

# RESEARCH REPORT



Infant and Toddler  
Policy Research  
Center at NIEER



## **The Financial Impact of COVID Licensing Standards on NJ Child Care Providers<sup>1</sup>**

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## **About ITC@NIEER**

The National Institute for Early Education Research (NIEER) at the Graduate School of Education, Rutgers University, New Brunswick, NJ, conducts and disseminates independent research and analysis to inform early childhood education policy. ITC@NIEER is a unit within NIEER focused on early care and education policies that influence the learning and development of infants and toddlers.

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## **About the Author**

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## Introduction

Child care providers navigate a challenging and competitive industry, where the substantial cost of providing safe, quality care for children meeting all state standards has to be balanced against families' ability and willingness to pay for care. Operating a business where narrow profit margins can turn into significant deficits from one week to the next is difficult under normal circumstances, and quickly becomes untenable under more restrictive conditions. As New Jersey tentatively reopens K-12 schools after being closed for over five months, many of the state's child care providers have remained open throughout the COVID-19 pandemic to serve the children of essential workers. Throughout this time, providers have been required to observe more restrictive group sizes and child/staff ratios, while also increasing time and resources spent on cleaning and sanitizing, to prevent the spread of COVID-19. With unchanged tuition rates, these new standards quickly push many child care providers from an already tight financial situation into one that cannot be sustained.

This paper examines in-depth the impact of new and existing regulations on child care providers' revenues and expenditures, and the subsidy rates required to financially sustain child care providers in New Jersey. The overall findings can be summarized as follows:

- Changes in required ratio's and group sizes have a significant impact on costs per child by age group, especially due to providers' fixed costs.
  - Under the state's most restrictive standards (ten children per room), estimated per child costs increase by up to \$36/week per infant enrolled, \$147/week per toddler enrolled and \$49/week per preschooler enrolled, depending upon the provider's unique circumstances (see Table 1, below).
  - Even under the state's newly revised COVID-19 standards<sup>2</sup> ii (15 children per room) estimated per child costs increase by up to \$69/week for toddlers and \$37/week for preschoolers. Increases to infant slots level off since group sizes are already limited to 12 children per room.
- The impact of licensing ratio changes is further exacerbated by increased costs related to required cleaning supplies, regularly scheduled deep cleanings, and purchasing of personal protective equipment for children and staff. Reports estimate costs of up to \$30/week per classroom to cover these expenses.<sup>3</sup>
- Even under pre-COVID licensing standards, state per child subsidy rates for infants can be up to \$40/week below what providers need to meet all necessary costs.
- Under the post-COVID ten-child limit, state per child subsidy rates can lag by \$79/week for infants, \$127/week for toddlers, and \$106/week for preschoolers. The new 15-child limit reduces these gaps, but they remain substantial at up to \$40/week for infants and toddlers, and \$63/week for preschoolers.
- Although the ten-child limit places financial hardships on state-funded preschool classrooms, a return to the 15-child limit places additional burden only on the hours and days that fall outside the state-funded school year.

## Tuition Rates to Meet Current and Revised State Regulations

We model two scenarios detailed below. The first depicts a typical child care provider with seven classrooms (two infant rooms, two toddler rooms, and three preschool rooms). The second scenario is modified so that the three preschool classrooms are part of New Jersey's state-funded

preschool program. Using estimated expenditures from each of the scenarios detailed in the sections below, Table 1 depicts the weekly tuition rates providers would need to meet state standards for infants, toddlers and preschoolers. Table 1 also illustrates how weekly tuition rates need to change to meet more restrictive COVID regulations. Child care subsidy rates were already problematic under normal licensing circumstances (requiring either philanthropic support, undesirably low wages that create high turnover and other problems, or both). Current weekly state subsidy rates and current weekly median market rates are also provided for reference. The bottom line is that few providers will be able to stay in business long-term accepting current child care subsidies or charging pre-pandemic median rates.

Under Scenario 1, a typical provider paying moderate salaries is able to make a profit on both toddler and preschool classrooms, but would need to increase the infant rate by \$10/week from the median market rate and \$19/week from the current subsidy rate. However, after the ten-child limit is in place, only the preschool classrooms charging market rates still break even or are profitable. Weekly rates charged would need to increase \$47-\$56/week for infants and \$69-\$96/week for toddlers. Subsidy rates for preschoolers would need to increase by \$32/week. With the newly approved 15-child limit in place, the provider is again able to make a profit charging the market rate for toddler and preschool classrooms, but needs a \$12 weekly increase for infants. All three classroom types lose money accepting subsidy rates which would need to increase by about \$20/week for both infants and preschoolers and \$18/week for toddlers.

