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Within Our Reach: Financing High-Quality Child Care For Infants and Toddlers in New Jersey



By Diane Dellanno, LCSW

With nearly 70 percent of New Jersey mothers of children under age three in the labor force, a large number of infants and toddlers spend a significant amount of time in out-of-home care.¹ Given the well-documented impact of early learning environments on future learning, behavior and health, it is critical to ensure families have access to a robust supply of high-quality child care options. A strong foundation and positive outcomes for infants and toddlers is most likely when their early learning settings adhere to health and safety guidelines, offer developmentally-appropriate environments, low staff per child ratios, and employ well-trained staff engaged in responsive, individualized caregiving.

Unfortunately, as Advocates for Children of New Jersey's (ACNJ) research has shown, the availability of high-quality infant-toddler child care in New Jersey is in short supply.² Additionally, the high cost of quality care makes it unaffordable for most working New Jersey families. As of 2017, the median weekly price of infant care in a child care center was \$250 per week or \$13,000 annually, with weekly median costs ranging from \$190 to \$333 depending on the county where the center is located.³

This past year, New Jersey has taken several first steps towards creating a financially stable child care system that supports quality. The expanded funding for child care subsidies; creation of a tiered reimbursement system to reward quality; development of an initiative to increase infant-toddler child care slots, Assembly Women and Children Committee's hearing on the state of child care for parents and providers, and the recent expansion of the New Jersey Paid Family Leave Law are all positive indicators that the state is poised to take the next steps towards creating a sustainable system of high-quality child care for infants and toddlers.

To learn more about the elements needed to better finance high-quality infant-toddler child care, ACNJ invited renowned national child care financing expert, Louise Stoney, to New Jersey to meet with legislators, policymakers, stakeholders, and funders. Stoney's recommendations challenged the traditional business model for providing child care and urged the state to establish new policies and funding streams aimed at supporting sustainable, high-quality services.

"I absolutely think that child care is a public responsibility, and that there's a role for all levels of government - federal, state, and local - in helping children to have access to high quality early care and education and helping families to afford it."

—Louise Stoney, Opportunities Exchange

Financing Recommendations

- ⇒ Ensure child care programs reach full enrollment, collect all revenue on time and participate in the Child and Adult Care Food Program for financial sustainability.
- ⇒ Establish child care subsidy reimbursement rates that more accurately reflect the true cost of care.
- ⇒ Set rate policies that pay on the basis of enrollment rather than attendance.
- ⇒ Encourage and support system building at the provider level.
- ⇒ Think outside the box and explore a range of funding sources and financing strategies.
- ⇒ Employ strategies that support families that choose to stay home with their babies.

Giving Every Child a Chance

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Louise Stoney is an independent consultant specializing in early care and education finance and policy and co-founder of both the Alliance for Early Childhood Finance and Opportunities Exchange. Louise has worked with numerous state and local governments and early care and education stakeholders to help craft new finance and policy options and is a leader of the national Shared Services movement. She is author of numerous publications on early care and education financing and policy. Her publications are available from www.earlychildhoodfinance.org or www.opportunities-exchange.org.



Recommendations

Establish Child Care Subsidy Reimbursement Rates that More Accurately Reflect the True Cost of Care.

According to Stoney, in almost every case, early childhood providers that serve babies do it at a loss.

“They’re basically saying OK, I’m going to take a loss with these babies because I want them to be a part of my system. They’re a feeder for my older children. I want to support the whole family. But one of the problems is that, we [state government] tend to base our reimbursement rates on the price family’s pay, not the actual cost of child care.”

Stoney recommends using cost modeling to help inform the rates instead of the price of care, which in most cases is driven by what the market can bear. The cost modeling approach makes it possible to establish a reimbursement based on the likely cost of delivering services at a particular level of quality.

Set Rate Policies that Pay on the Basis of Enrollment Rather than Attendance.

Understanding the cost of delivering high-quality services and establishing public subsidy rates and payment policies that more accurately reflect costs are an essential first step. However, early care and education (ECE) program income is also influenced by two other factors: enrollment and fee collection. State policy regarding

subsidy authorization, absence policies, and parent fees for families that receive public subsidy can support or hinder sound finance and fee collection.

“You’ve got to be fully enrolled every day, every seat. You’ve got to be collecting every dime you are owed and you have to have a tuition price that’s close enough to your costs or third-party funding to fill the gap. I can tell you this is almost impossible to do. And yet that’s what you have to do to make the numbers work.”

Unlike public education, child care tuition and fees—including public subsidy administered as vouchers to help low income families pay for child care—is the primary source of revenue for most ECE programs that serve infants and toddlers. Effectively collecting tuition and fees is essential to sustainability.

