

Methodology and Sources for Childcare Home Budget

In order to generally determine what home childcare providers should be budgeting per month, we have created a monthly expense sheet. There is one spreadsheet for each type of care: informal childcare homes, family childcare homes, and group childcare homes. Expenses include things from food to office supplies to child's portion of rent and utilities. We have created three scenarios in which we try to give an average cost to all expenses. Expenses that normally occur only once a year have been divided by twelve to give a monthly figure. The methodology below lists how each expense was calculated or approximated and where the data was obtained.

Monthly Expenses

Labor: Because a daycare provider could be working somewhere else for pay, it is important that they include their own labor as an expense. The living wage for workers in Tompkins County is \$8.50. However, \$8.50 is higher than what home childcare would typically charge. A group in Cortland County created a sample budget for home childcare providers and used \$6 as the cost of labor per hour. We are averaging these two numbers and assuming an hourly rate of \$7 for home childcare labor for Tompkins County.

- Informal childcare: labor is \$7 an hour for 8 hours a day, 16 days a month. In this scenario we assume informal care means a relative or friend watching two children a couple times a week.
- Family childcare: labor is \$7 an hour for 10 hours a day, 21 days a month. It is reasonable to assume that family childcare workers will work longer hours.
- Group childcare: labor is \$7 an hour for 10 hours a day, 21 days a month. We have shown two workers for this scenario, which will be necessary to care for ten children.

Social Security and Medicaid Taxes: This is figured to be 15.3% of monthly labor expenses. Because the worker will be self-employed for informal and family childcare, the provider must pay both the employer (7.65%) and the employee (7.65%) costs for social security and Medicaid, making the total 15.3%.

- Informal childcare: This is figured to be 15.3% of monthly labor expenses.
- Family childcare: This is figured to be 15.3% of monthly labor expenses.
- Group childcare: The self-employed worker will pay 15.3% for social security and Medicaid. The expense to the employer for the second worker is only 7.65% of the labor expense, but in addition, workers compensation and unemployment insurance must be covered, bringing the total to 15% of the labor expense.

Food: Child and Adult Care Food Program (CACFP) has a reimbursement rate of about \$3 per day. For specific rates in each state see www.fns.usda.gov/cnd/Care/ProgramBasics/Rates/centers.htm

- Informal childcare: food is assumed to be \$3 per child per day.
- Family childcare: food is assumed to be \$3 per child per day.
- Group childcare: food is assumed to be \$3 per child per day.

Supplies: Supplies include children's toys and materials, office supplies, and household supplies. These numbers were obtained by using the Cortland County family daycare budget as a base and then adjusting these numbers depending on the number of children in care.

- Informal childcare: costs include \$20 worth of children's toys and \$40 worth of household supplies.

- Family childcare: costs include \$30 for children's toys, \$60 for household supplies, and \$30 for office supplies (assumed to be unnecessary in informal childcare).
- Group childcare: expenses are \$60 for children's toys, \$70 for household supplies, and \$40 for office supplies.

Mileage: It is assumed that the cost of mileage is 35 cents for every mile. Mileage expenses can cover things such as driving children to the pool or driving to the grocery store to buy food and other supplies. These numbers were obtained by using the Cortland County family daycare budget as a base and then adjusting these numbers depending on the number of children in care.

- Informal childcare: \$25 a month is figured as the typical mileage expense.
- Family childcare: \$60 per month is figured, which equals 170 miles a month or 8 miles per day.
- Group childcare: \$84 per month is figured, which is 240 miles a month or 11 miles per day.

Maintenance and repairs: This category includes house cleaning, dishwashing, lawn mowing, and carpet cleaning, and snow plowing in winter. These numbers were estimated by considering the amount of time spent on these types of activities each month.

- Informal childcare: \$60 a month in expenses.
- Family childcare: \$100 a month in expenses.
- Group childcare: \$150 a month in expenses.

Dues and publications: This could include publications on starting a childcare center, regulating childcare centers, etc.

- Informal childcare: not applicable.
- Family childcare: \$5 a month.
- Group childcare: \$5 a month.

Equipment: Equipment includes large purchases that will typically be made only once (playground equipment, highchairs, changing tables, etc.). These costs have been carried over a year's time. These numbers were obtained by using the Cortland County family daycare budget as a base and then adjusting these numbers depending on the number of children in care.

- Informal childcare: assume \$20 a month.
- Family childcare: assume \$30 a month.
- Group childcare: assume \$30 a month.

Time/space percentage: In order to find the time/space percentage, the following formula is used: total hours spent per month/total hours in a year multiplied by the percent of space in the home used for childcare. This formula was obtained from Tom Copeland's book *Family Child Care Tax Workbook* **.

