Research

# Competing Child Care Proposals

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**Executive Summary**

- High demand and limited supply have made child care increasingly costly and difficult to access across the country, leading policymakers to put forward a variety of proposals to address these challenges.
- President Biden and congressional Democrats seek to significantly increase funding to bolster the supply of child care centers and the wages of child care workers, and to provide subsidies for families to purchase care.
- Congressional Republicans seek to improve affordability through expanded tax credits for employers to provide on-site care and enhanced dependent care federal savings account, in addition to redistributing unspent funds from previous COVID-19 response legislation to states with the greatest child care needs.
- This analysis finds that increasing supply to meet the demand of child care services would require hiring nearly 3 million more care workers and building new facilities at an estimated cost of roughly $170 billion per year; none of the proposals suggest funding in this range, nor does this estimate account for the substantial cost of providing more generous direct subsidies to families.
- Moreover, the structure of the policies would reduce incentives to control future increases in the cost of child care.

**Introduction**

Between 15 million and 31 million children regularly need child care in the United States, according to previous research by the American Action Forum. An estimated half of Americans live in a "child care desert," where—*prior* to the pandemic—there were three or more children for each licensed child care spot.[i] Where care is available, the often-limited supply and high demand drive up costs.[ii] Despite the high costs, the quality of care often suffers as a result of high turnover among staff due to low wages and poor benefits.[iii]

Legislation passed in December 2020 provided $10 billion for child care assistance by increasing funding for the Child Care and Development Block Grant to assist providers with covering the costs of enhanced health and safety standards implemented in response to the COVID-19 pandemic and to provide additional subsidies to low-income families. Still, as child care challenges existed prior to the pandemic and have only gotten worse, many policymakers and parents believe more needs to be done to make care more affordable and readily available.

President Biden and many in Congress have put forward numerous proposals to address these challenges, from increasing financial assistance for families to funding the building of additional facilities and increasing providers' wages and benefits.

In addition to direct child care benefits, congressional Democrats are proposing to increase paid leave benefits, to extend the recent expansion of the Child Tax Credit, and to provide universal pre-K, all of which could indirectly help with child care costs. These proposals would significantly increase federal spending and provide benefits to as much as 90 percent of the population.[iv]

Proposals from congressional Republicans are more targeted to lower-income families, and benefits would primarily be provided through tax credits as opposed to new funding.

This analysis uses available data to estimate the cost of sufficiently meeting the nation's child care needs, and summarizes the proposals currently under consideration. It finds that the funding in these proposals is likely insufficient to resolve either the supply or cost challenges. Moreover, the structure of the policies would reduce incentives to control future increases in the cost of child care.

**Estimating the Cost of Increasing the Supply of Child Care**

The cost of providing child care is largely driven by labor—young children need a lot of supervision, which has led to minimum staffing requirements of one care provider for every three, five, or 10 children, depending on age.[v] With such ratios, a care provider's salary is limited by the fee per child. For example, with a staff-to-child ratio of 1:4, the cost per child must be $15,000 to pay a wage of $60,000, without accounting for any of the significant overhead costs of the facility, including rent, liability insurance, furnishings, toys, administrative expenses, and so on. And many of these overhead expenses are fueled by other regulatory requirements intended to keep children safe, healthy, and able to thrive developmentally. While easing some of these regulatory burdens may reduce costs and ease the barriers to entry for new providers, parents may understandably be uncomfortable with relaxed standards for their children's care providers.

Given these labor constraints and cost burdens, increasing supply is likely to be expensive. Calculating the cost of key child care proposals requires an understanding of how many children need formal care to figure out how many additional caregivers and how much new space is needed. None of this is easily known. Not all young children need formal daycare outside of the home; many are kept at home with their parents, family members or paid providers. Children cared for by paid professionals in their own homes obviously do not require additional daycare center space or labor. Many 3- to 5-year-olds attend preschool for part of the day and thus only need daycare for part of the day, or perhaps not at all. This analysis attempts to estimate the potential cost within these known uncertainties.

There are 24.6 million children aged 0-5 living in 14 million households, including 10 million households where there are two parents and both are working, or there is a single parent who is working.[vi] Among the nearly 12 million children aged 3-5 in the United States, 61 percent (7.3 million) attend preschool for part of the day, meaning they may only need child care for half of the day.[vii] Assuming an even distribution of children who need care because their parents are working across age groups and whether they attend preschool or not, we can assume 8.9 million infants to 2-year-olds need care, as well as the equivalent of 5.9 million 3- to 5-year-olds (with those in preschool counted as needing only half a day). Thus, for purposes of this analysis, let's suppose 14.8 million children need care.

