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# 6 State Strategies To Improve Child Care Policies During the Pandemic and Beyond

By Simon Workman and Katie Hamm October 29, 2020

Millions of American families rely on access to child care in order to work. Without access to affordable care, parents can't earn a living, businesses can't recruit reliable workers, and children miss out on early educational opportunities. This has never been more apparent than during the current COVID-19 crisis. Unfortunately, America's child care system has long been neglected. It needs significant public investment to survive this current crisis and meet the needs of families both during the coronavirus pandemic and beyond. The current system simply does not work for the majority of families who rely on it. The cost of child care is higher than most families can afford, the revenues available to providers are lower than are needed to operate a quality program, and more than 50 percent of American's live in a child care desert.[1]

The devastating COVID-19 pandemic has exacerbated the deficiencies of the child care market. Thousands of child care providers who were already struggling to survive financially have been unable to weather the economic shock of the necessary public health restrictions. Many providers have had to close, and those who are still operating face an average 45 percent increase in the cost to provide care.[2] Meanwhile, enrollment is down, as some families pulled their children out of formal child care settings because of their own financial struggles and the uncertainty they face.[3] And while many states have continued to pay child care subsidies, these subsidies have long failed to cover the true cost of care, especially for infants and toddlers.[4]

Addressing the broken child care market will require a comprehensive reimagining of how child care is funded in the United States. According to a recent congressional report, the United States spends only 0.33 percent of gross domestic product on child care, compared with an average of 0.74 percent among Organization for Economic Cooperation and Development countries.[5] A 2018 report from the National Academies of Sciences, Engineering, and Medicine estimated that the system needs an annual investment of approximately $140 billon, with $82 billion coming from public sources.[6] In 2017 and 2019, Sen. Patty Murray (D-WA) and Rep. Bobby Scott (D-VA) introduced the Child Care for Working Families Act, which would provide this needed boost in public investment. The act would provide increased compensation for educators, expand access to child care and preschool in underserved communities, and limit the amount families pay for child care to no more than 7 percent of their income.[7] More recently, in response to COVID-19, the Child Care Is Essential Act, introduced in May 2020, proposes an immediate $50 billion investment to ensure the child care industry survives the economic impact of the pandemic and is still standing when the country emerges on the other side.[8]

A federal investment is needed to fix the broken child care market, and once federal funds are made available, states must use the opportunity to address some of the deficiencies in the current market. This issue brief highlights six strategies that states can employ to better support the child care industry in both the short and long term.

## 6 state strategies to rebuild child care

The COVID-19 pandemic has highlighted opportunities to improve major structural deficiencies in the child care market. Businesses, policymakers, and families across the country are recognizing just how important a robust child care system is to the functioning of the economy.[9] Although federal relief currently appears stalled, the U.S. House of Representatives recently passed a $57 billion investment that offers hope that a significant influx of public support may be on the horizon.[10] Indeed, as the nation seeks to restart the economy and build the infrastructure necessary for a recovery that works for all Americans, child care must be a central part of that conversation.

If new funding is made available, it is important that states and communities are able to use the opportunity to build back a better system, starting with ensuring that child care providers who have struggled to keep their doors open can pay their bills and have the safety equipment and materials to remain open while minimizing the risk to staff and children.[11] A federal investment to address the pandemic would also allow states to put in place policies that will make child care stronger in the future and avoid the pitfalls that made this industry so vulnerable to the impact of the pandemic to begin with. To that end, there are several strategies that states can explore to better align their child care system to fully meet the needs of all children and families.

### 1. Set subsidy reimbursement rates based on actual operating costs

The federal Child Care Development Block Grant (CCDBG) provides funding to states for the purpose of supporting access to affordable child care for working families. While this federal funding source has several requirements states must meet—especially related to health and safety and background checks—states have significant flexibility in how they implement the program.[12]

A key area of flexibility is in how subsidy reimbursement rates—the amount a provider receives for a subsidy-eligible child—are determined. Federal guidelines require states to set subsidy reimbursement rates at a level that is "sufficient to ensure equal access for eligible children to child care services that are comparable to … services … provided to children whose parents are not eligible to receive assistance."[13] The act does not define "equal access" any further, but the federal Office of Child Care recommends setting rates at the 75th percentile of the market rate.[14] Unfortunately, setting rates based on market prices, in a broken market, does not lead to equal access. Providers set rates based on what their local market can bear, so setting rates based on market price replicates the deficiencies, and inequities, within the current market.

