



How do childcare centers and preschools weather funding disruptions?

Statistics and voices from the north and west sides of the Chicago area

RACHEL A. GORDON

Professor, University of Illinois at Chicago Department of Sociology and the University of Illinois Institute of Government and Public Affairs

ANNA C. COLANER

Graduate Student, University of Illinois at Chicago Department of Sociology

DANNY LAMBOUTHS, III

Graduate Student, University of Illinois at Chicago Department of Educational Psychology

MARIA KRYSAN

Professor, University of Illinois at Chicago Department of Sociology and the University of Illinois Institute of Government and Public Affairs

FINDINGS IN THIS BRIEF:

- ▶ Funding sources differed in expected but stark ways between centers located in poor versus affluent areas. Centers in the poorest areas relied largely on publicly-funded programs. Although centers located in the wealthiest areas generally relied on private tuition, nearly one-third also received public funding.
- ▶ The majority of centers reported delayed payments both from government sources and from parents in 2011-2012. Most center directors reported negative consequences of these delays for their financial stability. Centers located in higher-income areas were not immune to these disruptions.
- ▶ Both participation and delays were most common in the CCAP program and from parents. Nearly every director who participated in CCAP reported delays in 2011-2012; and, almost three-quarters of all directors reported that parental tuition payments sometimes came in late. Frequent delays from parents often coincided with significant CCAP delays, and directors with this double blow reported the greatest worries about their finances.
- ▶ Effects of slow payments rippled out to program staff, families, and children. Delayed staff paychecks and staff layoffs were particularly common. Directors viewed these as reducing morale and increasing turnover. Directors had difficulty paying bills and purchasing supplies, and believed program quality suffered as a result. Some center directors were able to tap into cash reserves and lines of credit, whereas others had little cushion and directors sometimes filled the gap out of their own pockets.
- ▶ In both lower- and higher-income areas, centers that were part of larger organizations—including schools and religious organizations—and directors with greater support from their professional networks, reported less distress from delayed payments than those without such relationships.

Like all sectors of the economy, childcare centers may retract during a recession. Given parents typically use childcare during their work hours, reductions in employment may coincide with reductions in the need for, and therefore use of, outside childcare. Many parents also use centers and preschool programs as a way to prepare their three and four year olds for elementary school. These programs may also be vulnerable during a recession, as parents lose jobs and have less money to pay tuition and as diminished government coffers limit public subsidies.

It's also possible that a recession will shine a light on challenges continually faced by the early care and education sector. Even in prosperous times, fewer parents in lower-income areas are employed, and their salaries are lower and schedules often less regular, than those in higher-income areas. Additionally, government subsidy programs have different rules and regulations that affect how and when providers are paid for the care and education of children, even in times of economic growth. As we discuss below, each program's constellation of features may affect payment delays, such as how eligibility is determined and the ways invoices are processed and paid.

This brief provides insight into this topic by describing how programs on the west and north sides of the Chicago area were funded in 2011-2012, directors' reports about delays in various funding streams during this time period, and the extent of financial distress reported by directors. Although we do not directly evaluate change in directors' experiences before and after the recession, we highlight vulnerabilities to disruptions in funding, some of which may coincide with the recession, and some of which may occur regularly. In the conclusion we discuss next steps for better understanding the reasons for funding disruptions and potential strategies for addressing them.

SOURCES OF FUNDING

We begin by examining the extent to which centers relied on government funds versus private tuition. We anticipated funding patterns might vary based on racial-ethnic and income distributions

and therefore categorized the ZIP Codes in our study into five types based on these characteristics (see "About The Chicago Area Study 2012," on page 8).

We focus on four major public funding mechanisms for early care and education (see "Programs in Brief," below).

We found that centers in the poorest areas relied extensively on publicly funded programs. All centers in majority black, low-income ZIP Codes participated in at least one program (CCAP, CACFP, Preschool for All, or Head Start), as did about 90 percent of programs in mixed race and majority Hispanic low-income ZIP Codes. Between 20 and 30 percent participated in all four programs (see Figure 1 on page 2).

Even many centers located in somewhat more affluent areas—majority white and middle income—received government funding. Nearly 80 percent had funding from at least one of these programs, and almost 10 percent participated in all four.

Not surprisingly, centers in the wealthiest areas—majority white and high income—less often relied on publicly funded programs. Yet, about one-third received some government funding. Most participated in just one program, although approximately 10 percent participated in three programs.

We also asked center directors whether they charged tuition and, if so, whether they used a sliding scale. For those who participated in CCAP, we also asked about parent co-payments. Centers in the poorest areas relied less on tuition than did centers in the wealthiest areas. Fewer charged tuition than was the case in wealthier areas (60-78 percent in low-income areas versus 96-98 percent in middle- and high-income areas) and most that did used a sliding scale (39-62 percent in lower-income areas versus 16-18 percent in middle- and higher-income areas).