*Table 1. Weekly Tuition Rates to Meet Current and Revised State Regulations and Estimated Shortfalls*

Type of classroom		Baseline (pre-COVID- 19)			With 10-child limit			With 15-child limit		
		Infant	Toddler	Pre-K	Infant	Toddler	Pre-K	Infant	Toddler	Pre-K
Market rate tuition/week		\$250	\$228	\$207	\$250	\$228	\$207	\$250	\$228	\$207
Subsidy rate tuition/week		\$241	\$201	\$167	\$241	\$201	\$167	\$241	\$201	\$167
Scenario 1: Child care provider	Tuition needed	\$260	\$150	\$150	\$297	\$297	\$199	\$262	\$219	\$187
	Change from base	-	-	-	\$36	\$147	\$49	\$2	\$69	\$37
	Change from market rate	(\$10)	\$78	\$57	(\$47)	(\$69)	\$8	(\$12)	\$9	\$20
	Change from subsidy	(\$19)	\$51	\$17	(\$56)	(\$96)	(\$32)	(\$21)	(\$18)	(\$20)
Scenario 2: Child care and state pre-k provider*	Tuition needed	\$281	\$203	\$373	\$320	\$328	\$416	\$281	\$240	\$373
	Change from base	-	-	-	\$39	\$124	\$43	\$0	\$37	\$0
	Change from market rate	(\$31)	\$25	(\$53)	(\$70)	(\$100)	(\$96)	(\$31)	(\$12)	(\$53)
	Change from subsidy	(\$40)	(\$2)	(\$63)	(\$79)	(\$127)	(\$106)	(\$40)	(\$39)	(\$63)

\*Calculations for state preschool classrooms reflect state preschool funding for the 180-day school year and either subsidy rate or market rate wraparound funding for the remaining 65 days of the year, for a total of 245 contact days.

Three of the provider's classrooms in Scenario 2 are state-funded preschool classrooms. During the approximately 180-day school year, state funding is provided to support a six-hour school day. During before- and aftercare hours, and the remaining 65 days of the year (summer and holidays), the provider would receive either a subsidy payment or tuition. The estimates in Table 1 reflect this combined funding rate for state preschool classrooms. Under normal licensing standards, the provider is only able to make a profit charging the market rate on toddler classrooms. Rates for infant and preschool classrooms would need to increase by \$31/week and \$53/week, respectively. Once the ten-child limit is in place, the provider runs a significant deficit in all classrooms, needing an additional \$70-\$79/week for infants, \$100-\$127/week for toddlers, and \$96-\$106/week for preschoolers. The 15-child limit allows both infant and state preschool classrooms to operate normally (though still at a deficit), while toddler classrooms dip to a deficit of \$12-\$39/week per child.

Current subsidy rates, and even median market rates, are insufficient to allow child care providers to meet licensing standards, as can be seen from Table 2. This table sets out the weekly net loss per child providers face under each scenario, by classroom type licensing standards. Net weekly losses are higher than the difference between estimated expenses and subsidy/market rates displayed in Table 1 because net losses take into account revenue loss due to bad debt and inefficient slot turnover commonly experienced in child care classrooms (though not state preschool classrooms). For example, a provider already losing up to \$28/week per toddler slot may now lose as much as \$156 per week from every toddler slot under the ten- child limit.

*Table 2. Weekly Per Child Net Losses Charging Median Market Rate or Collecting Child Care Subsidies*

		Baseline (pre-COVID- 19)			With 10-child limit in place			With 15-child limit in place		
Type of classroom	Net Loss	Infant	Toddler	Pre-K	Infant	Toddler	Pre-K	Infant	Toddler	Pre-K
Scenario 1: Child care provider	Market Rate	(\$42)	\$46	\$25	(\$81)	(\$104)	(\$26)	(\$46)	(\$25)	(\$13)
	Subsidy Rate	(\$47)	\$23	(\$11)	(\$87)	(\$127)	(\$63)	(\$51)	(\$48)	(\$50)
Scenario 2: Child care and state pre-k provider*	Market Rate	(\$56)	(\$4)	(\$79)	(\$98)	(\$128)	(\$122)	(\$56)	(\$41)	(\$80)
	Subsidy Rate	(\$66)	(\$28)	(\$89)	(\$108)	(\$156)	(\$135)	(\$67)	(\$66)	(\$90)

In the sections that follow, additional detail is provided to support the estimated weekly rates estimates for each of the scenarios referenced above.

