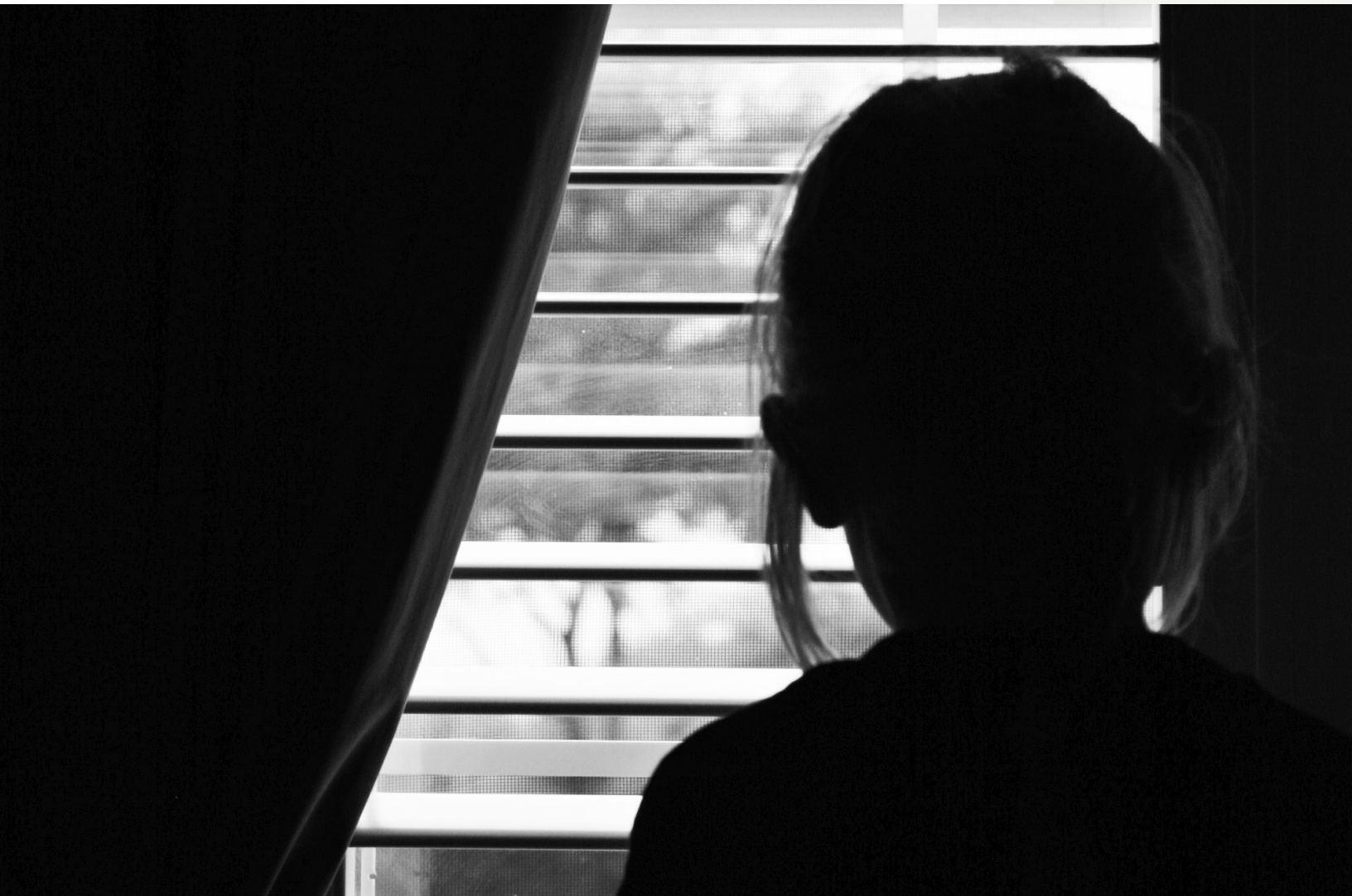


# EMERGENCY POLICY RECOMMENDATIONS

## For Saving Minnesota's Child Care Sector in the Pandemic Era

Minnesota's Early Care and Education Crisis Workgroup

MAY 2020



## WHITE PAPER

In the fall of 2018, a broad group of Minnesota organizations came together to address two crises impacting the state's youngest children – achievement gaps and an early care and education (ECE) program shortage. We concluded that these two crises are intertwined and therefore must be addressed together to prevent creating unintended negative consequences. In a final report issued in late 2018, we described specific public policy recommendations to address those two crises.