Putting these funding streams together, we considered whether centers relied only on government funding, only on private tuition, or drew on both.

PROGRAMS IN BRIEF

Head Start: Federally funded program for low-income families, including preschool for three and four year olds.

Preschool for All: State-funded prekindergarten program for 3- to 5-year olds, targeting all children up to four times the federal poverty level but prioritizing children at-risk for academic failure.

Child and Adult Care Food Program (CACFP): Federally funded program reimbursing child care centers for meals and snacks served to children, with reimbursement levels tied to family income (similar to the school lunch program).

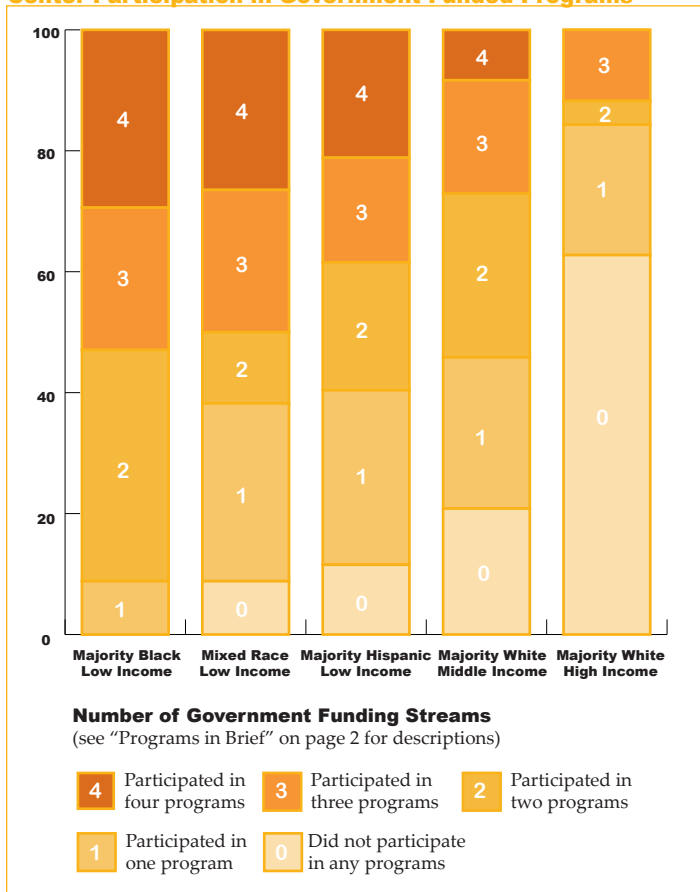
Child Care Assistance Program (CCAP): Subsidy offered to parents on a sliding scale (based on family size and income) covering a portion of the cost for child care.

STUDY PARTICIPANTS

When interpreting our results, it's important to keep in mind who we surveyed (see "About The Chicago Area Study 2012" on page 8). We talked to center and preschool directors on the west and north sides of the Chicago area that enrolled three and four year olds. Most (82 percent) also enrolled infants and toddlers. Over half were part of what we refer to as an **umbrella organization** (7 percent a national chain, 16 percent a local chain, 14 percent a church or synagogue, 14 percent a private school, and 18 percent another organization). Forty-four

percent operated for profit. We excluded preschools located in public schools because their organizational differences would have altered the context of our major research questions and therefore required major differences in survey conceptualization, procedures and instruments. Most directors in our study (81 percent) told us that they were responsible for business operations, with about two-thirds saying that their responsibilities included handling the paying of bills and management of grants.

FIGURE 1:
Center Participation in Government-Funded Programs



- The majority of centers (62 percent) combined at least one of the four government programs and private tuition. Centers drawing on both sources of funding were spread out across all five types of Zip Codes. In lower-income areas, 59 percent to 71 percent of centers combined private and public funds, as did 77 percent in middle-income areas, and 40 percent in higher-income areas.

- About one-fifth of all centers (21 percent) relied only on private tuition. These centers were concentrated in the more affluent areas: 60 percent of centers in higher-income areas relied exclusively on private tuition, as did 19 percent in middle-income areas, but less than 10 percent in lower-income areas.

- About one-sixth of all centers relied on government programs only. Nearly all such centers were located in the lower-income areas. One director told us: “Ninety percent of our operating expenses come from the state. Our tuition is \$165 a week and we have some parents paying \$9 a month.”

