

Briefing on Childcare Funding and Policy Considerations in Response to COVID-19

COVID-19 response and recovery efforts have underscored both the importance and fragility of childcare. This brief was developed by a Federal Reserve System work group to provide context on childcare system challenges and considerations for addressing the needs of working families with young children.

¹ Early care and education include a variety of program types, such as center-based childcare, home-based or family childcare, private preschool, public preschool, and Head Start and Early Head Start. This briefing focuses on childcare centers and family childcare providers.

Background: The childcare industry is largely made up of small private businesses.¹ COVID-19 has taken a toll on small businesses, particularly those with small profit margins, which means that the infrastructure of the childcare industry is being challenged. Continuation of childcare services is critical for essential service workers and is imperative to economic recovery as working parents return to the workplace and as parents who have lost their jobs seek job training or new employment.

Industry Structure: Since the start of the pandemic, childcare has been in flux. As social distancing requirements loosen and economies open, its future remains unclear. Many programs closed because they followed the public school closure protocol, were concerned about community spread, were restricted by state decree,



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or their students were kept at home by their parents. Some programs remain closed and other closures were temporary, but without sustained revenue, many programs may be at risk of permanently going out of business. While childcare primarily serves children from birth to kindergarten, many programs also provide before- and after-school programs to meet the needs of working families. With varying community and state K–12 school reopening plans and strategies, coordination with childcare providers may be needed, particularly for younger school-age children of working parents who require supervision.

Childcare arrangements [vary in capacity and come in many forms](#): childcare centers, group homes, family childcare homes, and family friends and neighbors caring for a small number of children from another family. The majority of childcare operations are funded through private payment by families. Even before the COVID pandemic, many working families struggled with the high costs of childcare, and the cost of [quality childcare](#) is beyond what most consumers can afford. This struggle to afford childcare creates market challenges as providers often cannot set tuition rates at the level they need to provide high-quality care, particularly in high-poverty census tracts. Low-income working families may qualify for a subsidy, though these subsidies are limited in number. Many states also offer state-funded assistance for voluntary or universal pre-kindergarten programs. Some childcare providers blend and braid these funding streams to have sufficient revenue to operate and offer quality programming.

The Child Care Development Block Grant (CCDBG) is the federal childcare subsidy program. States must contribute matching funds to obtain federal funding and make childcare subsidies available to low-income working families that meet eligibility requirements. During the first months of the pandemic, despite closures, the federal government has allowed states the authority to choose to continue to pay subsidy payments to childcare providers in emergency situations, even those that are temporarily closed. However, for many childcare providers, these funds alone are insufficient for providers to remain solvent given the loss of private pay funding by families.

The CARES Act stimulus package included an [additional \\$3.5 billion in CCDBG funding](#). These funds were authorized to support essential workers and assist with childcare costs during this time. However, a number of organizations have suggested that, while helpful, these funds are insufficient for addressing the full childcare needs of essential workers and the operational supports the childcare industry will need to avoid a high rate of permanent closures. For example, the Center for Law and Social Policy has estimated near-term funding needs closer to [\\$50 billion](#) and has projected the current need for approximately [\\$9.6 billion monthly](#).



An estimated 2.6 million of the nation's health care workers and first responders are parents to children under 14 years old.

The Pandemic's Impact on the Childcare Ecosystem: There are three important constructs that determine the viability and value of the childcare industry—affordability, availability, and quality. Before the pandemic, there were existing challenges to each of the three dimensions, and COVID-19 poses further risks in the following ways:

Affordability. A number of factors related to COVID-19 recovery decrease affordability of childcare. Two will have significant implications. First, the number of subsidy-eligible families will grow through increases in unemployment, income loss, dislocation, and participation in workforce development training and education programs to find new vocations. Second, the per-child cost of care has increased due to guidance that limits group sizes and requires additional sanitization and other protocols. Some childcare providers may respond by decreasing hours of service or increasing prices.

Availability. While it is difficult to fully anticipate the long-term effects of COVID-19 on childcare infrastructure, a reduction in supply is anticipated. According to a [June survey of childcare providers by the National Association for the Education of Young Children](#), approximately two out of five respondents—and half of those who are minority-owned businesses—are certain they will have to close permanently without additional financial assistance. These closures would exacerbate longstanding supply challenges highlighted by [analyses of childcare deserts](#)—urban and rural areas where the predicted demand for childcare exceeds the supply.

Quality. Childcare is both a workforce support for the parent and a contributor to the foundation of a child's development and education. Research shows that [high-quality childcare](#) is an effective intervention that improves kindergarten readiness and early grade success, particularly for children at risk of school failure. But childcare providers require sufficient revenue to provide high-quality experiences for young children. As revenues decline and margins are further compressed, these businesses may have fewer resources to invest in adopting and maintaining high-quality practices.

Essential Service Personnel Needing Childcare: At the same time that the childcare infrastructure is in jeopardy, essential service personnel with young children continue to have a significant and immediate need for childcare services both for young children and school-age children too young to safely stay home unsupervised. The Federal Reserve Bank of Atlanta estimates that approximately [2.6 million](#) of the nation's health care workers and first responders are parents to children under 14 years old, with no other adult in the household to care for children or with both parents being essential workers. Rather than having essential service workers scramble to identify alternate care arrangements, the childcare workforce, with appropriate resources and supports, could be positioned to meet this demand.



