Increasing Access to Quality Childcare: Provider Perspectives

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INTRODUCTION

Academic and industry research from the last 20 years reveals the positive impact of early care education on children's short-term development and long-term prospects for prosperity. Neuroscience validates the period from birth to age three as a significant period of rapid development in which every interaction with caregivers serves to build a foundation for social, physical, and cognitive development. These direct impacts are complemented by indirect outcomes, ranging from workforce participation rates to economic growth. Early child and education (ECE) providers stand at this intersection of human and economic development.

Researchers and advocacy groups had been advocating for the benefits of expanding access to quality childcare for decades prior to the outbreak of COVID-19 in 2020. As the global pandemic wrought havoc on the industry, it also underscored the essential role of early care and education, calling attention to the complex web of issues from educator compensation to cost structures threatening the viability of ECE providers. This report is the product of an evidence-based policy development process, using research evidence and existing knowledge to inform policymaking seeking to address threats to providers' business viability and the long-standing call to add quality childcare seats in Orange County.

Evidence-based policy development involves the systematic use of research findings from literature reviews, secondary data analysis, and primary research as a foundation for the design, implementation, and evaluation of public policies. This report integrates research evidence from stakeholder perspectives and practical expertise as a means to identify policy and business strategy innovations aligned with the goal of expanding access to quality childcare.

The first section of this report provides an industry overview as background for understanding the factors driving (or limiting) ECE providers' ability to expand capacity and enhance access in response to market demand. Economic analysis has demonstrated the extent to which childcare supports regional growth through support of labor force participation and productivity, as well as enhancing the region's human capital. Reviews of business drivers and analysis of key trends give context to the intricate challenges impacting the business landscape.

The next section presents findings from original research designed to capture insights from owners and directors of childcare providers in Orange County. Structured interviews explored the impacts of the pandemic, as well as utilization of government assistance and its impact before soliciting provider perspectives specific to expanding service capacity, enhancing quality, and addressing threats to the viability of their continued operations.

Discussion follows to link insight from the revealed provider insights with relevant themes from academic and advocacy literature. Connections are made with existing knowledge with interpretation and analysis to highlight the significance and broader implications of the research and frame recommendations.

The final section catalogs policy and business strategy options as the final step in evidence-based policy development. Content presents alternative pathways for addressing the challenges providers face in the wake of the pandemic. Policymakers are encouraged to keep in mind the report presents these recommendations to inform the broader deliberative process rather than viewing them as prescriptive.

INDUSTRY ANALYSIS

Despite interruption during the COVID-19 pandemic, estimates for industry revenues for 2022 approach $195 million in Orange County, Florida. The childcare industry accounted for 370 "payrolled business locations" contributing nearly $207 million in economic activity to the county's economy and $2.1 million in tax revenues. Payrolled business locations are equivalent to the Bureau of Labor Statistics' Quarterly Census of Employment and Wages (QCEW) "establishments": the single, physical locations where economic activity takes place. Given that QCEW captures only the businesses covered by federal or state unemployment insurance systems and many childcare businesses are run by the owners and have no payroll, these businesses are not represented in this data point. A census of childcare providers and estimated capacities are addressed in separate reports commissioned by the Orange County Early Learning Coalition.

Driving Factors

Demand for childcare is tied to three key economic indicators: birth rate, labor force participation, and disposable income.

Birth rate has the most direct and obvious connection to childcare demand. A higher birth rate results in a larger number of infants and toddlers in the population. This creates a greater demand for childcare services that specifically cater to the needs of younger children. The birth rate in Orange County has declined in the last 20 years from a peak of 15.6 births per 1,000 residents in 2005 to a rate of 11.1 as of 2021.[1] However the actual count of newborns in 2021 (16,054) remains within 500 births of that in 2005 (16,556) which is explained, in part, by the county's population growth over that period (despite population losses in recent years).

As of 2022, the Orlando metropolitan statistical area (MSA)—Lake, Seminole, Orange, and Osceola counties—population increased by 8.3 percent from 2017, growing by 209,089. Population is expected to increase by 5.9 percent between 2022 and 2027, adding 160,293. However, that growth is occurring outside of Orange County. Using the most recent IRS data (2020), Orange County population declined by 11,224 with migration patterns showing a retreat from urban areas to nearby counties. For example, Osceola County gained a net 6,213 new residents with 4,875 of those coming from Orange County. Lake and Seminole Counties welcomed 4,412 and 2,717 former Orange County residents, respectively.

[1] Most recent available data.

In 2022, the U.S. Census Bureau's American Community Survey estimates the population under the age of 5 in Orange County to be 80,833 with projections of a 10 percent decline (a reduction of roughly 8,000) through 2030 compared to a 3 percent decline nationally. This contraction can be expected to add to the competitive intensity to the market.