Another window into the intersection of public and private funds is available through the CCAP program since we can compare the amount the state pays for care—called the reimbursement rate—to what centers charge as tuition from privately-paying parents. The CCAP reimbursement rates are the same for all centers in a particular geographic area of the state. For instance, all centers in Cook County and the surrounding collar counties receive the same rate for a full day of care for a child of a particular age. To the extent that centers in higher-income areas charge higher tuitions, there might be a larger gap between the private tuition rate and the reimbursement rate in these areas. That is what we found in our survey: Directors of centers located in higher-income areas were less likely to say that the state reimbursement rate equaled

(or exceeded) the amount they charged privately-paying families (16 percent in higher-income areas, 31 percent in middle-income areas, 55 percent in lower-income areas). Centers are allowed to charge families the difference between their private tuition rates and the reimbursement rate, and we also found that centers in higher-income communities were more likely to say that they charged parents the difference (56 percent in middle- and higher-income areas versus 29 percent in lower-income areas). These results confirm that the financial benefits of participation in CCAP are lower in higher income areas. That is, there is more often a gap in these areas between the private tuition rate and the state reimbursement rate. Centers either implicitly subsidize care by absorbing that forgone tuition, or low-income parents pay more for care when the difference is added to their co-payment.

EXTENT OF DELAYED PAYMENTS FROM GOVERNMENT-FUNDED PROGRAMS

Each government program has some unique features that might influence the timing and consistency with which centers are paid.

One major distinction is whether dollars come from the federal or state government. Also relevant is whether federal funding flows directly to local agencies in cities and counties, or moves through state agencies. Government programs also differ in that some funding precedes services, supporting an entire classroom of preschoolers whose eligibility is determined at initial enrollment and is not re-evaluated (in other words, children remain eligible until they reach kindergarten). Other funding follows childcare services for individual children, with frequent eligibility redetermination in which parents must document continued employment.

The unique set of features characterizing each funding stream likely affects when and how payment delays might occur, with varying implications for centers. State-funded programs might be affected by Illinois’ fiscal crisis—which was ongoing during our survey period of 2011-2012—whereas federal programs could be affected by federal government sequestration and shutdowns—although none happened during the period of our survey. If advance payment for a program like Preschool for All was delayed due to the state’s fiscal crisis, then a center might have to decide whether they could open the classroom (and cover costs while waiting for state funds). If payments for individual children from a program like CCAP fell behind due to problems with eligibility redetermination or other processing issues, then a center would have to find a way to fill the gap in payment for services already provided, and decide whether the affected child could continue to receive care while eligibility issues were sorted out.

QUESTION WORDING

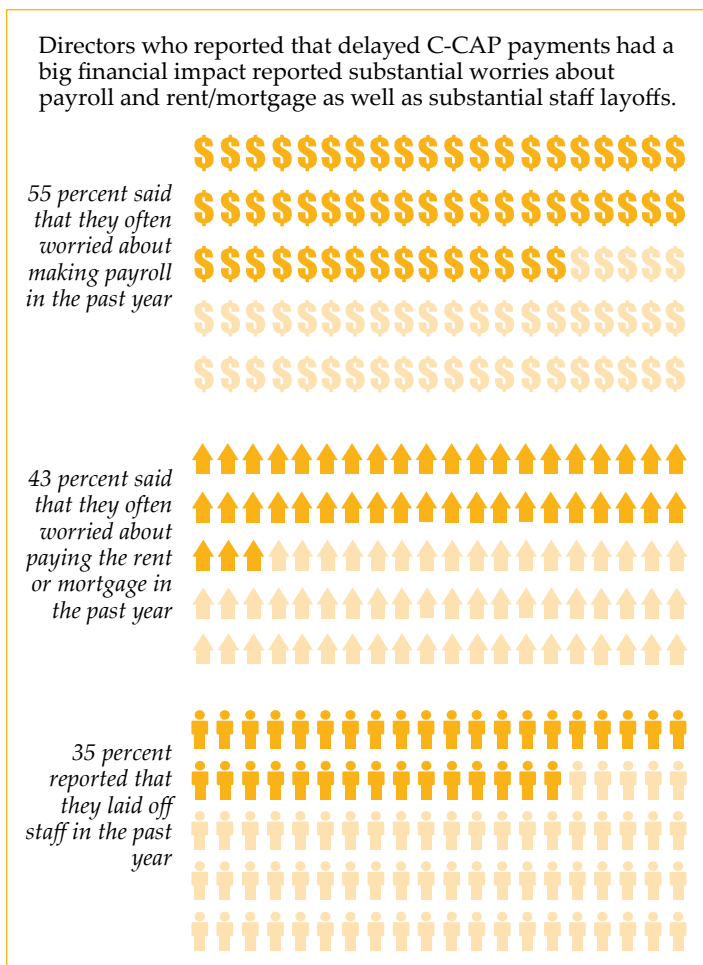
We used the same wording when asking about delayed payments from each funding source:

In the last 12 months, how often have payments from [funding source] to your program been delayed? Would you say...Never, Sometimes, Often, Very Often.

