Notes from the Community: Childcare

by: Steven Howland

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Childcare providers expressed continued challenges in keeping staff and keeping prices affordable.

This article expands on the findings published in the July 2024 Beige Book, using information collected by the Federal Reserve Bank of Kansas City's Community Development team. The Beige Book is a summary of commentary on economic conditions. The Federal Reserve System publishes the Beige Book eight times a year, two weeks before the Federal Open Market Committee meets to discuss monetary policy decisions. The Beige Book offers anecdotal information on economic conditions over the previous two months, gathered through interviews with business, market experts, and community contacts at each of the 12 regional Banks.

Thanks to the information provided to us by our contacts, NPR's Planet Money gave its Beigie Award to the Kansas City Fed for our paragraph on childcare. The Beigie Award is given to the Federal Reserve Bank with the most interesting anecdote in the Beige Book each cycle.

The Beige Book published July 17, 2024, noted that economic growth in the U.S. was slight to modest with some increase in reports of declining economic activity. Wages and prices grew modestly during that period. Several Federal Reserve Banks noted that employers expect to be more selective about hiring and may not backfill empty positions. While consumer spending did not have a reported change, nearly every District heard more reports of retailers discounting items and consumers trading down in quality, buying less, or shopping around for the best deals.

For the July Beige Book, the Kansas City Fed community development team reached out to childcare providers. Over the past few years, we have heard repeatedly about difficulties in the childcare sector but rarely about improvement in prices or availability. Contacts this round reported:

- Providers continued to face difficulties finding and keeping employees.
- Childcare subsidies only paid a fraction of the cost of care, leading to challenges for providers.
- Many providers have stopped or capped their acceptance of subsidies due to the inadequate cost coverage.
- Several contacts noted liability insurance premiums were an increasing challenge. One contact noted their premiums increased 94% over the last year.

Providers reported facing difficulties staying open as their costs increased but their ability to increase prices was limited. No providers said they expected the situation to improve soon.

Shortage of childcare workers leads to fewer childcare slots

Contacts we reached out to mentioned many issues around childcare employment. At the top of the list was trying to attract and retain employees. They said that their wages were still below most other low-wage industries. And they said they were constrained from increasing wages because they cannot raise prices without making the service too expensive for the parents they serve.

Additionally, the shortage of available childcare slots has been exacerbated by staffing shortages. Contacts said that even though they have available childcare slots based on their facility's capacity and licensing, they do not have the staff to accept children for those available slots.

Providers noted they are having to make a difficult choice between quality and price. With the wages they can pay, they often are not able to afford better skilled staff. And to afford better skilled staff they would need to raise prices, which would exclude many lower-income families.

Childcare providers face price pressures

Beyond the cost of wages, childcare providers listed several other challenges increasing their costs to provide care. Increasing rent was pushing up their overhead costs. Additionally, contacts across the District reported significant increases in liability insurance. One contact mentioned they were seeing a growing market of uninsured providers who would have purchased insurance if it were not for the rising prices.

Several contacts noted their insurance costs were also rising for health care and transportation. Providers said they were having to make difficult decisions on health insurance for their staff. They recognized that if they were to drop health insurance, they would be even less competitive as an employer. On transportation, they said they were compromising the quality of their service to avoid the need for transportation insurance. That typically meant they stopped providing bus/van service for pick-up/drop-off and field trips.

The providers we reached out to serve a high share of lower-income families, and as such had a lot of exposure to childcare subsidies. However, all our contacts said that subsidies were a strain on their service because reimbursement does not cover the full cost of care. As such, many of them mentioned either they or other providers they knew were capping or eliminating the acceptance of children with subsidies.

Cost challenges were compounded when they provide childcare for infants. Due to regulations that cap the number of infants at a much smaller number per adult than older children, the costs per infant were prohibitively expensive. As such, several providers noted a decreasing availability as providers limit or eliminate slots for infants.