Prior to the pandemic, regional labor force participation stood at nearly 64.7% before dropping to a low in 2021 of 61.5%. By January 2023, the participation rate had returned to 64.6%. National figures shed light on changes in women's participation in the workforce. The US Bureau of Labor Statistics indicates that the proportion of women with preschool-age children in the U.S. labor force grew from 39% in 1976 to its peak of 60.2% in 1999. Prior to the onset of the pandemic, it had dropped to 57.9% and hovers around 57% overall going into 2023. Women's labor force participation rate is significantly higher among women with children under the age of 18 (71.1%). Drops in the proportion of women in the labor force were seen except for women with children under age 6.

Trends in personal income indicate an extraordinary improvement in per capita income. Disposable income represents the amount of money individuals or families have available after taxes and essential expenses. The affordability of childcare services is directly influenced by disposable income. When disposable income is higher, families have more financial resources to allocate towards childcare expenses, making it easier for them to afford quality childcare. On the other hand, lower disposable income can limit families' ability to pay for childcare services, potentially reducing the demand for formal childcare options.

For the 10 years spanning 2001 to 2011, per capita income increased by 26.6 percent compared to a rate of growth of 51.9% between 2011 and 2021. Not everyone benefited from this improvement in wealth creation capacity or the corresponding availability of disposable income. Orange County is subject to the continued prevalence of lower-wage occupations tied to the tourism industry. The top two industries in Orlando metropolitan area in 2022 were Accommodation and Food Service (173,854) followed by Retail Trade (151,225) which account for more than 23% of total employment with earnings per job of $41,388.

According to the most recent release of the United Way's ALICE Report[2], 49% of families with children in Orange County were at or below the household income threshold deemed to be the minimum needed to meet the basic cost of living ($79,476.80 annually) for a family of four comprised of two adults, an infant and a pre-schooler. For context, the ALICE

[2] https://www.hfuw.org/wp-content/uploads/2020/05/20_ALICE_Orange-County-FL-3-31-2020.pdf

construction of household budgets allow for $1,295 per month for childcare covering an infant and pre-school (age 3). This annualized budget ($15,540) understates the budget required by more than $9,000 using the weighted median private pay rate.[3] Housing costs, however, reflect the most substantial driver of the region's cost of living. The median sale price for an "entry-level" house in the Orlando MSA increased from $120,000 to $311,000 in the ten years between 2012 and 2022.

The seeming paradox between the stunning increase in income per capita and the surprisingly high proportion of residents in the area struggling to get by points to a increasing wealth inequality. Calculating the ratio of the mean income for the highest quintile (top 20 percent) of earners divided by the mean income of the lowest quintile (bottom 20 percent) of earners is a useful method of tracking changes in income or wealth inequality over time. The higher the ratio, the greater the difference between the lowest 20 percent of wage earners and the highest. It helps monitor whether inequality is increasing or decreasing within a population or geography; and in this case confirms the suspected growing inequality in income. In 2011, the ratio between the lowest and highest quintiles stood at 13.75 and grew to 15.65 in 2021 after peaking at 16.22 in 2018.

Industry Cost Structure

Operating profit for the average childcare provider, measured by earnings before interest and taxes, is estimated to range between 7.4 percent and 11.1 percent. This represents a significant decline from just five years ago from an estimated 13.1 percent.[4] Profitability is directly tied to the provider's ability to manage labor costs, since wages are the most significant cost item ranging from 42.7 percent to 49.5 percent.

Expenses associated with legal and insurance fees, health and safety training, recruiting, and building repair and maintenance accounted for more than 34 percent of revenue in 2022. The pandemic eroded profits with increased costs associated with sanitation, technology, food, diapers, and educational supplies tied to supply chain disruptions and spikes in demand. For example, average purchase costs in 2020 tied to sanitation protocols increased by 8.6 percent.

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[3] https://www.floridaearlylearning.com/Content/Uploads/floridaearlylearning.com/images/2022%20Market%20Rate%20Survey%20-%20Full%20Time%20County%20Summary-ADA_Final.pdf
[4] IBISWorld.

Market Failure

The state of the industry can be described in economic terms: *market failure*—a situation where the free market forces alone are insufficient to ensure an optimal provision of early care and education services. Six characteristics of market failure deepen understanding of the outcomes associated with industry dynamics.

1. Insufficient Supply: Market failure in the ECE industry is manifest as an inadequate supply of quality childcare services, especially for low-income families or in underserved areas. Marketing mechanisms fail to produce enough providers or facilities to meet demand, resulting in limited access to affordable and high-quality care.

2. Affordability Challenges: The cost of ECE services can be prohibitively high for many families. Market failure occurs when the market does not provide affordable options, making it difficult for parents to access quality care without facing financial burdens. This creates a disparity between the need for childcare and the ability of families to afford it.

3. Quality Variations: Market failure can lead to significant variations in the quality of childcare services. Without adequate regulation, oversight, or market incentives, some providers may prioritize profit over quality, resulting in substandard care and limited educational opportunities for children. Lack of information and transparency about quality can further exacerbate this issue.

4. Underinvestment: Early care and education have positive externalities that benefit society as a whole, such as improved child development outcomes, increased workforce participation, and reduced social costs in the long run. However, these positive externalities are often not fully accounted for in the market, leading to underinvestment and a failure to realize the full social benefits of early care and education.