Directors who reported any delayed payments for a particular program were then asked:

How much have delayed payment from [funding source] affected the financial stability of your center? Would you say...Not at all, A little, Somewhat, Very much.

FIGURE 2:
Effects of Delayed Payments



Across the four publicly funded programs that we examined in 2011-2012, centers were most likely to participate in the state CCAP subsidy; directors also reported delayed payments most frequently for this program.

That is, when we focus on centers that participated in at least one public program, more than four-out-of-five (83 percent) had children whose care was paid for with the state CCAP subsidy. Nearly three-quarters (73 percent) had children whose meal and snack costs were reimbursed by the federal CACFP program. A smaller fraction of programs participated in the state Preschool for All and federal Head Start programs (41 percent and 37 percent, respectively).

In 2011-2012, directors were most likely to report any delays from the CCAP program (90 percent), followed by Preschool for All and Head Start (65 percent and 63 percent of programs reported any delays, respectively); delays were least common for the CACFP food subsidy (33 percent reported any delays). Directors reported frequent delays—often or very often—for the state-funded more than the federally-funded programs. Fully half (53 percent) of centers reported frequent delays for the CCAP program. Nearly one-third reported frequent delays for Preschool for All (32 percent). Less than one-fifth (17 percent) did so for Head Start, and just 7 percent for CACFP. Although we cannot be sure of the reason that directors perceived these delays (e.g., errors in parents completing paperwork, delays in the state processing paperwork, delays in government agencies paying bills), these results suggest that some part of the payment process might have been more likely to

break down for the CCAP program than for other programs, in 2011-2012.

Although a smaller proportion of centers located in more affluent areas participated in any public programs, they were no less susceptible to delayed payments. Looking at the program in which the greatest number of centers participated—CCAP—we found that 91 percent of CCAP participating centers located in majority black low-income areas reported delays as did 100 percent of centers in majority white high-income areas. A similar percentage reported negative effects on their center’s financial stability: 86 percent in the poorer areas and 84 percent in the affluent areas. However, directors in the poorer areas were more likely than those in affluent areas to report that these impacts were somewhat or very consequential (81 percent, in comparison to 53 percent of directors in affluent areas).

EFFECTS OF DELAYED PAYMENTS FROM GOVERNMENT SOURCES

We asked all center directors how often they worried about making payroll, worried about paying their rent or mortgage, and whether they had laid off staff in the prior year. These questions helped us validate the financial strains experienced by directors who reported payment delays, and helped us assess the magnitude of their worries, in relation to directors who did not report delays.

Focusing again on the most widely used public funding program—CCAP—we found these specific financial concerns were common among directors who reported a large financial impact of delayed CCAP payments. Seven-in-ten of such directors reported any worries or layoffs (see Figure 2 for more details). In contrast, worries and layoffs were reported by less than one-fourth of directors who participated in CCAP but either had no payment delays or said delays had small impacts. Likewise, less than one-fifth of directors who did not participate in CCAP reported worries about payroll or rent or staff layoffs.

The greater worries among directors who reported CCAP payment delays were evident even when we focused just on centers located in lower-income areas. In these poorer ZIP Codes, over seven-in-ten directors who had delayed CCAP payments reported rent/payroll worries or staff layoffs, in contrast to about one-third of centers who either did not participate in CCAP or who participated but didn’t report problems with payment delays.

We also asked directors who reported payment delays from any of the four government programs to elaborate, in their own words, about how their center was affected. When we coded their responses, we again found that difficulty paying staff was most common (64 percent), followed by paying bills (like rent, utilities, and vendors; 48 percent), and cutting back on purchases of supplies and materials (23 percent). As one director succinctly put it: “Can’t pay bills. Can’t pay staff. Can’t buy materials.”

Quotes in the boxes on page 5 reveal the ways in which directors thought that these delays affected program staff and the quality and viability of programs, not only in obvious ways (cutting back on materials and services; tapping into lines of credit) but also more subtle ways (negatively affecting staff-child interactions because of increases in employees’ stress and decreases in morale; moving children into lower quality care settings when payments from state funding agencies meant that parents couldn’t pay their child’s tuition).

“I had to loan them a couple thousand dollars....”

...I was reimbursed when the payments finally came in.”

“I did juggle the funds around and we had to borrow money also from our reserves.”

“If we didn’t have a line of credit then we probably wouldn’t be able to pay teachers and employees.”

“When the CCAP funding doesn’t come in we have to go into our line of credit in order to keep operating. It’s not good to have a line of credit going up, paying out more money in interest even when the money finally comes in.”

“Services were cut for some students...”

...full day program reduced to half day.”

“[If parents] can’t keep children in center, then they have to put children in unsafe areas that are cheaper, that have drugs and just unsafe environments.”

