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Why Have Illinois' Child Care Centers Closed?



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children

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Preface

This project began as a result of conversation at the 2003 annual "Where Are the Kids?" conference of the Illinois Network of Child Care Resource and Referral Agencies (INCCRRA). The conversation has continued for years in different forms and forums. It generated the research hypotheses tested here.

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Executive Summary

Illinois' child care resources have grown substantially over the past decade but by most accounts trail behind children's need and family demand. These resources might have grown even faster if a significant portion of the state's child care centers had not closed during this time.

Illinois child care centers are entrusted with providing high-quality care and educational experiences for children from infants to age 12. In 2004, almost 5,400 known centers had a capacity to serve about 360,000 children.¹ For analytical purposes, this study examines 2,881 more traditional child care centers for which we have good data.² Of these, the study counts 610 child care centers with a capacity for serving 30,100 children closing in Illinois in the 5½ years ending December 2004. That is equivalent to more than 11 percent of the child care centers operating in 2004 and over 8 percent of the state's current capacity.

Child care closings occurred at a somewhat higher average annual rate than small businesses in Illinois overall. To the extent that these could have provided many families with needed high-quality child care, the closings are a matter of public concern for their impacts on communities' well-being, especially the well-being of children, and ultimately on the state's public good.

While many people in the field had previously noted the large number of center closings, no one had published a count or explanation. Illinois Action for Children counted these center closings and investigated why the centers closed. Based on a variety of data sources, including a rich set of detailed statewide data on child care centers, we found that the causes of these 610 closings are multiple and mixed, but some closings might have been avoided.³ The table below lists the reasons provided for 304 center closings as well as a conservative estimate of the reasons why an additional 185 centers closed.

We also fielded a small survey of people connected with 49 closed centers to probe more deeply into reasons for closing. Since these centers had opened an average of 19 years ago, and many possessed valuable child care knowledge and other resources, they are not comparable to shaky start-up businesses.

¹ Illinois Department of Human Services, *Illinois Child Care Report, FY 2004*, (no date) p. 16 http://www.dhs.state.il.us/newsPublications/plansReports/pdfs/dhs_planReports_iccar04.pdf (accessed 5/25/06).

² This includes both licensed and license-exempt centers. It excludes exclusively Head Start, Pre-K, summer camp and school-age programs, but retains private preschool programs.

³ We have sufficient data and estimates for about 489 of the 610 closed centers. With some caution about the likelihood of being off-target, the reader can extrapolate percentages to the other 121.

Reasons for Child Care Center Closings (July 1, 1999 - Dec. 31, 2004)

Source: Illinois Network of Child Care Resource & Referral Agencies

	Closed Centers, Partial Count	Closed Centers, Partial Count & Partial Estimate (Mid-range estimate)
Enrollment Problems	157	254
Financial Problems (data from July 2003 & after only)	27	74*
Regulation or Licensing Problems	49	78
Relocated to New Site or Combined with Another Program	37	62
Personal Reason, including Retirement & Career Change	35	59
Loss of Facility (data from July 2003 & after only)	12	33*
Other, including staffing problems (data from July 2003 & after only)	8	9*
Subtotal – Centers with reasons counted & estimated.	304	489
Centers with no reasons given or estimated	306	121
Total Closed Centers	610	610

Note: Data cover 304 centers with closing reasons counted and 185 centers with reasons estimated because none were given. More than one reason was given for some closings and not all categories were used before July 2003. For details on the two-stage estimation procedure, see Appendix D of *Why Have Illinois' Child Care Centers Closed?*

* Second stage of estimation process: Partial (50 percent) extrapolation of the new closing reasons available after June 2003 to the closings of earlier period, July 1999 to June 2003.

Enrollment Problems and Their Causes

Low or falling center enrollment was the reason most frequently given, affecting at least 40 percent of the center closings. The supplementary survey suggests that loss of children to the Illinois Pre-Kindergarten program was responsible for 16 percent of all closings (or 40 percent of the enrollment-based closings). Applied conservatively to all centers, about 100 center closings were due to competition from Illinois Pre-K. See below for more details on Pre-K.

The survey also identified other causes of enrollment problems, including competition from other centers, an economic downturn in the community (causing parent job loss and/or lower family incomes), the unaffordable levels of tuition charged by centers and, to a lesser extent, parent choice.⁴ Enrollment problems, then, stem far more from systematic economic factors than from changes in parents' preferences. By similar reasoning, we conclude that policies that improve the finances of many centers might alleviate the centers' financial distress.

Of all child care center enrollment problems reported by our survey respondents, competition from Illinois Pre-K programs was the most frequently mentioned (cited by 41 percent of all respondents and by 65 percent of those whose closings were due to enrollment problems). The Illinois Pre-K program provides quality tuition-free early education for 3-and-4 year-old children at risk of academic failure; it expanded substantially during the 5½ years studied.

One aspect of competition from Pre-K surprised the survey authors. Respondents indicated that centers serving middle-income families were twice as likely to feel competition from free Illinois Pre-K as centers serving predominately children from families with lower incomes. While there are several reasonable explanations for this finding, it does suggest that competition from Pre-K has a wider effect than many of us would initially have guessed.

In the eyes of many experts, Pre-K provides large benefits for young children. Most parents in the workforce, however, would still need reliable child care before and after a 2½ hour Pre-K class. Children ages 3- and 4-year-olds need both early education and child care while their parents work or attend school, or for a variety of other reasons. Consequently, the issue of Pre-K competition with child care centers raises some public policy challenges.

Policy makers need to find a way to maintain high quality child care along with the desirable growth of Pre-K, especially as the State plans to expand this important

⁴ A center's quality of care, or at least a parent's perception of it, may be an important factor in enrollment. We examined two indicators of quality, adult-child ratios and group size, but did not find significant correlations between these and the centers' likelihood of closing. We would have liked to explore the issue of quality further in our survey, but did not because our respondents were not neutral observers.

program in the next few years. The steps already taken under the new Preschool for All Children initiative may prove sufficient to reduce or eliminate centers' competition from public Pre-K. In 2006, regulations allow centers to apply for State funds to operate their own Pre-K programs even if they serve families with incomes up to four times the poverty level.

Case Study: Rockford, Illinois

A close look at the City of Rockford supported the finding of closings due to Pre-K competition, although not conclusively. Between 2000 and 2005 it appears that as many as 420 Rockford young children who would have paid tuition at child care centers or private preschools were instead enrolling in Pre-K programs. Rockford child care capacity for 3-and-4-year-olds declined 25 percent, or an equivalent of 7 to 10 typical Illinois child care centers, and these reduced enrollments took at least \$2.5 million from the tuition revenues of Rockford centers.

Financial Problems and High Costs

Next to enrollment problems, statewide data indicate that the second most common cause of child care centers closing affected as many as 25 percent of closings: direct financial distress. Survey respondents identified high operating costs as the major direct financial stress on child care centers, and in particular, the survey identified staff compensation as the key cost, even though individual staff earn far less than average Illinois incomes. Child care is particularly labor intensive and requires relatively large staff, partly because state licensing regulations properly limit the number of children each adult employee can care for.

Other costs were also important. Our statistical analysis found that centers providing several valuable but high-cost services were more likely to close than the average center. Notably, providing transportation for children to and from home made a center more likely to close. Offering employees discounts on tuition is one way to recruit and retain staff who are otherwise not extravagantly paid, but offering this benefit also makes a center more likely to close. Certain factors made only some types of centers more likely to close. Offering child care during evening hours when many parents work, for instance, made for-profit centers and centers in rural counties more likely to close.

By comparison one expensive offering that made centers in some circumstances more likely to remain *open*, and in fact made them able to charge a higher tuition, was offering a nursery school program. This was seen in for-profit centers and centers in urban counties outside metropolitan Chicago.

Another indication of the challenge that high costs pose to the survival of many Illinois child care centers is our discovery that centers with smaller-than-average capacities are more likely to close and larger centers are more likely to remain open. No matter how valuable the services, if its capacity is smaller than average, a center is comparatively more at risk of failing to meet its costs. Like many businesses, centers enjoy economies of large scale: when a center spreads costs such as rent and the director's salary over more families, each family will need to pay for a smaller portion of those costs.

For-profit child care centers that remained open were able to charge higher average tuition rates than closed for-profit centers had charged prior to closing - as much as 17 percent more for some ages of children. By contrast, non-profit centers that closed had average tuition rates about the same as open non-profit centers. These nonprofit centers either could not get parents to pay higher rates, even though some had waiting lists, or they declined to raise rates at all.

Our small survey found one factor relevant to this: many closed centers held their rates to the rather low level reimbursed by the Illinois Child Care Assistance Program (CCAP). We examined whether accepting CCAP funding affected a center's likelihood of closing and found that in urban areas outside of Metropolitan Chicago, accepting CCAP vouchers did make a center more likely to close. However, in Metropolitan Chicago, having a direct CCAP contract with the Illinois Department of Human Services made centers less likely to close.

Regulations and Licensing Failures

The third most common cause of child care centers closing was regulatory or licensing action. The center was either shut down by the state or local licensing authority or was about to receive that action. This played a role in 79 closings, or about 13 percent.

Other Causes

For 60 to 120 closings (10 to 20 percent of closings), there were a number of very specific individual causes: the retirement of a key employee, loss of a director or a facility loss.

Public Policy Solutions?

Under circumstances when many Illinois parents cannot find affordable child care, it serves the public interest to support distressed centers that provide quality care to substantial numbers of children, or have real potential to do so – *if* the centers meet criteria of viability and quality. That support would maintain resources essential to Illinois' economy and families' quality of life.

Many of these closings were preventable and unfortunate because they have an economic core. Raising the reimbursement rates paid by the Illinois Child Care Assistance Program (CCAP) would save some valuable child care resources in Illinois. The State or a local authority might create an emergency survival grant fund to supplement the CCAP payments to centers. Emergency grants or loans could be made available for cases with merit. (By *merit* we mean, centers whose survival is demonstrably threatened in the short run but economically viable in the long run and in the community's interest).

Other states are exploring practices to address the high cost and financial stress of providing child care in relatively small establishments: purchasing pools to lower unit costs of supplies and shared human resources services such as recruiting staff and providing benefits. Either the State or philanthropic organizations interested in preserving economic activity and resources for children might consider stimulating start-ups to provide these services to centers.

An institutional response could prevent some closings caused by individual center problems such as a leaking roof, a director retiring, a congregation re-acquiring space for other purposes and so on, as well as closings due to more general causes. For example, if the state or local communities establish collaborative response teams, they could mobilize useful technical assistance and financial resources for a threatened center whose case for survival has merit. This assistance could include business advice, emergency loans, fund-raising help and grant writing, repair teams, location-changing assistance, temporary sites, recruitment services, mentors and licensing experts.

A solution might already be in the works to address the specific problem of falling center enrollment due to competition from tuition-free State Pre-K. The Illinois State Board of Education (ISBE) has begun funding center-based Pre-K on a limited basis and now accepts applications for funding to operate Pre-K programs from child care centers that care for children with family income up to four times the poverty level. Prior to 2005 only public schools operated Pre-K in most areas. As Illinois Pre-K expands, many centers will need technical assistance to apply successfully for operating funds.

Why Have Illinois' Child Care Centers Closed

I. INTRODUCTION

From July 1999 through December 2004, some 984 child care and early education programs closed in Illinois. Of these, 610 were child care programs serving children under six or were private preschools. In this report, we refer to these programs simply as child care centers. They include both licensed and license-exempt full and part-day programs, but exclude park district programs, public early education establishments (Head Start and Pre-K) and programs exclusively for school age children such as after-school programs.⁵ The closed centers that we studied had a capacity to serve over 30,100 children. Until we calculated these numbers in 2005, no one knew how many centers had actually closed during that period, and any sound estimate between 200 and 1,000 would have seemed perfectly reasonable.

For some years prior to our calculation, many in Illinois' child care community had felt that child care centers were closing at too high a rate. Many also felt, moreover, that a significant number of centers were closing under stress: that is, neither the centers' operators nor parents and communities wanted the centers to close. While this feeling has been widespread, there has not been as much agreement on the reasons why Illinois centers were closing or what, if anything, to do about it. Some observers felt that declining enrollment, caused by such factors as population declines or local economic distress, was the main factor. Others felt that the expansion of Illinois Pre-Kindergarten in a community diverted 3- and 4-year-old children from private centers and preschools to public school programs.⁶

Still other observers thought the Illinois Child Care Assistance Program (CCAP) was not subsidizing children of low-income working parents enough to cover what it costs centers to care for them. So while the expansion of subsidized child care following welfare reform in 1995 encouraged many centers to expand or open anew, the relative low reimbursement rates of the program situated many centers on the brink of economic failure. Others did not think that CCAP was to blame, but have argued that it can become part of the

⁵ See Appendix A.

⁶ While community organizations could apply for funds to operate Pre-K classrooms starting in 2004, previously only school districts could apply for Illinois Pre-K funding.

solution to the high operating costs faced by child care centers. Finally, many skeptics argued that if you could add up all of the closed centers there would not be so many after all, and furthermore, a significant minority closed for legitimate reasons, such as failure to maintain parent support for a program or failure to meet licensing standards.

In short, the child care community in Illinois faced a classical problem of partial information mixed with hearsay. No doubt, many center closings had occurred, and some must have been stress closings. It is possible that each of the reasons mentioned above applied to at least one closing. The challenge for researchers is to develop an overall picture that is informed, accurate, comprehensive and can answer a number of questions:

- How many Illinois centers had closed?
- What portion of all Illinois centers did this represent?
- How many were truly stress closings as opposed to desired closings from the point of view of the operator or community?
- Can simple public policies be developed to prevent future stress closings?

This report attempts to provide these answers, with some success. In the end, we cannot identify, beyond a shadow of a doubt, which centers closed for each reason. The reality of the closings is too complex. We do, however, have a much better idea of how many closed and a clearer sense of the relative importance of each cause.