5. Information Asymmetry: Market failure arises from information asymmetry, where parents may lack comprehensive information about the quality and effectiveness of different childcare providers. This can hinder their ability to make well-informed choices and put pressure on providers to compete on factors other than quality, such as price or location.

6. Market Segmentation: Market failure has resulted in market segmentation, where providers primarily cater to families who can afford higher-priced services, while neglecting the needs of low-income families or those in disadvantaged communities. This exacerbates inequality and limits access to quality care for vulnerable populations.

Understanding market failure in the ECE industry gives necessary context for framing and analyzing discussions with providers (covered in the next section) as a means of appreciating the challenging environment in which they operate.

PROVIDER INSIGHTS

A review of academic literature revealed the absence of attention paid to the voices of ECE providers in policy development and evaluation. This gap validated the value the research project's deliberate effort to explore childcare provider perspectives on the impact of the global pandemic as a contribution to evaluating policy recommendations based on alignment with provider experiences in the marketplace.

<u>Method</u>

Data were collected from 26 structured interviews with owners or center directors representing the full spectrum of provider types in Orange County, Florida (i.e., franchised, home-based, faith-based). Provider capacities ranged from less than 10 to 600. Without exception, each was operating below licensed capacity.

Participant outreach and data collection services were provided by Valencia College's Peace and Justice Institute (PJI) in late summer of 2022. A recruitment e-mail, in dual-language format communicating in English and Spanish, sent to registered providers comprising a list of target participants from the Early Learning Coalition of Orange County (ELCOC) provided a link to a custom landing page on a web-based booking site. Participants were offered $100 cash card in exchange for their participation. The presence of both the ELCOC and PJI logos affirmed the legitimacy of the invitation with instructions on how to book a virtual (Zoom) appointment with PJI interviewers with options for preferred language. Confirmation and reminder e-mails were sent prior to the reserved appointment.

The research served as an exploratory study to generate descriptive analysis given limited knowledge of the providers' experiences and the precarious nature of the post-pandemic environment. Research design was shaped by constant comparative method[5] deemed appropriate in meeting the objective of revealing concerns and connections that otherwise might not be readily important to policymakers and researchers. Interviewers followed a structured interview script with interviews lasting between 45 and 70 minutes.

Interviewers followed a structured script designed to explore areas of interest identified by the ELCOC (see Appendix B). Discussion of the Build Back Better Framework was aided by sharing a prepared summary document of its provisions using the Zoom chat module. PJI Participants were recorded with transcripts and audio files provided for text analysis.

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[5] Glaser, Barney G., Anselm L. Strauss, and Susanne Beer. The discovery of grounded theory. na, 1967.

After data collection, two researchers conducted thematic analysis[6] to derive a general sense of the data. Themes noted by each researcher were compared to develop a consensus coding scheme to be applied in analyzing content from each interview. Some of the codes (themes) were based on sensitizing concepts[7], such as financial impact, which are themes expected to be present in the data based on a review of academic and professional literature. However, most of the codes emerged from the data and were finalized as a consensus schematic based on researcher collaboration during which commonalities were identified and discrepancies addressed.

Findings

Three primary themes emerge from the provider interviews, each representing significant negative impact on providers' ability to expanding access to quality childcare:

1. STAFFING—The pandemic had a negative impact on staffing by exacerbating pre-existing challenges tied to low compensation and corresponding low professional image, making recruitment and retention extremely difficult.
2. BEING BOXED IN—A mix of competitive pressure and government requirements tied to improving quality of care represent additional costs or limitations on revenue limit the applicability of traditional business strategies and the perceived merit in pursuing business model innovations.
3. SKEPTICISM OF GOVERNMENT DESIGN FOR IMPROVEMENT—For providers not tied to churches, utilization of COVID-19 relief and recovery funding proved attractive and helpful. Yet discussion of the proposed changes to the industry incorporated in the Biden Administration's Build Back Better Framework exposed frustration and even ridicule.

For each of the three primary themes, provider perspectives are evidenced through presentation of verbatim excerpts from the structured interviews. Each paragraph represents excerpted text from a different interview participant. Following discussion, the final section of the report suggests policy and workplace recommendations based on providers' experiences and the inferred needs of the broader industry.

[6] Thomas, David R. "A general inductive approach for analyzing qualitative evaluation data." American Journal of Evaluation 27, no. 2 (2006): 237-246.
[7] Bowen, Glenn A. "Grounded theory and sensitizing concepts." International journal of qualitative methods 5, no. 3 (2006): 12-23.

Theme 1: Staffing

As the economic shock lingered long after mandatory closures, the pandemic decimated providers' staffing. All but one of the providers interviewed, not tied to a church, experienced the loss of staff; yet there is consensus that difficulty in recruiting staff as the single biggest challenge they face for stabilizing their businesses, expanding capacity, or enhancing quality. In the majority of cases, providers are operating below capacity by either choice or constraints tied to staffing.