Then came COVID-19. In the first quarter of 2020, the COVID-19 pandemic crisis burst onto the scene in Minnesota. The COVID crisis has and will continue to greatly aggravate both achievement gaps and child care shortage crises.

*“The achievement gap and child care shortage crises are intertwined and therefore must be addressed together. The COVID crisis is greatly aggravating both crises.”*

## Two Crises, Aggravated By A Third Crisis

Even before the coronavirus pandemic, Minnesota parents were facing a severe shortage of quality child care, with only two quality child care slots available for every ten children under the age of five, on average<sup>1</sup>. This severe shortage posed a serious threat to Minnesota's children, parents, employers, taxpayers, and economy.

The pandemic, and the economic crisis that accompanied it, made the child care shortage crisis much worse. A disturbing mid-March 2020 national survey by the National Association for the Education of Young Children (NAEYC)<sup>2</sup> found that 55 percent of child care programs in Minnesota report that they could not survive a closure of more than two weeks without public assistance. Programs that close during the pandemic may not reopen, which leaves even fewer child care opportunities for families when they seek to return to work, further throttling families' financial situations and Minnesota's economic recovery.

Likewise, even before the pandemic, Minnesota had some of the nation's worst achievement gaps – differences in levels of proficiency measured between different racial, ethnic and income groups. Achievement gaps begin as early as age one, and are often caused by early learning opportunity gaps, or differences in the learning opportunities available to different groups of children.

According to the 2017 Nation's Report Card, the 8<sup>th</sup> grade math score gap between Minnesota white and Hispanic children was the worst in the nation, as was the gap in that category between Minnesota white and black children. In 2018, Johns Hopkins found that Minnesota has the nation's worst high school graduation rate gap between white and Hispanic students, and the third worst gap between low-income and non-low-income students<sup>3</sup>. Minnesota's business, academic, and non-profit leaders stress that achievement gaps pose an urgent threat to Minnesota's children, communities, taxpayers, and economy.

During the severe pandemic-related economic downturn, more Minnesota families with young children are likely to fall into poverty, or deeper into poverty, which puts children at higher risk of missing the opportunities they need to be prepared for school and beyond. Therefore, the pandemic is likely to make Minnesota's nation leading achievement gaps worse.

University of Minnesota economist Aaron Sojourner recently made the analogy that pandemic related social distancing practices have effectively put Minnesota's economy in a "medically induced coma." Imperiled patients can be safely brought back from a medically induced coma, but doing so requires skill, planning and resources. Great care must also be exercised.

The same can be said for Minnesota's child care sector, except that it—with razor thin profit margins, high staff turnover, and insufficient public support—was already fragile prior to the pandemic further decimating it. Therefore, for the child care sector the odds of recovering from the "medically induced coma" that social distancing practices bring are much less certain than they are for the overall economy.

As with a medically induced coma, special skill, planning, resources, and care will be needed to save the child care sector. Doing too little, or doing it too late, would be catastrophic for more than just the child care sector. Ultimately, it would be catastrophic for all who depend on child care—parents, taxpayers, employers, communities, children, and essential workers.

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## The Impact of the Pandemic on Children

The child care sector isn't just any sector of the economy. This is a sector that fundamentally shapes the future of our state. After all, Minnesota can't have successful communities and economies without successful children, and we can't have successful children without a successful child care sector.

As policymakers consider a long list of important needs, it's particularly important to reflect on the dramatic impact the pandemic is having on Minnesota's most vulnerable children.

**Children Under Stress.** A recent study<sup>4</sup> of workers in the service sector published in *Econofact* found significant deterioration in family mental health under the stress of income changes and social distancing. The effects of that deterioration could impact Minnesota for generations to come. As the authors put it:

*"These effects spill over into other domains, causing decreases in student test scores and, in the long run, lower college attendance among those who experienced community downturns during adolescence. All of these effects, both short- and long-term, are greater for disadvantaged populations, meaning health disparities and achievement gaps, already large, are likely to increase."*

Advocates are especially concerned about how children and families involved in the child welfare system are faring during this pandemic. Children's Defense Fund highlighted these concerns in recent blog post<sup>5</sup>, noting that school and child care closures put added stress on foster families, potentially leading to even more disruption in children's placement stability.

Stressed households are inevitable during a pandemic, job loss, and a quarantine. We must recognize that children in stressed households suffer tremendously. Now more than ever, this group of children desperately needs community support, in part through a strong child care sector.