Methods Of Study

To answer these and related questions, we undertook a number of studies. First, and perhaps most reliable of the studies, we examined data from the Illinois Network of Child Care Resource and Referral Agencies (INCCRRA).⁷ INCCRRA is a network of sixteen agencies located throughout Illinois contracted in part to collect data from providers about their child care services. INCCRRA compiles the collected data in a statewide database. We examined data collected from July 1999 to December 2004, covering much of the time of concern to Illinois' child care community. We looked for

⁷ While these are very large data sets, they were not designed to study center closings. For example, the field we used to identify a center closing is the "Deleted" field. Not all deletions were caused by closings, however, and on occasion closed centers were not deleted, as when a center closed but opened at another location or under a new operator. A field presenting "reasons" for deletion is sometimes helpful, but very often the entry is "other." For some years we cross checked the data on closures with those of the Illinois Department of Children and Family Services.

correlations and patterns in the data that shed light on the closings. A number of findings are relevant and are reported in this report. Usually we report them in the form of percentages. We also applied the statistical technique of logistic regression that sometimes allows us to report odds or likelihood, as in “Offering transportation to and from home makes a center 2.3 times more likely to close than centers without transportation.” Appendix B discusses the data analysis.

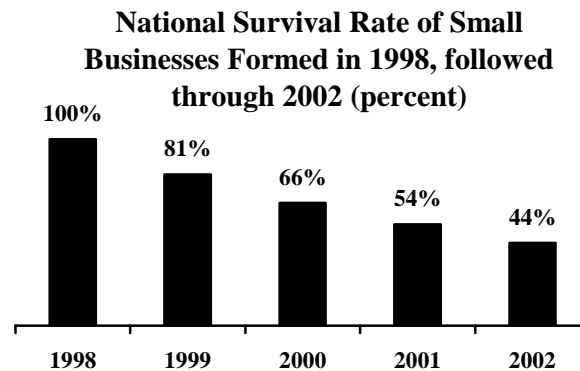
A second major project consisted of an in-depth survey of people connected to closed centers, including owners, directors, assistant directors, staff of sponsoring organizations and teachers. Since there is no directory or list of such professionals, we could not draw a random sample of people to survey, but we tried to survey every contact we could identify. As a result, our 2005 survey is not necessarily representative of all closed centers or the professionals associated with them. Nor are the respondents neutral, objective observers. Many were keenly interested in their centers’ closings. The survey responses are, however, a rich source of useful information and cannot be ignored. See Appendix C for details.

For a third perspective, we explored information that could be obtained for a specific locality about the year-to-year growth of publicly-funded Illinois Pre-K programs and changes in enrollments of 3 and 4-year-olds in child care centers. With the help of the YWCA Child Care Solutions, the Rockford child care resource and referral agency, we were able to analyze and report some detailed numbers for that city. Even in this case, however, some missing numbers leave tantalizing gaps in the story we were able to document.

Normal Business Failures?

In the case of child center closings, an additional factor complicates the picture. As business experts tell us, business closings are fairly common in any field. New businesses are always being formed, and others are always closing. Small businesses in particular have a precarious chance of survival. A study by the U.S. Labor Department found that 56 percent of all small businesses formed nationwide in 1998 had closed by the end of 2002, as the chart below indicates.⁸

⁸ Data for the table come from the U. S. Department of Labor, Bureau of Labor Statistics *Monthly Labor Review*, May 2005, <http://www.bls.gov/opub/mlr/2005/05/ressum.pdf>. In Illinois in 2003 about 14.6 percent of all businesses, large and small, closed; in 2004 the figure was 11.7 percent. *Small Business Profile: Illinois*, U.S. Small Business Administration, Office of Advocacy, 2003 and 2004, <http://www.sba.gov/advo/stats/profiles/04il.pdf>.



Source: U.S. Bureau of Labor Statistics

Since most child care centers are small businesses (with for-profit or not-for-profit legal status), this raises several questions: Do child care centers close any faster than other small businesses? If they do or do not, what is the significance of this for Illinois families and for public policy? If child care center closings are excessive and harmful, what can be done about it?

In our view, there are both short run and strategic answers to the first two questions. In the short run, we can view each individual child care center like any other business. It might or might not fail due to internal or external factors, and if it is a typical small business, its failure is *probable* within four or five years. Generalizing from this perspective, then, we might conclude that there is no harm in having a number of centers close. True, there might be some undeserved bad luck that causes a particular closing and even undeserved good luck behind specific successes, but the competitive market generally ensures that the survivors provide a better service where there is need backed by the ability to pay. We think this is the less important view.

We think the second, strategic view is more important. Like the nation as a whole, Illinois is economically and philosophically committed to having many mothers and fathers work. This economic commitment comes from two economic facts: most families need two or more incomes because relatively few individual salaries can support a family, and our economy relies on having a very large workforce and a majority of mothers participating in it, such that even a ten percent reduction would cause a massive shock. Philosophically, we are committed to a woman's ability to participate economically and, like many men, to seek fulfillment in a career in addition to realizing the fulfillment and obligations of being a parent.

Under these circumstances, child care is a critical resource that allows parents to go to work with the assurance that their children are safe and are

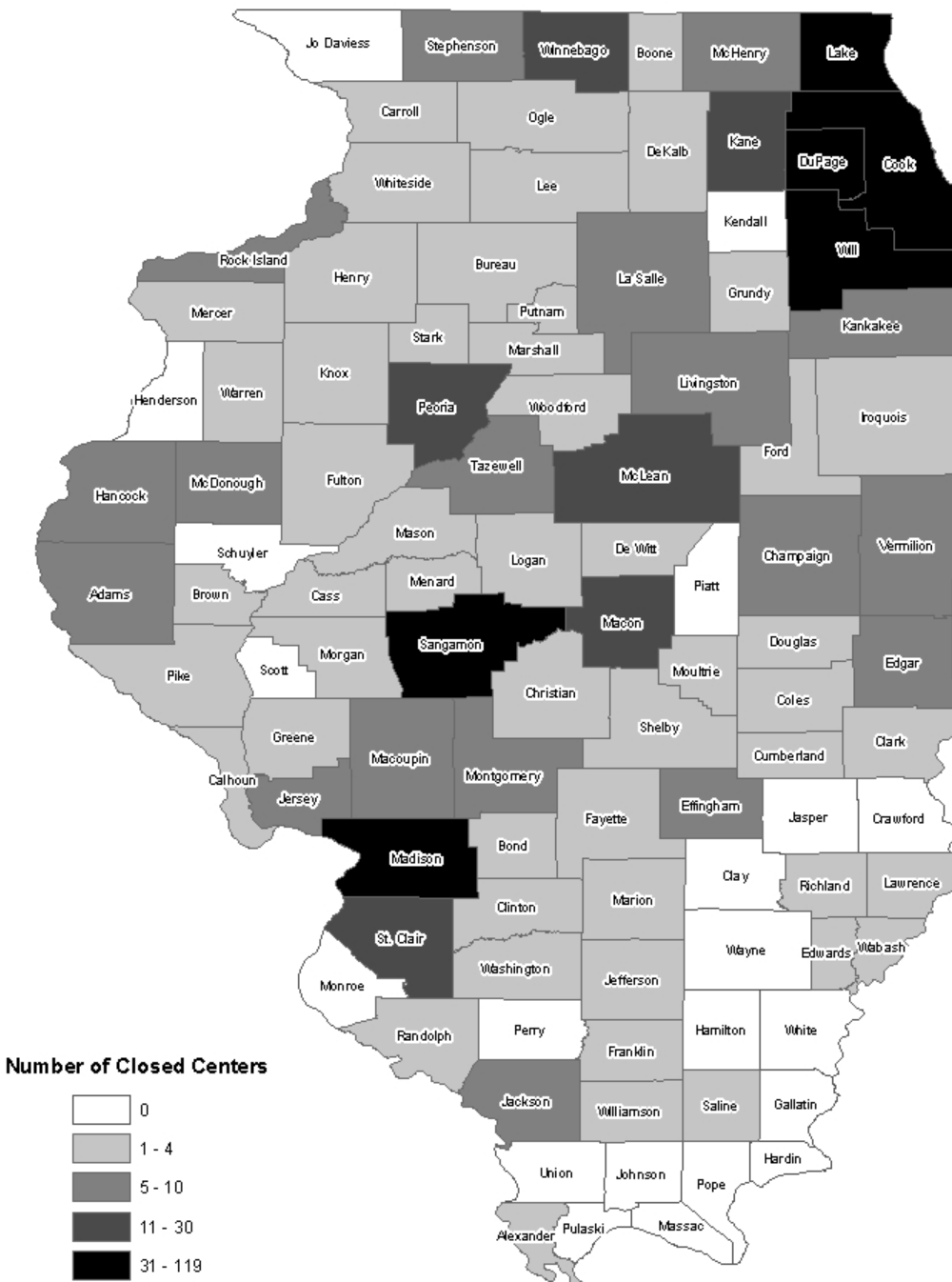
developing properly. Consequently, it is in the public interest to expand the number and the quality of the child care resources available to working parents.⁹ Federal policy recognizes this, in part, through the Child Care Block Grants. States such as Illinois combine these grants with their own funds to support child care especially, but not exclusively, for lower-income working parents. This public commitment does not mean that all child care centers with low quality or low enrollments should be saved. It does mean, however, that under circumstance of relatively low child care supply, it would have served the public interest to support any closed centers that were providing, or had real potential to provide, quality care to substantial numbers of children. Any one center might not have met those criteria and would not merit public support on these grounds. Overall, some of the centers, and perhaps a majority, might have been preserved as resources important to Illinois' economy and quality of life.

One of the purposes of this research, then, is to determine whether a significant number of centers had reasons for closing that meet three criteria. The closings were foreseeable, undesirable and avoidable. Such unfortunate closings, we argue, reduce levels of service and waste vital Illinois resources: They not only leave some parents unserved when they might have been served, but also waste the resources it took to open and operate that center, including the invaluable experience gained in caring for children. If there were significant numbers of that type of closing, public policy makers might design remedies to reduce the number of such closings and help Illinois child care capacity grow faster to meet parents' needs.¹⁰

⁹ As an alternative, like other nations we might opt to support parents by providing them income to care for their children themselves at home up to certain ages. Each policy alternative has both economic and philosophical advantages and disadvantages that have rarely been discussed in the United States.

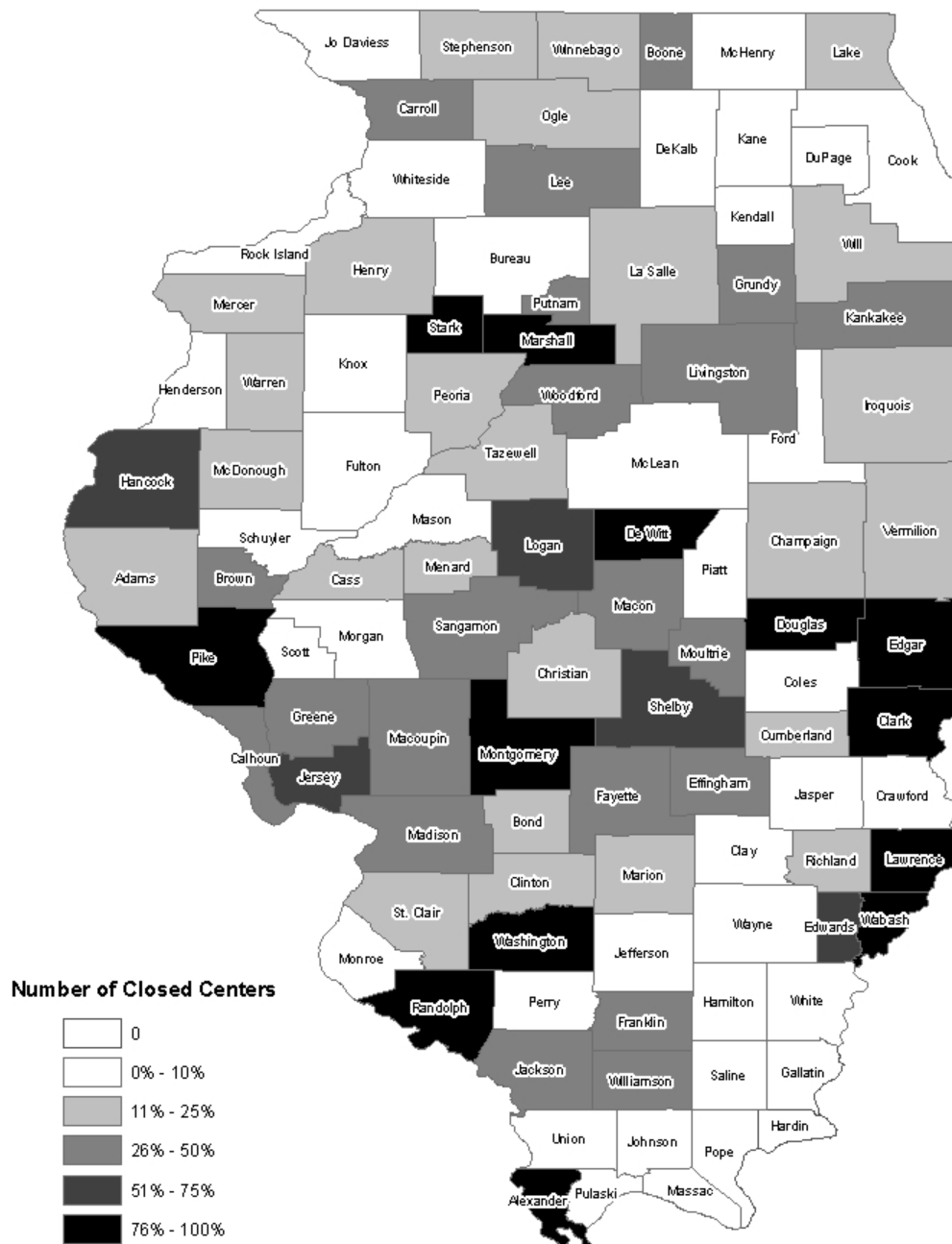
¹⁰ There is some (but not decisive) evidence that Illinois child care capacity has been increasing, even if the number of centers has not. Strictly speaking, then, the point of this study is to determine whether good policy would lead to better use of resources and would help capacity grow faster. It would be instructive to compare center openings to closings. We did not have reliable data on new centers to do so.