## Current and Revised Licensing Standards for Group Sizes and Ratios

The New Jersey Department of Children and Families (NJDCF) sets out licensing standards for child care centers throughout the state (see Table 3). Under normal (i.e. pre-COVID-19) circumstances, the maximum number of children per staff member is four infants, six toddlers, 10 3-years-olds and 12 four-year-olds. Infants rooms are limited to a total of 12 children (with three adults), while toddler, 3-year-old, and 4-year-olds rooms are limited to a total of 20 children, requiring four adults in toddler rooms and two each in the 3- and 4-year-old rooms. The standards are different for classrooms funded under the state’s public preschool program, which are discussed in a later section.

Under the standards initially revised for COVID-19, the total number of children permitted in any room was ten. Staff/child ratios had to be maintained, and adults were not included in the maximum number of people per room (as they are in some other states). Table 2 illustrates the impact of the ten-child limit per room. Infant and toddler rooms likely held only eight and six children, respectively, in order to prevent the need for an additional adult to adhere to required ratios. The state recently increased the maximum group size to 12 in infant rooms and 15 in toddler and preschool rooms. The impact of this change is also illustrated in Table 2.

*Table 3. NJ DCF Licensing Requirements for Staff and Children Pre- and Post-COVID*

Age	Staff/Child Ratio	Normal Licensing Standards		COVID Licensing Standards (10 max)		COVID Licensing Standards (12 infant max 15 toddler/pre-K max)	
		Total Children in Room	Total Adults in Room	Total Children in Room	Total Adults in Room	Total Children in Room	Total Adults in Room
Under 18 months	1:4	12	3	8*	2	12	3
18 months up to 2 ½ years	1:6	20	4	6*	1	15	3
2 ½ years up to 4 years	1:10	20	2	10	1	15	2
4 years	1:12	20	2	10	1	15	2

\*Going up to 10 children per room would require another adult to maintain ratios.

We can examine the financial impact of these group size changes by comparing the revenues and expenditures of a hypothetical child care center under normal licensing standards and COVID-19 licensing standards. Taking a child care centers with seven classrooms (two infant, two toddler and three preschool rooms), Table 4 shows how maximum capacity and staff needs change. New Jersey’s child care licensing standards have different ratios for three and four-year-old children, so this model represents two three-year-old classrooms and one four- year-old classroom. Moving from normal to ten-child COVID licensing standards, the center’s total capacity is reduced by 53% from 124 children to 58 children. Now that maximums have increased to 12 and 15 per room, total capacity increases to 99 children, but this is still a 20% decrease from normal licensing capacity. The total number of adults required to staff the seven classrooms initially decreased from 24 to nine, and then increases to 18.

*Table 4. Pre- and Post-COVID Child Capacity and Required Adults for Hypothetical Child Care Center*

Age	# of Licensed Classrooms	Normal Licensing Standards		COVID Licensing Standards (10 max)		COVID Licensing Standards (12 infants max 15 toddler/pre-K max)	
		Total Child Capacity	Total Adults	Total Child Capacity	Total Adults	Total Child Capacity	Total Adults
Under 18 months	2	24	6	16*	4	24	6
18 months up to 2 ½ years	2	40	8	12*	2	30	5
2 ½ years up to 4 years	2	40	8	20	2	30	4
4 years	1	20	2	10	1	15	2
	7	124	24	58	9	99	18

\*Increasing to ten children per room would require another adult to maintain ratios. Given that these restrictions were put into place during the height of the pandemic, group sizes were limited to prevent the additional of more adults.

### Scenario 1: Child Care Provider

Using the Provider Cost of Quality Calculator (PCQC), we can estimate the impact of these changes in capacity and staffing on the child care center’s revenue and expenses. Estimated revenue is based on child care tuition rates for providers in the 50th percentile, according to the NJ Department of Human Services’ most recent market rate survey (2017)<sup>4</sup>. Using this rate assumes that the center charges all low-income parents a fee to make up the difference between the subsidy rate and the market rate (\$9/week for infants, \$27/week for toddlers, and \$40/week for preschoolers).

