: CCDF Quality Data FY 2012*, from State and Territory Administrators Meeting, July 2013, accessed at http://www.acf.hhs.gov/programs/occ/news/first-look-at-fy-2012-qpr-data

THE WOMEN'S FOUNDATION OF COLORADO

The Women's Foundation of Colorado's mission is to build resources and lead change so that every woman and girl in Colorado achieves her full potential. The Women's Foundation of Colorado is a leader in conducting research, bringing together resources, impacting policy and investing in community partners who share their goals and impact their ability to dramatically change lives of women and girls in our state. Extensive, strategic research guides their work and is combined with their dedication to education, advocacy and collaboration as they set the agenda and lead systemic change in Colorado.

QUALISTAR COLORADO AND THE COLORADO CHILDREN'S CAMPAIGN

Qualistar Colorado is a statewide non-profit dedicated to advancing quality early childhood education across Colorado. We believe that all children deserve a high-quality early childhood education experience. Qualistar works to improve early childhood education by helping families find child care through a free referral service, rating the quality of child care programs, providing college scholarships for child care teachers, managing grants to improve child care facilities and, strengthening federal, state and local policy through the use of data and information.

The Colorado Children's Campaign is a non-profit, non-partisan advocacy organization that works to create hope and opportunity in Colorado, more than one million kids at a time. The Campaign uses accurate, compelling data and research on child well-being to champion policies and programs that improve children's lives.

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