Recommendations for Reopening Child Care Businesses Amid COVID-19 Pandemic (June 2020)

First Children's Finance

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PURPOSE

The purpose of this document is inform states that are asking child care businesses to reopen amid the COVID-19 pandemic. While state governments have published new health and safety guidelines, there has been little to no consideration of how these new guidelines will impact the business operations of child care providers. The following recommendations from First Children's Finance are centered in our mission to grow the supply and business sustainability of excellent child care. Additionally, even in states where there are no new group size restrictions, enrollment has fallen steeply in most states. No matter whether or not a state has placed restrictions, there are new health and safety guidelines on group sizes for all public events and businesses in most places along with new health and safety requirements for child care businesses from the federal Centers for Disease Control.[1] None of these guidelines address the business needs of child care entrepreneurs.

Health and safety guidelines MUST be paired with financial support to stabilize child care businesses.

As of April 2020, very few child care centers across the country were operating with robust enrollment, or with projections for healthy financial outcomes over the next few months. In fact, a May 12, 2020 report by Karen Schulman of the National Women's Law Center found that, for example, only 27% of child care centers in Georgia were open; 50% of child care centers in Louisiana chose to close their doors during the COVID-19 crisis; and in Connecticut, 48% of child care centers in the state had closes and those centers which had remained open were operating at 15% of typical enrollment.[2] In the state of Oregon, there has been a loss of over 100,000 slots since the pandemic began.[3] This bleak child care landscape must be supported and rejuvenated in order for families to return to work. First Children's Finance offers this report to support child care businesses, much like other organizations such as the Louisiana Policy Institute[4] and Homegrown[5] have done, but with the addition of focused financial modeling using decades of experience and our internal data sources from

[1] https://www.cdc.gov/coronavirus/2019-ncov/community/schools-childcare/guidance-for-childcare.html
[2] https://nwlc-ciw49tixgw5lbab.stackpathdns.com/wp-content/uploads/2020/05/state-child-care-covid-19-impact-response-2.pdf
[3] https://www.mniba.org/programs/cooperative-development.html
[4] https://www.policyinstitutela.org/getting-families-back-to-work
[5] https://homegrownchildcare.org/state-leaders-and-administrator-guide/

consultation and our lending work in our role as a CDFI to indicate the true financial projections for child care businesses.

About First Children's Finance

First Children's Finance helps children, families and communities thrive by increasing the availability, affordability and quality of early care and education. We accomplish this by providing financial and business development assistance to child care businesses serving low- and moderate-income families, and building partnerships that connect these vital businesses with the resources of the public and private sectors. We believe access to high-quality early care and education is essential for all communities, because human capital development is the foundation of individual success and the engine of regional economic growth.

In addition to providing financing, training and consultation to child care businesses, First Children's Finance also provides consulting and planning assistance to government agencies, intermediaries and regional child care organizations. As a nonprofit Community Development Financial Institution (CDFI), we currently lend to child care businesses located in Iowa, Kansas, Michigan, Minnesota, Missouri, North Dakota, South Dakota, Texas, Washington and Wisconsin.

Recommendations from First Children's Finance

State governments should consider the following as they encourage or request child care providers to reopen their businesses:

1. **Fully understand the business implications of imposing new restrictions for child care businesses.**

As states reopen for business and families return to work, there are child care businesses across the country being asked to reopen with restrictions on the number of children they can care for; this will have huge business implications. According to Lynnette Fraga, executive director of Child Care Aware of America, the smaller group sizes and lower ratios "flipped the business model upside down on its head."[6] Operating with the new common restriction from many states across the country of "group sizes of no more than 10, including adults" will be devastating to child care businesses. First Children's Finance has analyzed the projections using its financial analysis tools (a proprietary business analysis tool used in consultation with child care entrepreneurs as they prepare to launch, save, or grow their businesses) finds that the financial loss to child care businesses will be so dramatic that an external, public investment will be required to maintain the number of child care businesses which exist today in the country. The tables below demonstrate the financial modeling for 114-seat centers in both rural and metro areas at multiple points in time: pre-COVID-19, during the COVID-19 pandemic, and ramping up enrollment post COVID-19.