The PCQC also takes into account reductions in revenue due to bad debt and slot turnover inefficiency. The combined reduction rate used was 15%, which represents 3% bad debt and 12% slot turnover inefficiency. An added assumption was used to estimate additional expenditures related to children utilizing wraparound services. Classroom staff time was increased by 12.5% to account for wraparound costs. The estimates do not take into account the potential additional costs associated with participation in the state’s Quality Rating Improvement System (GROW NJ Kids) or other national accreditation, which would likely result in higher program expenditures. Additional expenses related to cleaning, sanitizing and personal protective equipment needed to meet regulations under COVID-19 were not included either, and would also result in higher program expenditures.

Finally, estimates include one director, one education coordinator/assistant director and one administrative assistant for the site under normal licensing conditions. Under the ten-child COVID limit, the full-time equivalents of the education coordinator/assistant director and

administrative assistant were reduced to half-time to account for the reduction in children and staff, but were increased back up to full-time under the 15-child limit.

The salaries pre-loaded into the PCQC appear high for a typical child care provider. Revising the salary estimates built into the PCQC allows an examination of how providers are more likely to operate a viable business in New Jersey. Salaries for the director and education coordinator/assistant director positions were lowered from \$76,410 to \$48,772 to reflect the average New Jersey child care director salary according to Indeed.com. Child care teacher salaries were lowered from \$40,880 to \$27,740, to match May 2019 Bureau of Labor Statistics (BLS) data for average New Jersey child care workers. Child care teacher assistant salaries were lowered from \$26,450 to \$22,586, reflecting the current New Jersey average advertised on ZipRecruiter.com. Finally, the average administrative assistant salary was lowered from \$35,450 to \$33,370 to match BLS data for average New Jersey receptionists.

Table 5 compares the summary of the output generated from the PCQC for the hypothetical center under pre-COVID licensing standards, post-COVID ten-child restrictions, and new post-COVID 15-child restrictions. Site and classroom level unit costs remain the same across the three scenarios, but costs driven by the number of children or staff change under COVID restrictions. Although the provider is able to make a profit under normal licensing standards, that profit quickly drops to an annual per child deficit of \$3,172 under the ten-child limit and \$1,422 under the 15-child limit. The 15-child limit ultimately allows providers to serve additional children, but it also requires more staff.

*Table 5. Pre- and Post-COVID Revenues and Expenditures for Hypothetical Child Care Provider*

	Baseline (pre-COVID-19)		With 10-child limit		With 15-child limit		
	Number	Total	Number	Total	Number	Total	
<i>Non-personnel costs</i>							
Per-child non-personnel costs <sup>a</sup>	\$1,880	124	\$233,120	58	\$109,040	99	\$186,120
Per-classroom costs <sup>b</sup>	\$30,400	7	\$212,800	7	\$212,800	7	\$212,800
Per-teaching staff costs <sup>c</sup>	\$250	19	\$4,750	9	\$2,250	18	\$4,500
Per-site costs <sup>d</sup>	\$8,000	1	\$8,000	1	\$8,000	1	\$8,000
Total non-personnel costs	–	–	\$458,670	–	\$332,090	–	\$411,420
<i>Personnel costs</i>							
Director	\$48,772	1	\$48,772	1	\$48,772	1	\$48,772
Instructional coordinator	\$48,772	1	\$48,772	0.5	\$24,386	1	\$48,772
Administrative assistant	\$33,370	1	\$33,370	0.5	\$16,685	1	\$33,370
Teachers	\$27,740	7	\$194,180	7	\$194,180	7	\$194,180
Teacher assistants	\$22,586	7	\$158,102	2	\$45,172	11	\$248,446
Total	–	–	\$483,196	–	\$329,195	–	\$573,540
Mandatory benefits <sup>e</sup>	–	11.5%	\$55,568	11.5%	\$37,857	11.5%	\$65,777
Substitutes	–	–	\$12,540	–	\$9,240	–	\$11,880
Staff time for wraparound care	–	–	\$61,562	–	\$45,362	–	\$58,322
Total personnel costs	–	–	\$612,866	–	\$412,654	–	\$709,519
<i>Total expenses</i>	–	–	\$1,071,536	–	\$753,744	–	\$1,120,939
<i>Total potential revenue</i>	–	–	\$1,432,080	–	\$673,192	–	\$1,152,060
<i>Turnover inefficiency, bad debt</i>	–	15%	(\$203,996)	15%	(\$103,395)	15%	(\$171,875)
<i>Net income</i>	–	–	\$156,549	–	(\$183,948)	–	(\$140,754)
		Net income % of revenue	13%		-32%		-14%
		Per child net gain/loss	\$1,262		(\$3,172)		(\$1,422)

<sup>a</sup> Food and food preparation, kitchen supplies, education supplies, classroom supplies, office supplies and equipment, medical supplies, insurance (liability, accident, etc.), postage, advertising, and miscellaneous. <sup>b</sup> Square feet/classroom (costs per square foot), rent/lease, utilities, building insurance, and maintenance/repair/cleaning. <sup>c</sup> Consultants/training. <sup>d</sup> Telephone and internet, audit/legal fees, professional fees/permits, and miscellaneous.