A sub-theme within the challenge of staffing is the loss of experience that undermines progress toward quality improvements. With the departure of staff and the presence of financial limitations, providers have responded by hiring younger, inexperienced staff who require training. Hiring and retention appears to be undermined by perceived changes in work ethic or unattractiveness of the profession. Provider comments reveal the central role of compensation:

> "There's some staff that decided not to come back. Maybe they retired or just chose to do something different. And then the fact that they can go to anywhere they want, and now they know they have an upper hand. They can go to any school, and the money that's being thrown around now, you know, they could just go anywhere. It's an employee-driven market. [They] can go and work at Target and make more money than what we're paying….."

> "The biggest thing that I face now is staff—hiring staff. I feel like because of the pandemic, and because so many people were getting unemployment and getting all of that. Nobody wants to come back to work. The other thing is that I find is [a contributing factor] is raising up our minimum wage."

> "No one wants to work at the rate that is being offered….They are not happy with the pay rate, and they don't really want to work."

> "So [those] we've hired new…the work ethic just doesn't seem to be quite the same, even though the rate of pay is increased significantly since [the pandemic], and the benefits they are offered have increased, and it's still troubling that we can't find people that really want to work without a lot of calling out [absenteeism]."

> "We had to hire a whole new staff last year, and everybody is brand stinking new. You want to hire qualified staff….they might not be completely qualified when I hire them. But maybe we can get them up to speed because we need people here that will help."

> "This year I'm not full, but I've had to turn people away because my teachers are not used to being full…because coming back from the pandemic, our numbers were so small that now they're sort of used to that, and conditioned to running a classroom with only six kids when they can have ten."

> "I'll tell you personally, for us, is we don't have as many seats open because we don't have enough staff to open those. We've got a couple of closed classrooms, and it's not from [lack of] demand. It's because we don't have a staff to fill those seats."

Theme 2: Boxed In

Providers paint a picture of being constrained by regulations (e.g., teacher-child ratios) and market conditions (e.g., inability of families to pay higher tuition), shedding light on the unlikely realization of policymakers' vision for expanding the number of seats and enhancing quality. Traditional means of generating revenues and corresponding profit—raising prices—necessary for the investments necessary to reach capacity and quality goals are off the table.

As revealed in the previous discussion of compensation challenges, increasing wages or benefits for educators and staff adds to providers' cost structure. However, the lack of disposable income growth needed for large segments of families to absorb increases in tuition prevents providers from implementing pricing strategies available to businesses in other industry sectors. They are forced to live with the constraints of finding educators and staff willing to work for the prevailing low wages or find a path to transition their client base from low-, lower-, and middle-wage families to those with the necessary disposable income. This dynamic is at the heart of the childcare supply issue and makes access to early learning so difficult for families who need it most as they seek to climb the socio-economic ladder.

> "[To be competitive] I need to be where I'm paying my teachers $15 an hour minimum, which means that my tuition has to be appropriate to be able to cover those costs. And, again, then you risk losing parents who

can't afford the tuition hike. So I would say that is a very big shuffle of trying to find a happy medium of paying your teachers well to retain them, hiring people that are qualified and happy to make what they're making, and then adjusting your tuition so that parents are happy with the pricing and happy to stay….That's the hardest thing that I find currently, and it sounds like it's very interconnected."

"What I notice a lot is parents will complain about the pricing of childcare. But when you actually divide the daily rate by the number of hours the child is in class, it equals like two or three dollars an hour. But parents complain about the pricing, so you try to keep it at at a rate where parents you want to sign [their] child up….You still have to get quality staff, and they want to get paid, which I totally agree with it. It's a sad day. Schools cannot afford to pay teachers the amount that they work, and then they end up going to somewhere like Target, because they end up paying them $15 an hour. That sucks."

"[speaking through an interpreter] The ratios that she has to work through to make it impossible for her to be able to add more kids to her care. The biggest hurdle right now is the ratios that make her turn kids away, and she's asking for the logic in this. When she applied for the new large license, it was supposed to take three months, but it took six. [In the meantime]…she had to turn people away that were asking for childcare….The bureaucracy of making sure that she can jump from one license to another. She mentioned that there is a wait period of two years. So, when she gets her regular license, she had to wait two years in order to qualify to apply for the large license. That's two years without adding two more kids."

"We struggle with being able to pull our staff out of the classroom [for training to improve or maintain quality]. You know we're paying over time, so it's impacting our [bottom line]…financially. So we don't do as much training as needs to be done."

"[speaking through an interpreter about operating with eight in her classroom despite a capacity for ten] parents want a cheaper tuition, lower tuition but [I] haven't been able to offer that because high quality care costs money. The cost of, for example, food….[I've] had to turn people away because [I] can't keep same or lower enrollment [at that] tuition….[we] do not work at capacity ever."

