

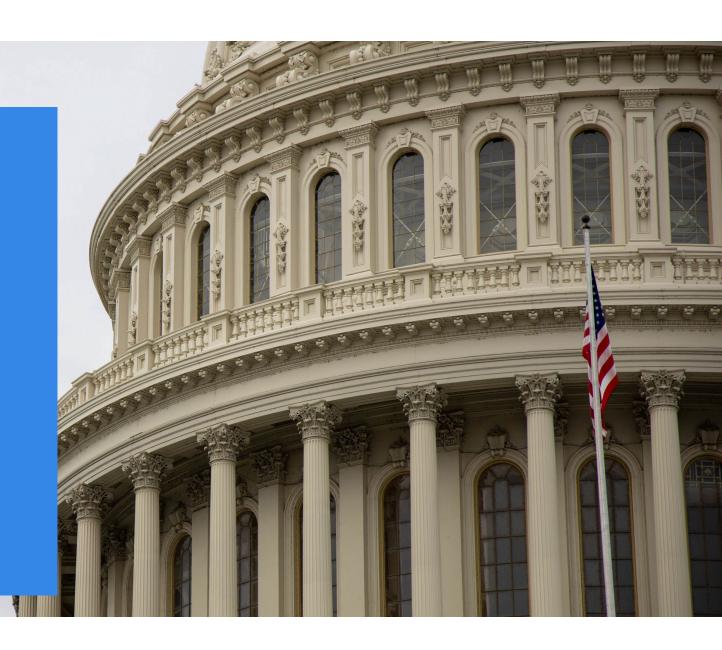
Bipartisan Policy Center

The Montana Financial Modernization and Risk Analysis Committee (MARA)

**January 27, 2022** 

"How Work and Child Care are Changing"

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# Background & Acknowledgements



#### Overview

- Examine our shared understanding of the early years, the importance of child care, and the challenges facing parents, employers, and communities.
- Explore the supply and demand side of the child care market, and why the business model is failing.

Summarize lessons from COVID-19 and how can we move from knowledge to action.

Examine the "public good" of child care and its' impact on economic development, business, schools, communities, and the future workforce.

A shared responsibility – are we asking the right questions and do we have the right people at the table?



## A Foundation to Build on - The Early Years

#### **Importance of the Early Years**

- ✓ The neuroscience and the importance of the B-5 years.
- ✓ Data and research is available.
- ✓ Care and learning are inseparable.
- ✓ Adult/child interactions (workforce) are the key to quality.
- ✓ Child care workforce is undervalued and underpaid.
- ✓ Child care is essential for most families.
- ✓ High quality child care costs more than many families can afford.
- **✓** Public acceptance that there is a shortage of child care
- ✓ Parent choice is a fundamental early childhood value.



# Question:

Do agree/disagree with these statements?

If you disagree, why? If you agree, it's time for action.



# Overview of Child Care



#### **Child Care Basics**

#### The National Child Care Landscape

- 675,000 businesses in 2016
  - 75,300 centers
  - 599,018 Family Child Care Homes
  - Mostly women-owned, small businesses
- Average size of centers varies widely
  - 50% serve fewer than 50 children
  - 18% serve between 50-75 children
- Annual Revenue of \$47.2B



#### **Child Care Basics**

- Child care employs two million workers
  - Split evenly between centers & family child care homes
  - Workforce is aging 26%/38% respectively over age 50
  - 52% have AA degree or higher
  - 95.6% female
  - Median years experience: 10 yrs. for center teacher/13.7 for FCC
- Average wage is low \$11.65 hour/\$24,230 annually
  - Federal poverty for a family of three is \$21,720
  - Nearly half child care workers are in a public assistance program
  - Most lack benefits including health insurance
  - Still, considered essential workers during COVID-19



#### **Child Care Basics**

#### The Need for Care:

- 66% of children under age 6 have all available parents in the workforce.
- Only 32% of parents actually pay for care.
- Ave. cost of care varies widely depending on age of child, setting and location.
  - Care for an infant ranges from \$5,800 (MS) to \$24,000 (Wash. DC.).
  - 4 yr. old ranges from \$4,500 (AR)- \$19,000
     (Wash. DC)

Proportion of family income spent on care in
 2012 was 20%

Nearly one-third of children under six, whose parents are working, need some regular form of care but are outside the formal system.

