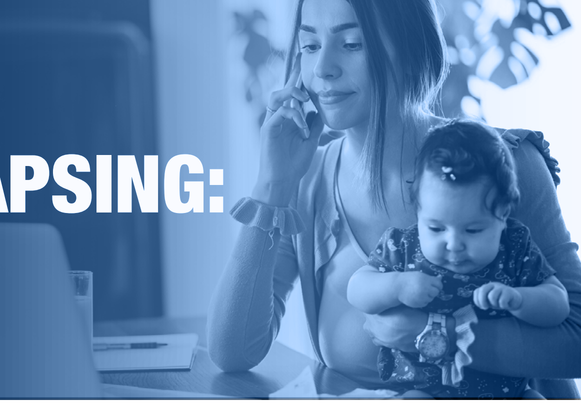

CHILD CARE AT RISK OF COLLAPSING:
THE CASE FOR A CHILD CARE STABILIZATION FUND

Our nation's long-term well-being depends on a child care industry that works for every family. In addition to the proven benefits of high-quality child care to a child's learning and healthy development, access to care is an essential pillar of America's labor market and economy. In the United States, 67 percent of children under age 6 have all available parents in the labor force, which means millions of American workers rely on child care just to be able to go to work each day. Unfortunately, the COVID-19 pandemic has pushed an already-struggling child care industry to the brink of collapse.

Dedicated relief through a Child Care Stabilization Fund will enable states to provide grants to struggling child care providers to help shore up the market and ensure parents have access to the care that will allow them to return to work.

As part of federal economic relief measures thus far, Congress made various assistance programs available to child care providers, including the Paycheck Protection Program (PPP). While the PPP has helped a small fraction of child care providers stay afloat for a short time, it is not designed to meet the unique needs of child care providers who must operate on financial losses for months to come as parents return to work. Congress also allocated $3.5 billion in supplemental emergency funding to states through the Child Care and Development Block Grant (CCDBG) program. This funding has helped frontline and essential workers, including those not previously eligible, to access child care so they could continue to work over the past few months. Additionally, it has ensured existing providers who remain open can afford to pay ongoing expenses and remain in business, even when attendance has been greatly reduced.

As our country moves through the various phases of recovery, it is clear that the child care industry will need significant, dedicated relief through a Child Care Stabilization Fund if providers are to stay in business and meet the needs of the working families they serve. Significant increases in overhead expenses paired with ongoing declines in revenue mean that this essential industry will need assistance just to remain operational—much less, profitable.

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FAST FACTS

Child care has been an essential pillar to U.S. economic growth

- 67% of children under age 6 in the United States have all available parents in the labor force.[1]
- 72% of women with children participated in the labor force in 2019, and female participation resulted in an addition of approximately $1.7T in economic activity since 1979.[2]
- Approximately 60% of children under age 5 participated in regular weekly care arrangements prior to COVID-19.[3]
- High quality is linked to better educational outcomes for children, who grow up to power the U.S. economy.[4]

America's strained child care system was already negatively impacting the economy prior to COVID-19

- Child care challenges cost the U.S. economy $57 billion in lost earnings, productivity, and revenue annually.[5]
- A 2005 study found 43% of highly qualified women with children leave the workforce.[6]

Without action to support child care, COVID-19 could have a severe and long-term impact on workforce participation, productivity, and economic growth

- In a recent survey, approximately two out of five respondents, and half of minority-owned businesses, are certain they will close permanently without additional public assistance. In the long term, COVID-19 could result in a permanent loss of 4.5. million child care slots.[8]
- Nationally, 18% of child care centers and 9% of family child care homes remain closed. Those who are open are experiencing dramatically reduced enrollments that amplifies their economic hardship. At the same time, the majority of child care centers are incurring substantial, additional costs for staff (72%), cleaning supplies (92%), and personal protective equipment (81%).[9]
- Nearly 50% of parents are concerned they won't be able to afford child care when they can return to work.[10]
- A lack of child care could force some parents to leave the workforce.[11]
- COVID could keep women out of the workforce. Women are taking on a greater share of the child care burden, their jobs are at great risk for layoffs, and without child care, many mothers may not be able to take advantage of opportunities.[12]

DEDICATED FEDERAL FUNDING IS ESSENTIAL FOR THE CHILD CARE INDUSTRY TO SURVIVE AND SUPPORT THE RECOVERY OF THE U.S. ECONOMY

1. WHY IS THE CHILD CARE INDUSTRY ON THE BRINK OF COLLAPSE?

The COVID-19 crisis has had a devastating impact on the child care industry, which was already operating on razor-thin margins before the pandemic, causing widespread layoffs and closures. Numerous national surveys indicate substantial portions of the country's child care market do not expect their businesses to survive the crisis without significant assistance.

