Business Practices of Family Child Care: *Expanding What We Know*

Context

Very little research has been done on the business practices of family child care providers and which factors most impact a program's profitability. Understanding the drivers of success for family child care businesses is important not only for family child care providers but also for policymakers who are tasked with ensuring families have access to an adequate supply of affordable high-quality care.

The Data Source

Between April 2015 and March 2016, staff from First Children's Finance provided business consultation to 43 family child care providers in Minnesota. Providers and consultants worked together to assemble detailed and comprehensive documentation of the program's finances over the prior 12 months. About a quarter of participating programs (28%) were located in the 7-County Metro area and the remaining were located in 15 counties in Greater Minnesota. On average, these providers had been in business 12 years and worked alone (only 9% employed an assistant or substitute). They served, on average, 10 children.

About First Children's Finance

First Children's Finance helps children, families and communities thrive by increasing the availability, affordability and quality of early care and education.

We accomplish this by providing financial and business-development assistance to high-quality child care businesses serving low- and moderate-income families, and building partnerships that connect these vital businesses with the resources of the public and private sectors.

We believe access to high-quality early care and education is essential for all communities, because human capital development is the foundation of individual success and the engine of economic growth.

Expenses

On average, these providers reported annual expenses of $26,372. Two-thirds of program expenses come from occupancy expenses (rent, mortgage, utilities, maintenance) and from food expenses. The "other" category in the accompanying table is comprised of a wide variety of things, none of which make up more than 2% of total program expenses: personnel, liability insurance, quality practices, equipment, professional services, marketing, toys, office supplies, regulatory costs, etc.

Revenue

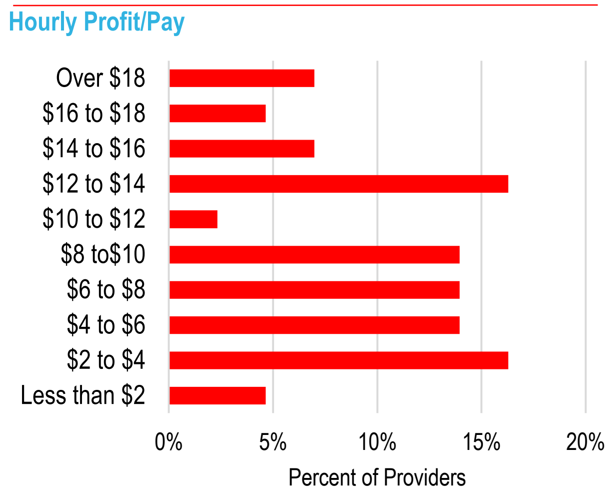
On average, these providers reported annual revenue of $50,938 (median of $47,775), with 90% of income coming from tuition. Nearly all programs in the sample (93%) were participating in the Child and Adult Care Food Program (CACFP). For programs that receive CACFP, that income makes up, on average, 10% of their total program income. Just 30% of programs were receiving any income from the Child Care Assistance Program (CCAP) and just 5% received income from an Early Learning Scholarship. Of those who did receive CCAP, those payments accounted for 23% of tuition received.

Every program in the sample served preschool-age children, and preschool tuition made up, on average, 54% of their tuition income. The importance of preschool tuition for the financial viability of family child care needs to be recognized, especially as the state considers universal Pre-K. If family child care providers are not able to care for preschool children, many may be unable to generate adequate revenue to continue operating.

Expenditure	Amount	Percent
Occupancy Expenses	$ 10,833.71	41%
Food Expenses	$ 6,857.71	26%
Transportation	$ 1,568.77	6%
Activities/Supplies	$ 1,355.85	5%
Phone/Internet	$ 1,014.09	4%
Cleaning/Supplies	$ 768.00	3%
Other	$ 3,973.83	15%

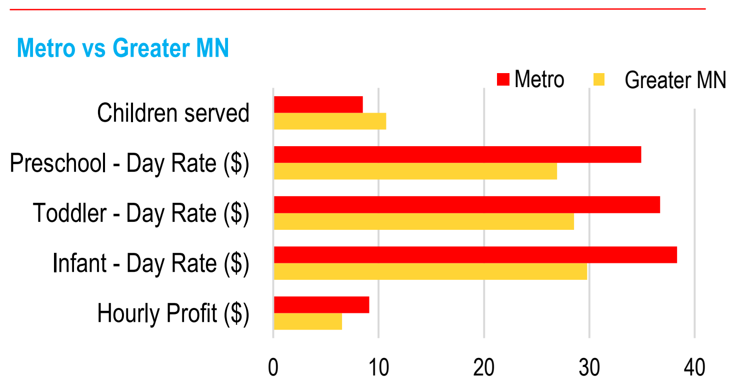
Profit/Pay

With average annual revenue of $50,938 and annual expenses of $26,372, providers are reporting an average profit (salary) of just $24,566. This would be a low wage even if providers were working just 40 hours a week, but providers report they are operating for 53 hours a week. When converted to an hourly wage, half of providers (49%) make less than $8 per hour of operation before taxes, and providers work, on average, another 12 hours per week beyond their operating hours (preparing, managing, and cleaning). The range of profit is extreme, with 10% making more than $16 and 20% making less than $4.



Comparing Metro to Greater Minnesota

Programs in the 7-county Metro make over $9,000 more annually in profit than programs in Greater Minnesota, a statistically significant difference. Yet the difference in program expenses is just $1,200, a non-significant difference. Differences in profit are driven almost entirely by differences in tuition rates. The difference in tuition income persists despite the fact that non-metro providers report serving more children, on average, than providers in the 7-county Metro. This finding lends validity to the idea that child care subsidy rates should be based on operating expenses rather than on the tuition rates charged by other providers in that region.



Impact of Quality

Providers with Parent Aware Ratings are spending more than four times as much as non-participating providers on quality practices (professional development, curriculum, assessment, professional memberships, etc.). While a 450% difference seems dramatic, quality practices make up, on average, just 2% of a program's expenses, which is less than what is spent on cleaning supplies. Put another way, these preliminary results indicate that implementing quality practices costs providers an additional $1.32 per child per week (or $688 per year).

In the Metro, all programs in the sample were also participating in Parent Aware, so it is difficult to examine the impact of quality on income in the Metro. In Greater Minnesota, however, Parent Aware participation is associated with $3,344 more income for programs annually, a difference that is attributable to higher tuition rates for all age groups and rate types. This sample of programs is small, however, so it is too early to say with certainty whether these differences in tuition rates will be seen in the wider population. It is also not yet known whether higher tuition rates make a program more likely to join Parent Aware or whether programs can charge higher rates because of their Parent Aware ratings.