While Tables I and II are based on financial modeling using tuition rates, rent, salary data, and more in the state of Minnesota (which is not imposing a group size limitation), they paint a clear picture of the financial circumstances in general that child care businesses will face during and after the COVID-19 pandemic as families choose to keep children home and/or they operate with smaller group sizes. Please see appendix A for a full list of assumptions made in developing the financial modeling.

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[6] https://www.cnbc.com/2020/05/14/7-billion-bailout-not-enough-to-stabilize-the-us-child-care-system.html

Table I: 114-Seat Center in Metro Area in Minnesota

June 1, 2020 to May 31, 2021	Before COVID –19	During COVID-19	During COVID-19	Reopening after COVID-19
Capacity	85%	30%	50%	Ramp up to 85%
# of Children	98	35	57	Ramp up to 98
Preschool % of income	35.6%	34.8%	36%	35.9%
# of Staff	22	11	11.5	Ramp up to 22
Monthly Profit/Loss	$ 20,878	-$ 8,582	$ 8,995	-$ 2,838
Yearly Profit/Loss	$250,539	-$102,988	$107,944	-$ 34,061

In a metro area, the analysis in Table I shows a 6-figure loss in the first year of operating in a post COVID-19 environment with group size restrictions. There is a small profit margin in the second year but how many businesses, given the projections above, would be able to keep their doors open throughout the first year?

Even for those states without new restricted group sizes, there are stories from across the country about under enrolled centers and family child care businesses which will impact the ability of child care providers to remain financially viable.

Table II: 114-Seat Center in Rural Minnesota

June 1, 2020 to May 31, 2021	Before COVID –19	During COVID-19	During COVID-19	Re-opening after COVID-19
Capacity	85%	30%	50%	Ramp up to 85%
# of Children	98	35	57	Ramp up to 98
Preschool % of income	37%	36.2%	37.4%	37.9%
# of Staff	22	11	11.5	Ramp up to 22
Monthly Profit/Loss	$ 3,639	-$ 11,746	-$ 888	-$ 10,704
Yearly Profit/Loss	$ 43,663	-$149,948	-$ 10,660	-$128,449

The rural child care center's projected loss persists into the second post-COVID year and may lead to permanent closure, further exacerbating the child care crises in rural communities.

2. Increase access to capital.

Child care business were already operating on extremely thin margins prior to the pandemic; they will need access to multiple forms of capital to reopen and remain open. State governments should extend flexible operating capital to child care businesses until the economy has recovered to pre-pandemic levels. These forms of capital include: forgivable loans, traditional loans, and emergency grants. All capital must be accompanied by technical assistance to build the financial and business management capacity of child care entrepreneurs. A percentage of all capital should be reserved for child care entrepreneurs of color or for child care entrepreneurs serving low-income families. Public investment throughout the economic recovery period, which First Children's Finance estimates to be between 18 – 36 months, is necessary to ensure the sustainability of child care as regional economies fully recover.

3. Provide "start-up" support for reopening.

Community-based child care businesses that closed operations during the pandemic will need to completely relaunch. This is not as simple as unlocking the door and flipping a light switch. Child care businesses may need to recruit and hire new staff, as well as recruit and enroll new families. All child care businesses which were closed, whether voluntarily or involuntarily, should be viewed as "start-up" businesses again because they are essentially rebuilding their enrollment. Reaching sustainable enrollment levels in the midst of unprecedented unemployment levels will be a long-term recovery challenge for child care businesses.

4. Provide child care subsidy payments based on enrollment, not attendance.

State governments should continue to administer child care assistance subsidy payments based on enrollment and not attendance, as participation rates will be unpredictable and uneven given parents' schedules and the continued threat of health impacts of COVID-19 resurgences. At a minimum, this policy should be implemented until the economy has recovered to pre-pandemic levels.