Map 1. Number of Closed Centers by County



Map 2. Slots Lost from Center Closings, July 1999 - December 2004,
as Percentage of Available Slots in December 2003

Note: New slots added during this period are not taken into account.



II. RESEARCH HYPOTHESES

To guide our investigation, we organized the concerns we have heard from the Illinois child care community and others under the hypotheses below. In looking at them, notice that the hypotheses all refer to potential problems that have a business or economic aspect. All of the problems could conceivably have been avoided or corrected if the center operators just had more funds for continuing operations. The hypotheses listed below try to be more specific than that centers “need higher revenues” or “need to raise tuition rates.”

Hypothesis 1. Insufficient Revenues Due to Low or Falling Enrollment

This concern is that if centers could achieve full or nearly full enrollment to begin with, they could pay all of their bills and survive. Either they failed to reach adequate enrollment or their enrollment had recently fallen below that target.

There are many diverse reasons why enrollment might be low or falling. For example, the child population might be falling in an area. According to U.S. Census data, the population of children under age 5 declined between 1990 and 2000 in 83 of the 102 Illinois Counties. Even though child care centers serve *parts* of counties rather than entire counties, this trend might have been a major factor. Alternatively, widespread job loss may be leaving parents without the need for child care or incomes to pay child care center rates. Another possibility is that the center’s quality of care is falling in parents’ perceptions, and the parents transfer their children to higher quality centers nearby. We tried to investigate each of these ultimate causes for declining enrollment, but we also examined general cases of low or declining enrollment (high or rising vacancies) regardless of the reason for enrollment problems.

One special concern about declining enrollment is the specific case of losing 3- and 4-year-olds to Illinois Pre-Kindergarten programs that are free of charge. Of all the age groups, 3- and 4-year-olds probably have the largest percentage of any children enrolled in centers.¹¹ Not only do centers need this age group to populate their classrooms, but some centers are reputed to use revenues from this more lucrative age group to subsidize their programs for other age groups. If so, the expansion of free public preschool education in Illinois could have siphoned off critical numbers of children and undermined the finances of some centers.

¹¹ Illinois Child Care Assistance Program; Brandon survey in IL.

Hypothesis 2. Insufficient Revenue Due to Low Subsidy Rate

The Illinois Child Care Assistance Program (CCAP) helps working parents pay for child care if their incomes qualify.¹² The program pays centers different amounts depending upon their county and the age of the child. A concern frequently heard is that the CCAP's reimbursement rates are set at too low a level for centers to cover their costs and still provide care of adequate quality. For this reason, some centers decline to accept children with Assistance, or they limit the number they accept. Many of those that do serve children with Assistance require parents to pay fees in addition to their co-payment.

Hypothesis 3. Insufficient Revenue Due to High Operating Costs

Even if they are fully enrolled, some centers might not be able to survive economically. We can think of this as having operating costs that are too high.¹³

The kinds of costs that centers pay are salaries, rent and utilities, supplies (such as paper for activities and foods for meals), equipment (for playgrounds and kitchens) and services such as transportation. Some centers receive their spaces free or subsidized from a larger organization. Salaries are also subsidized by employees in a sense because, as is well known, Illinois child care workers are generally not well-paid. In 2003, full-time center teachers in full-year licensed programs earned an average of \$9.01 per hour, while assistant teachers earned \$7.50.¹⁴ Many do not have benefits such as health insurance and retirement plans. Even though the salaries paid by centers are not typically high, they do add up. Salaries and benefits generally account for well over one-half of a center's expenses.¹⁵

¹² In addition to being employed or in school or training, the family's income cannot exceed 50 percent of the state median income.

¹³ Of course this could be attributed to charging too low a price for child care rather than having costs that are too high. Since most centers cannot raise their prices to parents, it is not very meaningful, however, to say that they don't charge enough.

¹⁴ *Illinois Salary and Staffing Survey of Licensed Child Care Facilities: Fiscal Year 2003* (A study prepared for the Department of Human and Community Development by Dawn Ramsburg, Dale Montanelli and Emily Rouge, April 2004.) Table 21. A new survey was conducted in FY2005 but the results have not yet been published.

¹⁵ A study of Massachusetts' child care centers found that 71 percent of an average center's expenses go to salaries and benefits. *The Cost and Quality of Full Day Care, Year-round Early Care and Education in Massachusetts* (A study prepared for the Massachusetts Department of Education by the Wellesley College Centers for Women, 2001).

Hypothesis 3a. High Economic and Personal Costs of Recruiting & Retaining Staff

With relatively low pay and few fringe benefits, child care center staff leave their employer and often their occupation to search for better opportunities at an alarming rate, and few centers escape the costly burden of replacing staff at regular intervals. Not only does the process of recruiting and keeping good staff cost a lot in monetary terms (even though child care staff are not well-paid as a group), it takes a personal toll in terms of director burnout. Each of these factors can contribute to a center closing due to high operating costs. The hypothesis we test is that this occurs systematically throughout Illinois.

Hypothesis 4. Inadequate Business Training - Director's skills, high costs, & Profitability

There is a feeling that many directors of child care centers are professionals in care-giving, child development and education first and foremost, and only secondarily are they business-oriented. In this view, the costs of running a child care center are high, but a director who had more business training, leadership skills and management abilities might be able to control those costs enough to keep the business running.

Hypothesis 5. Licensing and regulatory problems

For a variety of reasons, cost being one, centers might fail to maintain state or municipal regulatory standards required for licensure or exemption from licensure. Such standards range from health and safety considerations to space-per-child requirements to adult-per-child ratios and child-development activity requirements. The Department of Children and Family Services or other regulatory agencies may close centers that fail to comply with such regulations.

III. FINDINGS: A FIRST LOOK

We calculate that over the period July 1, 1999 through December 31, 2004 some 610 Illinois child care centers closed. This gives a closing rate of about 3.9 percent of centers per year, which is somewhat higher than the 3.3 percent rate of all small business closings in Illinois in 2004. (See Appendix A for details.)

A. Reasons for Closing

When an Illinois Child Care Resource and Referral Agency removes a child care center from its referral database because it has closed, it tries to determine and record the reason for the closing. Between July 1, 1999 and December 31, 2004, 50 percent of the 610 centers that closed provided a reason. Note that partway through the period studied, the reasons that centers could give to a child care resource and referral agency changed.¹⁶ In particular, three new categories were introduced: financial reasons, loss of facility and staffing problems. We can report on the frequency of these reasons only for July 2003 and onward. If we could report closings for these reasons for the entire period, no doubt they would be more frequent than reported below.

Low enrollment was, by far, the most frequently cited reason for closing. When a reason for closing was given, fifty-two percent closed, at least in part, for low enrollment. See Table 1 for the breakdown.

**Table 1. Reasons Given for Child Care Center Closings,
July 1, 1999 - Dec. 31, 2004**

Source: Illinois Network of Child Care Resource & Referral Agencies

	Number of Closed Centers	As Percent of All Closed Centers	As Percent of Closed Centers Providing a Reason for Closing
Low Enrollment	157	26%	52%
Financial Reasons (data from July 2003 & after)	27	12%	25%
Regulation or Licensing Issue	49	8%	16%

¹⁶ INCCRRA upgraded its Carefinder database with a new database, NACCRRAware, and the categories used to indicate why centers closed changed somewhat.

Personal Reason, including Retirement and Career Change	35	6%	12%
Relocated to New Site or Combined with Another Program	37	6%	12%
Loss of Facility (data from July 2003 & after)	12	5%	11%
Other (includes staffing problems)	8	2%	2%
Unknown reasons	306	50%	na
Note: Percentages total more than 100 because more than one reason was given for some closings and not all reasons were available for all centers, as the text explains.			

The next most frequently reported cause was financial reasons. As mentioned, this was a new category added to the database in July 2003, so this reason was not tracked in prior years. However, during the year and a half that this category was used, 27 centers, or about 25 percent of centers providing reasons for closing, said they closed for financial reasons.

To expand on the top two reasons, note that enrollment and finances are often “flip sides” of the same coin - higher enrollment brings higher revenues and stronger finances. When someone responds to a question by saying that their center closed because of low enrollment, they might just as well have answered “financial reasons” and often *vice versa*. For any survey, research shows that the immediate context in which the question is asked will often influence someone to answer a question one way rather than another. While there is not a perfect match between enrollment and finances, as many as 75 percent of centers that gave a reason for closing had one or the other of this related pair of reasons. This tells us that we need to look more closely at why enrollment was low and why finances were problems for these centers.

Continuing through Table 1, we see that 16 percent of centers were reported to have closed due to a regulation or licensing issue.¹⁷ The other top closing reasons, reported in equal proportions, are: personal reasons of the owner (or

¹⁷ It is possible that this reason is over-represented in the percentages because it is easier for the Illinois Child Care Resource and Referral agencies to learn of closings for regulation problems than for other reasons: DCFS licensing staff informs the Child Care Resource and Referral system.

Table 2. Reasons Why Centers Closed

Source: Illinois Action for Children Survey of People Connected to Centers that Closed, 2005

Reason for Closing	Percent of Centers Ranking this as One of Top Three Reasons for Closing	Percent of Centers Ranking this as the Top Reason
Low Enrollment	63%	47%
Costs too High	35%	18%
Staffing Problems	27%	14%
Loss of Facility	22%	14%
Loss of Funding	4%	2%
Personal Reasons	14%	2%
Other	8%	8%

director) including retirement and career change (12 percent), relocating the center or combining it with another program (12 percent), and the loss of facility (11 percent – based on data only after June 2003). Staffing problems (also based on data only after June 2003) are included in “other.”

To probe beneath these numerical data, we supplemented our analysis of the statewide data by surveying people connected to centers that had closed. We asked about a number of issues such as the causes of low enrollment or financial difficulties. In order to make the sample of respondents as representative as possible we asked all Illinois’ Resource and Referral agencies and other knowledgeable people in the child care field for contacts with persons who experienced a center closing. We received 74 names with contact information, and asked everyone to complete a mail or telephone survey. Since the sample was not drawn randomly from a complete list of people connected to closed centers, we can make no claims of its being representative of all 610 closed centers. We know only that the answers represent the 49 centers for which we received survey responses.

Programs connected with the people surveyed were a mix of child care centers and preschools. The average length of time in business was 19 years, with only 4 percent having been in business for less than 2 years. Most of these centers, then, had operated and survived for some years, a characteristic that distinguishes them from those small businesses that open and close within a few years.

The top closing reasons from respondents of our survey are, not surprisingly, similar to those from the data analysis: low enrollment and financial reasons (operating costs too high). Low enrollment was an issue for 63 percent of survey respondents and was the top issue for 47 percent. See Table 2. The second most frequently cited reason, costs too high, was reported by 35 percent of respondents, with 18 percent giving it as their top reason. The other top reasons, staffing problems and loss of facility, came up more frequently among these survey respondents than they did in the Resource and Referral data analyzed above.

We conclude three things from our first look at the Resource and Referral data from July 1999 through December 2004 and our survey responses:

- **No reason for closing was assigned to about half of all closings.**
- **For the other half of closed centers, low enrollment and financial problems were the most frequent reasons given for why child care centers closed (followed by regulatory problems).**
- **Individual or site-specific reasons such as unique staff problems, facility loss and personal reasons play a role in a sizeable minority of closings.**

While we have some revealing answers, then, we also note some additional questions. The rest of this report probes these questions:

1. *What can we learn about the closed centers whose reasons for closing remain unknown?*
2. *Why did so many centers have low enrollment and financial difficulty? What lay behind these two reasons?*
3. *Of centers that closed for more individual, center-specific reasons, does public policy have anything to offer them?*

B. Addressing the Missing Reasons

For half of the 610 closed centers, Resource and Referral staff recorded no reason for their closing. However, they recorded reasons for 304 of the 610 closings over the period studied, enough cases to allow us to make statistical inferences about the remaining 306 closings *if* we could be assured that the 304 closings were representative of all closed centers.

We approached this issue by comparing basic characteristics of the centers with reasons for closing to the characteristics of centers without reasons, and we found the two groups to closely resemble each other. The similarity of the

two groups allowed us to estimate with some confidence the breakdown of center closing reasons for the unknown group. We were able to extrapolate reasons to an additional 185 closings, for a total of 489 (80 percent) of the 610 closings.

Appendix D presents details of this examination, and practical results appear in Table 3 below. As explained in Appendix D, we were not able to extrapolate reasons to 121 closings (20 percent). Because we omit these 121 centers in our results, the reader should think about the estimates in Table 3 as minimum estimates rather than on-target estimates.

As Table 3 shows, we estimate that at least 254 centers of the 610 closed child care centers, or 42 percent, closed for reasons of enrollment. Because we do not have counts of closings for financial reasons for the earlier period, we estimate that a wide range between 27 and 122 centers closed for financial reasons, representing between 4 percent and 25 percent of the 610 centers that closed. Approximately 78 centers, in our minimal estimate, closed because of licensing or other regulatory problems, and at least 59 centers closed for personal reasons such as the owner retiring.