“A lot of the parents had to pay full tuition to meet payments, and then once we got payments [from the state] we had to reimburse them. So some parents had to leave temporarily because they couldn’t meet the payments.”

“When they’re late like that it’s really hard for me to buy quality food, and I had to cut back educational trips.”

“It hurt our employees the most...”

...it’s just that funding is so crucial to the industry and to providing childcare. Children suffer emotionally because if a person is stressed because they may not get their paycheck they cannot really teach in a quality manner.”

“The teachers were threatening to leave; we had problems with payroll.”

“It has affected us through staff morale... it causes instability in terms of teaching staff. If teachers don’t believe they’ll have a job, how stable are they? How focused are they?”

HELP GETTING BY

Delayed payments had fewer negative impacts among directors whose centers were part of umbrella organizations and whose own professional networks offered more support. The benefit of being part of an umbrella organization was evident for directors of programs affiliated with schools (50 percent who were part of schools reported large impacts from delays in payments from government-funded programs in comparison to 72 percent who were not part of schools), religious organizations (50 percent versus 73 percent), and other organizations (57 percent versus 73 percent). A number of directors articulated these benefits in their open-ended responses (see quotes below).

“It doesn’t affect us as much or immediately as some private programs where they are not covered by an agency.”

“We are lucky the [agency] suspended our obligations until CCAP payments were made.”

“They don’t really affect us too much because our agency is old and well-funded. It doesn’t affect our clients at all.”

“I don’t think that it affected our program directly at all because we have different departments that handle the finances and the programs. Our program ran as usual. We got paid, we left our doors open.”

“It really didn’t affect us because we have other funding. We were able to go forward.”

In addition to directors whose centers were part of larger umbrella organizations, there were directors who were more likely to feel that they had someone to turn to during a major crisis at their center. And these more-supported directors also reported fewer impacts of the delayed payments (66 percent reported large impacts versus 82 percent of directors who said they were not at all or a little likely to have such support). This association was evident both among directors who were and were not part of umbrella organizations (see Figure 3 on page 6). These findings point to the importance of both the directors’ own and the center’s broader relationships to helping them weather the crisis brought about by funding disruptions.

EXTENT AND EFFECTS OF DELAYED PAYMENTS FROM PARENTS

Directors were also asked about delayed tuition payments from parents in 2011-2012. Overall, nearly three-quarters (74 percent) of directors who charged tuition reported that parents were sometimes late paying tuition, although just 14 percent of directors reported that parents were frequently—often or very often—unable to pay. Importantly, slow payments from parents often co-occurred with slow CCAP payments: Over-two thirds of directors who reported frequent delays from parents also reported major financial impacts from CCAP delays.

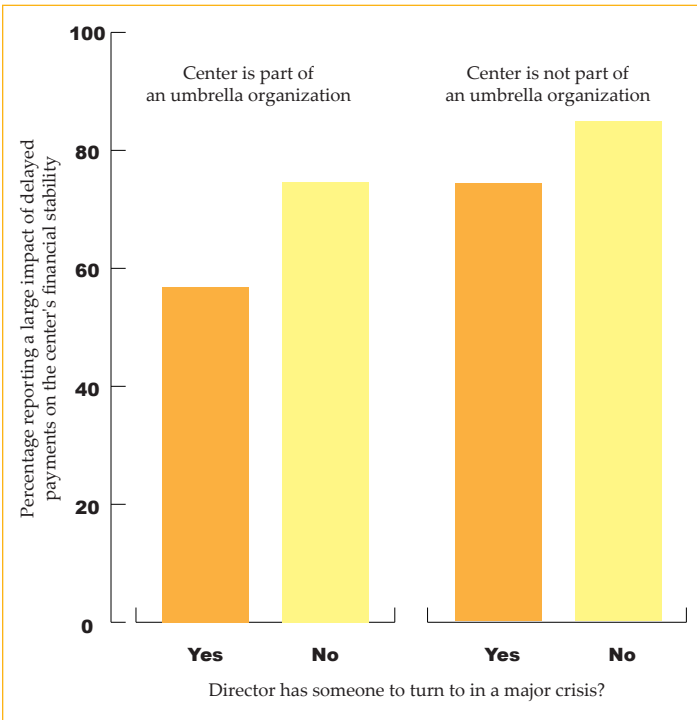
As shown in Figure 4 (on page 6), the double whammy of delays from both parents and from CCAP was associated with the highest reports of financial worries about rent/payroll and staff layoffs. About four-fifths of directors who experienced slow payments from both CCAP and parents reported financial worries. Worries were still high among directors who reported CCAP delays without late payments from parents, although appreciably lower at about two-thirds. In contrast, worries were substantially lower among the remaining directors—reported by just one-quarter or less.

