Los Angeles Early Care and Education Provider Financial Analysis

Successful transition to an expanded and equitable early care and education system in California is dependent on addressing the intersection of quality, a sustainable workforce, and full cost funding.

Early care and education (ECE) programs in Los Angeles County provide critical childcare and preschool services for families with children birth through age five. In addition to making it possible for parents to work and contribute to the economy, high-quality ECE programs foster healthy brain development, support the social-emotional and cognitive needs of young children, and profoundly influence children's readiness for school and life. ECE providers are the unsung heroes committed to the success of the children and families they serve.

Nonprofit Finance Fund (NFF) partnered with the California Community Foundation and First 5 LA to study the financial and operational challenges faced by 26 ECE center-based providers in Los Angeles County (with California Department of Education contracts) to help identify policy and systems change solutions that enhance the fiscal strength of the sector, so that more providers have the resources needed to provide quality care.

Photo courtesy of First 5 LA

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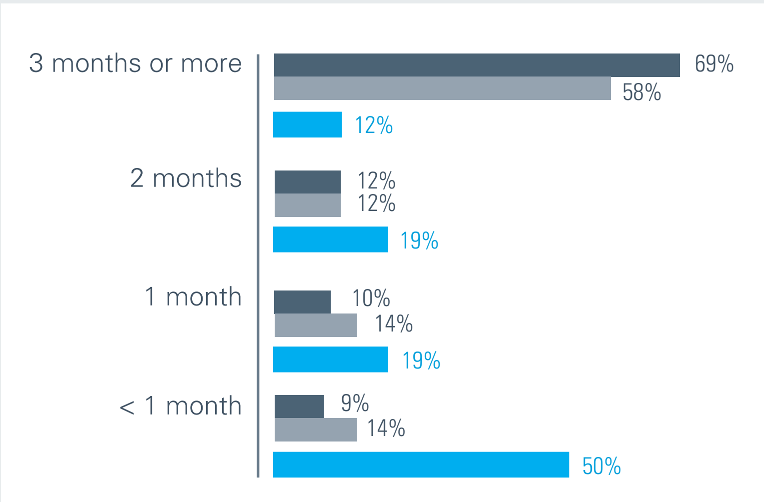
Key Findings

FOSTERING YOUNG MINDS AND DEVELOPING BRAINS WITH LITTLE MARGIN FOR ERROR

Providers struggle to cover year-to-year expenses much less build any “safety net” (i.e., cash reserves). More than 50 percent of LA-based ECE providers studied in this analysis had less than one month of cash on hand (as compared to only 9 percent of national nonprofits from the 2018 State of the Nonprofit Sector Survey).

COMPARISON OF LIQUIDITY: MONTHS OF CASH

We compared our financial analysis of 26 LA-based ECE providers with results from the 2018 State of the Nonprofit Sector Survey to set context for how their financial positions differ from other ECE providers and nonprofits across the nation.



National nonprofit respondents from 2018 Survey data* (n=3,158)

National ECE provider respondents from 2018 Survey data (n=90)

Cohort of LA-based ECE providers** (n=26)

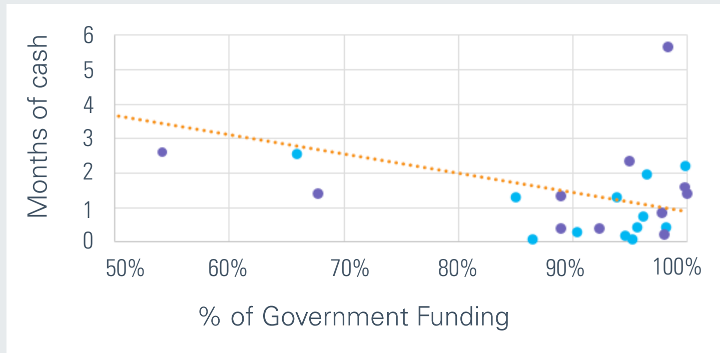
*The 2018 State of the Nonprofit Sector Survey gathered responses from nonprofits across the nation between Jan-Feb 2018; financial data is self-reported based on FY2017

**NFF analyzed financial reports from 26 LA-based ECE providers using most recently available data, which was FY2016

We found that LAC-based providers who deliver primarily ECE services struggle more with liquidity than multi-service organizations that offer a broader range of services to children and families, which is likely the result of a lack of public investment in ECE programs.

Providers who rely predominantly on government funding consistently experience cash constraints, which they attribute to insufficient reimbursement rates. Others voiced challenges around the onerous burden of managing multiple, disconnected public funding streams.

MONTHS OF CASH BY PERCENTAGE OF GOVERNMENT FUNDING



Multi-service providers

ECE-only providers

Analysis based on FY2016 financial reports from 26 LA-based ECE providers.