**Table 3. Revised Reasons for Child Care Center Closings,
July 1, 1999 - Dec. 31, 2004**

Source: Illinois Network of Child Care Resource & Referral Agencies

	Number of Closed Centers, Counted	Number of Closed Centers, Counted & Estimated (minimum)	Closed Centers, Counted & Estimated as Percent of All Closed Centers (minimum)
Enrollment	157	254	42%
Financial Reasons (data from July 2003 & after)	27	27 - 122*	4%- 25%*
Regulation or Licensing Problem	49	78	13%
Personal Reason, including Retirement & Career Change	35	59	10%
Relocated to New Site or Combined with Another Program	37	62	10%
Loss of Facility (data from July 2003 & after)	12	12- 54*	2% -11%*
Other (includes staffing problems)	8	8 - 10*	1% - 2%*
Subtotal	304	489	80%
Unknown reasons	306	121	20%
Total	610	610	100%

Note: Based on 304 centers counted and 185 centers estimated. Percentages total more than 100 because more than one reason was given for some closings and not all reasons were available for all centers, as the text explains.

*Lower number is partial count, from data after June 30, 2003; upper number is estimate applied to 489 centers.

IV. WHAT LIES BEHIND CENTERS' ENROLLMENT PROBLEMS?

The previous section estimates that a minimum of 254, or about 40 percent of, Illinois child care centers closed because of enrollment problems. Centers that closed for enrollment reasons either consistently failed to reach adequate enrollment so their tuition income could cover expenses, or experienced a fall in their enrollment below that target.¹⁸ Were these cases examples of too many centers and too few children? Or were there factors such as job loss or low incomes that discouraged families from using child care centers? The difference is important because in the former instance the closings could be the normal business process of eliminating too much supply for a low level of demand, while in the cases of job loss or low family income formulating public policy solutions to prevent or reduce closings might well serve the public interest.

Our survey asked respondents to identify the sources of their enrollment problems; Table 4 displays the results. The most common reason respondents gave for low enrollment was competition, and it was principally competition from Illinois Pre-K.¹⁹ About 40 percent of the entire group of respondents felt that expanding Pre-K programs in public schools took this important preschool age group from the center programs with which they had their connection. Whether or not this view would be common across Illinois, it is true at least for 20 centers that served 3- and 4-year-olds.

Other than competition from other programs, the reasons in Table 4 selected by respondents were spread evenly and more thinly among factors reflecting the local economy and population changes. This suggests that many causes were operating in Illinois to affect centers closing: job losses and low incomes, declining child population and relatively high center tuition and fees. One specific response that does not appear in Table 4 but does appear in comments is that gentrification of neighborhoods took away children from programs whose missions were to serve low-income families.

The quality of care provided by a center could be an important factor in low enrollment, especially in a community with more plentiful child care or

¹⁸ The data have certain limitations for answering why enrollment was a problem. First, the data do not indicate one way or the other whether enrollment problems are the sole or even dominant factor in center closings. Enrollment might just be the most visible factor. Nor do the data tell us whether enrollment difficulties are due to enrollment declining from a satisfactory level or stem from enrollment never having reached a satisfactory level in the first place. These limitations circumscribe the story we can tell based on the data alone.

¹⁹ The question was worded as "competition from Head Start or Pre-K programs," but it is clear from the survey comments that respondents viewed Pre-K as the main competitor.

preschool options. In our survey, however, we did not ask specific questions about the relationship between the center's quality of care and its closing because we were advised that it would be difficult to get neutral opinions on this topic from people so closely connected to the centers. One respondent, however, did comment that a center lacked trained teachers, lacked toys and was not clean. We tried to investigate quality using our large dataset by studying two characteristics that can be indicators of quality: child-adult ratios and group sizes. However, we found no significant correlation between these characteristics and a center's likelihood of closing.

Table 4. Reasons For Low Enrollment in Centers that Closed. Source: Action for Children Survey of People Connected to 49 Centers that Closed, 2005		
REASON	NUMBER (respondents)	PERCENT (of respondents)
Competition:		
- From other centers	9	18
- From Head Start or Illinois Pre-K	20	41
Community income was stagnant.	7	14
Location had negative impact on enrollment.*	7	14
Population of community declined.	6	12
Tuition and / or fees were too high.	5	10
Family views or preferences.	5	10
Major job loss in the community.	4	8
Other.	3	6
* A separate question. 78 percent responded that location did not have a negative impact on enrollment.		

Pre-K Competition

Respondents to our survey confirmed the views of many in the child care community that competition from Illinois Pre-K in public schools took 3- and 4-year-olds from centers and caused many to close. According to the respondents, some types of centers, particularly rural centers and centers that served children from families with middle incomes, felt this competition from Illinois Pre-K. Consequently, we returned to analyze the large Resource and Referral data set through that lens.

Basic statistical descriptive analysis of the data could not determine whether opening Illinois Pre-K programs did or did not have an impact on child care center closings, and for the most part neither could more sophisticated statistic tools. The latter, however, did reveal an interesting correlation. Some centers that offered preschool (“nursery school”) were *more likely to remain open* than centers without nursery schools. In particular, for-profit centers and urban centers located outside of the metropolitan Chicago area were each more likely to remain open if they offered a preschool program.

While this appears contrary to our survey results, the finding is interesting and easy to understand. On average, for-profit centers that offered 3- and 4-year-olds a “nursery school” program or were stand-alone preschools *and also* survived apparently enjoyed a high demand from parents that the closed for-profit centers lacked. In support of this, we observed that the surviving for-profit centers with preschool programs seemed generally to be in such demand that they could charge significantly higher tuition rates than other for-profit centers that served 3- and 4-year-olds but offered no “nursery school” program. They also could charge significantly higher tuitions than not-for-profit centers, no matter whether or not they offered “nursery school.” Details appear in Appendix E.

What Respondents Said About Competition from Illinois Pre-K

Source: 2005 Action for Children Survey of People Connected to Centers that Closed

Respondents to our survey offered a rich set of comments on competition from Illinois Pre-K, including these:

Causes of Centers' Disadvantage in Competition

- State Pre-K is free to parents.
- Public schools provide free transportation, but centers cannot.
- Child care centers cannot survive by serving infants and toddlers alone.

Effects of Competition

- To fill their slots, public schools relaxed their Pre-K eligibility requirements.

Pre-K Case Study

We designed a case study to test the hypothesis that centers in a specific locality had closed due to Illinois PreK competition. The design called for examining a reasonably small geographical area to compare five trends in the area: the child population of 3- and 4-year-olds; center capacity and enrollment for that age group; Pre-K capacity and enrollment for that age group.

The case study design involved simple counting over a period of years. If, over a period of years, center 3 and 4-year-old enrollments fell by numbers comparable to an increase in Pre-K enrollment, and if center capacity fell (centers closed) by similar amounts, then we have a cause for enrollment declines pretty clearly isolated: Pre-K took children who previously would have attended centers. No matter whether we would judge this development as good, bad or neutral, we could feel confident about the mechanism for center enrollment declines and eventual closings. If those key numbers are farther apart, however, the nature of the interaction between centers and new Illinois Pre-K programs will not be so clear, and we should allow the possibility that other, more complex causes played a role in the center closing.

The major challenge of this research design is to collect complete and accurate data over a sufficient and relevant period of time. Since the city of Rockford had experienced a large number of center preschool closings and public school Pre-K expansion, and local Resource and Referral Agency staff offered to help, we sought to make that city our test case for data collection. The results were not conclusive. Despite generous and very knowledgeable help from YWCA Child Care Solutions, the Resource and Referral agency in Rockford, we could not obtain all of the data we needed.²⁰

Table 6 shows the data collected in Rockford for the years 2000 through 2005; the table estimates center enrollment for three of the six years, and data were unavailable for Pre-K slots, Pre-K enrollment and child population for some years. The available data show three clear trends over the period:

- A decline of 422 slots (25 percent) in center capacity for 3- and 4-year-olds
- A three-year increase in Pre-K program slots of 450, or 28 percent
- A decline in center enrollment of 3- and 4-year-olds of 12 percent to 32 percent

²⁰ If people in any other locality have accurate data over an extended period of time, we invite them to apply our research design, or to contact the Action for Children Research Department for assistance.

Lacking both population numbers for the age group and actual Pre-K enrollment, we cannot pinpoint the cause for declining center enrollment and capacity. It is quite intriguing that a 422-slot loss in child care center capacity for 3- and 4-year-olds matched a 450-slot

increase in Pre-K programs in public schools. Since we do not know whether center *enrollments* fell by a number similar to *slots*, we do not know the number of children from closed centers who enrolled in open centers rather than Pre-K programs.

Table 6. Center & Public Preschool Capacity, Enrollment and Population, 2000 - 2005 in Rockford								
	2000	2001	2002	2003	2004	2005	Change, 2000-05	Percent change
Center Capacity, 3 & 4 yrs.	1,679	1,670	1,480	1,528	1,215	1,257	-422	-25%
Center Enrollment:								
High estimate¹	1,335	1,466	1,162	1,347	1,111	1,169	-166	-12%
Medium estimate¹	1,355	1,466	1,151	1,347	1,070	1,136	-219	-16%
Low estimate¹	1,335	1,466	1,128	1,347	855	913	-422	-32%
Pre-K Program Capacity			1,580	1,920	1,990	2,030	2002-05: +450	2002-05: +28%
Population, 3- & 4-yr-olds	4,490						na	na
¹ For 2002, 2004 and 2005 we had to estimate enrollment for centers that did not report these to their Resource and Referral agency. The low estimate assumes no enrollment when not specified; the medium estimate uses the average enrollment per slot in other centers for that year, and the high estimate assumes that all slots were filled. Sources: Center data come from INCCRRA, and Pre-K data come from YWCA Child Care Solutions, the Resource and Referral agency in Rockford.								

So while we cannot draw any conclusions about Pre-K drawing children from centers, we do note that a 422 slot decline would be equivalent to roughly 7 child care centers and represents an annual tuition loss of at least \$2.5 million in Rockford centers.

As intriguing as this picture is, these data do not eliminate other possible causes. We do not know population trends. For example, a declining population of 3- and 4-year-old children might have caused local losses in center slots, perhaps combined with other factors such as rising tuition or community job losses. Unless we can overcome the problem of insufficient data, each community needs to construct its own story out of the material it knows in light of its complex local circumstances. If comparative data do become available, Pre-K competition might turn out to be a large of part the reason for center closings.

A final note on Illinois Pre-K: Since the period studied, the State of Illinois has embarked on an expansion of Illinois Pre-K with its new Preschool for All Children initiative. In 2006, regulations allow child care centers to apply for State funds to operate Pre-K programs even if they serve families with incomes up to four times the poverty level. Being able to join the Pre-K program and afford high quality early education in this way should reduce the competitive threat from Illinois Pre-K that many center operators feel.

Enrollment, Market Power and Tuition Rates

Low enrollment can place a center in a poor position to raise tuition rates when its operating costs rise. A center with high enrollments and especially a waiting list can raise its tuition rates more easily without fearing the loss of clients. It is reasonable to assume that a center with low enrollment could hardly dare to raise its rates without experiencing a loss of enrollment. This suggests that many centers on the brink of closing will have lower than average tuition rates and centers in strong positions will charge higher rates.

Did the centers that closed have lower tuition rates? If so, this would confirm that enrolments were an issue for them.

The data partially support this in Illinois closings. Comparing centers that closed during FY2003 with those remaining open at the end of that fiscal year, we found that for-profit centers that remained open charged full-time weekly rates between 9 and 17 percent higher than soon-to-be-closed for-profit centers. Table 7 compares the rates charged by open and closed for-profit centers in FY03. This difference in rates implies that open centers enjoyed more parent interest than closing centers and could stay in business even though they charged higher rates. In short, they enjoyed *market power*. These for-profit centers charging higher rates were more likely than other centers to be chains, large in size and in urban areas.

Table 7. Average Full-time Weekly Rates Charged by For-Profit Centers in Illinois in FY03			
Source: INCCRRA; tuition figures are rounded to the nearest dollar.			
	Open Centers	Closed Centers	Difference
Infants	\$184	\$159	16%
Toddlers	\$169	\$148	14%
2 Year Olds	\$145	\$124	17%
3&4 Year Olds	\$132	\$115	15%
5 Year Olds & K	\$130	\$115	13%
School Age	\$86	\$79	9%

By comparison, rates did not appear to be a factor in whether *not-for-profit* centers stayed open. A comparable table would show that not-for-profit centers that remained open charged similar rates to those that closed. Apparently, not-for-profit centers and for-profit centers have different pricing strategies and practices, with not-for-profit centers being less willing or less able to raise their prices when costs or parent interest (demand) would justify it.

V. WHAT LIES BEHIND CENTERS' FINANCIAL PROBLEMS?

Even if they are fully enrolled, some child care centers might not be able to survive economically because their operating costs are too high. They need either to use better business strategies to control their costs, or they need higher tuition rates to cover these costs. We first explore the Resource and Referral data and then the survey results to see what they indicate about sources of financial problems that closed Illinois child care centers.

Staff Compensation & Rent

The large Illinois child care Resource and Referral data sets do not contain direct information about the costs of operating child care centers, particularly staff compensation and rent.²¹ Our survey of people associated with closed centers does present some information on these topics, though of course, we do not claim that these survey findings are representative of all Illinois centers.

Thirty-five percent of the survey respondents indicated that costs were one of the top three reasons for their center closing, and 18 percent ranked costs as the top reason. Among the rising costs respondents mentioned were insurance, rent, salaries, interest payments on loans and other operating costs such as food, supplies and utilities. Table 8 shows that respondents ranked salaries and rent or mortgage highest as cost problems, followed by fringe benefits and insurance costs. At least among the surveyed group of centers, then, about 20 percent consider costs, especially staff compensation and rent, to be significant factors.

Table 8. Child Care Centers' Cost Problems		
Source: Action for Children Survey of People Connected to 49 Centers that Closed, 2005		
Type of Cost Problem Cited	Number	Percent
Salaries	18	86%
Benefits	5	24%
Rent or mortgage	7	33%
Insurance	5	24%
Taxes	3	14%
Other	5	24%

²¹ One of the great gaps in our understanding of the child care system in Illinois is the lack of good detailed cost data for different types of programs. A good study of actual costs, which would be expensive to undertake, would contribute to many policy goals in areas of improving the quantity, accessibility and quality of child care in Illinois.

