LEGISLATIVE FISCAL ESTIMATE TO

ASSEMBLY, No. 3054

STATE OF NEW JERSEY

DATED: January 13, 1998

Assembly Bill No. 3054 of 1997 provides corporation business tax credits and doubled gross income tax deductions for the contributions of participants in child care centers that might be established under two proposed pilot child care initiatives currently pending before the Legislature as Assembly Bill No. 3051 of 1997 and Assembly Bill No. 3053 of 1997.

Assembly Bill No. 3051 of 1997 establishes a Neighborhood-Based Child Care Incentive Demonstration Program, creating a three-year community resource child care demonstration program in five counties of the State; this could lead to establishment of five new child care centers (the "demonstration centers"). This program is partially funded by grants from a fund established as a depository for child care center licensing fees (these fees are currently used in support of the licensing program) and by a priority for grants from the Mini Child Care Center Project Grants program account (appropriated $3,160,000 in FY1998).

Assembly Bill No. 3053 of 1997 establishes a Small-Medium Business Child Care Consortium Incentive Demonstration Program that will designate three consortia of employers pooling child care efforts in three regions of the State; this could lead to establishment of three new child care centers (the "consortium centers"). This program is partially funded by low interest loans, not to exceed $100,000 per consortium, from unspecified sources and by a priority for grants from the Mini Child Care Center Project Grants program account.

This bill provides slightly different tax incentives for the two different programs. The bill allows a corporation that makes a contribution, in money or in goods, to the sponsor of one of the five demonstration centers for use in the center a corporation business tax credit equal to 10 percent of the contribution. An unincorporated businesses is allowed a deduction (in addition to any business deduction to which it may already be entitled) for its contribution to a demonstration center. The bill allows a consortium member corporation that makes an expenditure for the facilities of one of the three consortium centers a credit equal to 15 percent of the expenditure. A member that is an unincorporated business is allowed a deduction (in addition to any business deduction to which it may already be entitled) for its facilities expenditure.

Both programs emphasize community participation, the use of volunteers and the use of existing physical resources. Because

participation, volunteerism and funding cannot be estimated, no certain revenue impact from the tax incentives can be estimated. However, by developing a model cost structure for child care centers and assuming that 100 percent of all costs will be borne by participants allowed the maximum tax incentives, the maximum potential revenue impact can be estimated.

The Division of Youth and Family Services (DYFS) in the Department of Human Services has reported that the average number of children per child care center in New Jersey is currently 63; nationally, average enrollment is 72 children and most new centers are planned for 100 or more children.

DYFS, in developing its own Child Care Center Model and Infant/Toddler Center Model, has been able to catalog some of the cost factors involved in starting and operating child care centers. Nationally, start-up costs are highly variable, ranging from $250,000 to $1,000,000, and depend on the facility location, equipment, demographics and the range of services provided; operating costs are also highly variable, again depending on demographics, equipment and services provided. However, nationally the average annual operating cost per child is $5,000; between 70 percent and 80 percent of operating costs are staff costs.

The two programs could lead to the establishment of a total of eight child care centers; five demonstration centers and three consortium centers. A center for 100 children would be expected to have about $500,000 in start-up costs and operating costs of $500,000 a year for each of the three years of the program for a total of $2,000,000 costs per center.

The contributors to the demonstration centers are allowed a corporation business tax credit of 10 percent of contributions, which appear to be allowed for all program costs. For five demonstration centers, with total costs of $10,000,000, the expected credit amount would be $1,000,000. The revenue impact would be less if contributors were unincorporated and were allowed additional deductions at tax rates of between 1.4 percent and 6.37 percent.

The contributors to the consortium centers are allowed a corporation business tax credit of 15 percent of facilities costs. Assuming that all $500,000 of start-up costs are for facilities (an excessive estimate because at least some costs are for services) and that the entire component of operating costs in excess of the average 75 percent of such costs that are staff costs are for facilities (an excessive estimate because at least some non-staff operating costs are for other services), each consortium center would have about $500,000 in allowed start-up costs and allowed operating costs of $125,000 a year for each of the three years of the program for a total allowed of $875,000 costs per consortium center. For three consortium centers, with total allowed costs of $2,625,000, the expected credit amount would be $393,750. The revenue impact

would be less if contributors were unincorporated and were allowed additional deductions at tax rates of between 1.4 percent and 6.37 percent.

The maximum revenue impact of the tax credits available under the two programs can be restated for each program as follows:

	Startup Costs	Operating Costs
A3051 Demonstration Centers	$250,000	$750,000
A3053 Consortium Centers	$225,000	$125,000

These would be the maximum revenue decreases that could occur if all eight child care centers began operating on the first day of the program, completely funded by corporate program participants able to fully use the maximum tax incentives. If, however, the centers were able to use existing physical plant, the startup cost expenditures in the left column would be reduced or eliminated. To the extent that professional staff were supplemented by community and parental participants, the operating cost expenditures in the right column would be reduced. Actual revenue impact under implementation of the demonstration programs would be expected to be considerably less than the estimated maximum revenue losses.

This legislative fiscal estimate has been produced by the Office of Legislative Services due to the failure of the Executive Branch to respond to our request for a fiscal note.

This fiscal estimate has been prepared pursuant to P.L.1980, c.67.