Opportunities Exchange

Memorandum

Date: July 23, 2020

To: Back-to-Work Task Force Members

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RE: Re-Inventing Child Care in Virginia

Background

You can learn a lot from a pandemic. As the spreading virus has shut down child care programs across the nation, the wider public is learning that child care is an essential service for a working economy. Add to this the critical developmental period of the first five years of life, and it becomes clear that we not only need a strategy to re-open child care, but we also need to get it right.

Unfortunately, child care was a fragile business before the nationwide shut down. A survey conducted by the National Association for the Education of Young Children in mid-March revealed that 47% of child care programs had less than 2 weeks of operating revenue to maintain their business post-closures. In late April, the Center for American Progress conducted a state-by-state child care analysis based on these survey results and reported that Virginia could lose up to 45%, (130,373 slots) of its current child care supply as a result of the pandemic.

Paradoxically, while the pandemic has brought the essential nature of child care into sharp focus, it is also forcing us to confront the disadvantages of a market-based system. Unlike our K-12 system, which is operated as a public good with funding from a tax base, child care in the U.S. is primarily a small business enterprise (average size = 65 children). Operating as either a nonprofit or for-profit entity, child care is financed principally through tuition and fees paid by parents. This design puts the sector at great risk during periods of economic instability. Further, the U.S. Small Business Administration reports that as much as 60% of the sector is owned and operated by women of color[i]. Simply put, without revenue to fund even minimal fixed costs, many programs will no longer exist when we emerge from this present crisis.

In Virginia, 60% of child care centers closed in response to concerns about the pandemic, as well as all public schools (including Virginia Preschool Initiative) and Head Start. As Virginia begins to re-open its economy and the demand for child care increases, the path forward is fraught with obstacles. How does a cash poor industry find resources for increased costs associated with the pandemic? How is it possible to access public and private funding opportunities without skilled staff to navigate application requirements? How is it possible to re-open classrooms with unpredictable demand; and the knowledge that subsequent outbreaks are likely to cause wild swings in demand for the foreseeable future? How do you find critical health and safety resources in a competitive, over-priced market? How do you recruit and retain professional staff in an uncertain environment, in an industry already struggling with a 30% staff turnover rate?

In recent weeks, the issue of re-opening K-12 schools has become yet another landmine in the difficult road back to “normalcy.” While plans are currently in flux, it seems clear that most school systems will operate with limited or no site-based services. Ironically, child care providers are likely to be pressed into service to meet the urgent need for parents to work as well as vital social services delivered in school settings, including nutrition. The stakes have never been higher for collaboration between child care, including early childhood and out-of-school time providers, and K-12 school systems.

Clearly, the need to support and strengthen child care is urgent, but the challenges are daunting. The imperative is to not only deliver services in a way that keeps children and staff safe, but to also meet their developmental needs, with a laser focus on the social-emotional well-being of young children in these frightening times.

Fortunately, there is good news. While improving child care requires big structural change, this new world order is ushering in sector change at every level. Government leaders are re-thinking long-held regulatory mandates in order to standup emergency child care solutions. Providers are contending with the reality that living payday to payday in survival mode will no longer be an option. In this crisis there is a window of opportunity to change how programs operate and how the public sector provides oversight.

Additionally, Virginia’s system building work in recent years has laid a good foundation on which to build cross-sector collaboration. Initiatives such as “Coordinated Enrollment,” Mixed Delivery grants, and Integrated financing have worked to break down traditional barriers that separate children’s services into siloed funding streams and move toward a holistic approach to service delivery. These principles can guide innovative approaches to meeting the needs of children, families, and those delivering front-line services.

Proposed Solution

There is a growing movement in the child care sector, **Shared Services,** that is more relevant than ever before. The Shared Service approach to child care management is that small independent child care centers and family child care homes can achieve scale and sustainability by coming together to share the cost of skilled business and pedagogical leaders. Shared Service Alliances implement business automation tools to improve operational efficiencies, and collect and use business intelligence. Child care providers trying to navigate the risky waters of re-opening with limited and unpredictable demand need these resources to make informed decisions and chart a course for re-opening that protects these fragile businesses from financial ruin.