In recent decades, the exponential increase in demand for quality child care has far outpaced the growth in supply, creating a significant financial burden for families who rely on care out of economic necessity. At the same time, child care is an expensive, specialized, and labor-intensive service to deliver. Providers must strike a hard balance of earning a profit while keeping care affordable for the families they serve. Most providers must operate at near-full capacity just to remain in the black. **In fact, many child care providers typically operate with less than a 1 percent profit margin.**

The majority of operational costs for child care providers are fixed (e.g., rental/lease payments, payroll and benefits, property taxes, interest, and utilities). The price of care stems largely from the labor-intensive nature of the work—all the hands and minds necessary to oversee small children and support their healthy development. **Estimates of labor costs at child care facilities range from 60 percent to over 80 percent of total expenses.**

At the outset of the pandemic, many child care providers faced a sudden and significant decrease in enrollment as millions of working parents nationwide began working from home, or worse, no longer had jobs at all. Other child care facilities were forced to close their doors under state orders aimed at flattening the curve. For parents who continued to need child care, mainly those whose jobs were deemed essential, many providers made efforts to remain open—often without the resources and clear guidance they needed to maintain safe environments for themselves and the children in their care. All of this further disrupted an already unstable landscape for child care businesses that don't have the luxury of savings to fall back on.

Because providers are often paid based on attendance, rather than enrollment, when families kept their children home during the COVID-19 pandemic providers quickly lost substantial revenue. For programs already operating on extremely thin margins, that loss in revenue could force programs out of business.

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2. WHY DOES CHILD CARE NEED SPECIFIC RELIEF THROUGH A STABILIZATION FUND?

There is no question that child care is an essential pillar of the American economy—no other industry can thrive if the child care industry fails. At the same time, over the coming weeks and months, **a majority of the nation's child care businesses will be forced to operate in the red due to increased operating expenses associated with new and important health and safety measures, as well as ongoing decreased enrollment**. For businesses that typically operate with less than a 1 percent profit margin, the impact of these devastating financial realities cannot be sustained without direct federal investments that ensure child care providers, both center-based and home-based, can keep their doors open to meet the needs of children and families.

3. WHAT WILL CHILD CARE MEAN FOR OUR NATION'S RECOVERY AND LONG-TERM ECONOMIC SUCCESS?

As our country moves through the various phases of recovery and reopening the economy, no industry will be able to fully recover if the child care industry collapses. Our labor force depends on access to reliable, high-quality child care to be able to go to work. The current closures throughout the child care industry could result in the permanent loss of roughly half of the U.S. child care capacity, 4.5 million child care slots, exacerbating the existing realities of child care deserts, particularly for families of color, rural areas, and low-income neighborhoods, which already lacked adequate access to child care. A recent survey from the Bipartisan Policy Center (BPC) found that, even at this early stage, approximately two-thirds of parents who still need child care are having difficulty finding it, and half of parents are concerned their provider will no longer be open when they are able to return to work.

Recognizing the unique role of child care in the recovery process, federal stimulus efforts have included assistance to young children, their families, and the child care providers who care for them. Although these measures provided much-needed temporary emergency relief, they are insufficient to ensure the long-term success of the child care industry.

In a recent forum with CCDBG administrators, several states indicated the funding included in the CARES Act will be exhausted by the end of the summer and expressed the dire need for additional funds to meet the needs of families and providers as states begin to reopen. Further, only a small fraction of child care providers have been able to access funds intended to provide short-term support to small businesses, while others have not pursued these funds because they are concerned about taking on debt with such an uncertain future.

Given the impact of the pandemic and challenges of maintaining safety and quality during the period of reopening and recovery ahead, it is clear that additional, substantial, targeted federal and state relief is necessary. This support will enable child care programs and early childhood educators to be there, as they must be, for children, families, and the American economy to survive and thrive once again.

IT IS ESSENTIAL THAT CONGRESS INVEST IN STABILIZATION MEASURES SPECIFIC TO THE NEEDS OF OUR NATION'S CHILD CARE INDUSTRY.

Unlike funding through federal subsidy programs or through expansive relief initiatives like the PPP, which were designed to meet the short-term needs of numerous profit-driven industries, **a Child Care Stabilization Fund would allow states to deliver federal financial assistance that is flexible and accessible to the broad range of child care providers**. This would particularly benefit those who serve families struggling with job security, income loss, and unemployment.

These dollars are not intended to supplant annual state child care spending in an effort to balance their budgets or to undermine health and safety standards. **Rather, the Stabilization Fund would shore up providers to ensure the child care market survives this period of closure and what will likely be an extended period of economic recovery.** Additionally, stabilization funds would be used to ensure all providers have the financial resources to:

- Reopen, including the ability to cover fixed costs; provide professional development and compensation for early childhood educators prior to reopening and as the economy and operations return to normal; provide deep cleanings; restock food and supplies; and purchase additional resources (e.g., thermometers, personal protective equipment, and alcohol wipes).

- Maintain enhanced health, safety, and quality standards while providing high-quality early childhood education. These standards include, but are not limited to, enhanced safety and social distancing requirements, which will result in the need for additional, qualified staff and will limit enrollment to 50-75 percent of previous capacity, as well as mental health services for children who have been negatively impacted by the crisis.

- Remain open during a phased-in process of relaxing stay-at-home orders during which they will need continued support as temporarily reduced enrollments and some continued enhanced health and safety protocols will reduce operating capacity.

Endnotes

1 Annie E. Casey Foundation
2 Bureau of Labor Statistics, Washington Center for Equitable Growth
3 USA Today
4 U.S. Census Bureau
5 Council for a Strong America
6 Harvard Business Review
7 TIME
8 NAEYC, Center for American Progress
9 NAEYC
10 Bipartisan Policy Center
11 Action Economics
12 TIME, United Nations

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