Note: Not all respondents mentioned cost problems. *Other* includes materials and supplies (2), building upkeep (2), utilities (1) and financial problems of larger agency (1).

Other Personnel Costs: High Costs of Recruiting & Retaining Staff

With relatively low pay and few fringe benefits, child care center staff leave their employer, and often the child care field in general, at an alarming rate, and few centers escape the burden of replacing staff at regular intervals.

A recent survey in Illinois found that for every 100 teachers working for child care centers in 2003, some 38 had left their jobs in the previous two years. Of every 100 assistant teachers, 55 had left their jobs.²² Several costs associated with replacing staff weigh heavily on center directors and staff: monetary costs such as advertising open jobs, time spent interviewing and training candidates, and the toll of ordinary stress. High turnover can affect parents' confidence in a center as well, since losing a young child's teacher affects the quality of the child's experience in a center. We know that these costs are significant. Did they play a large or decisive role in Illinois' child care center closings?

The Child Care Referral program in Illinois does not collect information on centers' hiring and replacing of staff. So we do not know, for example, whether closed centers had experienced more turnover than others. On the other hand, offering employee benefits can be seen as designed in part to retain staff. Statistical analysis presented below indicates that offering one benefit, employee discounts on center care, is associated with a greater likelihood of a center's closing.

A few survey respondents, moreover, mentioned that retaining staff was responsible for high costs at their centers. In addition, over one-quarter of respondents report that staffing issues are a cause of the closing of their centers, independent of costs. And about one-quarter placed "assistance in recruiting and retaining staff" among the top three resources that might have prevented their closing. There is good reason to believe then that staffing issues such as hiring and retaining staff caused financial and other distress of a substantial minority of closed centers and that public policies that could relieve these pressures would be welcome resources. The State of Illinois addresses staffing problems with retention and development programs such as Gateways to Opportunity, Great Start and T.E.A.C.H.

²² *Illinois Salary and Staffing Survey, op. cit.* See Tables 7 and 16.

Other Costs

While the child care resource and referral data sets do not have much information about center costs such as staff salaries and rent, they do indicate whether a center has a number of costly program features such as offering transportation, accommodating unusual schedules, and offering tuition discounts for center employees or discounts for enrolling multiple children. We report next on several high-cost factors that were significantly correlated with closed centers and that we subjected to more powerful statistical analysis. We can report how each of these program features increases or decreases the odds of a center closing or remaining open. (For details, see Appendix B.)

Transportation

Offering young children transportation between a center and home is especially expensive. It can run from hundreds into the thousands of dollars per child each year. As we noted earlier, the fact that some public Pre-K programs offer free transportation services presents centers with major competitive challenges. If they try to offer transportation to compete with Illinois Pre-K (or simply because it will benefit the community), centers will face large cost pressures that have been confirmed by our statistical analysis.

We found that centers offering such transportation were in general 2.3 times more likely to close than other centers. This was even more prominent in rural centers and centers in Metropolitan Chicago, which were over three times more likely to close if they offered transportation.

With transportation as a cost problem, as with other costly services cited in this report, we do not recommend that centers simply stop offering transportation to reduce the stress upon their operating budget. We do recommend that public support for these cost items be considered as a policy solution to the problems of financial stress placed upon many child care centers.

Evening Hours

Some centers offer evening, overnight or weekend care in order to accommodate parents' work or school schedules. Although it will not generally lead to rising costs of rents and other fixed fees, offering these non-standard hours will increase variable costs such as salary and utilities expenditures.²³ Since it may be harder to fill classrooms during these hours, moreover, offering non-standard hours of care likely exacerbates any

²³ Fixed costs will rise if the center must add new facilities such as beds or bathing facilities.

problems that stem from operating at a lower capacity (that is, enrolling fewer children per paid staff member).²⁴

We looked at offering child care during evening hours (between 6 p.m. and 10 p.m.) and found that offering evening hours of care made for-profit centers 3.3 times more likely to close and rural centers 2.4 times more likely to close than not offering evening care. Surprisingly, not-for-profit centers that offered evening hours (of which there were only forty) were only about 15 percent as likely to close. The latter could either offer such care more cheaply, or they were able to place their service mission above strict cost considerations.

Center Employees' Discounts

As we mentioned above, if a center offers discounts to its employees as one of its fringe benefits that raises its benefit costs (assuming employees take advantage of the discounts). Our statistical analysis found that offering employee discounts made a center 75 percent more likely to close, and for-profit centers were the most strongly affected, 1.5 times more likely to close. Again, the solution to this cost problem is not for all centers to cease offering employee discounts. Perhaps, the State of Illinois could underwrite these discounts as part of a public policy supporting staff recruitment and retention.

Low Capacity

Having a lower capacity does not raise overall costs for a child care center, but it does raise the center's costs per child. In general, being larger gives a child care center economies of scale: it is able to spread fixed costs such as rent or a director's or a cook's salary over more children.

For example, imagine that a center pays \$50,000 per year for fixed costs such as rent or loan payment. To cover these costs, parents of 50 children must pay \$1,000 each, while 75 children need only cover \$667 each and with 100 children, \$500 apiece would pay all fixed costs. Serving fewer children, then, makes any given fixed cost harder to cover by any given level of tuition. All other things being equal, this suggests that having a lower capacity will make a center more likely to close unless it can raise tuition rates. Low enrollments have the same effect.

Our statistical analysis found this effect in Illinois. Having higher than average capacity made centers slightly more likely to remain open: for each ten students served above the average number, a center was 1.5 percent more likely to remain open. For example, with a capacity of 30 students above the

²⁴ See Appendix E for a case study of cost issues for pilot projects offering nonstandard hours of care.

average, a center was 4.5 percent more likely to remain open than the center with average capacity.

Multi-Child Discounts

Offering discounts to families with more than one child in the center can attract more children to a center, raise revenues toward needed levels and provide a real service to families with more than one child in care. This discount is like having lower capacity, however, in that it reduces the portion of business costs that an average child's tuition can cover. The larger the discount is and the larger the proportion of children receiving the discount, the lower will be the amount of a center's cost that an average tuition will cover.

All other things being equal, this suggests that offering parents a multi-child discount will make a center more likely to close. Our statistical analysis found this to be true: offering this discount makes a center more than 45 percent more likely to close.²⁵

Licensing and Regulatory Problems

In the Child Care Resource and Referral data sets, we estimated that some 13 percent of center closings were attributed to regulatory or licensing problems. In many instances, these problems can be construed as *financial issues*, since most centers could comply with regulations by making the right purchase of safety features, equipment or teacher skills, to name a few. In the survey, a few respondents did mention making major repairs as a cost issue, but only one offered failure to meet a regulatory standard (fire safety) among the top three cost reasons for closing.

In summary, while closings due to regulation violations must be factored into any detailed story of center closings due to financial stress, we have found no evidence that it needs be part of a big-picture perspective, or that Illinois child care advocates or policy-makers should worry that it is a threat to child care supply in the state. We acknowledge, however, that many in the child care community might disagree with this conclusion based on their personal experience, or might disagree that we can sensibly distinguish regulatory shut-downs from closings due to financial stress. One way to approach this as a policy matter follows: if a one-time emergency loan or grant could save a worthy center from a regulatory closing, then that is not generally a structural cost issue and should be evaluated as a special event.

²⁵ The situation is actually more complex. Offering discounts can be a center's *response* to having prior financial trouble caused by low enrollment as well as a *cause* of financial trouble.

Were Tuition Revenues Too Low To Cover Centers' Costs?

Obviously almost any closed center might have been helped if it had received higher tuition payments, but that doesn't tell us much in a world where centers cannot easily raise parents' tuition bills. We think it is more revealing to think about a center's tuition in light of its opposite: gifts to the center. Some 29 percent of the survey respondents said that grants or donations were an important part of the center's resources. This suggests that tuition alone could not cover full operating costs for at least that 29 percent of centers. If this percentage is surprising to those familiar with the child care community, it is probably only for being so low.

For ten of the closed centers, respondents felt comfortable estimating what percentage of their center's income came from grants rather than from tuition. Their estimates ranged from 5 percent to 100 percent, and averaged 47 percent. Among the problems that centers have when they depend on grants is the problem of soft money: renewing most grants is not assured from year to year. Facing uncertainty about receiving grant revenues next year and in the years after, centers will have difficulty planning in advance and committing to investments in quality enhancements. Small decreases in grant revenues could drive a center out of business.²⁶

As we saw above, our statistical analysis of closed centers in Illinois suggested that low tuitions were often a cause of financial stress: giving parents tuition breaks threatens centers' survival. In the survey of people associated with closed centers, moreover, 73 percent of respondents said that their closed center offered one or more tuition-program features that are sensitive to parents' incomes:

- Over one-half of the respondents said that their closed center had a tuition payment program with either a sliding scale or a discount.
- Almost 20 percent waived all or part of parents' Child Care Assistance co-payment.
- Over one-third said their center did not charge more than the Child Care Assistance payment. Linking tuition to the level of Child Care Assistance in this way acknowledges either that parents will leave the center if rates rise above Assistance levels or that the center will harm parents financially if rates rise substantially above the level of Child Care Assistance.

²⁶ Fictional example: "47 percent of my revenues (and expenditures) come from grants; the rest comes from tuition. The 2000-2001 economic recession cut my grants 10 percent, or 4.7 percent of my revenues. To recover that lost revenue, I would need to raise tuition rates almost 9.4 percent (plus any inflation). I could not increase tuition 10 percent (plus inflation) in one year, however, without losing many families."

The widespread practice of giving tuition breaks to families is suggestive that low tuition levels was a significant problem among the 49 closed centers surveyed.

What Waiting Lists Tell Us About Tuition Levels And Costs

Giving tuition breaks and linking tuition to Child Care Assistance are especially striking issues when considering waiting lists. In theory, having a waiting list should indicate that the demand for a center's services is relatively high and that the center could try to raise its tuition rates to cover more costs without fearing loss of enrollment. Reality does not bear out this theory. Just because a parent placed a child on a waiting list several weeks ago does not mean that the parent will enroll the child when the center calls back.

Based on ordinary economic understanding, one-third of the closed centers surveyed had a waiting list and might have raised tuition rates without losing enrollment.²⁷ Yet they did close, reportedly for reasons beyond enrollment. Table 9 shows the non-enrollment reasons that were given for centers that closed while having waiting lists. At least one-third (9) of these were related to high costs, suggesting that these centers faced major obstacles to raising rates to meet costs.

Perhaps they had a mission to keep rates low, or they might have feared losing many families if they raised their tuition rates above the level of Child Care Assistance that their parents received. Under these circumstances, the fact that a child care center has a waiting list indicates not so much that demand is high, as we usually interpret it, but that supply is low: needed services cannot be supplied at the going tuition rate.

²⁷ Our survey asked respondents whether their center has a waiting list. It did not ask them how many parents were on the waiting list or how up-to-date the list was. Only twenty-six (53 percent) of the respondents indicated whether or not their center had a waiting list. Ten did not, but 16 did – about one-third of all respondents.

Table 9. Reasons Centers with Waiting Lists Closed (other than enrollment declines)

Source: Action for Children Survey of People Connected to 49 Centers that Closed, 2005

	High Costs	Problems Recruiting & Retaining Staff	Lost Facility or Lease	Career or Personal Change	Lost Funding	Other
With Waiting List	9	6	5	2	2	2
No Waiting List	2	3	1	2	0	0

The other two-thirds of reasons for a center closing despite having a waiting list involve mostly problems of staffing or facilities resources. Even to resolve these resource problems, one might expect such centers to raise tuition rates if they had a waiting list. Once again, tuition rates were apparently too low to cover costs.

Were Child Care Subsidies Too Low?

Many have argued that Illinois Child Care Assistance Program (CCAP) reimbursement rates were set at too low a level for centers to cover their costs and still provide care of adequate quality. Consequently, centers that accept children with Assistance were threatened if they could not persuade parents to pay higher fees in addition to their required co-payment. This view is always controversial since there has been no "actual" or "true" cost of care amount calculated for Illinois child care.

Ample evidence exists that direct subsidy rates in the form of Illinois Child Care Assistance are quite low compared to what centers charge parents. According to the most recently published Market Rate Survey data, the weekly Child Care Assistance Program reimbursement rates (State payment plus parent co-payment) going to centers for caring for preschoolers were \$122 in the group of high-cost urban Illinois counties, \$103 in the group of mixed Illinois counties and \$88 in rural Illinois counties. These rates would pay for full tuition in fewer than half of the center slots in those counties - only 22 percent, 14

percent and 41 percent of the slots respectively.²⁸ (The reader can compare these subsidy rates to those in Chart 1, Appendix E.)

The large set of data on child care and early education programs available in the referral databases Carefinder and NACCRRAware from July 1999 through December 2005 showed a small correlation between closing down and accepting CCAP subsidies. Consequently we applied more sophisticated statistical analysis²⁹ to factors associated with open and closed centers by testing three items, two of which related to Illinois Department of Humans Services (IDHS) child care subsidies:

- Whether the center accepted children with Child Care Assistance certificates from IDHS.
- Whether the center had a site contract with IDHS.
- Whether the center had a Head Start contract.

In a statistical analysis of centers that accept Child Care Assistance certificates, we found that in *urban* counties, centers that accept the certificates were 2 ½ times more likely to close than centers that did not accept them.

In examining centers with site contracts, however, we found that having an IDHS site contract made a center in the *Chicago Metropolitan area* less likely to close – only 12% as likely to close – as those without site contracts. Finally a not-for-profit center with a Head Start contract was only about one-third as likely to close as other not-for-profit centers. Both site contracts and Head Start funding, therefore, appear to help centers' chances of survival. Obviously these contracts are more stable and long-term sources of funding than having individual families with Child Care Assistance certificates.