With an average staff-child ratio of 1:5, 3 million child care workers are required to fully meet demand.[viii] As of May 2019, there were only 561,520 child care workers according to the Bureau of Labor Statistics, suggesting a workforce sufficient for roughly 2.8 million children.[ix] Thus, there appears to be a shortage of roughly 2.4 million child care workers. A common component of the Democratic proposals noted above is to increase the supply of caregivers by increasing their wages to a level on par with elementary educators. Currently, child care workers make significantly less: The median annual income of a child care worker is $25,460, while the median annual salary for an elementary school teacher is $60,940.[x] If given an annual wage of $60,000, this would cost $144 billion, plus an additional $19.6 billion to increase the wages of the existing child care staff.

Many child care centers would also need to be built, which would require significant new funding. Typical requirements for the amount of space per child is a *minimum* of 35 square feet indoors, although some areas require more; additional outdoor space is also necessary, but not all facilities would need to include outdoor space if public space is available nearby.[xi] If an additional 12 million children need care, at least 420 million square feet of new child care space would be needed. With an average retail office space rental cost of $18 per square foot as of the second quarter of 2020, the new space needed would cost $7.6 billion annually in rent.[xii]

In total, based on these estimates, increasing the supply of child care is expected to cost a minimum of $171.2 billion in the first year, with much of these costs likely to increase each year as inflation rises and salaries grow. The cost would also increase further should the number of children needing care rise. Finally, subsidizing the cost of care for high-income earners and limiting the cost to no more than 7 percent of a family's income will eliminate downward pricing pressures, potentially allowing for higher charges. None of the various proposals described below will provide nearly enough funding to cover these estimated 10-year costs. Further, this estimate does not account for the substantial additional cost of providing families child care subsidies more generous than what is currently available.

**President Biden**

President Biden included a proposal in his American Family Plan to significantly increase funding for child care, detailed here and previously analyzed by the American Action Forum here. Funding for his child care plan totals $225 billion.[xiii] The plan includes $25 billion for the Child Care Growth and Innovation Fund to upgrade and increase the supply of child care facilities in areas with the greatest need. Biden's plan would allow families to receive a tax credit for half of their child care expenses up to $8,000 for one child and $16,000 for two or more children for families with income up to $125,000; families with income up to $400,000 would receive a less generous credit. Further, child care costs would be capped at 7 percent of a family's income for children up to 5 years old.

President Biden would also increase funding for subsidies provided through the Child Care and Development Block Grant, provide a child care construction tax credit for employer-provided services, and increase wages for child care providers with a minimum of $15 per hour or, for those with similar training, wages commensurate with kindergarten teachers.

**House Democrats**

*House Education & Labor Committee*

Chairman Scott of the House Education and Labor Committee introduced the Child Care for Working Families Act, in April 2021, which supports many of President Biden's proposals. This legislation is the foundation for the House Education and Labor Committee's provisions relating to child care in the reconciliation bill. (Note: Similar legislation was introduced in the Senate Health, Education, Labor, and Pensions (HELP) Committee, as noted below.)

Under the legislation, the Birth through Five Early Learning Entitlement Program would receive $90 billion in funding through 2027 for states to provide child care assistance to low-income families with children age 5 or younger. Funding in 2025-2027 would cover 90 percent of a state's costs for child care assistance and the components of the child care entitlement program. States would also receive funding for a share of the costs pertaining to quality improvement and capacity-building activities equal to the state's federal matching assistance percentage (FMAP, as used in Medicaid). In 2022-2024, half of the funding to states would be used for increasing access to child care services, particularly for families with income less than 85 percent of state median income and to increase wages for providers. In the following three years, funds would be focused on improving quality and increasing supply more broadly.

Assistance would first be available in 2022 for families with income at or below 100 percent of the state median income, increasing gradually to assist families at 200 percent of the state median income by 2025, as long as family assets do not exceed $1 million. Children must reside with a parent who is working, looking for work, attending school, or is older than 65; be in foster care, homeless, in protective services, or otherwise determined to be vulnerable. Families would be charged based on a sliding-fee scale, with families who earn 75 percent of the state median income or less paying nothing and families earning 150 percent of median income or more paying no more than 7 percent of their family income for child care. A child's eligibility for care and financial assistance would be presumed valid for a minimum of 24 months, and no eligible child would be denied assistance (implying the discretionary funding is actually mandatory).

This legislation stipulates that the care provider must be licensed and payment rates to care providers should be partially based on the quality of care (with the state required to develop a tiered system for determining quality), but still high enough to enable providers in the lowest quality tier to achieve the higher quality standards of the higher tiers. Payment should also allow for workers to be paid a "living wage" and equivalent to elementary educators with similar credentials.

The legislation would provide grant funding for building new facilities or expanding or renovating existing ones, extending hours for children whose parents work outside the traditional 9-5 workday, improving quality, training the child care workforce, and improving the ability to measure program quality, among other uses.