The Coronavirus pandemic has given new urgency to the prospect and promise of Shared Services in Virginia. The following elements should be a part of this strategy:

- Support **business automation, coupled with site-based business coaching.** Tools like [Child Care Management Software (CCMS)]() give providers and Alliance staff the business intelligence needed to manage re-enrolling children and re-deploying staff in a financially sustainable way. CCMS can help programs forge a pathway for re-opening at limited capacity while demand is slowly restored. Additionally, conducting business with digital tools, versus paper and people, will keep overhead costs as low as possible in a time when financial resources are most limited. *Public and private funders can support start-up costs, the on-boarding process, and site-based coaching to ensure that these tools are effectively stabilizing ECE program operations.*

- Focus on achieving **administrative scale**. Scale is essential to sustainability. While child care centers need at least 100 children of mixed ages to be sustainable, supporting skilled administrative leadership likely requires program scale of about 300 children. Directing recovery dollars in miniscule amounts to every existing program is not only burdensome but likely to fail. Not only are small sums likely to have limited impact on growing deficits, it is simply not possible, or realistic, for every small 'mom and pop' child care business to figure out how to apply for recovery grants/ loans and restructure their businesses for survival. However, by joining forces, a network of small programs can collaboratively fund and purchase top-notch administrative leadership. *Shared Service Alliances and Family Child Care Networks are effective investment strategies to address current pandemic challenges.*

- Enable **de-centralized services**. A unique result of shared services is that *centralizing* administration and leadership can actually make it easier to *de-centralize* teaching and learning in multiple smaller settings. Current trends are pointing to a shift from larger preschools to smaller and more contained units of service delivery – recently termed "Micro-Centers." Micro-centers are essentially one classroom child care programs in a school, office, etc. with a small, consistent group of children and 1-2 teachers, that are part of a larger entity that scales leadership and administration in an off-site back office. *These entities are an excellent fit with Virginia's COVID limit of 12 individuals per group; and connecting micro-centers to a centralized management hub helps ensure accountability, quality, and sustainability.*

- Develop a **strategy for setting rates** based on cost modeling, not market prices. Child care is priced on what consumers can afford to pay, and not what the service costs to deliver. Limited class size, vacancy rates of 50% or more, and expensive health/safety supplies will result in program insolvency, unless we can support providers in understanding their bottom line and *create financing strategies to support the gap between what they can charge and the real cost of care. And government needs to apply the same principles to its own rate-setting strategy by shifting to a cost-modeling approach.*

- Build capacity for capturing **real-time supply and demand data.** Currently, in the child care sector, the only way to know if a program has open seats is to make a phone call to each individual provider and hope that whoever answers the phone has up-to-date information on available slots. At this critical moment in time, providers need to fill every available seat, parents need an efficient way to find available seats, and the public sector needs to know both supply and demand for child care services. Currently, there are initiatives in several states to connect child care databases with automatic and/or timely provider vacancy updates, and to overlay supply data with parent online searches, or demand data. *Virginia should pursue both short- and long-term solutions to bring this resource to the child care sector.*

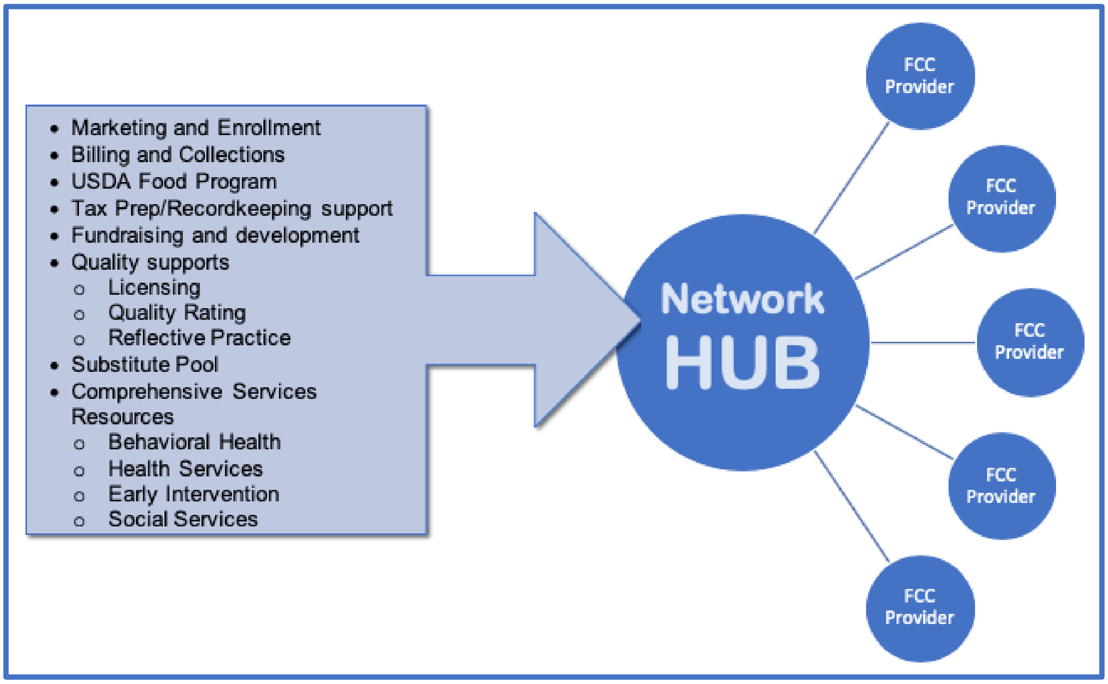
Family Child Care: A Historic and Unique Opportunity
Twenty-five years ago, most children with working moms were enrolled in home-based child care settings.[ii] Today, this picture is dramatically different. In recent years the number of regulated home-based child care options have rapidly declined, falling by 35% nationally between 2011 and 2017[iii] with even greater decline in some states.

