Innovative Licensing: Infinite Possibilities to Grow the Child Care Supply

First Children's Finance

By responding creatively to child care challenges, the possibilities are infinite.

A rationale for licensing small group care in innovative locations to build child care supply that is business sustainable and meets the needs of families and communities.

The purpose of this memo is to encourage state and municipal leaders to think beyond the traditional division between child care centers and family child care homes to license, incubate, and promote systems of small group care in nonresidential locations. It is designed to provoke conversation and innovation in state licensing regulations, quality rating and improvement systems (QRIS), supply building plans, zoning and community development plans, and staffed networks and other child care business supports.

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First Children's Finance

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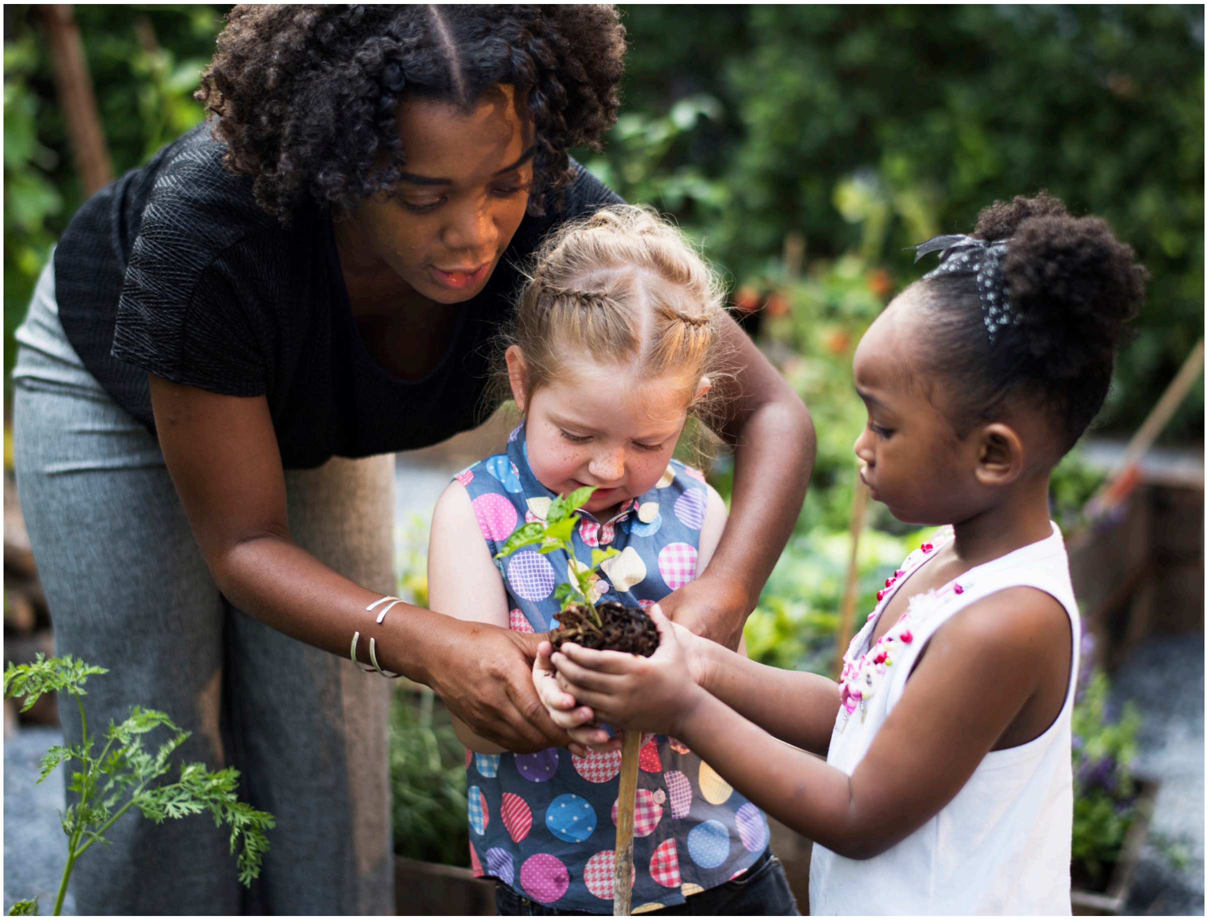


Introduction

Licensing mixed-age, small group care in nonresidential spaces is an underrecognized, innovative opportunity to build child care supply that meets the needs of families in rural and urban communities. The following brief will define small group care and its role within the sector, alongside centers and homes, in meeting the diverse needs of communities, families, and the child care workforce. It will review the ways small group care responds to current industry trends and makes for a timely addition to post-pandemic recovery strategies. Finally, state-level opportunities for expanding nonresidential small group child care will be outlined.