*House Ways and Means Committee*

The Ways and Means Committee included in its legislation requirements to establish State Child Care Information Networks—a searchable database of child care providers with information such as fees and hours, the number of children cared for at the facility, number of openings (or information on wait lists), application and enrollment procedures, and quality and accreditation information.

The legislation includes $15 billion for infrastructure grants "to improve child care safety"; states would be required to provide 10 percent in matching funds. It would also make available grants worth $10 million to supplement child care provider wages (up to $16,000 per year for full-time employees and $10,000 for part-time).

**Senate Democrats**

*Senate Finance Committee*

In May 2021, Chairman Wyden and Senator Warren of the Senate Finance Committee introduced the Building Child Care for a Better Future Act, which would nearly double annual mandatory funding for the Child Care Entitlement to States from $3.5 billion to $6.5 billion. Additionally, $5 billion in grant funding would be provided each year to states to improve the quality, access, and affordability of child care in areas of particular need. In addition to the typical uses of such funds — such as building or expanding facilities, increasing workers' wages and providing training — this legislation would allow funds to be used for providing guidance on negotiating with landlords, applying for land or home ownership, and contracting with people experienced in securing private financing.

*Senate HELP Committee*

As previously mentioned, Senator Murray, Chair of the Senate Health, Education, Labor, and Pensions (HELP) Committee introduced the Child Care for Working Families Act in April of this year, and this legislation, given its support from President Biden and companion piece in the House, is likely to be the foundation of the HELP Committee's child care provisions. Concerns over funding and Byrd Rule considerations may, however, require some aspects to be pared back.

**Republican Proposals**

House Ways and Means Committee Ranking Member Brady, Education and Labor Committee Ranking Member Foxx, and Congresswoman Walorski previously introduced the Protecting Worker Paychecks and Family Choice Act which would, among other things, increase the affordability of child care for low-income families.

The legislation would amend the Employer-Provided Child Care Tax Credit to allow employers to contract with off-site providers rather than providing in-house child care services and increase the existing tax credit value for the cost of providing such services from 25 percent to 50 percent for small businesses.

Remaining funds provided by the American Rescue Plan ($633 million) would be redistributed based on the share of children in each state under age 13 and living in poverty. These funds could be used to update existing child care facilities to improve health and safety and to expand available services or to assist in the development of new employer-provided child care programs.

The contribution limits for dependent care flexible spending accounts would be tripled, and unused funds would be allowed to roll over to the next year; the age limit for eligible dependents would increase from 13 to 15. Further, the impact of the so-called child care cliff would be reduced by requiring states to implement a two-tiered eligibility policy with gradual phase-out of child care subsidies.

**Conclusion**

Republicans and Democrats alike agree that Americans need better access to more affordable child care. They disagree, however, on the best way to provide and finance such care. The leading proposals from Democrats consist of increasing the supply of providers primarily by providing government funding for higher wages and capital costs for building new facilities. Republicans propose to use tax credits to allow families and employers to more affordably finance their costs. Regardless of funding mechanism, the needs are high and the cost will be, too. None of these proposals would provide enough funding to cover the expected costs. Moreover, the structure of the policies would reduce incentives to control future increases in the cost of child care.

[i] https://www.ffyf.org/our-child-care-system-is-not-meeting-the-needs-of-families-providers-or-the-economy/

[ii] https://www.ffyf.org/our-child-care-system-is-not-meeting-the-needs-of-families-providers-or-the-economy/

[iii] https://www.ffyf.org/our-child-care-system-is-not-meeting-the-needs-of-families-providers-or-the-economy/ , https://smallbusiness.chron.com/incentives-decrease-staff-turnover-child-care-65185.html

[iv] https://www.cbpp.org/research/federal-tax/american-rescue-plan-act-includes-critical-expansions-of-child-tax-credit-and

[v] https://childcare.gov/index.php/consumer-education/ratios-and-group-sizes

[vi] https://www.americanactionforum.org/insight/childcare-and-returning-to-work/

[vii] https://www.bls.gov/news.release/famee.t04.htm, https://www.childstats.gov/americaschildren/tables/pop1.asp

[viii] https://childcare.gov/index.php/consumer-education/ratios-and-group-sizes

[ix] https://www.bls.gov/oes/2019/may/oes399011.htm

[x] https://www.bls.gov/ooh/personal-care-and-service/childcare-workers.htm, https://www.bls.gov/oes/current/oes252021.htm

[xi] https://www.google.com/search?q=child+care+center+average+square+foot+per+child&oq=child+care+center+average
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[xii] https://offices.net/news/2020-united-states-commercial-real-estate-prices-per-square-foot/

[xiii] https://www.whitehouse.gov/briefing-room/statements-releases/2021/04/28/fact-sheet-the-american-families-plan/