**Children Growing Up In Poverty.** The Center on Poverty and Social Policy at Columbia University is forecasting dramatic increases in the numbers of working age adults, children, and black and Hispanic individuals experiencing poverty. They project that a 30% unemployment rate would result in a 53% increase in child poverty in the United States<sup>6</sup>. This economic instability reduces the ability of families to invest in the types of opportunities that children in families earning higher incomes have access to, for example quality early care and education, these opportunity gaps are at the root of achievement gaps.

Whatever the size of the pandemic-related spike of children living in poverty turns out to be, it will have a devastating impact on the entire social fabric of Minnesota. The Annie E. Casey Foundation<sup>7</sup> summarizes the toxic effect poverty has on children:

*"Low family income can impede children's cognitive development and their ability to learn. It can contribute to behavioral, social and emotional problems, and it can cause and exacerbate poor health as well. Research has consistently shown that ongoing exposure to economic stress and hardship harms child development: parents invest less in their kids and experience higher levels of stress."*

*When parents are unemployed or their incomes are low, they may struggle to meet their children's most basic needs for food, safe housing, medical care and quality child care. Being hungry, homeless or having untreated health problems pose tremendous obstacles for children to succeed in school."*

*"Minnesota can't have successful communities and economies without successful children, and we can't have successful children without a successful child care sector."*

*Low-income parents also struggle to provide the developmentally enriching books, toys, activities and early care and learning environments that are abundant in the lives of more affluent children.*

*Inadequate family income and economic uncertainty increase parent stress, which in turn can cause depression and anxiety and increase the risk of substance abuse and domestic violence, all of which compromise parenting. Although these problems are found in families at all income levels, they are more prevalent among low-income families, who have far less access to social supports and treatment options.”*

The pandemic will make things much worse for children who were lacking opportunity before the pandemic, and it will also greatly increase the number of children who become more disadvantaged as a result of the pandemic.

### **The Impact of the Pandemic on Child Care Supply**

Perhaps the most troubling evidence of the impact of the pandemic on child care supply comes from the aforementioned mid-March 2020 NAEYC survey of 629 child care providers in Minnesota. The survey found 32 percent of Minnesota providers report that they would not survive closing more than two weeks without significant public support to help them retain staff, pay rent, and cover expenses. Another 22 percent did not know how long they could survive without public support.

The Center for American Progress used the NAEYC survey data and their own work on child care deserts to conduct an analysis that concluded that Minnesota could lose up to 55% of its child care supply without additional public supports<sup>8</sup>. Overall, perhaps more than half of the Minnesota’s child care sector is teetering on the edge of survival. At the same time, a recent study released by the Center for Law and Social Policy (CLASP) and the National Women’s Law Center<sup>9</sup> finds that these struggling businesses still operating are facing significantly higher costs related to the pandemic (19% higher for family child care and 23% for centers), due to costs associated with personal protective equipment, sanitation supplies, and labor. In fact, they estimate the total cost of preserving the U.S. child care sector through pandemic-related challenges as \$9.6 billion per month.

All of these pandemic-related changes make it extremely difficult for providers to continue operating. Given these urgent financial challenges, words like “collapse” and “meltdown” are not too strong to describe what the child care sector could be facing in the coming weeks.

The increasing shortage of child care is already being felt by parents struggling to work during the stay at home order. A Bipartisan Policy Center survey<sup>10</sup> found that 43% of parents working remotely and 49% of those working in person need child care in the midst of the pandemic, and that only 8% saw no change in their provider’s previous availability. In fact, even for essential workers, only 22% were able to continue using their previous child care during the pandemic. While parents are temporarily piecing care together by alternating hours with another adult in their household, reducing hours, working off-hours or simply taking paid or unpaid leave to care for their children, neither families nor the economy can sustain those types of work-arounds. These disruptions in the child care industry are confirmed by a recent analysis of credit card data<sup>11</sup>, which found a 75% decrease in child care spending, making the child care sector one of the five most impacted sectors.

*“Given these urgent financial challenges, words like “collapse” and “meltdown” are not too strong to describe what the child care sector could be facing in the coming weeks.”*

## Federal Relief Challenges

It's important to note that significant federal and state assistance has been made available to small businesses, including child care programs. Unfortunately, the first round of assistance isn't proving as helpful to many child care providers as had earlier been hoped.