Proposing the expansion of nonresidential, small group care as a cost efficient and business sustainable solution to developing child care supply is not an argument against significant public investment in child care facilities and supply building initiatives. Rather it offers an alternative vision of what robust child care infrastructure, especially for infants and toddlers, could look like:

Families able to choose from a range of high quality, convenient small group settings whether within a neighbors' home, at their local community center or place of worship, or on the job;

More equitable opportunities for child care entrepreneurs to start child care businesses; and

Child care embedded within the heart of communities.

Defining Terms

States license mixed-age, small group care in nonresidential spaces under many names. For example, in Minnesota it is referred to as "special family child care" while in Maine, it is called a "small child care facility." First Children's Finance (FCF) has been in conversation with several states exploring or developing licensing standards for "microcenters." In a recent report Louise Stoney counted seven states that have family child care regulations that are inclusive of nonresidential settings and an additional eight that allow group or large family child care outside of residential dwellings. Terminology aside, what these license types have in common is the ability to care for small groups of children, with a maximum group size typically between 8-20, in nonresidential spaces with facility, personnel, and ratio requirements aligned with family child care rather than center license types.

The Chambliss Center for Children in Chattanooga, Tennessee is a well-known example of this model. The nonprofit networks single-classroom child care facilities within 13 public schools, which primarily serve the children of teachers. Schools and workplaces are both common sites for co-located small group care. Spaces within existing facilities such as community centers, libraries, health centers, town halls, and churches are also attractive possibilities.

Another option is a "pod model" which clusters multiple small group providers together in one building. The building may be rented, donated, or partially subsidized by an employer or local nonprofit. Grouping programs together also brings down maintenance costs, creating efficiencies of scale. Yet providers maintain control over their own businesses. In one Minneapolis example, a multicultural center houses multiple providers' programs each operating in their own home language. The ability to form innovative partnerships to use co-located or donated spaces at no cost or at under-market prices is an important feature of nonresidential small group care. However, there are also nonresidential family child care providers operating in traditional commercial spaces in states like Minnesota.

Although many states are exploring or implementing some form of small group care, one key conceptual difference is whether these entities are considered a standalone facility or part of a hub model. FCF believes that hubs can be an important support for enhancing the quality of small group care, facilitating enrollment, and establishing cost saving partnerships. However, to maximize the uptake and impact of nonresidential small group care, we believe state licensing regulations must support a business model that can be financially sustainable as an independent entity.

Filling the Gap

It is estimated that over half of American families live in a child care desert with either no licensed care or less than one slot per three children. As states look to build up their child care supply to meet the needs of these families, they should consider the limitations that have impeded the startup of centers and family child care providers in these communities. In addition to supporting these business models, states should explore the ways small group care may offer child care entrepreneurs, communities, and families more flexibility for adaptation and innovation to fill their local child care supply gaps.

Affordability and Flexibility of Small Group Care Compared with Centers

It is now commonly accepted that most small child care centers are financially fragile and struggle to pay competitive wages. A widely cited national review of cost of care studies found that child care centers must have a 100 child capacity, maintain 95% enrollment, and have no more than one infant room in order to sustain the cost of staffing ratios at or near NAEYC accreditation standards. Many rural areas do not have a high enough density of young children to make centers of this scale feasible. Meanwhile, in densely populated urban areas, high real estate costs, zoning barriers, and a lack of outdoor play space or parking can limit entrepreneurs' ability to start or expand their centers to this scale. Even when starting a center of this size is feasible, it is tremendously expensive. Dedicated federal funding for facilities is limited primarily to the Tribal Child Care and Development Fund (CCDF) and only a handful of states and municipalities have dedicated child care facilities funds. Developing a high-quality standalone center can easily cost millions and take years to plan, build, and license, let alone staff with leadership, administrative, and classroom personnel. This large upfront cost limits the number and diversity of entrepreneurs who can finance the startup of a sustainable center.

Compare this to developing group care, right-sized for a community's child care need, within an existing community building and staffing it with an independent child care provider. With the right partnerships in place, this type of care can be established and licensed relatively quickly and at significantly lower cost.