Analysis suggests childcare closures will be concentrated in low- and middle-income neighborhoods.

Equitable Access to Childcare: Before the pandemic, on average, [Black, Indigenous, and people of color \(BIPOC\) communities and low-income families had more limited access to the child development benefits of high-quality childcare](#) than did white and higher-income families, a continued concern during the pandemic. In general, predominately Hispanic neighborhoods and a number of Black neighborhoods tend to have comparatively fewer licensed childcare providers. Rural communities and some urban centers have had long-standing challenges with supply issues. Analysis of data from the [Child Care Deserts map](#) suggests that COVID-19-related childcare closures will be concentrated in low- and middle-income neighborhoods and could exacerbate prepandemic childcare supply issues in rural areas. Additionally, [initial trends during the COVID-19 pandemic](#) suggest that families in low- and middle-income as well as Hispanic and Black families may experience larger pandemic-related childcare challenges compared with high-income neighborhoods and white families.

Childcare Funding Core Principles

As additional federal and state stimulus and emergency funds are considered, the following core guiding principles for funding and policy considerations address the current challenges on affordability, availability, and quality and can be instructive for development and implementation.

- **Increased funding:** Include childcare as an allowable expenditure in federal and state emergency relief funds and stimulus packages designed to support industries and businesses during the crisis and recovery to address the childcare needs of parents as they return to the workplace or seek employment. There may also be opportunities to build focused support for childcare within federal workforce and small business development programs. Additionally, federal appropriations that augment the CCDBG would provide a direct mechanism for supporting childcare. Infrastructure already in place allows for the administration of new funds across a wide range of provider types and the ability to reach providers that do not typically receive CCDBG funding. In addition, given the increase of unemployed and underemployed parents, additional funding to provide childcare subsidies for low-income families is also needed.
- **Structure of public investments:** Grants or forgivable loans are a better fit for the childcare sector than are traditional loans. Since childcare is typically a low-margin industry, loan repayment would be a financial hardship and often impossible for many of these small businesses.
- **Pandemic-related demand disruptions and operational changes:** Some families have resumed childcare while others have not. The timing of full utilization is unpredictable and will likely be uneven. Anticipating and planning for short-term underutilization of the childcare sector is necessary so that capacity



In a low-margin industry like childcare, grants and forgivable loans are better than traditional loans.



Reclassifying childcare workers as essential workers could open eligibility for more financial assistance.

is available when employment and childcare demand pick up. Additionally, necessary measures to operate safely during COVID-19 are especially costly: smaller group sizes, increased sanitization, personal protective equipment (PPE), and exposure-related teacher substitution and sick leave. These are costs that many families and providers are not in a position to pay for. Government financial assistance and higher reimbursement rates for providers can keep the sector viable by helping cover these costs.

- **Public/private partnership opportunities:** Government subsidies and emergency/stimulus funding may not sufficiently support the childcare sector and needs of working parents. Alternative funding strategies could include the engagement of the corporate sector through incentive funding mechanisms such as tax credits and employer match programs. Additionally, expansion of individual tax credits and deductions, such as the [child and dependent care tax credit](#) or access to dependent flexible savings accounts, may provide additional funding levers that support working families' ability to afford high-quality care.

Key Policy Considerations

- **Childcare workers should be classified as essential critical infrastructure workers:** Even though childcare staff have been essential to the pandemic response, the [Department of Homeland Security guidance](#) and several states' emergency orders do not classify them as essential workers. Changing their status would acknowledge childcare as a critical priority, and the designation could open eligibility for financial assistance.
- **Consider remote and alternate space options for childcare:** In communities where capacity is inadequate, flexibility could be provided for some childcare workers to be onsite in a classroom while others could provide care at a home. Alternatively, partnerships with hospitals and businesses that can provide physical space could help expand childcare capacity so long as safety protocols are followed. These practices can offer care in small groups with trained personnel, and keep childcare programs operational and teachers paid whether they are working on site or in an alternate setting. Additionally, coordination with public schools for serving school-age children may be needed as families may prefer to keep children together, or school closures may create the need for full-day school-age services.
- **Preserve background screening, basic training, and follow safety precautions:** Align emergency/stimulus funding with CCDBG health and safety standards, including background screening, as well as training on safety, sanitation, and basic health precautions related to the spread of communicable diseases. Also align emergency/stimulus funding with [CDC guidance](#) and state emergency orders, including the use of PPE, and health procedures related



Recovery efforts require strategies that support family access to childcare.

to temperature screening and vital checks, general care, and other childcare guidance.

- **Maintain childcare capacity:** Recovery efforts will require strategies that support both family access to childcare and business development of childcare providers. Higher reimbursement rates and income eligibility thresholds for childcare subsidies and other family-directed sources of funding can help families access care and provide more resources to providers to cover higher costs associated with providing safe care during the pandemic. Meanwhile, grants and technical assistance to childcare programs can support capacity and the upfront costs associated with reopening as the economy recovers, particularly costs associated with the pandemic. Support strategies focused on disparities in access can also ensure that affordable, high-quality childcare is available for families during recovery, with targeted strategies for families most affected by the pandemic including those in BIPOC communities and rural areas.

Additional discussion about these and other policy considerations is available in an article from the Federal Reserve Bank of Minneapolis: "[Financial Assistance for Child Care Providers: Key Considerations during COVID-19.](#)"

Acknowledgments

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