The Federal Reserve Bank of Minneapolis published an article in mid-April 2020<sup>12</sup> that explained the unique financial and logistical challenges child care providers face with federal pandemic relief programs:

*Although providers may be eligible for the emergency resources that are available for businesses, they may have difficulty accessing them, because many providers lack experience borrowing from banks and working with Small Business Administration (SBA) programs. Banks originate loans for the two biggest COVID-19 programs for small- and medium-sized businesses: the Federal Reserve's Main Street Lending Program in coordination with the U.S. Treasury and the SBA's Paycheck Protection Program.*

*These two programs might not meet child care providers' needs, anyway. The Main Street Lending Program's minimum loan size is \$1 million, larger than what most child care providers are in a position to borrow; and as of April 15, the SBA's emergency programs are oversubscribed relative to the funding available.*

All types of child care programs face these challenges. But smaller operations struggle the most with such issues, and Minnesota has one of the nation's highest percentages of smaller programs operating out of homes.

## State Relief Challenges

Minnesota Governor Tim Walz and bipartisan leaders in the Minnesota Legislature deserve a great deal of credit for swiftly approving \$30 million in Peacetime Emergency Child Care Grants in March 2020. The grants have been critically important in helping many ECE programs remain open to serve children of essential workers. Without this help, the situation in Minnesota would be even more dire than it is.

However, the challenge with the state emergency grant program is insufficient funding. At the time the program was enacted, lawmakers acknowledged that it would be insufficient to serve all who need it. That has proven to be very true. Only about one out of every four eligible child care programs that applied for the grants were able to be funded in the first round of awards. About \$10 million was awarded in that first round, but there were a total of \$37 million in requests made.

*"Only about one out of every four child care programs that applied for Peacetime Emergency Child Care Grants were able to be funded in the first round of awards."*

## Recommendations for Building Back a Better System

Child care is an economic linchpin, a critical sector the economy cannot function without. Parents must have child care to be able to go to work, earn a living, and to, in turn, support their local economy. Despite the clear, critical role of child care in our state's economy, Minnesota relies on a patchwork of programs, funding streams, and institutions the shortcomings of which have been laid bare by the pandemic. It is now widely clear that recovering to the sector's baseline state is not nearly good enough. We have to rebuild, and when we do, we need to build the child care system that Minnesota's children, families, and economy need and deserve.

To build a child care market that works, providers need more consumer demand from parents well-informed about the benefits of quality ECE and able to pay tuition, and parent consumers need a healthy, diverse supply of Parent Aware rated quality providers to be there to meet their families' needs. The system must also ensure the quality and flexibility that remains central to meeting the needs of children and families in this moment, and for the achievement gap closure Minnesota needs to be economically competitive in the future. As we build the early care and education sector back, we should challenge ourselves to build it back better than it was before, with a more flexible and quality-driven model.

To that end the Work Group urges progress on the following recommendations:

### **RECOMMENDATION #1: Stimulate Parent Demand by Improving Access to Quality Child Care**

Child care sector survival, and expansion to ensure access to quality ECE programs for the children facing opportunity gaps is dependent on the consumer demand that a healthy sector needs. To stimulate that demand we strongly recommend supporting families to help them access quality child care programs.

- **Invest More in Targeted, Flexible, Quality-Linked Supports.** An influx of new Scholarships and other supports targeted to children from birth to age 5 at risk of falling into gaps, a number we expect to grow, will create consumer demand to support financially struggling child care programs. Linking supports to increased quality, as defined by the Parent Aware Ratings, over time will set a clear roadmap and incentivize providers to implement best practices.
  - **Early Learning Scholarships.** Scholarships were designed to be quality-linked and child-centric, so few reforms are needed. However, parents are facing difficulty finding available child care at the current time, and this challenge is expected to continue. To make sure parents have options we recommend the following: 1) extending the ability of 1- and 2-Star rated programs to serve children and 2) temporarily allowing providers who commit to seek a Parent Aware rating in the coming 24 months to serve Scholarship recipient children.
  - **Child Care Assistance Program (CCAP).** Maximize available federal resources to the state and supplement those resources to expand and reform CCAP for Minnesota's children and families. As investments increase and reimbursement rates rise above the 30th percentile, the CCAP program should be reformed to assure a link to quality via the Parent Aware Ratings. This transition should be made thoughtfully and carefully ensuring that parents retain access to a wide variety of options, including options that are culturally and linguistically relevant. CCAP policy should also be reformed to ensure that children receive continuous access to quality care from birth to kindergarten entry.
- **Expand Access Supports to Lower-Middle Class Families.** During the pandemic era only, we recommend temporarily expanding eligibility for supports to include workers in critical sectors earning up to 300 percent of the Federal Poverty Guidelines (FPG). Making this temporary alteration would contribute to the kind of healthy demand the sector needs while helping to ease burdens on workers critical to getting us through the pandemic.