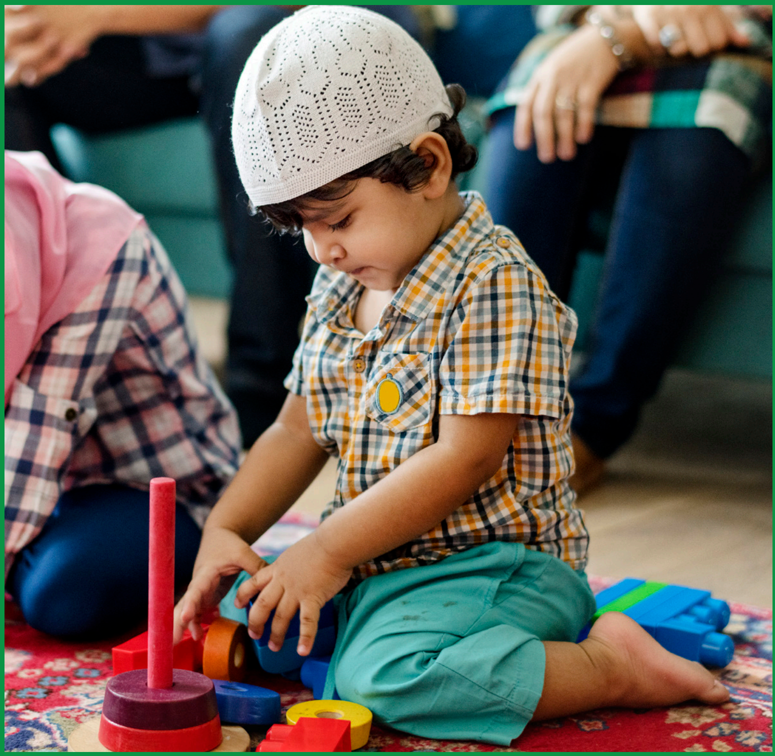
Limitations of Home-Based Family Child Care Businesses

Home-based child care plays an important role in building and maintaining the supply of the child care, and honoring parent choice. It is typically less expensive than center-based care and offers greater flexibility for parents. Many parents prefer home-like settings especially for infants and toddlers. However, the number of licensed family child care providers has been declining for over a decade. The reasons behind this trend are complex. However, research conducted in Minnesota has shown that a key driver in the decline in licensed homes was simply retirement coupled with a lack of new entrants to the field especially from younger generations.

One compelling reason behind this trend may be that the type of well-sized, single-family home required or presumed in many states' family child care licensing regulations is simply out of reach for younger generations. Many states struggle to license family child care in multifamily homes and apartment buildings and only one state has directly tackled landlord bias against renters providing child care. Millennials are less likely to own homes than previous generations and more likely to live in apartments. Millennials are also more likely than previous generations to live with parents and family. Multigenerational homes may be too crowded to offer child care. Additionally, completing background checks for all members of large households may pose barriers as well as increased expense and hassle. Finally, millennials are having fewer children, later in life. Thus, the ability to care for their own children at home while also making an income as a licensed provider may be less of an incentive for millennials than previous generations.

By facilitating nonresidential small group care, states and their organizational partners can create a more equitable playing field for child care entrepreneurs interested starting small child care businesses regardless of where they live. Meanwhile small group care outside of the home can replicate many of the perks families enjoy with family child care such as convenient locations, cultural responsiveness, and the potential for increased flexibility.

Creating care that fits how today's families live: generationally, culturally, financially, and in terms of work-life challenges and housing types.



Small Group Care's Role in Pandemic Recovery

The COVID-19 pandemic has profoundly altered the child care sector: destabilizing fragile businesses, disrupting enrollment, and deepening an already critical workforce shortage. It has also sparked unprecedented attention and investment in the field. Small group care can offer new ways to address these complex dynamics as the industry recovers.

Leverage a Growing Interest in Employer-Sponsored Care

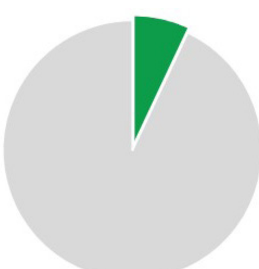
Employer sponsored care can include employers directly providing child care services, contracting with a provider for onsite or near site care, or offering payments or vouchers to families who select their own providers. Employer participation in any child care cost sharing has historically been low. On the job child care is only available at 7% of employers and limited primarily to large companies.