To address this issue, states should take advantage of the flexibility within the CCDBG to set rates based on an alternative methodology such as a cost-of-quality study or cost estimation model.[15] Under this approach, states collect data and develop a model that estimates the true cost to providers of meeting state licensing and quality standards. By incorporating these data into rate-setting policy, states can ensure that at least a minimum level of subsidy support is provided for each eligible child, regardless of the tuition rate that the provider is able to charge in their local market. This approach also allows for modifications to account for the increased costs of care for infants and toddlers, for children with disabilities, and for care outside the traditional workday. Currently, only Washington, D.C., sets rates based on alternative methodology, but several states are actively considering moving to this approach.[16]

### 2. Pay providers based on enrollment

Current subsidy policies in most states allow providers to continue receiving subsidy payments for children even if they are absent, but only up to a certain number of absences.[17] However, child care programs employ staff and incur expenses based on anticipated enrollment, not attendance. Providers therefore face the same fixed costs whether a child is absent or attends a reduced number of hours per day, while their subsidy revenue can fluctuate. Tuition-paying families are usually required to pay whether the child attends or not, but subsidy absence policies and payments based on hourly attendance too often leave providers struggling to balance their budgets because their actual revenue is lower than expected.

During the COVID-19 pandemic, many states amended their absence policies to pay providers based on enrollment, rather than attendance on a given day or for a certain number of hours.[18] This ensured that providers continued to receive subsidy payments even while closed due to the pandemic or while children are absent due to illness or family preference. All states should look to expand this policy beyond the pandemic and pay subsidy based on enrollment to help providers cover their fixed costs. This will provide much-needed stability to child care providers who accept children on subsidy and remove one disincentive that exists for providers when considering participating in the child care subsidy program.[19]

### 3. Increase use of contracts and grants

The use of subsidy contracts or grants can also promote stability for providers and encourage wider participation in the child care subsidy system. The traditional child care subsidy voucher is portable, allowing families to choose a program that best meets their needs and to change programs if and when needed. However, from a provider's perspective, this flexibility can result in significant fluctuations in revenue, as families enter and exit the program. Changes in family eligibility due to a change in work status, income, or residence also add to the uncertainty. Combined, this often leaves providers facing gaps in enrollment. Unlike private-pay families, who might be required to give a 30-day notice of withdrawal, changes in subsidy enrollment have an immediate impact on revenue.

To address the destabilizing impact of subsidy vouchers, states can increase their use of grant and contract systems, which are agreements between providers and the state to serve, and be paid for, a contracted number of slots over a specified time period.[20] Providers are responsible for recruiting eligible children, but if there are gaps between when one child leaves and another comes in, the contract continues paying, providing stability to the child care provider and allowing them to keep paying their bills despite fluctuating enrollment. Grants and contracts can also be designed to specifically promote access for underserved populations, such as infants and toddlers, or children in rural communities, by targeting contracts to providers who agree to serve these populations.[21] Combined with traditional vouchers, grants and contracts can ensure that the subsidy system is providing flexibility to families, while also supporting the stability of child care providers.

### 4. Invest in the workforce

Early childhood educators have been on the front lines during the pandemic, continuing to provide child care to other essential workers who are unable to work from home, putting themselves and their families at risk through daily exposure to people beyond their immediate families.[22] At the same time, educators are navigating how to provide developmentally appropriate child care while adhering to social distancing guidelines.[23] In recognition of the heroic efforts of the early childhood workforce during this time, several states have provided hazard pay or additional bonuses to supplement the low wages the workforce receives.[24]