In general, under current New Jersey child care subsidy reimbursement policy, in order for a child care program to receive full reimbursement, a child must attend eight out of the ten days in a two-week period. In contrast, private pay child care providers utilize prospective payment practices, in which the family must pay for the child care prior to receiving services, regardless of attendance. The cost of providing child care services does not decline when a child is absent. Child care providers are responsible for paying for fixed costs such as staff salaries, rent etc., regardless of attendance. The

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current system of penalizing providers for absences they do not control, ensures an unstable funding stream and acts as a disincentive for program participation in the subsidy program.

Encourage and Support System Building at the Provider Level

Stoney emphasized throughout her visit that taking quality to scale, especially for infants and toddlers, requires that ECE service providers think strategically about industry consolidation—crafting strategies to attain some economies of scale as well as a skilled management team.

"It's extremely hard to run a high-quality program when you have less than a hundred children, and most child care centers are much smaller than that" reports Stoney. "So we really need to think very strategically about how do we encourage scale. How do we help programs get bigger in ways that still allow them to be small at the delivery level?"

Stoney is a strong proponent for utilizing the concept of shared services to support the financial stability of the child care sector. During her visit, Stoney shared stories of how ECE leaders across the country are beginning to challenge the traditional business model and establish new management and leadership structures aimed at supporting sustainable, high-quality services.

"By re-structuring current roles and responsibilities and working together to form new legally structured alliances, center- and home-based providers can share the cost of the staff they need to effectively provide the pedagogical and business leadership needed to produce good outcomes for children, explained Stoney. These networks can be especially helpful in supporting high-quality infant-toddler care because these services and classrooms are nested in a stronger network of classrooms for children of all ages, in a range of locations, tapping and blending multiple funding streams, and led by a team of managers skilled in both pedagogical and business leadership."

Think Outside the Box and Explore a Range of Funding Sources and Financing Strategies

"I think we need to be tapping multiple funding streams, we need to be thinking in lots of different ways" emphasized Stoney. While the primary source of public funding for infant-toddler care is the federal Child Care and Development Block Grant (CCDCG) and Early Head Start dollars, Stoney suggested a number of other ways to tap state and local general fund dollars including:

Tax Credits Stoney suggests that the same principals used to help small businesses should also be applied to child care.

"We need to recognize that in the United States, early care and education, especially for babies, is a small business. And so how do we think about it as a small business" questioned Stoney. Tax credits - that's how we think about helping small businesses in many other sectors. Why not apply those principles to the child care sector?"

Tax credits, which are direct, dollar-for-dollar, reductions in taxes owed, can be used as a financing strategy as well as a reward for different kinds of behaviors. When the credits are made refundable they can also be an effective way to reach vulnerable children and families as well as low-wage practitioners. Several states have used this approach to help finance high-quality care that can include infant-toddler services.

Contracts or Grants In New Jersey, subsidies funded by the federal Child Care Development Fund (CCDF) are awarded as portable vouchers that follow the child to whatever program is selected by the family. While this approach enables parent choice, available funds may be spread across so many different settings that the capacity to actually strengthen and preserve infant-toddler care is lost. Therefore, Stoney recommends intentionally focusing funding on high-quality services for infants and toddlers through contracts or grants with selected centers.

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Employ Strategies That Support Families That Choose to Stay Home With Their Babies

"Financing child care is very expensive. Yes, we need to make it a priority. Yes, we need to tap every funding stream we can, but we also need to realize that families are part of the solution and helping families who choose to stay at home with their children and be their child's first teacher is vital."

Supporting parents that choose to stay home with their babies during the early months allows parents priceless time to bond with their baby. In addition, it can also help to alleviate the shortage of infant child care. Stoney explained that one way states can help families with infant and toddler care is through strong paid family leave policies.

"Paid family leave is a crucial part of the system and in my opinion is a very fundable part of the system" reflects Stoney. "It's a very doable way to finance care for babies. And it should absolutely be part of any kind of financing strategy."

In February 2019, Governor Murphy signed into law one of the strongest paid family leave laws in the country. Among other enhancements, the new law expands the number of weeks of paid family leave from 6 weeks to 12 weeks, increases the weekly wage reimbursement and extends job protection to companies with 30 or more employees.

Advocates for Children of New Jersey is leading a statewide effort to ensure that our state's leaders Think Babies™ – our future depends on it! We're putting "birth-to-3" on the public agenda and bringing attention to what infants and toddlers need to thrive right from the start: strong families, healthy starts and positive early learning environments.

To learn more about these child care financing recommendations or about ACNJ's Right From the Start NJ/Think Babies campaign please visit www.acnj.org or contact Diane Dellanno at ddellanno@acnj.org.



¹Advocates for Children of New Jersey. *New Jersey Babies Count 2018, A Statewide Profile of Infants and Toddlers*. 2018. (pg 15).

²Advocates for Children of New Jersey. *No Room For Babies*. 2017.

³Kim, Jeounghee and Joo, Myungkook. *2017 New Jersey Child Care Market Price Study*. NJ Department of Human Services, Division of Family Development (September 2018).



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