5. Gather data on unemployment, analyze, and plan for prolonged economic crisis.

State governments must compare state unemployment rates with the available subsidy funding they have and prepare for the increased need across their state population for child care subsidy due to sustained unemployment and underemployment. A May 2020 report from the Bipartisan Policy Center stated that "the Congressional Budget Office has projected unemployment rates to average 15% in the second and third quarters of 2020. CBO's average projected unemployment rates for 2020 and 2021 are 11.4% and 10.1%, respectively, a dramatic increase from 3.7% in 2019. The expectation that fewer households will be in the workforce may reduce the demand for child care for the nation's families. It also may mean an increase in the number of adults willing to provide family child care in their homes."[7]State governments must prepare for the prolonged unemployment which may affect

[7] https://bipartisanpolicy.org/blog/what-will-parents-choose-parent-preferences-and-a-disrupted-child-care-system/?_cldee=bW9sbHlzQGZpcnN0Y2hpbGRyZW5zZmluYW5jZS5vcmc%3d&recipientid=contact-fb9cc43cb951ea11922400155d3b3ccc-a6b9e18a63c743e7986d8360701a78a2&utm_source=ClickDimensions&utm_medium=email&utm_campaign=Development%20Update%20%7C%20Monthly%20Donor%20Updates&esid=8c37058f-fda0-ea11-a812-000d3a1bb7bb

families and child care businesses in a vicious cycle.

6. Provide temporary innovative licensing regulations.

Licensing regulations are policy levers that state governments can adjust at any time. Regulations can be changed to allow for new age combinations of children to confront the reality of closed schools and summer programming for school-age youth. There are licensure innovations such as allowing licensed family child care providers to open businesses outside of their home to ensure the safety and health of their family. Alternatively, licensing innovations could allow for providers to open temporary/permanent spaces in the workplaces of essential workers within a state, such as frontline healthcare staff and/or city services personnel. This moment requires flexibility and big thinking to ensure that families can continue to work, children can continue to grow and develop safely, and that the needs of the entire community are being met.

7. Provide Personal Protective Equipment and sanitation supplies.

PPE and cleaning supplies are needed and even with these, it is impossible for child care entrepreneurs or their staff to "socially distance" when caring for very young children. Frequent and free COVID-19 testing should be provided to all child care providers. For example, when New Jersey state government set a reopening date, they also announced health and safety grants for child care centers and youth camps to support their efforts to meet and health and safety guidelines.[8]

8. Launch local and state funding streams for immediate economic relief.

Federal funding streams, such as the SBA Economic Injury Disaster Loan and Payroll Protection Program, did not reach significant numbers of child care businesses. State governments must implement local funding streams to support these businesses during the pandemic and economic recovery period.

9. Survey and disseminate child care demand data regularly.

Collecting information on the demand from families for child care at this time of unprecedented unemployment will be crucial to understanding how many child care businesses will be able to fully enroll their programs. Given the new financial circumstances

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[8] https://www.state.nj.us/humanservices/news/pressreleases/2020/approved/20200529.html?eType=EmailBlastContent&eId=d62c630f-bdf6-4b03-aec3-f34c555f18ff

families find themselves in, it will be important to collect data regarding the amount of "private pay" (non-subsidized) families who will remain enrolled in child care. If there is low demand and a decreased ability to pay for child care across a state, this will negatively impact child care businesses and potentially lead to increased permanent closures of programs. A survey conducted by Bipartisan Policy Center and Morning Consult found that survey found that 75% of working parents of young children are concerned that returning their children to child care settings will create a risk for increased exposure to COVID-19, which may lead them to keep children out of licensed child care until the pandemic ends.[9] Collecting, analyzing, and disseminating supply and demand data will be essential for state governments to truly understand the child care landscape in their communities. Tarrant County, TX is tracking capacity, open slots, and program closures on their Child Care Management Services website while the Child Care Resource & Referral Programs in Oregon are tracking capacity, enrollment, and closure for the state legislature.

10. Make a large-scale, one-time investment.

States should conduct an analysis similar to that above to understand the financial circumstances that child care businesses will be in if they reopen now. This will provide accurate financial information for supporting child care business across the entire state.

Summary

To fully reopen the economy, families must have access to high quality, affordable, and sustainable child care. In order for child care businesses to fully reopen, they must be able to operate safely, and maintain healthy finances; state governments will play an essential role in supporting child care businesses, which are critical to economic recovery on a local, state, and national level. The investment in child care businesses will cover operating with low enrollment/restricted group sizes, as well as reopening costs such as hiring new/additional staff, purchasing additional cleaning supplies, and avoiding passing on increased operational expenses to working families who are experiencing economic hardships. Child care is the critical puzzle piece in ensuring robust national and local economic growth. Ensuring the survival of child care businesses must be a top priority of state governments; without it, there is no full return to work.