Statistical analysis of extensive statewide data over several years, then, to some extent support the hypothesis that IDHS subsidies do not support some centers sufficiently to survive, but this is the case only of urban centers outside of Metropolitan Chicago. While this finding is suggestive, it does not provide conclusive proof.

²⁸ Illinois Department of Human Services, *Illinois Child Care Rates Report*, January 2005, page 13. Even this relatively low subsidy rate, moreover, assumes that parents pay their full co-payments to centers; and we have seen that at least some closed centers did not enforce that rule.

²⁹ These were logistic regression models. All likelihood data reported in the text are significant at the .95 level or better. Technical results appear in Appendix B.

Was It Subsidy Or Was It Mission?

Why were centers in urban counties more likely to close if they accepted Child Care Assistance vouchers? It is possible there is some third factor in the background responsible for both situations, namely the fact that centers accept children with Child Care Assistance and the fact that they closed. If there is such a third factor, then the connection between urban centers accepting subsidies and closing is *indirect*. Here is one possibility if the mission statements of those centers include serving the children of low-income working families, their mission could cause many of them both to serve children with IDHS subsidies and to ambitiously stretch thin the resources they have available to provide such services. For many readers, this interpretation will be appealing because it acknowledges the central conflict between the business goals and service goals of centers that serve families with lower incomes.

As a group, the people who completed a survey did not suggest that accepting children with Child Care Assistance hurt the financial position of the centers to which they had been connected. The effect their responses identified was somewhat more indirect than that. About one-third said that their closed centers had not charged more than the subsidy rate, as some centers do, and about one-fifth said that their centers waived all or part of the co-payment required under the subsidy system. So for a minority of these centers the amount and the structure of the subsidy had a kind of limiting effect on the centers' pricing policy. This is consistent with the indirect interpretation of the data presented at the end of the previous section: some centers with the special mission of serving low-income working parents face threats when they try to maximize their services while holding tuition and fees down to the levels of Child Care Assistance Program pays to them.

Would Higher Subsidies Help?

Just as it appears that for some survey respondents the subsidy was an indirect drag on their center's success, 30 percent thought that a subsidy increase could have prevented their center's closing.³⁰

While this number is not insignificant, it is perhaps not overwhelming, either. In fact, it is subject to a number of interpretations. We have no way to compare it to the major reasons for closing identified in Tables 1 or 2 above, and the reader should note that just because raising Assistance rates might help save a center, this does not mean that low Assistance rates *caused* centers to close.

³⁰ We think this is different from the issue of whether the market price is driven more by the Child Care Assistance rate or parents' ability to pay. Higher Assistance rates could relieve either source of pressure on centers.

Putting subsidy rates in context, survey respondents placed raising subsidy rates in the middle of possible preventive actions. Respondents named three other categories of possible preventive action more frequently than raising subsidy amounts: Facilities grants, increasing jobs in the community and lending assistance in recruiting and retaining staff were factors recommended more than raising subsidies as preventatives. On the other hand, they named three other categories of possible preventive action less frequently than subsidy enhancements: offering various kinds of assistance with business skills and loans, quality-improvements, and advertising and communications were recommended less. [See the concluding discussion for more on preventives.]

Business Skills

Some directors of child care centers may be more skilled in care-giving, child development and education than in business, and some observers think this could contribute to some centers' financial stress. We are aware of no data relating to the business education, training, skills or experience of Illinois child care centers' business managers, or of their effectiveness. The only relevant information we found comes from our small survey: a modest fifteen percent of the survey respondents indicated that business management expertise was one of the top three resources that might have prevented their closing.

VI. ADDITIONAL CLUES & QUESTIONS

Strong evidence suggests that Illinois centers have closed not for any one overarching reason, but for a number of reasons. Enrollment and high costs appear frequently as general reasons, but behind these general reasons lay a variety of more specific realities. We will summarize these in the next section. Here we present some additional relationships or correlations that we discovered.

Family Income

It often makes sense to analyze child care centers by the income level of their typical clientele. Such comparisons can inform public policy.

To pursue this line of investigation, our survey of people connected to closed centers asked respondents to identify whether their center served predominately families with low-income and/or eligible for Child Care Assistance, middle-income families or high-income families. On several questions, we observed sharp differences between centers serving low-income families and those serving middle-income populations. While the sample was not representative enough to allow us to conclude that these differences apply to all closings in Illinois, they are suggestive and are worth exploring in further research. Here are those findings:

We observed sharp differences between centers serving the two populations on these issues (which are summarized in Table 10):

- **Competition:** Two types of competition faced by the closed center (See Table 10, row A, 1- 2)
- **Resources:** Four types that might have helped the closed center survive (row B, 1- 4)

Competition

We asked respondents whether their centers felt competition for enrollment from other centers or from early learning programs in Head Start and Illinois Pre-K. As Table 10 indicates, approximately half (53 percent) of the closed centers that served mostly low-income children experienced competition both from other child care centers and Head Start or Pre-K. Closed centers serving families with middle-incomes, however, were almost twice as likely to feel competition from Head Start and Pre-K as closed centers that served mostly low-income children (91 percent to 53 percent). And centers serving middle-income families were five times more likely to feel competition from Head Start and Pre-K than from other centers (91 percent to 18 percent). As we noted earlier, the new Preschool for All Children regulations now allow centers to

apply for State funds to operate Pre-K programs even if they predominately serve families with incomes up to four times the poverty level. This should reduce the possible threat of school-based Illinois Pre-K to many centers by allowing them to operate their own Pre-K programs.

Survival Resources

Survey respondents were asked to evaluate a number of resources that might have helped their centers survive. Respondents from centers serving families with lower incomes and respondents associated with closed centers serving families of middle-incomes gave different evaluations of four types of resources that might help threatened centers. These appear in the second part of Table 10. Respondents for the centers serving lower-income families were about twice as likely as other respondents to see three resources as positive potential survival tools:

- Increasing Child Care Assistance subsidies
- Advertising assistance
- Obtaining business expertise

On the other hand, respondents for closed centers serving middle-income families were twice as likely to see the fourth resource, facilities grants, as a potential survival tool compared with respondents for the centers serving lower-income families. Distressed centers serving middle-income families apparently felt the source of their financial and /or enrollment stress as a facilities issue rather than as an issue of family income or demand, or center business skills.

Table 10. Characteristics That Distinguish Centers of Different Income Levels

Source: Action for Children Survey of People Connected to 49 Centers that Closed, 2005

	Percent of Centers Serving Mostly Children from Families with: (Number of centers in parentheses.)		
	Low Incomes, or Eligible for Subsidy (28)	Middle Incomes (17)	High Incomes (4)
A. FELT COMPETITION FROM ...			
1. Other Child Care Centers	53% (9)	18% (2)	0%
2. Head Start or IL Pre-K	53% (9)	91% (7)	0%
B. MIGHT HAVE SURVIVED WITH HELP FROM ...			
1. Higher Child Care Assistance Rates	38% (10)	17% (2)	0%
2. A Facilities Grant	38% (10)	83% (10)	0%
3. More Advertising	31% (8)	17% (2)	50% (1)
4. Business Expertise	19% (5)	8% (1)	0%

Rural Centers

As noted above, child care centers in rural counties were particularly likely to close during the period we studied. Some Illinois counties have few, if any, child care centers. Greater distances to transport children is a perennial structural problem for rural families, and that can affect parents' willingness to use centers. A number of rural counties in Illinois, moreover, were losing population during this period, including child populations, and that trend could also explain this finding. Of course, both of these causes may also interact with each other.

Rural centers, according to the survey respondents, also tended to feel competition from Illinois Pre-K. Some 92 percent of respondents from rural centers reported they felt that competition from Pre-K was a reason for low enrollment, compared to 50 percent of urban and 30 percent of metropolitan Chicago respondents.

Individual Causes

Business openings and closings are always individual stories, and sometimes the individual story of an opening or closing is at least as important as the broader social circumstances affecting the business. As Table 3 showed, we found that facilities reasons, personal reasons and “other” were key reasons for about 20 percent of center closings. Our survey indicated that these reasons often have a very specific story behind them.

In several instances, our survey indicated that a key staff member – usually a director – left a center, and the boards of directors declined to try to replace that person. In others a religious congregation decided to take over the space it formerly gave to a center, or it declined to pay for repairs and remodeling. Sometimes these closings destroy valuable and respected child care resources. So specific are such causes of closing, however, that it is difficult to place them in categories with other closings in a way that can contribute to good public policy. In the next section, we suggest how one public-sector response framework could tackle such individual causes of child care center closings if circumstances warrant it.

VII. SUMMARY & DISCUSSION

The 3.9 percent annual rate at which child care centers closed in Illinois from July 1999 through December 2004 is somewhat higher than the 3.3 percent rate of small business closings in general. The more important issue, in our view, is this: while the loss of any particular small business is often individually tragic, it does not necessarily affect the *public* good in an adverse manner. The losses of high quality child care centers that could serve many families, however, are in general of more public concern. They have larger and more certain impacts on a community's well being, and ultimately on the state's public good as well.

Such public concern does not mean that all child care centers, including with low quality or low enrollments, should be preserved. Even under circumstances of relatively low child care supply, it serves the public interest to support only distressed centers that provide, or have real potential to provide, quality care to substantial numbers of children. These centers provide resources to Illinois' economy and quality of life, and any center that fails to meet those criteria would not merit public support.

In looking at center closings in Illinois, we did not find any single cause that could be removed to save Illinois' child care resources. The causes of closings are multiple and mixed, although two causes do stand out. We discovered that low or falling center enrollment and the high costs of running a center each plays a substantial role in any story of child care center closings.

We found intriguing but not completely decisive evidence that expanding Illinois Pre-K programs in the public schools, in particular, has hurt centers that rely on ample enrollment of 3- and 4-year-olds. Not only are local Rockford city data suggestive, but survey responses from people close to closed centers indicate that they felt this threat. While most centers in the small survey felt competition from public sector programs, including Pre-K, the centers serving middle-income families felt this competition most acutely.

Since the period of the study, the Illinois State Board of Education has opened opportunities for child care centers to apply for and receive funds to operate Illinois Pre-K sites. As centers learn to participate in the Pre-K program, high quality centers may be better positioned to withstand competition from public school programs for 3- and 4-year olds. It bears further observation to determine the facts of this development.

While Pre-K competition might have been the largest cause of enrollment problems, Resource and Referral data and the survey indicate that center

enrollments declined for a number of reasons ranging from local population and economic changes to parent's view of the center. These are important factors to consider in evaluating whether individual centers merit public support. Circumstances such as a falling population might indicate that some centers need to close (or merge) to reduce capacity in a community. Other circumstances such as falling or stagnant community incomes suggest that centers will be able to provide quality services to a community only if they receive higher private or public subsidies.

After enrollment problems, financial difficulties may be the second largest reason for center closings in Illinois. No one has collected detailed data on the costs of providing high quality child care in Illinois, and this leaves a large hole in our understanding of many center closings. Some very costly services or benefits offered by child care centers were statistically correlated with center closings during the period studied: offering evening hours, tuition discounts to employees (to recruit and retain center staff), multi-child discounts for working parents and transportation services. To the extent that providing these services and benefits is of general public interest, the state should consider subsidizing them for some centers. For example, special assistance might be made available for centers serving families with certain income levels or centers achieving certain levels of quality for those families, and subsidizing employee discounts might help some centers recruit and retain high-quality staff.³¹

Those for-profit centers that survived during the period studied generally charged parents significantly higher tuitions than both those of for-profit centers that closed and those of non-profit centers. That segment of the market evidently enjoys high demand from parents who can afford to pay.

In looking at child care centers' costs and tuition revenues, we also offered somewhat more speculative suggestions concerning some closings.

- Besides charging higher tuitions, another indicator of demand, *having a waiting list*, did not (at least in our survey) indicate that a center had a higher chance of survival than a center without a waiting list. A number of centers closed due to high operating costs, or loss of staff or facility or for individual reasons despite having a waiting list.

³¹ Quality in center programs could apply to early educational programming for pre-school-age children, as well as support for literacy or mentoring with homework in after-school programs. Since the drafting of this report in 2006, the Illinois Department of Human Services has introduced a Quality Rating System that pays higher rates for centers of demonstrably higher quality.

- Not-for-profit child care centers appear either less willing to raise their tuition rates or less able to do so. Many do not charge more than Illinois Child Care Assistance Program pays.

These two phenomena bear further investigation. If the observations prove apt, they suggest that raising the reimbursement rates paid by the Illinois Child Care Assistance Program, as occurred in 2006, would save some valuable resources in Illinois to prevent center closings. Other preventive measures include current or enhanced policies to improve the retention of child care center staff and making child care centers eligible to apply for funds necessary to operate Illinois Pre-K classrooms.

In addition to preventive measures, setting up reactive or response measures could also help stem impending center closures. For example, the State or a local authority might create an emergency survival grant fund that could be made available for cases with merit (by which we mean, centers whose survival is demonstrably threatened, but possible and in the community's interest).

For individual causes for closing (a leaking roof, a director retiring, a congregation re-acquiring space for other purposes and so on), it might not appear that a *general* public policy could address these causes of closing even if such an intervention were warranted by the public interest.

This is not to say that an institutional response could not prevent some of these closings due to individual problems. For example, if communities had response teams, they could mobilize useful technical assistance for a threatened center in the form of business advice, emergency loans, fundraising help and grant-writing, repair teams, location-changing assistance, temporary sites, recruitment services, mentors, licensing experts and so on.

Such response teams (or other independent evaluators) could first evaluate individual center closing situations for merit and viability then mobilize the resources that could contribute to a center's survival. In addition to working individually with centers, the response team could develop effective rules of thumb for dealing with more common forms of center distress in their communities, and where appropriate, offer resources such as those listed in the previous paragraph. Perhaps, the Child Care Resource and Referral Agencies of Illinois could sponsor or house such resource and response teams at a community level.