When centers had CCAP participating children, we also asked directors more specifically about whether parents were behind in making their CCAP co-payments. Almost 90 percent reported delays in parent CCAP co-payments, and nearly half reported such delays happened often or very often. The majority of center directors—three-quarters—said that when this happened they worked out a payment plan with the family. About one-in-six said that they allowed parents to skip payments. Just 7 percent reported that children were not allowed to attend when their parents missed co-payments. Centers that were part of umbrella organizations were more likely to report that they worked out payment plans (85 percent versus 63 percent who were not part of umbrella organization) and less likely to allow parents to skip payments (6 percent versus 31 percent).

WHY THESE FINDINGS ARE IMPORTANT

We do not know exactly how and why these payment delays occurred. For government programs, some delays may result from

FIGURE 3:
Impact of Delayed Payments by Center’s and Director’s Professional Relationships

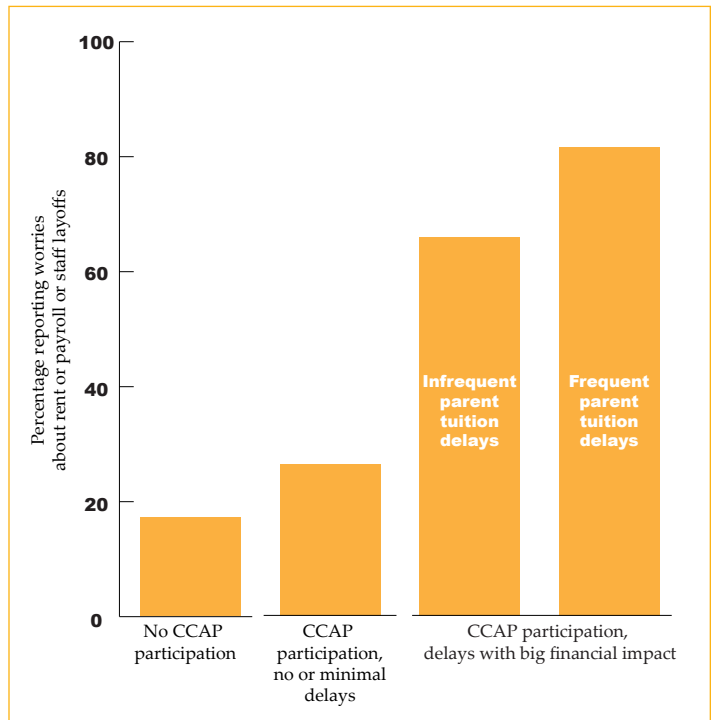


parents or centers filling out paperwork incorrectly, others from agency delays in paperwork processing, and still others from the government being slow in paying bills. Parents may get behind in paying tuition for various reasons as well, such as being short on money due to reduced work hours or having a cash flow problem because of unexpected bills. Whatever the reason, our results help decision makers understand which funding sources directors believed were most often delayed and how they perceived those delays to impact their programs.

The extensiveness of reported delays that we find suggest the importance of future efforts to identify and address the reasons for funding disruptions. Both participation and delays were most common in the CCAP program and from parents. Nearly every director who participated in CCAP reported delays in 2011-2012; and, almost three-quarters of all directors reported that parental tuition payments sometimes came in late. Frequent delays from parents often coincided with significant CCAP delays, and directors with this double blow reported the greatest worries about their finances. It is possible that parents attending these centers could be experiencing frequent job changes and other stresses that not only leave them strapped for cash but may also either alter their eligibility for CCAP or distract them from completing CCAP paperwork. Furthermore, it may be that centers experiencing the most extensive delays are understaffed and under-resourced, making it hard for them to organize their processes for collecting tuition and submitting government forms.

Directors’ survey responses and words also highlighted the financial effects of payment delays. One-third laid off staff, and many described the toll on staff morale and program quality. The childcare industry generally suffers from low wages and worker shortages, and payroll interruptions may be the tipping point that forces some out of the field. The increased stress among those who stay may negatively affect the quality of their day-to-day interac-

FIGURE 4:
Association of Financial Worries with Payment Delays from Parents and from Government CCAP Subsidies



tions with children. Directors also shared their concerns that when parents couldn’t pay or their government funding was disrupted children might end up in other care arrangements, potentially some with fewer supports for their development and safety risks.

Our results pointed to centers that may be particularly vulnerable to funding delays. We documented how extensively centers in low-income areas relied on government funding. Every program in the majority black, low-income ZIP Codes that we surveyed participated in at least one program; one-third participated in all four. Two directors told us in our open-ended questions that 90 percent of their operating funds came from these programs, suggesting that even short-term delays could severely impact their cash flow.