- Informal childcare: for informal childcare we assume 60% of the home is used for childcare. The time/space percentage is 11%.
- Family childcare: for informal childcare we assume 80% of the home is used for childcare. The time/space percentage is rounded to 25%.

- Group childcare: for informal childcare we assume 80% of the home is used for childcare. The time/space percentage is estimated to be 45%. For this calculation, the time for two full-time workers was used.

Childcare portion of rent or mortgage and utilities: Assume total monthly rent or mortgage to be \$600 a month and utilities to be \$75 per month (obtained by Seven Valley Realty*). The time/space percentages found above were used in this section to obtain the monthly childcare portion of rent or mortgage.

- Informal childcare: With a time/space percentage of 11%, the portion of rent or mortgage and utilities used for the informal childcare business is \$74 per month.
- Family childcare: With a time/space percentage of 25%, the portion of rent or mortgage and utilities used for the informal childcare business is \$169 per month.
- Group childcare: With a time/space percentage of 45%, the portion of rent or mortgage and utilities used for the informal childcare business is \$304 per month.

Accountant Fee: It is assumed that an informal provider will not use an accountant.

- Informal childcare: not applicable.
- Family childcare: an annual fee of \$150.
- Group childcare: an annual fee of \$175.

Yearly expenses

Business expenses: Assume \$23.35 per \$1,000 of assessed value. This is the 2000 average property tax rate for Tompkins County (see website

<http://www.orps.state.ny.us/ref/osc/00ovrlap/00rates/50.htm>)

With a purchase price of a home at \$65,000 (this is the average cost of a double-wide home in Tompkins County)*, the property tax is \$1,518. House insurance is estimated at \$1,500*.

- Informal childcare: by adding the property tax and house insurance (\$3,018) and using a time/space percentage of 11%, a yearly business expense for informal childcare can be calculated at \$332 or \$28 per month.
- Family childcare: by adding the property tax and house insurance (\$3,018) and using a time/space percentage of 25%, a yearly business expense for informal childcare can be calculated at \$754 or \$63 per month.
- Group childcare: by adding the property tax and house insurance (\$3,018) and using a time/space percentage of 45%, a yearly business expense for informal childcare can be calculated at \$1,358 or \$113 per month.

Daycare liability insurance: This is not considered an expense for informal childcare. For family and group childcare, the liability insurance was found by using the estimate in Tom Copeland's book **.

- Informal childcare: not applicable.
- Family childcare: this is estimated at \$400 per year or \$33 per month.
- Group childcare: this is estimated at \$400 per year or \$33 per month.

House depreciation: Again, assume the purchase price of a home to be \$65,000*. The value of the land at time of purchase is \$4,000* and the home improvements after purchase is \$8,000*. By subtracting the value of land and adding the home improvements after purchase, \$69,000 is found to be the total basis of home.

- Informal childcare: using a time/space percentage of 11%, the business basis of an informal childcare home can be found to be \$7,590. With a house depreciation rate of 2.461%** , the house depreciation is \$187 a year or \$16 a month.
- Family childcare: using a time/space percentage of 25%, the business basis of an informal childcare home can be found to be \$17,250. With a house depreciation rate of 2.461%** , the house depreciation is \$425 a year or \$35 a month.
- Group childcare: using a time/space percentage of 45%, the business basis of an informal childcare home can be found to be \$31,050. With a house depreciation rate of 2.461%** , the house depreciation is \$765 a year or \$64 a month.

Furniture / Appliance depreciation: Assume a total fair market value of furniture and appliances to be \$4,000 based on a home that is between \$50,000 and \$65,000**.

- Informal childcare: if the time/space percentage is 11%, the business basis of items will be \$440 a year. With a depreciation rate of 14.28%** , furniture/appliance depreciation is \$63 a year or \$5 per month.
- Family childcare: if the time/space percentage is 25%, the business basis of items will be \$1,000 a year. With a depreciation rate of 14.28%** , furniture/appliance depreciation is \$143 a year or \$12 per month.
- Group childcare: if the time/space percentage is 45%, the business basis of items will be \$1,800 a year. With a depreciation rate of 14.28%** , furniture/appliance depreciation is \$257 a year or \$21 per month.

* Information obtained from Seven Valley Realty
4287 North Homer Ave. Cortland, NY 13045
www.cortland.org/business/realestate/real19.htm

** Copeland, Tom. 1998. *Family Child Care Tax Workbook*. Redleaf Press, St. Paul Minn.

Note: Spreadsheets are on file “*BestPracticeBudget*” within the Appendix directory--Child Care Financing: Workshop 2002.