# Question:

In Montana, what is the biggest challenge: lack of care, cost, quality, operating hours or something else?



# The Business of Child Care



# **Market-based System of Care**

#### The Market Includes:

- Diverse set of child care arrangements.
- Both for profit and non-profit.
- Diverse sources of funding both public and private.
- Labor intensive.

With any business there is a supply AND demand side of the equation.

Also, as with any business, when the cost to produce a product is more that the customer can afford, the business will fail. The child care business model is broken ... and failing our communities.

#### A Failing Business Model – The Demand Side

- Past public attention has been focused almost entirely on the parents or demand side of the business model.
  - The high cost of care
  - Parents' ability to pay
  - Lack of care primarily infant
- Until COVID-19, little attention on the programs and why
- Two major sources of revenue:
  - Public Vouchers funded primarily w/CCDBG & TANF
  - Private pay from parent fees
- Federal/State governments are the biggest <u>single</u> purchaser of care



#### A Failing Business Model – The Demand Side

- Public Policy (federal and state) Matters
  - Federal focus on preserving parent choice.
  - Federal policy requires states use market rate surveys to set the value of subsidies (certificates).
    - Allows use of a cost of care model.

Government policies have enormous influence on the market – government is the biggest single purchaser of care.



#### A Failing Business Model – The Demand Side

Instability of the demand and unreliable income, create challenges for child care programs.

In child care, any decrease in demand/enrollment, no matter how small, can have drastic and sudden impact

- Parent's needs change (work hours)
- Parent preferences change
- Parents ability to pay changes (cliff effect is real)

As a result, child care directors are reluctant to raise teacher pay for fear they won't have the revenue to cover it.



# Question:

What do you think is the biggest factor

influencing parent choice : cost, location,

availability, trust, other?



# A Failing Business Model – The Supply

Understanding the supply side – or operating costs

Labor costs 75% Fixed costs 25%

- Labor costs are the biggest single expense:
  - Adult child ratios
  - Ages of children served
  - Enrollment
  - Wages paid

Why does it cost so much if teachers are so poorly paid? Here's an example of why:

- ❖ Adult ratios for Infant 1:4
- ❖ Hours of operation 12 per day
- ❖ Teacher wages alone cost \$180
- ❖ Montana Infant Rate = \$40/day
- ❖ Income Assuming full enrollment = \$160
- ❖ LOSS OF \$8 BEFORE FIXED COSTS, SUPPLIES
- ❖ If one child leaves, the loss is over \$50/day



# A Failing Business Model – The Supply

# Balancing income vs. expenses in child care is a constant challenge:

- Most programs don't operate at 100% occupancy.
- Parents resist paying when their children aren't present.
- Income from 3 and 4-year-olds offset cost of younger children.
  - Public Pre-K has disrupted cost model.

Balancing is like squeezing a balloon - if fees were based on the actual cost of quality, more low income working families will be priced out of the market.



# What COVID-19 Has Exposed



# **Impact of COVID-19**

#### What we have learned:

- A pure "market" approach doesn't work for child care.
- Profit margins are too thin to allow normal business reserves.
  - Child care businesses can't survive lengthy closure
  - Lack income to cover even fixed costs
  - Lose trained and experienced staff
- The use of grants and/or contracts with child care programs can stabilize the supply short term.
- Need a longer term, balanced financing strategy that addresses supply-side issues and fixed costs.



# Covid-19 has impacted both the supply AND demand for child care

- The supply decreased dramatically:
  - Many programs closed or operated with limited hours or spaces
- The demand for care dropped and child care has still not recovered
  - School schedules
  - Vaccine availability
  - Teacher availability



#### Still, parents need child care to work . . .

- 44% of parents report they cannot work in some fashion without child care.
- A third of parents have sought child care and over half found it difficult to find within their budget.
- Three-fourths of parents with an income under \$50K say it was difficult to find care within their budget.
- Additionally 35% of parent's with school-aged children will look for child care if their school is not open.



#### And ... work itself is changing

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# But, the child care business model is NOT changing – and here's the problem:

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Question: So what's the plan to meet the future needs of Montana families and businesses?