We also found that the most isolated centers were particularly vulnerable. Those that were part of umbrella agencies were better able to temporarily fill in funding gaps. Some centers also reported having cash reserves and lines of credits to cushion the effect of delayed payments. Importantly, although centers in higher-income areas less often participated in publicly-funded programs, they still reported financial instability as a result of delayed government payments. Such centers likely are a vital resource to families residing in pockets of poverty within wealthier areas, and may be especially likely to stop serving subsidized children when funding streams are unreliable.

Strategies to help avert future delays will depend upon the particular funding stream. Clearly, avoiding financial disruptions associated with state and federal fiscal crises is important, although such crises should generally not have affected the program for which we saw the greatest delays in 2011-2012: CCAP. Instead, the complexity of processing eligibility and payments may be a critical issue for CCAP delays. One way that the CCAP program differs from the others is in the frequency with which eligibility is re-determined, and how many different hands are involved

(parents, centers, local and state agencies). We describe the process in some more detail in the box on this page in order to highlight its potential roadblocks. As we have noted, delays in CCAP processing may come from parents and providers as well as local or state agencies, and thus outreach, training, and ultimately simplification may improve the system in the future. Some such rule changes have been proposed at the state and federal level, including extending eligibility to last 12 months rather than three or six months. Passage of such rule changes is uncertain, however, given that political debates must balance reductions to the burden of eligibility and attendance documentation with a desire for increased accountability. This reflects the tension between viewing childcare as a work support—and thus requiring continuous assurance of parental employment—and viewing it as a developmental enrichment—and thus prioritizing continuous child attendance.

Supporting the business functions of childcare centers and preschool programs are also potentially fruitful strategies to help centers deal with funding delays. Business strategies that help centers build up cash reserves and develop lines of credit may prepare them for temporary shortfalls. Better business practices may also help centers stay on top of paperwork—including by helping parents with the timely and accurate submission of redetermination documents. Funding and technical assistance in this arena may be especially critical to small centers. The inclusion of program administration in Illinois' quality rating and improvement system (now ExceleRate Illinois) is promising, as will be continued efforts to help programs move forward in this area.

On the whole, our results suggest that strategies such as these are essential if the state is truly committed to ensuring that all children—and especially children at risk of not being ready for school—have access to high quality early care and education. •

ABOUT CCAP REDETERMINATION

CCAP redetermination forms are sent to parents the month before their eligibility period ends. Providers and parents receive cancellation notices if the parent doesn't return the form or no longer meets the eligibility requirements (e.g., is no longer employed). While eligible, parents and centers must complete (and sign in ink) a monthly certificate indicating the number of days care was provided; care is only approved for a certain number of hours, depending on the parent's work schedule. The first

payment can take longer (up to 2 months) as the center's information (including W9) is entered by the Illinois Office of the Comptroller. The state reimbursement portion comes from the Comptroller's office; the center collects the co-payment from parents.

Source: Illinois Department of Human Services Brochure. *Welcome to the Illinois Childcare Assistance Program (CCAP): A Childcare Provider's Guide.* Available at: <http://www.dhs.state.il.us/onenetlibrary/27897/documents/brochures/4612.pdf>

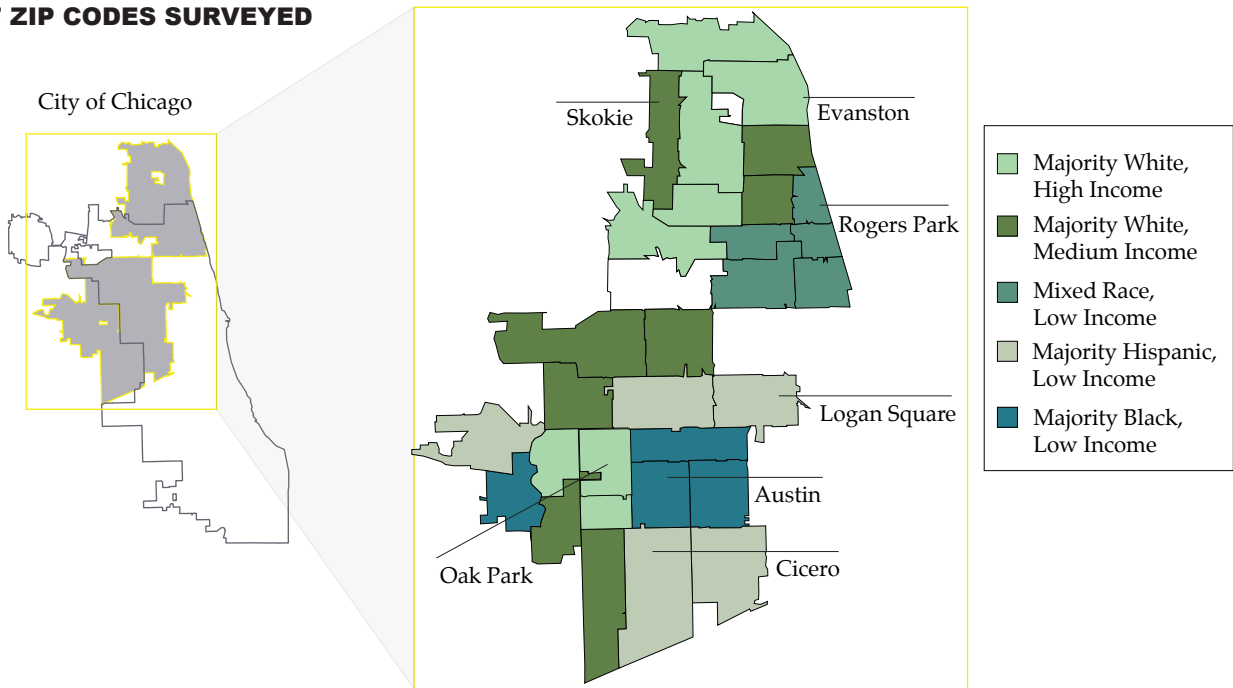
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ABOUT THE CHICAGO AREA STUDY 2012