States should continue to find ways to get additional money directly to child care educators throughout and beyond the pandemic. The average hourly wage for educators in child care centers is slightly more than $12 per hour.[25] Home-based providers often make much less, and their income is closely tied to the revenue the program can generate, which is subject to significant fluctuations.[26] As recommended elsewhere in this brief, states should set subsidy rates based on a cost estimation model, and this model must include livable wages for the early childhood workforce, including for family child care providers. States can also establish wage standards for use across their early childhood system, convene wage boards to develop wage ladders with standards based on qualifications and experience, and consider wage enhancement initiatives to boost educator compensation.[27]

## 5. Support development of shared services alliances and family child care networks

Most child care programs are independently owned and operated small businesses. Half of center-based providers serve 50 or fewer children, while family child care homes usually serve fewer than eight children.[28] While this business model can help programs be responsive to the context, culture, and needs of the local community and can provide families with a familiar and accessible care setting, it leaves these small businesses struggling to achieve any economies of scale. Program directors and family child care owners must dedicate significant time to nonpedagogical, administrative tasks such as collecting tuition, managing subsidy payment, grant reporting, paying staff, and other back-office functions.[29] They are also unable to benefit from bulk savings when purchasing the supplies and materials that are required for operating a high-quality program, something that has been particularly troublesome when trying to access personal protective equipment during the COVID-19 pandemic.[30]

A strategy to help providers realize some economies of scale and to reduce the administrative burden is the concept of shared services alliances and family child care networks. These involve a group of providers opting into an alliance or network that can consolidate certain functions—ranging from shared administrative staff to manage enrollment, tuition, and payroll, to shared substitute pools and professional development offerings, to bulk purchasing of supplies.[31] The time and financial savings realized by participating in these alliances can allow providers to invest their limited revenue and time back into their program and to focus on the core service they offer: providing high-quality child care. Combining resources can also help small providers access grant opportunities that otherwise would have been too burdensome to pursue. As part of a network or alliance, providers can share the cost of grant writing and reporting and can demonstrate impact across a larger group of children, which can be especially important for family child care providers who serve small numbers of children on their own but collectively are a significant part of the child care market.[32]

While alliances and networks can ultimately be self-sustaining, states can enact policies to support and encourage their development. This can range from startup grants and technical assistance, to changes to state licensing rules to make it easier for programs to share required staff or access funding opportunities through the centralized hub or network, rather than as individual programs.[33]

## 6. Engage stakeholders to develop a vision for universal child care

The pandemic has further demonstrated that child care is a public good and warrants public investment to support the economy and families. Just as families rely on school as child care, young children need reliable access to early care and education in their most formative years. While schools that closed during the pandemic will eventually open and teachers and school staff will remain employed, the future of the child care industry is uncertain. Twenty percent of early educators had lost their jobs as of August 2020, and countless programs have permanently closed their doors.[34]

Beyond the immediate needs of the pandemic, states have an opportunity to embrace a vision for universal child care that reflects its role as a public good. While universal child care will require significant long-term investment beyond a pandemic-related bailout, states can take actions that will set them on the right path. A key component is to engage a broad group of stakeholders, including parents and child care providers who are directly affected. These stakeholders should be convened to develop the state vision for universal child care and a set of core principles for the system against which incremental initiatives, programs, and funding can be measured.[35] At a minimum, these principles should embed the need for a living wage for early childhood educators as a floor, expand supports to help all families access affordable high-quality care by making a significant public investment, and seek to remediate the structural inequalities within the current system.[36]

## Conclusion

The gap between the current funding available to help families pay for child care and the true cost of providing high-quality child care has never been greater. Millions of families are struggling with the economic impact of the coronavirus pandemic, and child care programs are facing increased costs and uncertainty. The inefficient child care market is creaking under the strain of the current situation; ultimately, this system needs a significant influx of federal investment to both stabilize it through the current crisis and to sustain it for the long term.

As policymakers look to support this essential industry, it is important to simultaneously address the deficiencies of the current system and ensure that the child care industry that emerges from the pandemic is stronger and more sustainable to meet the needs of children, families, educators, and the economy.

*Simon Workman is the former director of Early Childhood Policy at the Center for American Progress. Katie Hamm is the vice president of Early Childhood Policy at the Center.*

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