INEQUITABLE ACCESS TO QUALITY PROGRAMS AND FUNDING RESOURCES

Providers identified disparities in the care that low-income children receive. Funding sources such as California State Preschool Program, Head Start, and Alternative Payment Program all have varying quality requirements, and as one provider described:

"The experience of the child depends on which pot the money came from … [and that] is not equitable for the child." LA ECE Provider

ECE providers serving children from LA's most disinvested communities have greater cash constraints relative to peers with more access to wealth. Particularly among organizations serving communities of color, providers described challenges accessing board members, donors, and/or philanthropic entities—all of which are instrumental to subsidizing the full cost of quality care.

WORKFORCE: UNSUNG HEROES

The ECE workforce – made up of predominantly women of color and immigrants[1] – is significantly underpaid and overworked. This project estimated an average annual compensation of $21,000 per employee, which falls below the 2017 federal poverty threshold of $24,600 for a family of four.[2] Additionally, there is significant inequity in wages between ECE workers and the K-12 workforce, despite a similar level of the rigor in work requirements.

"Our teachers subsidize this industry – by working sub-standard wages and working without the necessary supports in the classrooms." LA ECE Provider

"This is a Fair Trade issue, it's happening right here in the United States and right in California. The government wants to get the best bang for its buck, but the people who are delivering the service are being exploited. It's a Fair Trade issue and exploitation …we should know what it costs and fund it." LA ECE Provider

Family Child Care (FCC) providers are proud small businesses that care for children in their own home. Though the focus of this project was on center-based providers, any discussion about California's expanded ECE system must be inclusive of the experience of FCCs, who play a critical role in serving families who are less likely to be able to use center-based care—such as families with non-traditional work hours, infants and toddlers, and children with special needs.[3] This project reveals the need for both operational/financial infrastructure support as well as more inclusive approaches to support FCCs as a valued part of the field.

"Without money in the bank, we would lose our homes and lose our businesses. We are business owners and without cash flow we don't make it. With two months [of cash on hand], it hurts. We wouldn't survive. We're living paycheck to paycheck." LA FCC Provider

1 Johnson-Staub, C. (2017). Equity Starts Early, Addressing Racial Inequities in Child Care and Early Education Policy; CLASP; see also Gould, E., Whitebook, M., Mokhiber, Z., and Austin, L. (2019). Breaking the Silence on Early Child Care and Education Costs; Center for the Study of Child Care Employment.

2 McLeon, C., Whitebook, M., and Roh, E. (2019). From Unlivable Wages to Just Pay for Early Educators, Center for the Study of Child Care Employment; University of California, Berkeley.

3 Henly, J., and Adams, G., (2018). Increasing Access to Quality Child Care for Four Priority Populations; University of Chicago and Urban Institute.

Top Recommendations

1. **More public investment is needed** to:
   - Cover providers' full cost of delivering quality care (including FCCs)—starting with increased subsidy reimbursement rates under the current structure. Additional detailed cost-modeling studies are needed to more thoroughly understand the full cost of delivering quality care and inform the reimbursement rate setting.[4]
   - Incentivize FCCs, who are well positioned to serve high need communities, to participate in subsidized programs—starting with reimbursing them at 100% of the regional market rate (RMR).
   - Increase base compensation (both wages and benefits) with stable funding streams.
2. **Public ECE contracts should be restructured** to (1) reduce the complex, onerous administration burden for already-stretched ECE staff and (2) protect against any delays in payments
3. **Policymakers and philanthropic donors must coordinate strategically** to provide more capital to the field – especially ongoing, flexible funding to support operations and build necessary cash reserves.
4. **Funders need to offer financial health capacity-building support to ECE providers** to: manage the volatility of ECE business models; better understand their full cost; and prepare for the opportunity of ECE expansion in the state of California.
5. **Policymakers need to further understand the barriers for providers to participate in quality improvement programs** so that providers can access the necessary quality supports they need to serve families. Policymakers will want to ensure equitable coordination of funding streams so that supports reach the providers who need it the most.

CONCLUSION

The expansion of quality ECE in California will be dependent on full cost funding to support both the existing and expanded system, including the supply and retention of a qualified workforce. From an equity perspective, the state's expansion efforts will necessitate a reevaluation of the existing funding system—not just in terms of level of investment (increased reimbursement rates & philanthropic support) but the structure in which funding streams flow to ECE providers (coordination and streamlining of funding sources). Ultimately, successful transition to an expanded equitable ECE system in California will be primarily dependent on addressing the intersection of quality, a sustainable workforce, and full cost funding.

4 Capito, J. (2019). Comprehensive Fiscal Analysis (CFA) of Los Angeles's Early Childhood Education System; Capito Associates.

NFF AUTHORS
Annie Chang and Kristine Alvarez

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