Theme 3: Skepticism of Government Solution Design

Discussion of early COVID-19 relief programs and details of the Build Back Better Framework provided insight into providers' attitudes toward specific government proposals, such as universal voluntary pre-kindergarten (VPK). Utilization of assistance associated with federal, state, or local sources was prevalent, but at varying degrees. The exceptions being church-based providers that chose not to apply. Evaluation of the Paycheck Protection Program (PPP) and Economic Injury Disaster Loans (EIDL), as well as funding provide through the Florida Department of Early Learning (FDEL) and Early Learning Coalition of Orange County (ELCOC) were valued as mitigating the loss of revenues during the shutdown and recovery periods and keeping many of the providers in business.

This pro-government sentiment, however, did not carry over to evaluations of the Build Back Better Framework (BBBF). Provider responses ranged from skepticism to ridicule of what they concluded to be well-intentioned aspirations but largely impractical for implementation based on previously discussed staffing and quality challenges. Some see the framework as a threat to their business.

> "…the hurdles [like other programs] that the schools have to go through to get us our funding. It's crazy….It goes back to time, like we decided, we're not going to deal with it because it's just not for us. It's not worth it, and it's hard. It's not easy. I agree with it, and more people need it….But what are the hurdles like? What are the parameters in order to qualify for the schools that are accepting this, the teachers that are providing the care, the owners? And then what do the parents have to go through in order to get it? It has to match up."

> "We have VPK which gets it up to a three-hour block. That still does not pay childcare preschools what a three-hour block would cost. So you're going to come in and tell me, 'Oh, yes, we're going to pay for childcare.' Then you're going to have parents looking at me going, 'Well, wait. Childcare is free. That doesn't qualify for quality. I don't know where they get that quality from, because you can't afford it. So until somebody gives us a dollar figure on what they're looking at, it just doesn't fit….So then, what does happen? You know it means overflow."

"I'm a fan, but kind of not a fan. I'll be honest, I love the idea of providing something similar to VPK [voluntary pre-kindergarten] for three year olds, but I don't love how little people get reimbursed for VPK in general. Private pay makes more money, hands down, which is why we reduced our VPK last year. Financially, it doesn't make sense to continue to offer a program that doesn't benefit you financially and has a ton more requirements when it comes to teachers. You have to have your staff credential, plus 20 hours of training, plus all these different things. I just can't find the staff; you can't find the credentialed staff that you need for VPK, so if they expand the same kind of requirements for the three year olds, it would be the same situation for us. They're aiming towards making it more into the public school system, which eliminates us."

"…depending on where your school is located, that could work or not work. What you [are] trying to force them to come to school. That's kind of where the premises is….This population, a lot of them, don't want their kids in schools, at least not full time [which is] the reason they want like that part-time program….[Universal Preschool] when I think of parts of our county that don't have access to it, quality programming, that breaks my heart. We have such a unique opportunity to be able to branch out to just even a couple of miles off the road. There's programs or things that are coming out of the pipeline already that will be able to help schools like mine be able to provide that and not lose money. This sounds like a really good thing that would support the community, but let's be careful that providers are able to sustain operations."

"So we're gonna offer this childcare at cost for these families? But are you gonna do the actual providers rate? Are you going to pay what we feel we need to be able to sustain our building and pay our teachers?"

"We have a group chat of childcare providers, and we've been talking about the universal preschool for three and four year olds. Some of the feedback I've gotten from some other childcare providers in the area [will be] losing a lot of those children, because if parents who can pay get it free…that takes away from childcare providers."

In addition, one sub-theme gave voice to provider concerns over the adverse impact of the pandemic on child behavior.

> "Secondly, right now, our biggest challenge, to be honest with you, we've got a lot of children that are in care, who were in care during COVID when everyone was wearing a mask. And we all know children learn through facial expressions and those kids of things. We're seeing that in behavior now, with a lot of children, a lot of our COVID babies are two and three years old. Now there's a lot of speech issues; and I think it's all due to mask wearing….You know a lot of infants for a whole year never see anybody smile at them, so those challenges. Our teachers just don't have the skills to be able to deal with those type of behaviors."

> "We're getting three year olds in now that have never met their own family. They don't know how to socialize. They don't know how to communicate. They're very clingy. So there's a lot of catch up to do, just socially and emotionally, with the children."

SYNTHESIS

Concern over childcare teacher and seat shortages in Orange County, Florida served as the catalyst for the ELCOC's initiation of a multifaceted research platform. This report stands as a complement to separate analysis of area ECE providers' enrollment, capacity, location, services, wait lists, and teacher characteristics which reveal key characteristics of the capacity shortfall. This report adds to the quantitative analysis by synthesizing insights from qualitative data analysis with a review of academic and professional literature as the basis for proposing a set of policy and business strategy recommendations designed to mitigate the capacity challenges limiting access to quality early care and education.

As a component of a research process, the role of synthesis is to integrate and analyze the findings from multiple sources as a means to reveal new insights, identify patterns or trends, and draw meaningful conclusions. Synthesis involves the systematic examination and interpretation of the collected information to generate a coherent and comprehensive understanding of the research topic. It provides a deeper understanding of the research topic, fosters knowledge development, and enables the translation of research findings into practical applications and policy recommendations.

