

The Growing Strain on the Child Care Business Model: Economic Impacts and Opportunities for Improving Affordability and Access

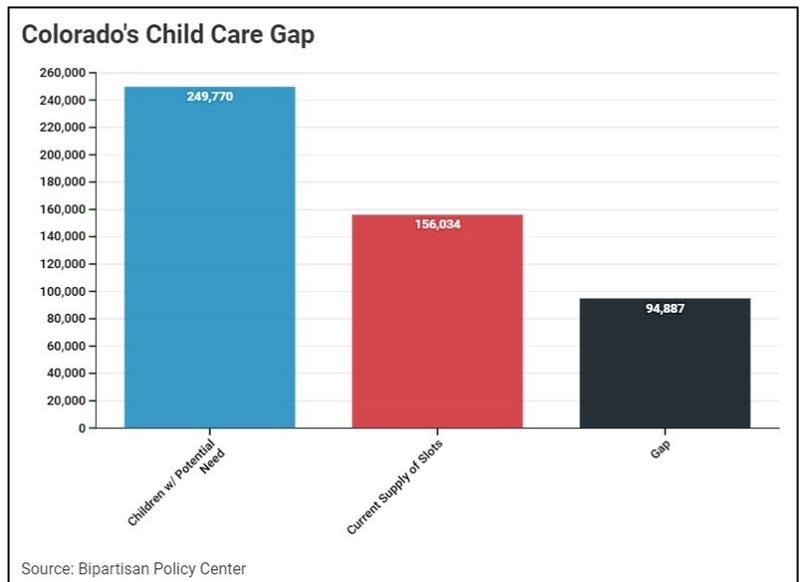
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The success of a flourishing economy, community, and workforce is dependent upon child care that is both accessible and affordable. Yet, the business model for providing child care services in Colorado has been strained for years and both supply and access have been declining. To become sustainable, the regulatory environment governing the child care business model needs to be overhauled. **Common Sense Institute** has partnered with **Executives Partnering to Invest in Children (EPIC)** to take a deep dive into the total revenue and expenses for a child care business and incorporates the regulatory requirements they face.

In using EPIC's Child Care Design Lab Financial Model, it is clear that the child care business model is strained and unsustainable. It is leaving most child care programs in Colorado unable to provide high quality services, pay wages that attract and retain qualified educators, and charge tuition that is affordable for parents without incurring major financial losses or receiving financial support from the government.

The Child Care Gap Is Growing: As of the most recent data, Colorado has a child care gap of 94,887 children, meaning about 38% of children need child care but their families cannot reasonably access it.

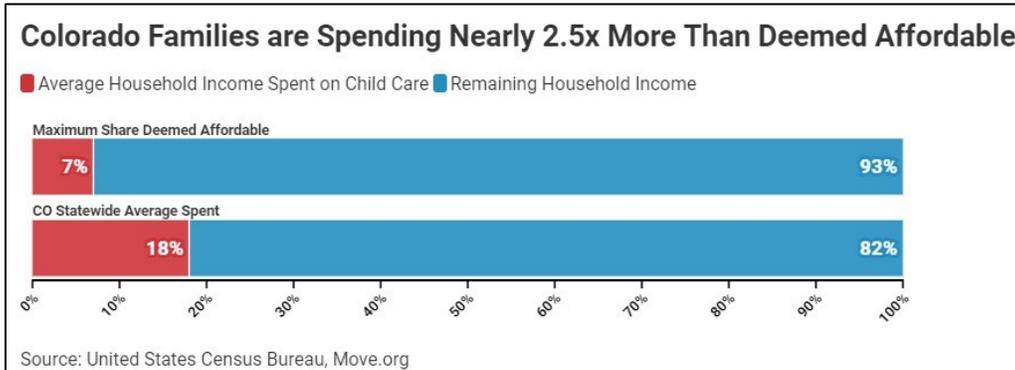
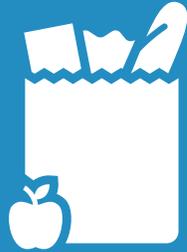
Providers Are Struggling to Get Started and Stay Open: From April 2018 to April 2021, a total of 913 child care programs permanently closed while only 486 programs opened in Colorado. Child care operators face higher occupancy costs, little to no flexibility in revenue generation.



According to CSI's May 2022 Labor Force Update, there are 43,581 fewer women in the workforce than there would be if Colorado's May labor force participation rate of women was the same as it was before the pandemic.

The High Cost is Impacting the Workforce: A family in Colorado with an infant and a 4-year-old on average would spend 37.9% of their household income on child care, topping what most spend on a mortgage. That would make child care the #1 household expense, which has driven many women out the workforce, especially mothers.

Families Are Still Paying Too Much: Colorado has the 8th most expensive child care in the nation. The Department of Health and Human Services recommends affordable child care should cost no more than 7% of a family’s annual income. But Colorado families are spending closer to 18% of their total income on child care. That’s equivalent to a family of four’s groceries for a year and a half, at a weekly cost of \$191.30.

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Opportunities to Improve the Child Care Business Model

- **Commercial property taxes, rent, and debt are the largest cost drivers in the child care business model that are primary areas for reform** and do not sacrifice the quality of care the children receive.
- **There is a glaring gap in data and a need for improved industry survey and analysis efforts** related to the demographics, start-up barriers to entry, operations, financial health, and overall business needs for child care programs.
- **Policymakers need to help support child care industry partners in collecting, analyzing, and reporting child care industry data** so achievable solutions can be created, and success can be built upon.
- **Opportunities to reduce ongoing facility expenses and taxes being paid to the state and local governments should be considered.**
- The exploration of new methods to offer a co-signing or guarantee program could be beneficial to the child care industry as **the financial barriers to entry are significant.**
- **State and local regulatory partners should explore ways to streamline application, review, and approval processes for child care businesses** and provide a single point of contact who can serve as a navigator and liaison throughout the child care business process.