<sup>e</sup> Workers' compensation, unemployment, and disability.

Table 6 utilizes the same data from Table 5, but breaks the costs and revenues down by classroom type. Included in the revenue estimates are tuition payments specific to the age range served in the classroom, in addition to a per-child share of the slot turnover/bad debt.

It is not a surprise to see that, under normal circumstances, child care providers are likely to lose money on their infant rooms. When we look at what happens under COVID restrictions, however, not only do providers run a higher deficit from the infant classrooms, but the toddler and preschool classrooms lose all profit and begin to operate at a deficit as well. The toddler classrooms appear to have the greatest potential for revenue loss, going from an annual profit of about \$2,400 per toddler to an annual deficit of almost \$5,400 per toddler.

Providers will continue to run a deficit with restrictions softened from ten to 15 children per room. Most concerning is that the toddler and preschool classrooms upon which providers rely to pull a profit (or to at least break even from the deficits incurred from the infant classrooms) are now inevitably going to operate in the red as well, even if slightly less so under the 15-child maximum.

*Table 6. Pre- and Post-COVID Revenues and Expenditures by Classroom Type for Hypothetical Child Care Provider*

	Baseline (pre-COVID- 19)			With 10-child limit			With 15-child limit		
	12	20	20	8	6	10	12	15	15
Type of classroom	Infant	Toddler	Pre-K	Infant	Toddler	Pre-K	Infant	Toddler	Pre-K
<b>Non-personnel costs</b>									
Per-child non-personnel costs	\$22,560	\$37,600	\$37,600	\$15,040	\$11,280	\$18,800	\$22,560	\$28,200	\$28,200
Per-classroom costs	\$30,400	\$30,400	\$30,400	\$30,400	\$30,400	\$30,400	\$30,400	\$30,400	\$30,400
Per-teaching staff costs	\$750	\$500	\$500	\$500	\$250	\$250	\$750	\$750	\$500
Per-site costs	\$1,143	\$1,143	\$1,143	\$1,143	\$1,143	\$1,143	\$1,143	\$1,143	\$1,143
<b>Personnel costs</b>									
Teaching staff costs	\$72,912	\$50,326	\$50,326	\$50,326	\$27,740	\$27,740	\$72,912	\$72,912	\$50,326
Teaching staff mandatory benefits	\$8,020	\$5,536	\$5,536	\$5,536	\$3,051	\$3,051	\$8,020	\$8,020	\$5,536
Administrative Staff Salary/Benefit	\$20,759	\$20,759	\$20,759	\$14,247	\$14,247	\$14,247	\$20,759	\$20,759	\$20,759
Staff time for wraparound care	\$5,958	\$9,929	\$9,929	\$6,257	\$4,693	\$7,821	\$7,069	\$8,837	\$8,837
<i>Total expenses</i>	\$162,502	\$156,193	\$156,193	\$123,448	\$92,803	\$103,452	\$163,614	\$171,021	\$145,701
Revenue*	\$136,258	\$204,217	\$182,377	\$89,739	\$60,440	\$89,813	\$135,167	\$151,798	\$135,418
<i>Net income</i>	(\$26,244)	\$48,024	\$26,184	(\$33,710)	(\$32,363)	(\$13,639)	(\$28,447)	(\$19,223)	(\$10,282)
Per child net gain/loss	(\$2,187)	\$2,401	\$1,309	(\$4,214)	(\$5,394)	(\$1,364)	(\$2,371)	(\$1,282)	(\$685)

\*Includes a proportional amount of the turnover inefficiency bad debt.