Method

Consistent with best practices in evidence-informed policy development, the synthesis process followed systematic evaluation of complementary knowledge bases, specifically the integration of perspectives and practical expertise of ECE providers.

The project scope served to define the parameters for literature search and knowledge sources deemed most relevant, including those previously discovered through research conducted for the Florida Children's Services Council (now known as Florida Alliance of Children's Councils and Trusts). Key findings and insights from the literature review were then used to guide engagement with the providers through structure interviews reported earlier.

The provider insights informed a subsequent search and review of literature filtered by relevance to the provider context and the specific challenges and opportunities emerging from analysis. Theories, frameworks, empirical evidence, and gaps in knowledge were integrated as the foundation for heuristic analysis leading to the recommendations presented. Heuristic analysis applies analytical methods "as investigative, instructional, or exploratory tools rather than as means of prescribing one policy choice among alternatives" or attempting to predict the impacts, costs, and benefits of policies as a means of choosing the best policies.[8]

As a final consideration in the evaluation leading to the recommendations that follow, relevant policies and strategies were contextualized within the current economic and political environment. Considering the economic and political context serves to ensure that proposed policy solutions are realistic, feasible, and aligned with the prevailing conditions. Contemplation of the current economic landscape integrates the realities of constraints that impact the feasibility of the interventions and the potential challenges in implementation. For example, while unionization and collective bargaining represents a path to increasing wages and expanding benefits for childcare workers, Florida's status as a "right to work" state and recent political attention being paid to further limits on organization are deemed sufficient to render further consideration moot.

Limitations

Limitations inherent in this project required balancing the desire for comprehensiveness in evaluation and exhaustiveness in the presentation of potential recommendations with the realities of time, access to publications, and the continuous contributions made to the vast body of knowledge associated with early care and education. Efforts were made to bracket biases and remain objective in making choices regarding which studies to evaluate and which recommendations to include. In utilizing heuristic analysis, the recommendation development process sought to maintain a balance between being responsive to the current economic and political context and maintaining focus on evidence-based research and best practices. The value of integrating economic and political awareness notwithstanding, there is merit in recognizing the danger in allowing this filtering process to override the objective analysis of the literature or discard proven interventions solely based on current trends.

[8] Hendrick, Rebecca. "A heuristic approach to policy analysis and the use of sensitivity analysis." Public Productivity & Management Review (1994): 37-55.

Developing a portfolio of recommendations must acknowledge the primary objective of providers as viable businesses: revenues and operating margins above costs (or positive return on investment). Beginning with this premise, Figure 1 models the central role of return on investment (ROI) and the relationship between three key drivers impacting provider motivations and capabilities: market demands, government policies, and business operations.

Market demands are factors that add competitive pressure on providers to adapt, such as increasing demand for non-traditional schedules or changing family preferences for amenities and programming.

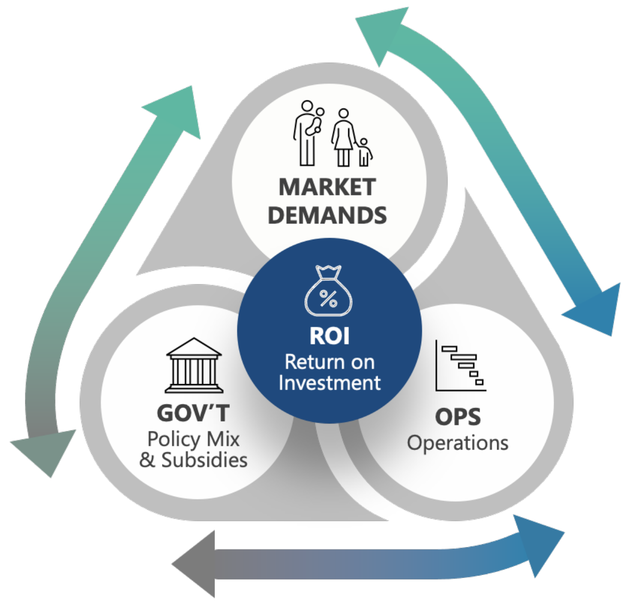

FIGURE 1.

The government policy mix (e.g., child-teacher ratios and payment subsidies) impact providers' revenues and margins by dictating operating requirements and revenue flows.

The third driver consists of business strategies and operational decisions, including staffing and investments in amenities, which can translate into revenue generation and margin capture. The arrows reflect the non-exclusivity and interaction of these factors.

Discussion of the three key drivers and their interactions serve to frame the discussion of policy and business innovations and recommendations presented in the final section of this report. The dynamic relationships among the three drivers suggest that potential solutions must be seen in the context of an ECE ecosystem. Simply put, policies span more than one area of impact and efforts targeting one area can have direct, indirect, and unintended consequences in the others.

Market Demands

Industry analysis in this report identified disposable income as a driver shaping the childcare industry. Demand for low-cost providers is driven by the lower-wage income profile plaguing Orange County and the surrounding Orlando metropolitan areas. At the same time, those families experiencing the benefits of the region's nearly 52 percent increase in per capita personal income since 2011 make adaptations in quality and facilities a viable option. The divide between Orlando's winners and losers is having the net effect of splitting the marketplace.