In their own words: What we heard from the Tenth District

"Average cost of childcare is about $1,700 a month in Denver metro. Families are having to make decisions on work opportunities, where they live – paying the mortgage/rent, transportation and other costs." – **Denver childcare provider**

Definite shortage of skilled childcare workers. Organization invests in workforce development—training and certifications – in effort to increase quality of programs. Wage gap and racial disparity in our communities of color. Difficult to compete with service sector and for-profit sector for workers. – **Paraphrased notes from Denver zone provider**

"Head Start and Early Head Start are struggling to find a workforce, which limits their ability to open classrooms and fill childcare slots. Struggling getting to full enrollment because of the early childcare workforce shortage." – **Nebraska provider**

"To address the workforce, you either have to lower quality or increase cost. It's a crisis where the market won't fix itself. We'll see costs continue to rise, and parents who can't afford will continue to struggle. Not seeing an increase in public assistance (Title XX) to keep up with rising childcare costs." – **Nebraska childcare organization**

"In Nebraska, providers are only reimbursed 56% of what it actually costs to care for an infant in a center-based program. Limits providers from wanting to take care of infants and toddlers. If you're accepting subsidy, you're already starting a deficit. Childcare providers limit subsidy, or don't accept it, because it doesn't cover costs. Private pay parents cover the rest of the cost." – **Nebraska childcare organization**

"[There has been] a decrease in the number of family childcare homes. These tend to be the less expensive options and therefore the choices of LMI households. As those options decrease, there are going to be fewer options for LMI households. 19% decrease in urban areas. 13.2% increase in rural areas." – **Nebraska provider**

"We are treating these workers as minimum wage workers (associated with costs) has implications on quality care but then also ability to attract employees when more expensive centers are hiring at $19 an hour." – **Nebraska provider**

"[We] expect to see more closures in next year and decrease in workforce. We have seen long-term career childcare center directors leave the field entirely (burnout) and expect that to continue." – **Nebraska childcare organization**

“The subsidies are not enough to offset the overall increased costs. As a requirement for childcare subsidy, single parents must make an effort to collect child support. Due to various reasons, they are not willing to do this, thus choosing not to receive subsidies. Other parents have made the decision to not take an advancement in their jobs because it would affect all their benefits, including health care and childcare. It has been suggested that there be a gradual decline in benefits instead of the drastic benefit cliff. We have also found that there are some childcare providers that do not accept childcare subsidies.” – **Oklahoma provider**

“Most providers do not provide any type of benefits for their childcare workers and typically wages are between $10-$14 per hour. This is not competitive given the training and professional development required for childcare staff. As a result, there is high staff turnover and unfilled positions resulting in low enrollment, thus a decrease in operational costs and profit.” – **Oklahoma provider**

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Steven Howland is senior researcher in the community development department of the Federal Reserve Bank of Kansas City.Howland performs analyses on various surveys, such as the Community Conditions Survey, and those at the System level to provide insight on the conditions of LMI communities in the Kansas City District. He also conducts independent research that gives more insight into issues affecting LMI communities.Howland joined the Kansas City Fed in August 2020 after a career as a college instructor and researcher.Howland has undergraduate and graduate degrees in urban and environmental planning from Arizona State University and has a doctorate in urban studies from Portland State University.Howland enjoys reading both academic works and sci-fi/fantasy novels as well as playing video and board games.Highlights of his work include:"'I should have moved somewhere else': The impacts of gentrification on transportation and social support for Black working-poor families in Portland, Oregon""Evictions and the pandemic economy in the Tenth District"To learn more about Steven:Howland researches issues facing disadvantaged populations - Federal Reserve Bank of Kansas City**About the Federal Reserve Bank of Kansas City**The Federal Reserve Bank of Kansas City is one of 12 regional Reserve Banks that, along with the Board of Governors in Washington, D.C., make up our nation's central bank. We work in the public's interest by supporting economic and financial stability. The Kansas City Fed's territory includes Colorado, Kansas, western Missouri, Nebraska, northern New Mexico, Oklahoma and Wyoming. Our headquarters is in Kansas City, with branch offices in Denver, Omaha and Oklahoma City.The Kansas City Fed Community Development Department promotes economic development and public understanding that leads to progress for lower-income individuals and communities. Our focus areas include community development investments, digital inclusion, small business / entrepreneurism, and workforce development.