There are many reasons for this precipitous decline, but with conditions on the ground changing so rapidly, most experts are anticipating a dramatic reversal of this trend. Families, concerned about enrolling children in child care centers where group sizes and the total number of children and families is larger, are likely to be drawn to the smaller, consistent settings found in home-based care, especially if *they can effectively implement new, more stringent, health and safety guidelines and craft a sustainable business model.*

Business Sustainability
Earning a decent living in the business of family child care is possible, but not easy. Many national organizations report daunting statistics, suggesting that home-based providers work about 65 hours/week and earn less than $30,000 annually. But earnings can be significantly improved if home-based businesses can successfully manage the Iron Triangle of ECE Finance (full enrollment, full fee collection and appropriate tuition). Sustainable, high-quality early care and education requires both pedagogical leadership (teaching and learning) and business leadership (fiscal and administration). In home-based settings, one individual is responsible for every task: planning the curriculum and teaching the children; handling challenging behavior issues; helping families find needed supports; developing a budget, collecting fees and balancing the books; maintaining records required by licensing and quality rating and finding time to attend all required meetings and trainings; and more. Add to this that most home based providers are providing direct service for, on average, 11 hours a day to accommodate working parents' schedules, it is clear that the demands on home-based child care providers are endless.

A growing number of public and private sector funders have sought to address some of the challenges by encouraging providers to join support networks. Experts suggest that networks can increase both the **supply of home based child care** (by helping providers navigate and participate in state and local regulatory and subsidy systems), and **business sustainability** (by helping providers stay fully enrolled, collect all revenue, and access new resources).

The table below illustrates comprehensive Pedagogical and Business supports that can be offered by a Family Child Care Network Hub:



Building SFCCN Capacity in Virginia
Recognizing the promise of this strategy, and the window of opportunity created by the pandemic crisis, Virginia Early Childhood Foundation (VECF) has crafted a proposal to bring a field-tested, high-quality, scalable Staffed Family Child Care Network to the Commonwealth. Partnering with Wonderschool and local/regional organizations, VECF proposes to support existing home-based providers and very small centers, as well as recruit new providers to the field, using Wonderschool's business management technology platform and back-office. A partnership with Wonderschool makes it possible to tap state-of-the-art technology needed t scale the sector, offer a host of provider supports aimed at creating high quality settings for children and families, AND ensure that providers earn sustainable, living wages.

Features of the proposed model:

- VECF will contract with Wonderschool and a local/regional agency (TBD) to offer comprehensive business and pedagogical supports.
- Participating providers will use the Wonderschool technology to enroll families, collect payment, track attendance, and manage program and financial data for their business.
- The local/regional Hub agency will deliver site-based services such as quality coaching, visual check-ins, local recruiting strategies.

- Each Hub will have access to a dashboard that aggregates data from all participating sites in real -time. Data can also be 'rolled up' into a single, statewide dashboard to be used by VECF to track progress against benchmarks.
- VECF will work with network partners to determine roles and responsibilities of each partner, standards for provider participation, and data to be tracked. VECF will monitor benchmarks and shape the direction of network expansion and public policy.
- VECF hopes to launch a pilot in 1-3 communities by early fall 2020, and if successful, rapidly expand statewide to meet the urgent need of the hour.

Finding and paying for high quality child care in the U.S. has historically been a challenge for families with young children. Operating a high-quality program with a skilled workforce and a sustainable business model has been a challenge for providers. In recent months, these conditions have been made even more difficult by the worldwide Coronavirus pandemic. Until there is a vaccine or effective treatment, the demand for child care is likely to be slow and sporadic in returning to normal levels. This new context makes the urgency of creating a supportive infrastructure for FCC providers even more acute. **Working in partnership with SFFCN Hubs, providers will be able to navigate the uncertain waters of our new world order in a much stronger position than working alone.**

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[i] https://cdn.advocacy.sba.gov/wp-content/uploads/2016/09/07141514/Minority-Owned-Businesses-in-the-US.pdf

[ii] Child Trends DataBank https://www.childtrends.org/wp-content/uploads/2016/05/21_fig1.jpg

[iii]Administration for Children and Families Office of Child Care.
https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=2ahUKEwiBsr_7zO3nAhVKba0KHaAQBl4QFjAAegQIBRAB&url=https%3A%2F%2Fwww.acf.hhs.gov%2Fsites%2Fdefault%2Ffiles%2Focc%2Focc_fcc_brief.pdf&usg=AOvVaw150KX86qvOeKE3GBfndjo8