A significant increase in demand for childcare from families without the disposable income to pay for those services make it necessary for providers to navigate the delicate balance between providing affordable services and maintaining financial sustainability. Responses to sustain operations necessitates careful assessment and optimization of their business models and evaluating the merit of offering flexible payment plans, offering sliding-scale fees, seeking additional revenue streams, and exploring partnerships with organizations that support affordable childcare initiatives.

In the absence of identifying non-tuition based revenue stream enhancements, the traditional profit-loss equation requires childcare providers to drive down costs and allocate resources strategically. This explains the downward wage pressure making compensation the prevailing challenge to expanding capacity and quality. Providers often sacrifice investments in staff training and professional development as well as forgoing needed facility repairs and maintenance.

Increased demand for differentiated curricula from families with increasing awareness of the importance of early childhood development and the means to pay for it represent a more lucrative target segment. Providers with access to capital can make needed investments in technology, facilities, and staff. This trend favors franchised providers who can leverage centralized resources and expertise to harness what scale can be achieved. By attracting this segment of parents with greater disposable income, revenue growth and higher profit margins can be realized.

In contrast, home-based and smaller providers without the capital to enhance facilities and attract the staff necessary to offer more intensive educational development find it difficult to innovate and adapt. As a result, revenue growth is more difficult and profit margins remain thinner. Families facing financial constraints may require additional support services beyond basic childcare. Many providers recognize a need to expand their offerings to include wraparound services such as nutrition programs, access to healthcare, mental health support, or assistance with accessing other social services. Few, if any, of these options to meet market demand fall within the owners' competencies or families' ability to pay; and they largely reflect services provided within the social services safety net.

For some providers, the prevailing market failure calls into question how long early care and education can be considered a viable for-profit business, particularly for those providers located in areas without the socioeconomic status (SES) sufficient to make balancing the mix of private-paying families served at sufficient margins.

Government Policy Mix

Families whose economic profiles resemble the households with children at or below the ALICE threshold rely on subsidies to offset tuitions. In turn, reimbursement schedules are critical policy levers that determine provider revenues. Subsidy payments, which provider interviews indicate to be viewed as insufficient and detached from the realities of childcare cost structure, limit revenues and cash flow needed for the investments in staff, facilities, and technology.

The need to accommodate government-mandated administrative requirements represents a disincentive for increasing both capacity and quality most directly adding to provider costs (e.g., administrative staff) with varying impact depending on provider type. For example, center-based providers—particularly franchised businesses—have access to standardized processes and procedures that lower the measurement and reporting burden realized by home-based childcare (HBCC) and regulated family-childcare (FCC) providers. A report from the Erikson Institute's Herr Research Center indicates cost drivers associated with managing business and administrative responsibilities may contribute to the alarming decrease in supply of FCC whose motivation is caring for children rather than an opportunity to apply business acumen.[9] Managing business responsibilities—especially for those lacking necessary skills in recordkeeping, accounting, and risk management—is even more challenging for smaller providers who must juggle multiple roles, as well as those who encounter barriers in business supports provided only in English.

However, the most substantial policy limitation on provider revenue comes from teacher-child ratios associated with safety and quality objectives. The math is deceivingly simple. Raising limits on the number of children per teacher would increase revenues per teacher and might appear to add capacity to the system. However, the broader implications make expanding the ratio a non-starter for policymakers and ECE professionals. Research from ChildTrends supports the assertion that adding more bodies per room threatens health and safety, contributes to the stress of caregivers, and undermines quality of care.[10]

> "Research shows that smaller child-to-staff ratios have been associated with fewer situations that threaten children's safety. Moreover, when early

[9] This stands in contrast to the National Association for the Education of Young Children (NAEYC) finding, released weeks prior to the pandemic shutdowns in February 2020, which found no correlation between a set of four state regulations and childcare supply.
[10] https://www.childtrends.org/blog/higher-child-staff-ratios-threaten-quality-child-care

childhood caregivers are responsible for more children than they can manage, it increases their stress and can result in the loss of the caregiver's self-control. Indeed, the presence of a second caregiver has been associated with a lower likelihood of child abuse in the childcare settings.

"In addition to ensuring that young children are cared for in healthy and safe environments, children who are cared for in ECE settings with lower child-to-staff ratios receive more stimulating and responsive care, and engage in more verbal interactions with their caregivers. Such interactions can foster the secure attachments that are critical for children's socioemotional well-being and lay the foundation for children's ability to build healthy relationships in the future. Lower child-to-staff ratios and smaller group sizes have also been associated with children's positive development, including higher social competence, communication and language skills and cognitive development."[11]

Operations: Staffing

Even before the global pandemic, research had exposed the negative impact associated with a range of job-related stressors on the supply of ECE workforce. Job demands, limited control, and minimal job resources drive high rates of turnover and compensation incommensurate with the value of documented contributions to the economy and child development benefits. COVID-19 added to the mix of occupational disincentives. Sanitation protocols and related factors, such as health screenings, social distancing, use of personal protective equipment, and the need to adapt and adopt new policies and practices fundamentally changed the workplace dynamic for educators and staff at the same time that their homelife struggled to find the new normal.