[9] https://bipartisanpolicy.org/blog/what-will-parents-choose-parent-preferences-and-a-disrupted-child-care-system/?_cldee=bW9sbHlzQGZpcnN0Y2hpbGRyZW5zZmluYW5jZS5vcmc%3d&recipientid=contact-fb9cc43cb951ea11922400155d3b3ccc-a6b9e18a63c743e7986d8360701a78a2&utm_source=ClickDimensions&utm_medium=email&utm_campaign=Development%20Update%20%7C%20Monthly%20Donor%20Updates&esid=8c37058f-fda0-ea11-a812-000d3a1bb7bb

Appendix A. Financial Modeling Details and Assumptions

Table I: 114-Seat Center in Minnesota Metro Area with Monthly Rent = $5,000

June 1, 2020 to May 31, 2021	Before COVID –19	During COVID-19	During COVID-19	Re-opening after COVID-19
Capacity	85%	30%	50%	Ramp up to 85%
# of Children	98	35	57	Ramp up to 98
Preschool % of income	35.6%	34.8%	36%	35.9%
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Yearly Profit/Loss	$250,539	-$102,988	$107,944	-$ 34,061

Age Group	Weekly Rate
Infant	297
Toddler	$254
Preschool	$232
School Age (School Year)	98
School Age (Summer)	$171

Staff	Hourly Rate
Aide	$13.00
Cook	$14.00
Teacher	$15.00
Director	$20.00

Table II: 114 Seat Center in Rural Minnesota with Monthly Rent = $3,000

June 1, 2020 to May 31, 2021	Before COVID –19	During COVID-19	During COVID-19	Re-opening after COVID-19
Capacity	85%	30%	50%	Ramp up to 85%
# of Children	98	35	57	Ramp up to 98
Preschool % of income	37%	36.2%	37.4%	37.9%
# of Staff	22	11	11.5	Ramp up to 22
Monthly Profit/Loss	$ 3,639	-$ 11,746	-$ 888	-$ 10,704
Yearly Profit/Loss	$ 43,663	-$149,948	-$ 10,660	-$128,449

Age Group	Weekly Rate
Infant	$187
Toddler	$171
Preschool	$163
School Age (School Year)	$38
School Age (Summer)	$149

Staff	Hourly Rate
Aide	$10.00
Cook	$11.00
Teacher	$12.00
Director	$16.00

ASSUMPTIONS

- We chose to model center sizes of 114 seats (which represent 2 classrooms of each age group) because they tend to be the most common sizes we see in the rural and metro areas of Minnesota.
- We modeled each category on a monthly & yearly profit/loss. In the yearly profit/loss, this assumes enrollment is steady at that percentage over the course of the full year, it doesn't accommodate for fluctuation in the enrollment.
- Pre-COVID models are run at 85% enrollment occupancy on a classroom by classroom basis because typically child care centers cannot operate at 100% capacity due to enrollment changes, hours of operation, and accommodation of children's age and movement from classroom to classroom.

- We modeled “during COVID-19” at 30% and 50% enrollment on a room by room basis based on our real-time consultations with clients.
- We modeled “Reopening after COVID-19” based on the center having to close for a period of time due to COVID-19. This model includes rehiring staff, reenrolling families and ramping up from zero to 85% enrollment. We are assuming a gradual ramp up over the course of one year similar to start-up of a new center.
- In all models we reviewed each classroom to meet DHS required ratios of staff to children. When going from 30 to 50 percent enrollment during COVID-19 there was change in staff of only 1. This assumes the director’s role included cooking and breaks during 30% enrollment. At 50% enrollment we added a cook /float back into the model.
- In all models we made adjustments to food and other expenses to best meet enrollment numbers.
- We are assuming that the modeled centers are not receiving any additional financial support.
- We reviewed First Children’s Finance internal financial data to determine average wages of staff, cost of rent, and other expenses.
- We used the 2018 DHS Market Rate Survey to determine the rates modeled. For rural centers, we used the average of the 50th percentile of clusters 1 & 2 and for Metro Area centers we used the average of the 50th percentile of clusters 3 & 4.
- We chose to list out the preschool percentage of enrollment because we know that preschool rooms tend to be the most profitable rooms when modeling a center. The preschool room profits typically help to make up a loss in the infant room(s) and loss/breakeven in the toddler room(s) especially in centers in rural areas.