

The Business of Early Care and Education in Illinois: The Role of For-Profit Providers

Executive Summary

Access to high-quality early care and education services for all young children has emerged as a critical education issue affecting students' future success in school. In order to reach all children, however, all providers of early care and education must have access to the tools and resources necessary to meet standards of higher quality that are associated with school readiness outcomes. It is therefore increasingly important to examine the characteristics, similarities, and differences across early care and education providers, as well as whether different approaches may be needed to enhance service quality in various types of providers.

This report focuses in particular on describing the for-profit sector, an integral part of Illinois' formal early care and education service delivery system.

Illinois' Early Care and Education Market: Comparing the Different Sectors

About 60% of the 1.1 million Illinois children under age five are in some type of non-parental care while their parents work. This number climbs to over 70% for 3- and 4-year-olds.

- Of Illinois' 4,861 early care and education centers in the statewide database, 25% operate as for-profits and 75% as nonprofits. For-profit centers represent 60% of the infant and toddler market. About equal numbers of 3- and 4-year-olds participate in programs operated by for-profits and nonprofits. This holds true for early care and education services to 5-year-olds.
- Although only 25% of centers operate as for-profit, thousands of working families choose these programs.
- 90% of the for-profits are licensed, which means they must adhere to minimum staff qualifications, health, safety, and program requirements and are subject to monitoring visits. 80 for-profit providers are accredited by the National Association for the Education of Young Children ("NAEYC").
- Compared to 185 nonprofit centers, only eight licensed full-time for-profit centers offer Head Start. This may be because for-profits were not eligible to become Head Start providers until 1998, and Illinois has not re-bid any of its Head Start grantee contracts in years.
- Illinois is unable to determine how many children whose care is subsidized by the Illinois Department of Human Services ("IDHS") are served in for-profit compared to nonprofit centers because IDHS does not collect data according to a center's legal status.
- Due to this gap in the available data, Metropolis 2020, in collaboration with PSO/Illinois Child Care Association, surveyed for-profit centers in Illinois. Of the 90 centers who

responded, 37% of the total children served were subsidized by IDHS. When we examined the population of infants ages 6 weeks to 14 months, 42% of the infants served by for-profit centers are subsidized by IDHS.

A Closer Examination of the For-Profit Sector

- Nationally, 35% to 40% of the over 100,000 licensed child care providers operate under the for-profit tax status. In rural areas, this percentage can be significantly higher. At least one-quarter of for-profit programs have enrollments of at least 25% subsidized children.
- The Child and Adult Care Food Program plays a critical role in providing nutritious meals and snacks to low-income children participating in early care and education programs. Today, over 8,000 for-profit centers nationally participate in this program. However, participation requirements for for-profits are more restrictive than those for licensed nonprofits and child care homes.
- Like for-profits, nonprofits receive most of their revenues from families who use their services. While federal support for child care grew by more than 600% since 1980, federal funds pay for less than 20% of all child care costs.
- A recent statewide general population telephone survey of 1,740 Illinois parents found that parents consistently rank two characteristics of child care as “most important,” regardless of the child’s age:
 - 49% of parents with children from birth to 5 years old identified the way the child and caregiver relate to each other; and
 - 22% of parents identified training and education of the caregiver.

Although legal status was not among the choices offered to survey respondents as an important factor in choosing a center, most parents probably do not know the legal or licensing status of the child care arrangements they use.

Characteristics of Quality: Implications for For-Profit Centers

- The most in-depth investigation of quality, costs, and child outcomes was conducted in 1995 during the Cost, Quality, and Child Outcomes in Child Care Centers (CQO) study. The study found that the overall quality of service was not significantly different between the for-profit and nonprofit sectors if care was adequately regulated. In fact, 87% of the centers studied provided mediocre or poor quality care.
- The extent to which centers received sources of revenue other than parent fees was a significant determinant of service quality.

- Overall, researchers found that there were no financial gains from providing higher quality services.
- Better quality centers spent more per child on staff wages and benefits than centers providing lower quality.
- Profit rates on income were not significantly different between sectors. All centers earned low rates of profit on income and probably on investment in the business as a whole.

Conclusion and Recommendations for Action

We know what high-quality care and education is and how to provide it, yet our current financing system fails to produce enough high-quality services that yield the short-term school readiness and longer-term productivity results that research promises. Although the financing of early care and education must be a shared responsibility between families, employers, government, and foundations, new investments across sectors must be made to raise staff compensation levels and to sustain an infrastructure that supports quality.

Finding #1: Like other types of providers, for-profit centers can provide higher quality services when they have revenue streams over and above parent fees. Technical assistance to support both the process and structural components that comprise service quality is also critical.

Recommendation: Support for-profit and nonprofit child care centers in efforts to meet high-quality service standards by making funds from different sources accessible and facilitating the blending of funding streams. The paper recommends several action steps, including steps that would allow all licensed providers to access all available state and federal early childhood funds, raise the child care subsidy base rates and implement a tiered reimbursement program.

Finding #2: To meet the comprehensive needs of children in low-income families and children with special needs, more resources are needed.

For-profit child care centers rely more heavily on parent fees, do not have access to philanthropic grants and charitable donations, and are subject to a variety of taxes from which nonprofits are exempt. Many for-profit providers serve the most vulnerable children, but struggle to find adequate funding to provide the highest quality settings.

Recommendation: Assist for-profit child care centers to serve more children in low-income families and children with disabilities. The report urges Illinois to develop incentives for serving lower-income children and to explore models for targeting quality enhancement resources to centers already serving large numbers of low-income children.

Finding #3: The early childhood market is structured so that parents bear the majority of the cost. As a result, most families cannot afford to purchase quality early care and education for their children. Furthermore, competition pressures providers to keep tuition low. Thus, it is

difficult for many providers to generate sufficient revenues to improve the quality of their services.

To improve service quality and most efficiently use resources, there is a significant new emphasis on collaboration across early care and education programs at the federal and state levels and across providers – schools, nonprofits, for-profits - at the local level.

Recommendation: Promote collaboration and support planning at local community and regional Child Care Resource and Referral (“CCR&R”) levels. The action steps identified in the report focus on supporting collaborative planning at the local and regional levels and creating a better dialogue between for-profit center owners and the CCR&R’s.

Finding #4: To reach our long-term goal of helping all children enter school ready to succeed, we must have and use data about what settings parents have chosen. This will allow us to plan quality enhancement strategies that build on the strengths of and address the challenges of all providers in our current mixed sector market.

Unfortunately, we have limited data about the personnel who work in for-profit centers and the children and families whom they serve.

Recommendation: Improve and coordinate state agency management information systems (MIS) in order to increase our understanding of local and statewide early care and education markets and the effects on young children and families. The report identifies three action steps that would coordinate and expand available data on providers, their workforce, and the children they serve.

Finding #5: As small business owners and critical service providers, for-profit owners can strengthen their voice and enhance their effectiveness in the public policy arena through collective action.

Recommendation: Strengthen for-profit child care by encouraging owners to advocate on behalf of the children and families they serve at the local, state and national levels. The final recommendation calls on for-profit providers to influence public policy and to engage in public education efforts.

*Produced by Chicago Metropolis 2020
August 2003*