



Child Care Center Operating Budget Basics: Defining Expenses and Revenues to Estimate the Cost of Child Care

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I. The Need for Reliable Data on the Cost of Child Care

Each year the Connecticut early care and education industry contributes over \$920 million to our gross state product, is responsible for over 29,000 jobs, and makes it possible for over 160,000 employees to participate in the labor force.¹ And yet, for such a large and important industry, upon which every other industry in the state relies, many child care centers struggle to make ends meet and there is limited data available on the costs of running a child care center business.

Moreover, Connecticut is investing significant resources in the improved quality of child care through new and renovated facilities, a highly educated workforce and other quality enhancement initiatives. Yet, standards for accreditation through the National Association for the Education of Young Children (NAEYC) reflect the knowledge that high quality also is related to fiscal stability and responsible budgeting. As over one hundred centers in Connecticut approach NAEYC re-accreditation this year, it should be noted that NAEYC requires that accredited centers meet specific “Fiscal Accountability Policies and Procedures.”²

II. A Proposed Model Child Care Center Operating Budget Project Overview

The current project has three goals related to the need for sound child care center budgeting practices and reliable data on the cost of center based child care in Connecticut. The first goal of this project is to produce a user-friendly operating budget spreadsheet for any child care center looking for budgeting guidance or for a budgeting tool more useful than the one they currently use.³ The second goal of this project is to use the model budget to collect information from Connecticut child care centers in a standardized way, and thereby establish a longitudinal data set that reflects the annual revenues and expenditures of a sample of child care centers in Connecticut.

Finally, this data set can then be used in a validity check against the *Tool for Comparing Early Care and Education Program Costs*. In 2005, the CT Early Care and Education Finance Project, a working group of the Early Childhood Alliance, set out to create a “calculator” to compute the operating costs associated with running a child care center. The group developed the *Tool for Comparing Early Care and Education Program Costs*.⁴ The Tool’s calculations are based on a number of pre-programmed assumptions (such as teacher’s salaries). Until now, a process for validating and updating this data had not been defined. The data from this initiative can be used in a validity check against the assumptions in the Tool.

¹ *The Economic Impact and Profile of Connecticut’s ECE Industry*. (CT Center for Economic Analysis, 2004). Available at: http://www.ctkidslink.org/pub_detail_231.html

² Leadership and Management NAEYC Accreditation Performance Criteria, Program Standard 10. (April 2005, NAEYC Governing Board). Available at: http://www.naeyc.org/accreditation/performance_criteria/leadership_criteria.asp

³ Please contact Peg Oliveira at CT Voices for Children (peg@ctkidslink.org) for an Excel version of the budget template.

⁴ The Tool is an interactive spreadsheet that allows the user to choose parameters to define a child care program, such as staff qualifications and class ratios, and then uses this information to estimate the annual per child cost to operate such a program.

III. Existing Resources for Designing a Model Child Care Center Operating Budget

Over three years ago CT Voices for Children began collecting data on child care center financing by asking centers to contribute copies of their working budgets for our analysis.. Following this first look at the budgets, a survey of child care center administrators on their budgeting practices showed that not all centers use a budget for planning and that costs typically exceed revenues, resulting in deficits.⁵ Our analysis of these budgets was used to define primary functional areas of costs and revenues, and to suggest some “rules of thumb” to follow in budgeting, estimating costs and anticipating revenues.⁶ In addition to this foundation of practice-based information, work was undertaken to *estimate* operating costs for child care centers in Connecticut. The result of this work was the development of the *Tool for Comparing Early Care and Education Program Costs*.⁷

Most recently, in January of 2005, the Work and Family Resource Center in North Carolina received a grant from the Smart Start National Technical Assistance Center Venture Grant program to prepare a budget template to gather consistent revenue and expenditure data from child care programs in the area. Researchers used a collaborative process to develop budget templates for centers and family day care homes. A pilot of the budget format and data collection is currently in process. The budget tool we have developed builds on this template, as well as our Connecticut-based experience.

IV. A Proposed Model Child Care Center Operating Budget

Using the existing guides and toolkits for creating operating budgets, and based on suggested best practice in the research,⁸ we drafted a comprehensive budget template. This draft form was reviewed and amended in consultation with the State Funded Center Director’s Forum, in January of 2006. This process was used to determine 1) how to improve the template’s user-friendliness; and 2) how best to solicit and collect annual operating budget information from State Funded Child Development Centers. Expansions to the form and edits were made based on the directors’ experiences with administering child care programs, dealing with required Department of Social Services’ reporting requirements, and other sources of revenue. The attached final comprehensive budget model, *A Proposed Model Child Care Center Operating Budget*, is a synthesis of this process. This model budget is now being distributed to child care center directors, and directors are being asked to use, and submit completed budget worksheets to a growing database.

V. Validating the *Tool for Comparing Early Care and Education Program Costs*

The second goal of this project was to establish a data source that reflects the annual revenues and expenditures of child care centers. In analyzing the true cost of providing early care and education to children in Connecticut’s child care centers, there are persistent challenges: a lack of uniformity across budget formats, differing definitions, and differing budget schedules that make it difficult to reliably define and compare costs and revenues. The use of a uniform budget spreadsheet by a sample of centers is a step toward addressing these problems and meeting this need. Having uniform data from multiple centers will not only provide information to move toward a better understanding of the costs associated with running a child care center business, but this data can be used to validate, update, amend and fill in the missing pieces of the data currently used in the calculations factored into the *Tool for Comparing Early Care and Education Program Costs*.

To address the second goal of establishing a data source that reflects the annual revenues and expenditures of child care centers, the participation of child care centers is needed and has been requested. Data from 2005 is

⁵ P. Oliveira. *An Analysis of Child Care Center Budgets* (CT Voices for Children, July 2003). Available at: http://www.ctkidslink.org/pub_detail_201.html

⁶ P. Oliveira. *Connecticut Child Care Center Operating Budget Basics: Calculating Your Bottom Line*. (CT Voices for Children, June 2005). Available at: http://www.ctkidslink.org/pub_detail_243.html

⁷ *Meeting the Need, Accepting the Challenge: The Connecticut Early Care and Education Cost Model*. (The Early Care and Education Finance Project of the Connecticut Early Childhood Alliance, 2005).

⁸ Morgan, G. *The Bottom Line for Children’s Programs*. (1999). Watertown, MA: Steam Press/Gryphon House.

being collected presently, and annual data will continue to be collected in each coming year, for the previous year's expenditures and revenues. If your child care center is able to participate, please e-mail peg@ctkidslink.org. All information will be held in confidence, and no individual information will be presented. Only aggregated data will be reported. As you know, we rely on information from you to understand the challenges facing child care centers, and we greatly appreciate your participation which helps us develop tools to support the quality child care programs you manage.