Throughout the pandemic employers have increasingly recognized how a lack of stable child care impacts the retention and productivity of their workforce. In a survey conducted by the Chamber of Commerce, one in five employers were currently willing to increase their investment in child care needs and 1 in 2 would do so if the government offered additional incentives. Many small employers lack the staff size to support a child care center. Retrofitting smaller spaces within the workplace and leasing them to small group providers may be a better fit for many businesses. Employers can then offer fully or partly subsidized slots within the onsite small group facility. The smaller scale and price tag of these initiatives also allows employers to take full advantage of the current federal employer-provided child care credit, state credits for employers in place in 18 states, as well as potentially expanded employer incentives in future legislation.

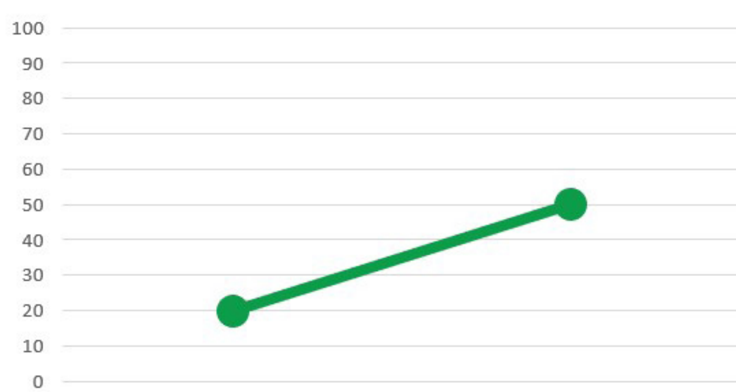
Meet Families' Needs and Preferences

Creating licensed child care for the 50% of American families living in child care deserts is critical, however the existence of licensed slots does not necessarily correlate with families' ability or desire to access them. Child care has to be available where and when families need it, and it needs to be affordable. Unlicensed providers have typically provided the majority of nonstandard hour care. Small group care, especially coupled with incentives for employers with nonstandard hours, could increase parents' choices for high quality child care. Forthcoming research cited in a Department of Treasury report finds, "over 75 percent of families choose a provider within five miles of their home...location and minimizing travel time is very important to families' decisions." Small group care, especially when co-located in schools, workplaces, churches and other places families already go, can help making accessing child care feasible for more parents.

Public incentives move the needle on employer investment in child care.