Appendices

Appendix A. Closed Child Care Centers and Closing Rates

We counted as closed most of those child care centers deleted from Carefinder in FY00 through FY03 and from NACCRRAware in FY04 and the first half of FY05.³² We did not include centers that appear to have been deleted because they were duplicate records or for other non-closing reasons. We count as closed those centers that close and open elsewhere or open under new ownership (since these would require a new license).

The table below breaks down closings by Illinois Fiscal Year (July 1 –June 30). Our report focuses on both licensed and license-exempt child care centers and preschools, including both full-time and part-time programs. Centers not included in the study are those that are exclusively Head Start, State Pre-K, school age, or summer camp programs. Note that we ended data collection in the middle of FY05. We call the number of these centers “estimated” because it took considerable work to check and clean the data.

Table A. Estimated Number of Closed Centers per Year, July 1, 1999 – Dec. 31, 2004

	FY00	FY01	FY02	FY03	FY04	FY05 (1/2 yr)	Total
Closed Child Care Centers	92	81	95	115	150	77	610

Source: INCCRRA.

Closing rate: In December 2004, we had good data on 2,880 open child care centers of the type comparable to the 610 closed centers studied. The centers that we can identify with some confidence as having closed over the 5.5 years examined, then, come to 21.2 percent of the centers open in December 2004. This is equivalent to an average of about a 3.9 percent closure rate each year.

Because this rate included the large number of older established centers, as well as new ones, it is not comparable to the rate mentioned in the text – 56 percent of *new* small businesses closing in the first four years after opening. For a rate comparable to that of center closings, we should calculate the number of small businesses that close in Illinois each year as a percentage of the total (old and new) small businesses in

³² Dating closings can be inexact: There may be gaps between when centers close and when the child care resource and referral agencies learn of their closings and delete their records from the database.

Illinois. According the U.S. Small Business Administration, in 2004 Illinois had an estimated 1,001,185 small businesses, and business terminations numbered 33,472.³³ This gives all Illinois small businesses an annual closing rate of about 3.3 percent, a rate somewhat below but roughly comparable to the 3.9 percent closing rate of child care centers.

As we state in the text, there are still sound public policy reasons to regard the two rates as not fully comparable. While the people of Illinois may have no overall concern about the creation or termination of small business under a free enterprise system, we do have specific public economic and even philosophical interests in the viability and health of good child care centers.

³³ U.S. Small Business Administration, *Small Business Profile: Illinois*, website accessed 4/13/06: <http://www.sba.gov/advo/research/profiles/05il.pdf>.

Appendix B: Data and Data Analysis

The Illinois Network of Child Care Resource and Referral Agencies (INCCRRA) collects data on child care centers in its databases, Carefinder and NACCRRARware. Staff members at 16 agencies in the network, covering the entire state of Illinois, regularly update these databases. Carefinder covered the period July 1, 1999 through June 30, 2003, when it was replaced by NACCRRARware. Data from the latter covered July 1, 2003 through December 2004.

INCCRRA kindly gave us data on centers covering the period July 1, 1999 through December 31, 2004. At the end of the period, we had data on 5,999 open and closed centers from Carefinder plus closed centers from NACCRRARware. For analytical purposes we eliminated Head start-only, Pre-K-only, summer camp and school-age only programs. This left us with good data on 3,490 child care centers.

In the INCCRRA databases, the field we used to identify a center as closed is the "Deleted" field. Not all deletions were caused by closings, however, and we had to identify and adjust those. On occasion, the contrary occurred: centers were not deleted when we would have counted them as closed, notably centers that closed but opened at a different location or under a new operator, and we had to adjust those data. Staff at the Resource and Referral agencies kindly answered our questions and checked whether particular centers really were closed. For some years we corrected the data using information from the Illinois Department of Children and Family Services.

An INCCRRA database field presenting "reasons" for deletion was sometimes helpful, but very often the entry is marked "other." As the text explains, after July 1, 2003 three new reasons for closing were introduced: financial reasons, loss of facility and staffing problems. Table B1 shows the numbers of closed centers during the two periods, with and without reasons given.

Table B1. Closed Centers in INCCRRA Databases				
Period	No Reasons Given	Reasons Given	Total	Database
July 1, 1999 - June 30, 2003	185	198	383	<i>Carefinder</i>
July 1, 2003 - Dec. 31, 2005	121	106	227	<i>NACCRRARware</i>
<i>Entire Period</i>	<i>306</i>	<i>304</i>	<i>610</i>	
Source: INCCRRA				

Our analysis consisted of calculating descriptive statistics and estimating logistic regression models using SPSS. For logistic regression, our binary dependent variables for centers were either {open, not-open} or {closed, not-closed} and are reported that way in the text of this report. All of the estimated odds that we report were significant at a 95 percent confidence level or higher.

We will report here one logistic regression estimate that is not in the text. This compared a random sample of 383 child care centers operating in FY2004 with the 443 child care centers that closed from FY2001 through FY2004. It was run against all available factors, rather than having a prior theoretical basis. Table B2 reports the statistically significant odds estimates that results from the logistic regression. All of the calculated odds are significant, at least at the .97 level and most at the .99 level.

For example, one new finding was that from FY2001 through FY204, a licensed center was less than half (45 percent) as likely to close as a center that is not licensed.

These estimates support the findings reported in the text.

Table B2. Factors that Increase or Decrease the Odds of Closing (443 closings & random sample of 383 open centers, FY01-04)		
FACTORS MAKING A CENTER LESS LIKELY TO CLOSE	Likelihood that Center will Close	
Was licensed	45%	...as likely to close as centers without the factor
Located in metropolitan Chicago	56%	
Had above-average capacity (unit = ten students)	98%	
FACTORS MAKING A CENTER MORE LIKELY TO CLOSE		
Provided transportation	287%	...more likely to close than centers without the factor
Offered discount to employees	94%	
Reported a full-day schedule	136%	
Offered multi-child discount	64%	
Accepted children with IL Child Care Assistance	55%	
Offered scholarships	53%	
Data Source: INCCRRA		

Appendix C. Survey Of People Connected To Closed Centers

We sent requests for contact information to all Illinois Resource and Referral agencies and other knowledgeable individuals for persons who had any close experience with a center that had closed. To prompt these experts' memories, we included a list of recently closed centers in their areas. We received a list composed almost entirely of center directors and staff.

In the late spring and summer of 2005, the survey of people who had experienced a center closing was mailed (or in a few cases conducted by telephone) to all 74 people whose contact information we could get, and 49 responses were returned for a respectable response rate of 66 percent. Since the sample is not randomly drawn from a complete population of people who had been connected with all closed Illinois centers, however, we cannot treat it as representative for all closed centers.

The list below indicates the 23 counties from which the respondents came. Seven respondents did not fill in the county of their center; twelve respondents identified Cook County, just under 25 percent of the sample; DuPage County was the only other county from the metropolitan Chicago area; and Winnebago County, with five respondents, was the second most represented county. Map C shows how the respondents are distributed throughout Illinois.

County	Responses
Adams	1
Brown	1
Cook	12
DuPage	2
Effingham	2
Greene	1
Hancock	1
Jackson	1
Lawrence	1

Macon	1
Madison	1
Marion	2
McDonough	1
Morgan	1
Ogle	1
Peoria	1
Richland	1
Rock Island	1
Sangamon	1

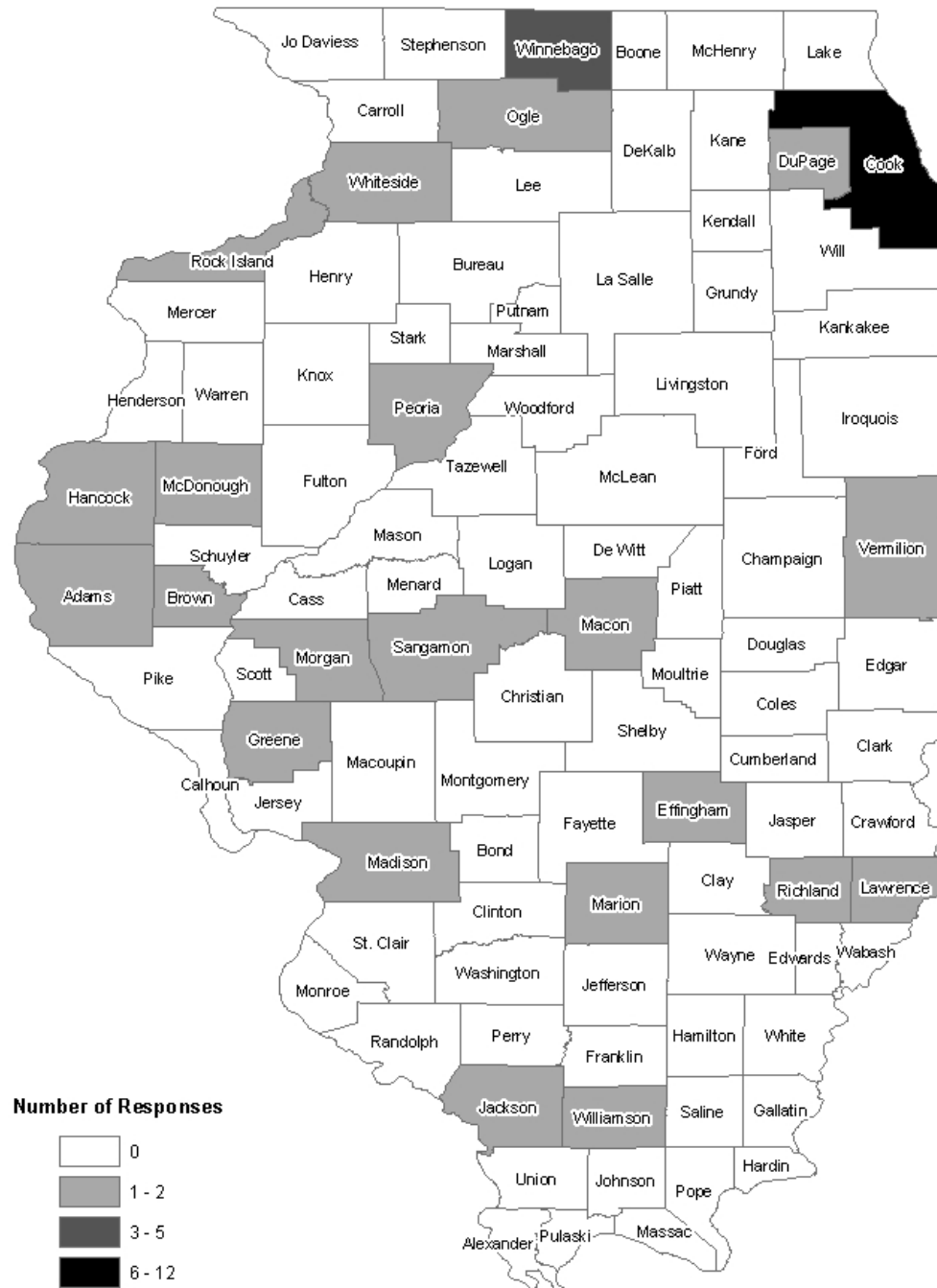
Vermilion	2
Whiteside	1
Williamson	1
Winnebago	5
<i>Unknown</i>	7
Total	49

The centers were generally licensed and long-standing in their community. Forty-six of the 49 centers had DCFS licenses. They had been open between 1 and 60 years. Thirty-four had been open 8 or more years. Only two had been open less than two years. For the 38 respondents who indicated an exact number of years, both the average and median number of years the centers had been open was 19 years. Seven centers later reopened at other locations: two in the same community, and five in another community.

Technical note: If a sample of 74 closed Illinois child care centers were drawn *randomly*, its results would be accurate to within 11 percentage points on either side of a finding.³⁴ The sample is non-random, however: we mailed the survey to anyone whose contact information we could get. Consequently, there is no way to tell whether the survey gives information that is representative of all Illinois' closed centers.

³⁴ For example, a finding of 63 percent will be accurate to within plus-or-minus 11 points or between 52 and 74 percent (at a rigorous 95% confidence level).

Map C. Counties From Which Survey Responses Came



Appendix D. Basis for Estimation: How Well Do the Centers with Reasons for Closing Mirror the Closed Centers without Reasons?

To evaluate whether the 304 centers that had reasons for closing in the INCCRRA databases were representative of the 306 centers that had no reasons for closing, we compared basic characteristics of both groups of centers.

Results for July 1, 1999 through June 30, 2003 appear in Table D. Of twenty-four center characteristics we compared, the two groups differed by as much as five percentage points on only eight characteristics, and by as much as ten percentage points on only three characteristics. Their average capacities are relatively close. Consequently, for this earlier period we can extrapolate results for centers with reasons to centers without reasons.

From this resemblance between centers that closed with and centers that closed without reasons given, we conclude that over this period the 185 closed centers without reasons given looked very much like the 198 centers that had reasons for closing. We therefore infer that all of the percentages in the right-hand column of Table 1 apply rather closely to all 383 centers that closed up to June 30, 2003. Some 52 percent closed for reasons of enrollment while 25 percent closed for financial reasons, 16 percent closed for licensing or other regulatory problems, 12 percent closed for personal reasons such as the owner retiring, and so on.

For the later period, July 1, 2003 through December 31, 2005, the two groups of closed centers were five or more percentage points apart on ten of the seventeen characteristics we initially examined. For example, while similar percentages of both groups of centers were licensed, a lower percentage of the group of centers without reasons for closing were for-profit (60 percent compared to 81 percent of centers with reasons) and a higher percentage was connected to public schools (14 percent compared to 7 percent). A lower percentage of centers without reasons for closing provided transportation to and from home, offered educational programs, provided religious instruction or accepted subsidies.