## Scenario 2: Child Care Provider with State-Funded Preschool Classrooms

Several hundred private providers participate in New Jersey’s state-funded preschool program. For these providers, infant and toddler classrooms must follow NJDCF’s licensing standards, but preschool classrooms must follow requirements imposed by the New Jersey Department of Education (NJDOE). Instead of the 20 child limit dictated under licensing standards, state-funded preschool classrooms may have no more than 15 children per class, along with a teacher and teacher assistant during the six-hour, 180-day school year program. Table 7 depicts how the total capacity and number of required adults changes from normal licensing/state preschool standards, to the ten-child limit and then to the 15-child limit. Note that even under the ten-child limit, state preschool classrooms are still required to have two adults in each room.



*Table 7. Pre- and Post-COVID Child Capacity and Required Adults for Child Care Center with State- Funded Preschool*

Age	# of Licensed Classrooms	Normal Licensing Standards/NJDOE State Pre-K Standards		COVID Licensing Standards (10 max)		COVID Licensing Standards (12 infants max 15 toddler/pre-K max)	
		Total Child Capacity	Total Adults	Total Child Capacity	Total Adults	Total Child Capacity	Total Adults
Under 18 months	2	24	6	16	4	24	6
18 months up to 2 ½ years	2	36	6	12	2	24	4
2 ½ years up to 4 years	2	30	4	20	4	30	4
4 years	1	15	2	10	2	15	2
All ages	7	105	18	58	12	93	16

Moving from normal to ten-child COVID licensing standards, the center’s total capacity is reduced by over 44% from 105 children to 58 children. Now that maximums have increased to 12 and 15 per room, total capacity increases to 93 children, but this is still a 11% decrease from normal licensing capacity.

To assess the revenues and expenditures of a provider participating in the state-funded preschool program, additional modifications were made to the salary data embedded in the PCQC. Table 8 presents the results.

*Table 8: Pre- and Post-COVID Revenues and Expenditures for Hypothetical Child Care Center with State-Funded Preschool Classrooms*

		Baseline (pre-COVID-19)		With 10-child limit		With 15-child limit	
		Number	Total	Number	Total	Number	Total
<i>Non-personnel costs</i>							
Per-child non-personnel costs <sup>a</sup>	\$1,880	105	\$197,400	58	\$109,040	93	\$174,840
Per-classroom costs <sup>b</sup>	\$30,400	7	\$212,800	7	\$212,800	7	\$212,800
Per-teaching staff costs <sup>c</sup>	\$250	18	\$4,500	12	\$3,000	16	\$4,000
Per-site costs <sup>d</sup>	\$8,000	1	\$8,000	1	\$8,000	1	\$8,000
Total non-personnel costs	–	–	\$422,700	–	\$332,840	–	\$399,640
<i>Personnel costs</i>							
Director	\$90,135	1	\$90,135	1	\$90,135	1	\$90,135
Instructional coordinator	\$76,410	1	\$76,410	0.5	\$38,205	1	\$76,410
Administrative assistant	\$35,450	1	\$35,450	0.5	\$17,725	1	\$35,450
Teachers	\$34,434	7	\$241,040	7	\$241,040	7	\$241,040
Teacher assistants	\$24,242	11	\$266,662	5	\$121,210	9	\$218,178
Family worker, food worker, custodian	\$100,990	1	\$100,990	0.5	\$50,495	1	\$100,990
Total	–	–	\$810,687	–	\$558,810	–	\$762,203
Mandatory benefits <sup>e</sup>	–	11%	\$89,818	11%	\$61,606	11%	\$84,322
Substitutes	–	–	\$13,365	–	\$10,395	–	\$11,880
Staff time for wraparound care	–	–	\$62,415	–	\$48,546	–	\$55,481
Total personnel costs	–	–	\$976,285	–	\$679,357	–	\$913,886
Total expenses	–	–	\$1,398,985	–	\$1,012,197	–	\$1,313,526
Total potential revenue	–	–	\$1,487,616	–	\$849,472	–	\$1,345,344
Turnover inefficiency, bad debt	–	10%	(\$138,665)	10%	(\$85,582)	10%	(\$126,853)
Net income	–	–	(\$50,034)	–	(\$248,306)	–	(\$95,035)
Net income % of revenue	–	–	-4%	–	-33%	–	-8%
Per child net gain/loss	–	–	(\$477)	–	(\$4,281)	–	(\$1,022)

<sup>a</sup> Food and food preparation, kitchen supplies, education supplies, classroom supplies, office supplies and equipment, medical supplies, insurance (liability, accident, etc.), postage, advertising, and miscellaneous. <sup>b</sup> Square feet/classroom (costs per square foot), rent/lease, utilities, building insurance, and maintenance/repair/cleaning. <sup>c</sup> Consultants/training. <sup>d</sup> Telephone, internet, audit/legal fees, professional fees/permits, and miscellaneous. <sup>e</sup> Workers’ compensation, unemployment, and disability.