*“As we build the early care and education sector back, we should build it back better than it was before, with a more flexible and quality-driven model.”*

## RECOMMENDATION #2: Stimulate Supply of Quality Child Care Programs

Beyond creating more consumer demand, the supply side of the equation is also critically important for policymakers to address. With a pre-pandemic child care shortage growing much more acute, we recommend taking several steps to help child care programs stay in business.

In addition, we recommend addressing the foundational elements of program quality, which is not possible without strategies aimed at the financial health and stability of child care businesses. A recent Child Trends' research summary<sup>13</sup> tells us that children's well-being in child care programs begins with healthy, stable staff and providers whose own needs are met and who have the knowledge and skills to support children's development. The research base on supporting children's social emotional development/providing trauma-informed care has become more sophisticated in recent years, and offers important guidance for child care providers during pandemic times.

- **Invest in Additional Peacetime Emergency Child Care Grants.** The emergency grant program represents the first time that direct payments have been made to child care programs simply to stabilize and maintain their operations. This type of "institutional provider support" is a critical, foundational support of the type recommended by the National Academies of Sciences' Transforming the Financing of Early Care and Education report<sup>14</sup>, bridging the gap between available per child funding and the cost of providing quality care. Over time we recommend additional grant funding be directed to programs that are 1) Parent Aware rated and 2) serving children with high needs (i.e. children receiving CCAP and/or Early Learning Scholarships).
- **Pay Amounts that Cover the Cost of Quality.** We recommend increasing the per child cap for Early Learning Scholarships or other quality-linked supports for all children to cover the cost of quality, with the highest rates available to Four-Star rated providers. Paying rates that cover the cost of quality will dramatically improve the financial viability of child care programs and will allow those programs to implement more quality best practices. Regardless of the path forward for expansion of access, we recommend immediately increasing CCAP rates to bring Minnesota into compliance with federal requirements and ensure the state is taking full advantage of available federal resources.
- **Invest in Pandemic Specific Quality Supports.** Investments in quality improvement supports for ECE providers and staff are required so that they have the resources and skills needed to support children and families through the pandemic. We recommend that existing DHS quality support resources be deployed in the following ways:
  - Provide supports for provider/staff financial, physical, and psychological well-being.
  - Provide opportunities for specialized professional development for providers/staff that addresses the unique needs of children and families including a strong focus on 1) culturally and linguistically relevant services, 2) trauma-informed care, and 3) children's social and emotional development.

## Conclusion: No Child Care, No Economic Recovery

With the acknowledgement that state government faces significant financial limitations and a projected budget shortfall, we recommend investing as much as possible as quickly as possible against these action steps. Doing so will help address Minnesota's pre-pandemic crises – a severe child care shortage and some of the nation's worst achievement gaps – as well as the post-pandemic crisis – the threat of near-term mass child care program closure at a time when workers in critical sectors desperately need child care. Beyond that, it will ensure that we have the system we need to address gaps and ensure the long-term strength of Minnesota's families, communities, and economy. Ignoring this pressing need would be devastating for Minnesota's children, parents, essential workers, taxpayers, employers, and economy.

While the 2020 regular session is adjourned, the Legislature and Walz-Flanagan Administration will continue to face many decisions over the interim that will have impact well beyond the pandemic. The members of Minnesota's Early Care and Education Crisis Workgroup hope these urgent recommendations are clear and constructive and we look forward to working with Minnesota policymakers.

*"Ignoring this pressing need would be devastating for Minnesota's children, parents, essential workers, taxpayers, employers, and economy."*



Growing Together



## Endnotes

- 1 New University of Minnesota tool reveals child care access challenges across the state; University of Minnesota; March 7, 2019.
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- 5 The Coronavirus's Impact on Children: Child Welfare; Children's Defense Fund; March 17, 2020.
- 6 Forecasting estimates of poverty during the COVID-19; Center on Poverty and Social Policy; April 26, 2020.
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- 11 Small Business Impact Report; Cardflight; April 15, 2020.
- 12 COVID-19 challenges the child care market; Federal Reserve Bank of Minneapolis; April 22, 2020.
- 13 Elevating Supports for Children's Development in Early Care and Education Post COVID-19; Child Trends; April 2020.
- 14 Transforming the Financing of Early Care and Education; National Academy of Sciences; 2018.