Since some of these points of differences are central to our later analysis, we opted not to treat the later groups as in *any way* similar. Consequently, we do not extrapolate any of the percentages of Table 1 to the closed centers that had no closing reasons in the period beginning July 1, 2003. Obviously, this yields an underestimate of the real incidence of reasons, so our estimates then should be regarded as the low-end of a range of likely reality.

Finally, we would like to apply the information about the reasons newly available after June 2003 to the centers that closed with reasons in the earlier period. Those centers that closed with reasons in the later period, however, also have somewhat different characteristics. Consequently, we opt not to extrapolate the new reasons that were provided for closings in the later period (namely, financial reasons, loss of facility and staffing problems) to the earlier period, except as an upper limit on a range of possibilities. For example, although 25 percent of centers that closed in the later

period closed for reasons of financial stress, we shall not apply that percentage to closed centers in the earlier period.

To summarize, we treat the results we obtain from the analysis of the closed centers with reasons for closing as representative of all center closings in Illinois over that period of time *except* for the group of centers that closed without reasons after July 1, 2003. That is, we can extrapolate the results from 304 to 489 of the 610 closed centers.³⁵ We treat all of the percentages in the right-hand column of Table 1 as applicable to those 489 closed centers, with one set of exceptions: If a reason was not available for the earlier period, we do not apply it to the early period except as the upper end of a range.

³⁵ This does not apply to the *survey* results.

Table D. Comparison of Basic Characteristics Among Centers that Closed July 1 1999 - June 30, 2003. With & without Reasons Reported.		
Factor	Percentage of Centers with Reasons	Percentage of Centers Without Reasons
Licensed	83%*	77%*
For-Profit Legal Status	38%	38%
Part of Chain	2%	2%
Faith-Based Institution	22%	21%
Had Head Start Funds	1%	3%
Had Nursery School Program	27%	24%
Provided Transportation	7%	6%
Accepted Child Care Assistance	77%*	70%*
Had IDHS Site Contract	13%	10%
Served Infants and/or Toddlers	43%*	34%*
Served 2 Year-Olds	65%*	60%*
Served 3-5 Year-Olds	95%	94%
Preschool Program only	31%	31%
Served School-Age Children	38%	36%
Part-time Only	27%	27%
Offered Evening Hours	3%	3%
Chicago	3%*	12%*
Metropolitan Chicago	21%*	41%*
Rural	30%*	21%*
Small Capacity (40 & under)	52%	56%
Medium Capacity (41 - 80)	31%	29%
Large Capacity (over 80)	17%	16%
Average Capacity	50 children	47 children
Average Vacancy Rate	3.8%*	3.1%*
Avg. Child to Adult Ratio, Ages 3 & 4	8.8	8.6
Data Source: INCCRRA		
* Centers with and without reasons differ by 5 percentage points or more.		

Appendix E. Statistical Analysis and Pre-K Competition Faced by For-Profit Centers

While survey respondents confirmed the views of many in the child care community that competition from new Illinois Pre-K in public schools took 3- and 4-year-olds from centers and caused many to close, basic descriptive statistics of those data did not indicate whether Illinois Pre-K does or does not have an impact on center closings. And for the most part neither could the more advanced statistic tool, logistic regression (see Appendix B).

Advanced analyses on two subsets of centers, however, did reveal an apparently contrary correlation. While we might expect that centers with preschool programs would be hurt most by new Illinois Pre-K programs, in fact some centers that offered preschool (“nursery school”) were *more likely to remain open* than centers without nursery schools. For-profit centers and urban centers located outside of the metropolitan Chicago area were each more likely to remain open if they offered a preschool program. If competition from Illinois pre-K did hurt centers in general, then, the effect must have been more uniform or stronger for non-profit, rural and metropolitan Chicago area centers. Even in the latter cases, however, logistic regression could not isolate the effect.³⁶

While it appears contrary to our survey results, the finding related to for-profit centers offering preschool is interesting and easy to interpret. On average, for-profit centers that served 3- and 4-year-olds, offered a “nursery school” program or were stand-alone preschools *and* that survived through December 2004, apparently enjoyed very high demand from parents that the closed centers did not. In fact, we found that the surviving for-profit centers with preschool programs in general were in such demand that they could charge significantly higher tuition rates than other for-profit centers serving 3- and 4-year-olds but without a “nursery school” program. They could charge even more than not-for-profit centers, no matter whether or not they offered “nursery school.”

Table 5 shows that the Illinois for-profit centers offering nursery school programs charged an average full-time tuition of \$18 more weekly and a median of \$24 more weekly than other for-profit centers.³⁷ They also charged an average of \$27 more than not-for-profit centers with nursery school programs weekly and

³⁶ This is not surprising to the extent that new Illinois Pre-K programs were spread unevenly across the state. Competition with child care center programs, if it existed, would develop locally rather than uniformly.

³⁷ The *median tuition rate* is defined as the rate at which half of centers charge more and half less. Some analysts refer to the median rate as the *typical* rate for a group.

a median of \$36 more weekly. Among not-for-profit centers themselves, a substantial, though smaller, difference exists between centers that offer nursery school and those that do not. Once again, this suggests that among the centers that survived, having a preschool program placed them in relatively high demand.

Table E. Open Illinois Centers Serving 3- & 4-Year-Olds, Number & Weekly Tuition, FY03

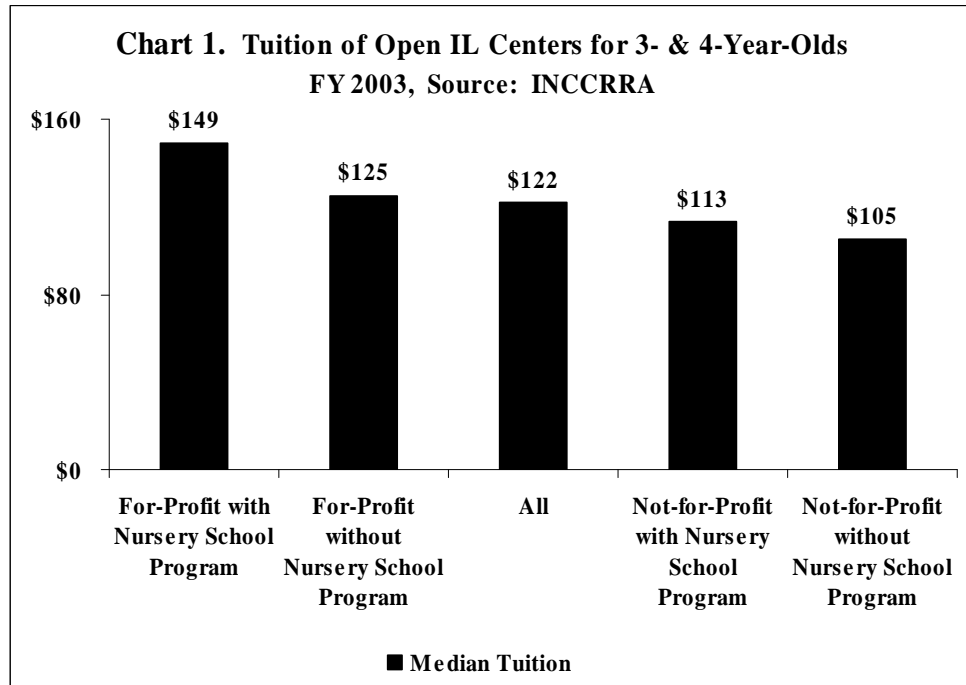
Source: INCCRRA; tuition figures are rounded to the nearest dollar.

	Number	Mean Tuition	Median Full-time Tuition
For Profit with Nursery School Program	319	\$144	\$149
For Profit without Nursery School Program	563	\$126	\$125
Not-for Profit with Nursery School Program	209	\$117	\$113
Not-for Profit without Nursery School Program	411	\$112	\$105
<i>All programs for 3- & 4-Year-Olds</i>	<i>1,502</i>	<i>\$125</i>	<i>\$122</i>

Chart 1 shows the median tuition for all surviving centers that care for 3- and 4-year-olds as well as these four types of centers. The differences are consequential - for a classroom of 20 students, the \$27 difference between the median for-profit with preschool program and the median for all centers with 3- and 4-year-olds, came to \$19,440 over a 36 week year and \$27,000 over a 50 week year. This large tuition advantage for programs with preschool allows a center to make its classrooms for 3- and 4-year-olds not only more viable but also of much higher quality.³⁸

The data, then, indicate the extent that the demand for pre-school programs for 3- and 4-year-olds in for-profit centers may be high enough to allow them to charge significantly higher rates than the average (the average of all centers and of all for-profit centers). Where students are siphoned off by public Pre-K or in areas where demand is lower, matters would be different.

³⁸ For-profits often must cover additional expenses that some not-for-profits do not have such as taxes and rent.



Among not-for-profit centers with programs for 3- and 4-year-olds, open and closed centers do not show a difference in average tuition rates. In fact, tuition rates are not significantly different for the entire group of open and closed centers in general; as we noted, they appear only for for-profit centers and urban non-metropolitan Chicago centers. While this is just about the *average* tuition figure, it does suggest that many non-profit, rural or metropolitan Chicago centers operate near the financial tipping point between remaining open and closing.

Appendix F. IDHS Pilot to Develop Child Care during Non-traditional Hours

In its *2002 Report On Illinois Child Care*, the Illinois Department of Human Services (IDHS) evaluated its multi-year pilot project to explore the feasibility of supporting child care programs that offer non-traditional hours of care.³⁹ This is the full text of its summary (pp 19 – 20).

"Extended Hours Pilot Program

In FY02, the pilot ended that had allocated extra funding to eight sites (six centers and two day care home networks) across the state in order to expand service hours to accommodate parents who work non-traditional schedules such as second, third or swing shifts and weekends. The purpose of the pilot was to determine what barriers existed to operating an extended hours program and what supports the state could provide to overcome those barriers. The major finding of the pilot was that the centers could not obtain and maintain the critical number of extended hours children needed to break even financially. This finding is consistent with other public and private attempts to offer center based extended hours care. The factors contributing to this outcome included: the inability to reduce costs in times of low enrollment due to licensing standards and safety concerns; variability of parent's work schedules; particularly those in the service industry; and the desire of parents for a home-like setting if their child had to go to bed before the parent picked them up. As of the end of FY02, only one center of the six original participating centers continued to offer extended hours care.

"In contrast, both day care home networks that were in the original pilot were still providing extended hours care. The home networks had the lowest overall costs of those in the pilot. They did not have high fixed expenses as did the centers, and the parent and home care provider were often able to make flexible arrangements that best suited the needs of the parent and provider. Because of the low fixed costs, this flexibility was not damaging to the home provider."

³⁹ Illinois Department of Human Services, *2002 Report On Illinois Child Care*, pages 19-20: http://www.dhs.state.il.us/newsPublications/plansReports/pdfs/dhs_planReports_iccar02.pdf , Accessed 10/3/05.

Appendix G. Glossary of Terms

Carefinder. The database of child care providers used by the Illinois Child Care Resource and Referral Agencies through June 2003. The database contains much information about the provider's capacity and program as well as legal and licensure status. See also NACCRRAware.

Child Care Resource and Referral Agency (CCR&R). Any one of 16 agencies throughout Illinois whose goal is to work with parents, business leaders, government officials and child care providers to make high quality child care available to Illinois families. This includes supporting child care providers, preparing individuals to enter the child care field and assisting families in locating child care and accessing the Illinois Child Care Assistance Program. Illinois Action for Children is the CCR&R for Cook County.

Illinois Child Care Assistance Program (CCAP). Program established using the federal Child Care Block Grant following welfare reform to provide child care assistance for working families earning less than 50 percent of the state median income.

Illinois Department of Children and Family Services (DCFS). In this report: DCFS grants and enforces licensing of child care centers and homes.

Illinois Department of Human Services (IDHS). Home of the Bureau of Child Care and Development, which administers many of the State's child care programs such as the Illinois Child Care Assistance Program, Child Care Resource and Referral Agencies and the Quality Counts program.

Illinois Network of Child Care Resource and Referral Agencies (INCCRRA). A network of 16 regional Child Care Resource & Referral (CCR&R) agencies serving communities throughout the state of Illinois. Its goal is to make high quality and affordable early care and education opportunities available for families and children of Illinois. Among other things, the 16 agencies are contracted in part to collect data about the providers in their service delivery areas in a statewide database.

Income-Eligible Family. A family whose income falls under 50 percent of the state median income, making them income-eligible for the Illinois Child Care Assistance Program. Income eligibility in Illinois also depends upon family size.

Licensed Child Care Centers. Centers that have been certified by the Illinois Department of Children and Family Services as meeting certain health and safety standards and that are subject to inspection by DCFS.

License-exempt Child Care Centers. The Child Care Act of 1969 excludes some facilities from the requirement to be licensed. These exclusions from the licensing requirement may be found in Section 2.09 of the Child Care Act of 1969 [225 ILCS 10/2.09] and are explained in Department rules 89 Ill. Adm. Code 377, Facilities and Programs Exempt from Licensure. Centers that may be legally exempt from licensing include those run by a religious institution, government program, school, college or university.

NACCRRAware. The database of child care providers used by the Illinois Child Care Resource and Referral Agencies after June 2003. The database contains much information about the provider's capacity and program as well as legal and licensure status. See also Carefinder.

Non-Traditional Hours of Care. Hours of child care that fall outside the typical Monday through Friday day time schedule (defined in this report as 6 a.m. to 6 p.m.). This includes evening, overnight and weekend care, as well as days and times that change from one week to the next.

Reimbursement Rates. The payment levels approved for centers, licensed homes and license-exempt homes under the Illinois Child Care Assistance Program. These rates vary across regions of Illinois. Parents pay a portion of the rate to providers as parent co-payments, while the Illinois Child Care Assistance Program pays the other portion.

State Median Income. The income at which half of the families in Illinois earn more and half earn less. The Illinois Child Care Assistance Program determines a family's eligibility using a different state median income for different family sizes.