The director’s salary was estimated based on the NJDOE’s 2020-2021 Private Provider One-Year Budget Planning Workbook<sup>5</sup>. The Director Salary Scale and Worksheet provides allowable salaries for directors with varying levels of education and years of experience, based on the size of their center. For this scenario, the director’s salary was estimated based on an individual with

seven classrooms, six-ten years of experience (the middle range on the scale), and a Tier 2 level of education (a bachelor's degree in early childhood education). This led to a salary estimate of \$93,135 for the director, shared across all seven classrooms.

Teacher and teacher assistant salaries were modified to take into account that state-funded preschool teachers in private provider settings must be paid on par with their public school peers. Teacher salaries were based on \$27,740 for infant/toddler teachers (again, matching May 2019 BLS data for average New Jersey child care workers) and \$43,360 for preschool teachers (matching May 2019 BLS data for average New Jersey preschool teachers). Similarly, the teacher assistant salaries were based on \$22,586 for infant/toddler assistants (New Jersey average child care assistant teacher salary from ZipRecruiter.com) and \$26,450 for preschool assistants (May 2019 BLS data for average New Jersey teacher assistant).

Finally, three additional positions were added to the provider's staff. State-funded preschool providers are required to hire a full-time family worker for every 45 preschool children, and almost all are provided with funding to support the cost of a food worker and custodian.

Salaries for these staff were estimated at \$35,450 for the family worker, \$33,000 for the food worker, and \$32,540 for the custodian and costs for all three were attributed only to the state-funded preschool classrooms.

One last set of adjustments was made to the previous assumptions used for the provider. Unlike typical tuition funding that may fluctuate throughout a given month, funding from the NJDOE is not reduced for preschool classrooms unless enrollment drops below a total of 14/15 of all preschool classrooms for a full month. For this reason, the total estimate of revenue loss from this provider was reduced from 15% to 10%. The reduction still accounts for slot turnover in the infant and toddler classrooms, as well as bad debt in the provider as a whole. Also, state funding provided for preschool classrooms exceeds the market rate tuition charged by providers in the 50th percentile, though only during the six-hour day for 180-day school year.

For the remaining 65 days of the year, the provider would go back to charging the market rate. Merging the state preschool rate of \$13,000 per child for the school calendar year, with the market rate of \$207 per child per week during the remainder of the year, the overall weekly tuition rate for each state preschool child comes to \$320.

The increased staff and staff salaries required for state-funded preschool classrooms result in a razor thin profit margin for the provider under normal licensing/NJDOE standards (see Table 8, above). The provider is likely to have to either reduce salaries or engage in fund-raising efforts to break even. The pre-COVID profit margin decreases to -33% under the ten-child limit, but unlike the previous scenarios, the provider is almost able to get back to pre-COVID levels under the 15-child limit. This shouldn't be surprising since five of the provider's seven classrooms are able to operate at normal capacity under the revised COVID limitations. Only the toddler classrooms are left under capacity. Examining revenues and expenditures by classroom type highlights this point (see Table 9).

Unlike in Scenario 1, the provider does not appear to be able to make a profit on any classrooms, regardless of the licensing standards. One major difference is that, instead of the infant classrooms, it is the preschool classrooms that generate the greatest profit loss under typical circumstances. This shifts under the ten-child limit only because the preschool classrooms are able to operate most closely to their normal group sizes under these restrictions. Confirming the

point above, the 15-child limit essentially restores the infant and preschool classrooms to pre-COVID deficit levels, but leaves each toddler classroom with much larger annual per child deficits than during pre-COVID times.