# **Moving Forward**



#### **Moving Forward** –

- Nationally & in Montana there is a lack of child care:
  - Problem can't be solved without addressing the business model and the "GAP" between the cost to provide care and the ability of parents to pay for it.
  - Solutions lie at both the community level with support from state and federal policy-makers.
  - Leadership is needed to move from knowledge to solutions.
  - Everyone who benefits from high quality child care should be a part of the solution.



### Moving forward -

• Who is missing from the conversation in your community? . . . government, economic development agencies, education, businesses, parents, education, faith community, philanthropy, others?

 Funding child care should be a shared financial responsibility, but planning and development is a community responsibility.

### **Moving Forward -**

#### What we have to build on:

- a shared value our children,
- solid science, research and data,
- successful models:
  - ✓ Military
  - ✓ EHS/CC Partnerships
- the national spotlight, and
- we have broad bi-partisan support at all levels.

What we need an <u>actionable plan</u> and sufficient, sustainable funding to ensure all families have access to the quality of care they need.



# The Gap:

If we truly want quality, affordable and reliable care for children and families, we must address the gap between what it costs to produce care & what parents can afford.

#### Summary

We have the data, research and science we need to move forward.

 There is a new recognition of the importance of child care to our nation's children, families and businesses - now and in the future.

The child care business model is failing.

- Parents can't afford the quality of care their children need.
- Child care workers earn poverty level wages.
- Businesses can't recruit the employees they need.

Businesses and the economic recovery require a stable child care market.

 To prevent catastrophic loss of child care infrastructure, financial support needs to be predictable and sustainable.

Financing is key to making the child care system work for all.

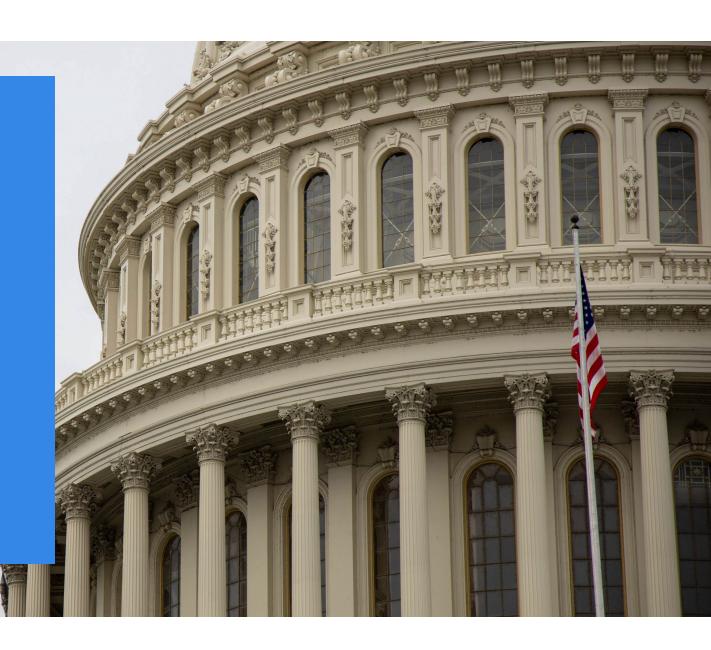
 Business, education, faith leaders, parents, community and state policymakers must come to the table with the early childhood community to develop recommendations for the future.





#### **Thank You!**

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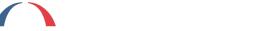
### **More Information**

#### **Child Care Gap**

- Montana webpage
- Montana <u>data sheet</u>

#### **State Governance**

- 2018 state governance <u>report</u>
- Montana state governance data sheet



#### **More Information**

#### **BPC and Morning Consult Parent Surveys**

- August 2021 | Child Care in Rural America What Have We Learned?
   Child Care in Rural America What Have We Learned? | Bipartisan Policy Center
- April 2020 | Child Care in the Time of Coronavirus
   https://bipartisanpolicy.org/blog/nationwide-survey-child-care-in-the-time-of-coronavirus/
- October 2019 | The Impact of Child Care Costs on Parents <u>https://bipartisanpolicy.org/blog/child-care-poll/</u>