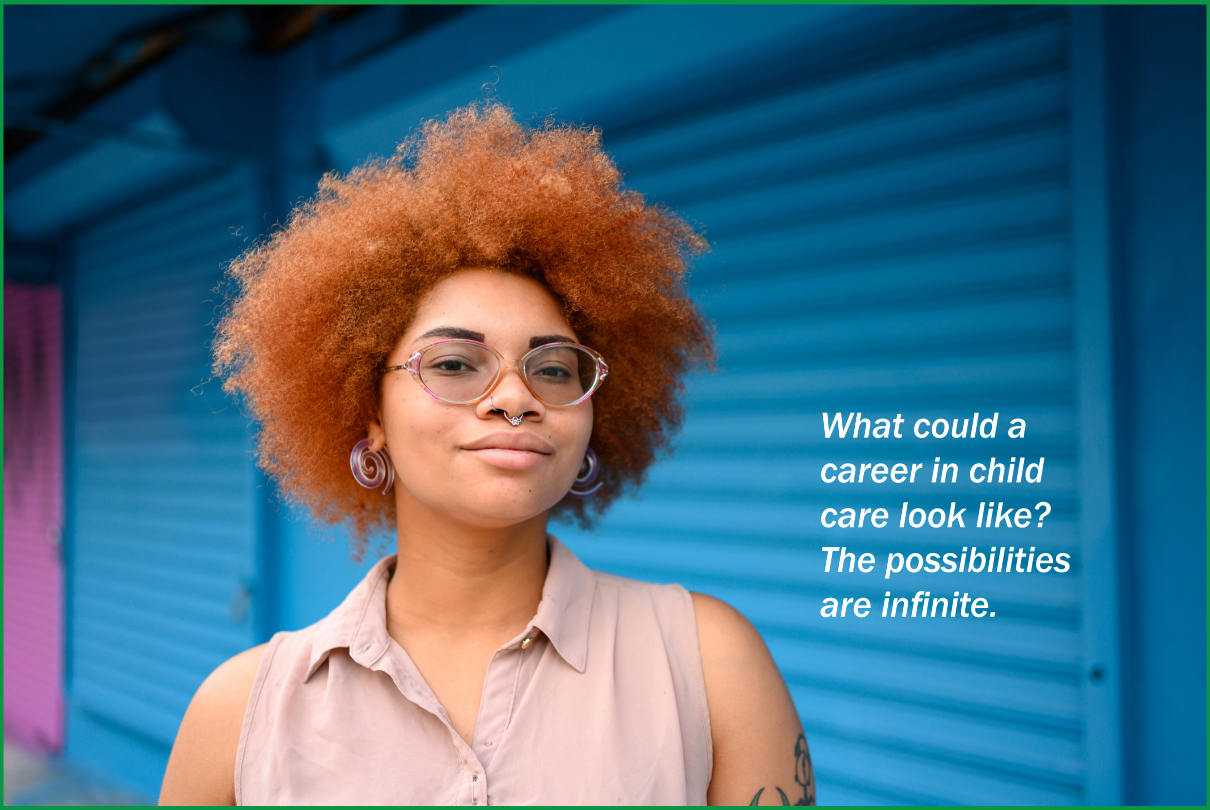


Only 7% of the nation's employers provide on-the-job child care.



20% of employers surveyed by the Chamber of Commerce were willing to increase their investment in child care. The number jumped to 50% if the government offered additional incentives.

Provide an Expanded Entrepreneurial Pathway to a Child Care Career



The workforce shortage across the child care sector is severe and nonresidential small group care is not a panacea for these challenges. However, it does offer another pathway to building a career in child care: one that might be appealing to millennials as they become increasingly entrepreneurial, particularly women and entrepreneurs of color who have long been the drivers of child care supply-building.

Increasing options for developing sustainable businesses and careers in child care may be particularly impactful in the coming years. FCF's analysis of historical licensing data from Child Care Aware revealed evidence of countercyclical trends in family child care: A dozen states briefly reversed the trend of declining family child care licenses in the three years following the 2008 financial crisis and experienced new peaks of total FCC licenses. Only to lose these numbers as the economy recovered and providers, presumably, could access more lucrative employment.

COVID-19 spurred similar economic upheaval and states should consider how best to learn from the recovery patterns of the Great Recession. Over a million parents (mostly moms) left the workforce for care for children during the first phase of the COVID-19 pandemic and had not returned to work a year later. While it is too soon to know exactly how this will impact child care licenses, the hope is that new caregivers, whether providing casual, private pay, or subsidized care, could see a new pathway through small group care to business ownership, living wages, and meaningful work and decide whether it is the right career for them.

What States Can Do

Several ways states can work to enable the development of small group care businesses are described below.

Adapt Licensing Regulations

States can review their family child care licensing regulations to be inclusive of nonresidential settings. Cost of care studies should be used to determine if nonresidential group care is business sustainable and under what conditions (i.e., is access to a facility at no-cost necessary for feasibility?). States can also consider permitting more than one small group provider within a facility. For example, a school might dedicate two classrooms to child care with each classroom leased by a different provider or an employers' campus might host multiple providers scattered across different buildings or catering to different age groups.

Facilitate Partnerships

Community and state level partners are needed raise awareness of this model among employers, school districts, and community institutions. States can fund staffed networks that facilitate matchmaking between facilities and child care providers, among other shared services. In addition to facilitating matching, states can incentivize partnerships by contributing directly to the cost of care such as through the Tri-Share model in Michigan. Some states are developing partnership toolkits with vetted sample partnership agreements that meet the needs of employers while ensuring child care providers can operate a sustainable business. States contracting with family child care franchise models can leverage these services to scale the number of new providers and streamline the partnership experience for employers and other sponsors.

Address State & Local Barriers

Even states that currently permit nonresidential small group care within child care licensing may see limited impacts of this innovation due to zoning barriers or lack of understanding about the model from local fire marshals, health departments, and other inspectors. Additionally nonresidential small group programs have reported difficulty accessing the child and adult care food program (CACFP), especially when they are located within K-12 settings. Clarifying policy, increasing local awareness of the benefits of small group care, and superseding local barriers at the state level are all potential levers to address these barriers.

Provide Capital

States can use grants and contracts to spark innovation in co-located care. For example, Colorado is offering employers grants to develop child care facilities with varying match requirements based on whether the employer is for-profit, nonprofit, or a governmental entity. States can consider spurring innovation by including nonresidential small group care on the child care center subsidy reimbursement rate schedule. Employer-sponsored care tax credits have historically been underutilized. Efforts to spark innovation through credits should be accompanied by significant outreach and awareness building.

First Children's Finance

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Your partner in growing a sustainable child care supply.

We PARTNER with Child Care Businesses to strengthen their operations and achieve their dreams – at every step of the way.

We CONSULT with Communities to achieve a sustainable child care supply that meets local economic & cultural needs.

We CHANGE Public Systems throughadvocacy & expertise, elevating child care in policies, practices, funding, and plans.