*Table 9. Pre- and Post-COVID Revenues and Expenditures by Classroom Type for Hypothetical Provider with State-Funded Preschool Classrooms*

	Baseline (pre-COVID- 19)			With 10-child limit			With 15-child limit		
	12	20	20	8	6	10	12	15	15
Classroom type	Infant	Toddler	Pre-K	Infant	Toddler	Pre-K	Infant	Toddler	Pre-K
<b>Non-personnel costs</b>									
Per-child non-personnel costs	\$22,560	\$33,840	\$28,200	\$15,040	\$11,280	\$18,800	\$22,560	\$22,560	\$28,200
Per-classroom costs	\$30,400	\$30,400	\$30,400	\$30,400	\$30,400	\$30,400	\$30,400	\$30,400	\$30,400
Per-teaching staff costs	\$750	\$750	\$500	\$500	\$250	\$500	\$750	\$500	\$500
Per-site costs	\$1,143	\$1,143	\$1,143	\$1,143	\$1,143	\$1,143	\$1,143	\$1,143	\$1,143
<b>Personnel costs</b>									
Teaching staff costs	\$72,912	\$72,912	\$69,810	\$50,326	\$27,740	\$69,810	\$72,912	\$50,326	\$69,810
Teaching staff mandatory benefits	\$8,385	\$8,385	\$8,028	\$5,787	\$3,190	\$8,028	\$8,385	\$5,787	\$8,028
Administrative Staff Salary/benefits	\$32,031	\$32,031	\$144,130	\$23,162	\$23,162	\$79,211	\$32,031	\$32,031	\$144,130
Staff time for wraparound care	\$7,133	\$10,700	\$8,916	\$6,696	\$5,022	\$8,370	\$7,159	\$7,159	\$8,949
<b>Total expenses</b>	<b>\$175,314</b>	<b>\$190,160</b>	<b>\$291,127</b>	<b>\$133,054</b>	<b>\$102,187</b>	<b>\$216,262</b>	<b>\$175,339</b>	<b>\$149,906</b>	<b>\$291,159</b>
Revenue*	\$140,153	\$186,848	\$229,140	\$92,196	\$62,283	\$152,760	\$140,153	\$124,565	\$229,140
<b>Net income</b>	<b>(\$35,161)</b>	<b>(\$3,312)</b>	<b>(\$61,987)</b>	<b>(\$40,858)</b>	<b>(\$39,904)</b>	<b>(\$63,502)</b>	<b>(\$35,187)</b>	<b>(\$25,340)</b>	<b>(\$62,019)</b>
Per child net gain/loss	(\$2,930)	(\$184)	(\$4,132)	(\$5,107)	(\$6,651)	(\$6,350)	(\$2,932)	(\$2,112)	(\$4,135)

\* Includes a proportional amount of the turnover inefficiency bad debt.

## Conclusion

Funding issues for child care providers is not an issue unique to New Jersey, but the characteristics and severity with which they manifest for providers varies depending on the regulations imposed by the state. Even in ideal circumstances, many child care providers struggle to operate in the black, knowing that the slightest change in daily operations can have a devastating impact on their ability to remain open. The arrival of the COVID-19 pandemic introduced much more than a slight change in child care providers' daily operations, and forced providers to meet community needs within an extremely restrictive environment. Using a set of hypothetical scenarios to test the financial impact of pre- and post-COVID child care group size and ratio regulations sheds light on just how dire these changes have been to some of the unsung heroes of the COVID-19 pandemic.

## Endnotes

<sup>1</sup> The organization of Tables 3-9 originated from the following article: Gruenwald, R. (2020, June 24). How a COVID-19 10-person group limit affects Minnesota's child care providers. Federal Reserve Bank of Minnesota. Retrieved from <https://www.minneapolisfed.org/article/2020/how-a-covid-19-10-person-group-limit-affects-minnesotas-child-care-providers>

<sup>2</sup> See Executive Directive No. 20-032 (September 18, 2020). COVID-19 Child Care Standards Pursuant to Executive Order No. 149. Retrieved from [https://www.state.nj.us/health/legal/covid19/ED20-032\\_ChildCareStandards.pdf](https://www.state.nj.us/health/legal/covid19/ED20-032_ChildCareStandards.pdf)

<sup>3</sup> See Workman, S. & Jessen-Howard, S. (2020). The true cost of providing safe child care during the coronavirus pandemic. Retrieved from <https://www.americanprogress.org/issues/early-childhood/reports/2020/09/03/489900/true-cost-providing-safe-child-care-coronavirus-pandemic/>

<sup>4</sup> Kim, J. & Joo., M. (2018). *2017 New Jersey child care market price study*. Retrieved from <https://www.childcarenj.gov/getattachment/Resources/Reports-and-Statistics/2017-New-Jersey-Child-Care-Market-Price-Study-pdf.pdf.aspx?lang=en-US>

<sup>5</sup> See Table 6 of the NJDOE's 2020-2021 Private Provider One-Year Budget Planning Workbook, retrieved from <https://www.state.nj.us/education/ece/budget/>