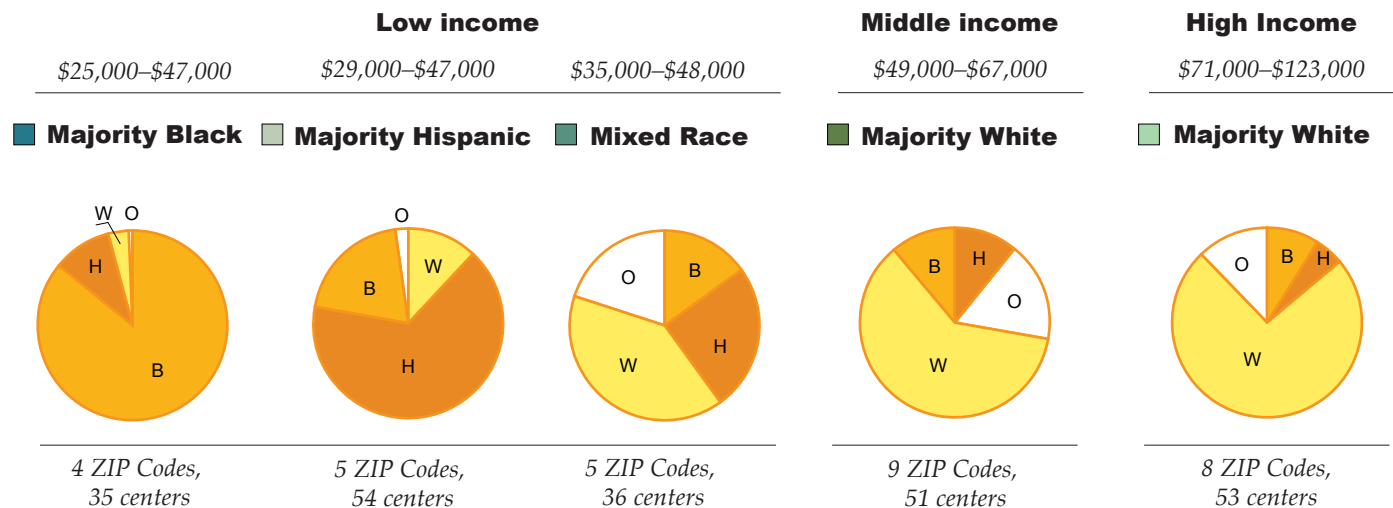
The study surveyed 229 center directors in 33 ZIP Codes on the west and north sides of Chicago. The study investigators contacted all center directors on Illinois Action for Children's resource and referral list in these ZIP Codes as well as additional license-exempt preschools operated by private schools and churches. Preschools located in the public schools were excluded because their organizational differences alter the context of our major research questions and therefore would have required major differences in survey conceptualization, instruments. Seventy percent of contacted centers participated, thus the survey well represents centers in the 33 ZIP Codes. The study is part of the Chicago Area Study series at the University of Illinois at Chicago. The CAS website includes research briefs which offer more details about the study design and core findings (<http://igpa.uillinois.edu/cas>).

MAP OF ZIP CODES SURVEYED



DEMOGRAPHICS OF ZIP CODES SURVEYED

Black (B) Hispanic (H) White (W) Other (O)



The five categories of ZIP Codes reflect the socio-demographic composition of the studied areas (e.g., there were no majority Black middle or higher income ZIP Codes in the survey area). The Chicago Area Study website provides more information about how we classified ZIP Codes (<http://igpa.uillinois.edu/cas>).