The global pandemic undermined the intrinsic compensation for ECE professionals, while extrinsic compensation in the form of tangible rewards—wage increases, bonuses, and benefits—failed to keep pace. Earnings among the predominantly female workforce remained among the lowest wages of all job sectors. Only 10 percent of occupations in the Orlando area pay less. Median annual earnings for childcare workers in the Orlando metropolitan area stood at $19,645 in 2012 and grew at a rate below inflation to reach $25,040 in 2022. Working conditions contribute to high rates of turnover. These critical educators also enjoy minimal benefits and are more likely than the general population to rely on safety net programs.[12] Nationally, more than half (53 percent) of childcare workers

[11] Original citation by *Early Learning Nation*'s Elliot Haspel. https://earlylearningnation.com/2022/03/opinion-raising-child-care-ratios-is-a-terrible-horrible-no-good-very-bad-idea/

[12] https://cscce.berkeley.edu/workforce-index-2020/

being enrolled in at least one main public benefit program—Medicaid, CHIP, EITC, SNAP, or TANF—compared to 21 percent of the U.S. population, despite 60 percent of the child care workforce working full time.[13]

Even in the absence of COVID-19, the ECE workforce faces relatively high exposure to infectious disease and high rates of poor physical and mental health.[14] Comparing local and national employment sheds light on the conditions of the region's childcare workforce supply. An average area of this size would have 4,696 employees, while there are 3,520 here. This lower-than-expected supply confirms provider reports of the difficulty found in attracting candidates. The gap between expected and actual employment is expected to remain roughly the same over the next five years.

[13] https://bipartisanpolicy.org/blog/characteristics-of-the-child-care-workforce/
[14] Ibid.

RECOMMENDATIONS

This report concludes by presenting recommendations for policy and business strategy innovations specific to ECE providers that will enhance the likelihood of achieving the goals of affordability, access, and quality. As described previously, the final set of interventions represent the product of evidence-informed policy development. The research process involved utilizing high-quality research and empirical evidence and insights from provider interviews to ensure that proposed solutions are grounded in evidence of their effectiveness. By incorporating evidence-based approaches, policymakers can increase the likelihood of developing effective and impactful policies that are based on sound research and analysis.

The long-term goal of creating parity between childcare worker wages and K-12 teachers can be seen as an aspirational goal for many stakeholders within the ECE sector, but the complex set of changes prevent it from being a universally agreed-upon consensus goal. Achieving wage parity with K-12 teachers is a complex and multifaceted issue. The significant financial investments, policy changes, and systemic shifts within the education and childcare sectors make it as daunting as it is aspirational.

Perspectives differ on the feasibility, prioritization, and strategies for achieving wage parity. On the one hand, it is seen as a critical goal for promoting the professionalization of the ECE workforce and ensuring high-quality care for young children. On the other, concerns about the potential financial implications, resource allocation, and the practicality of aligning wages across different education sectors. While there is a general understanding of the importance of fair compensation for childcare workers, reaching a consensus on the specific target of wage parity with K-12 teachers may involve ongoing discussions, negotiations, and policy debates among stakeholders such as educators, policymakers, unions, childcare providers, parents, and advocacy organizations for which there seems no apparent mechanism.

The Unifying Framework for the Early Childhood Education Profession should be among the initiatives whose progress should be evaluated and monitored as it may evolve. Building on tenets found in the NAEYC Code of Ethics,[15] the framework emphasizes the importance of fair compensation, professionalism, and recognition of the value of early childhood educators.

[15] https://citeseerx.ist.psu.edu/document?repid=rep1&type=pdf&doi=9d8c6bcfdbfd53999ee55f29ba37c065062bb27e

There is also merit in mentioning the Child Care for Working Families Act[16] which has been introduced to every Congress since 2017 and is expected to be raised again in 2023. The Act proposes the expansion of access to and lowering the cost of care for families, support childcare workers, and address racial and gender disparities in the childcare system.

Turning to the near-term, innovations in policy and business practice can improve provider viability, particularly in areas of stress such as staffing to other investments linked to making quality childcare services more affordable and accessible for families.

Several recommendations represent viable interventions for the near term:

A. *Leverage Subsidies and Financial Assistance*: Expanded utilization of available subsidies, government assistance programs, and tax credits can create a buffer by easing the hit families would experience with tuition increases. Continuous monitoring of subsidy programs and promoting expanded technical assistance can ensure providers leverage funding opportunities.

   For example, the Preschool Development Grant Birth through Five (PDG B-5) grants were made available to states and territories to support early childhood services for children birth to age five. Funds support a needs assessment, strategic planning, family engagement, quality improvement, workforce compensation and supports, and direct services for young children. PDG B-5 grants support improved collaboration among existing programs as well as a mixed delivery system that includes childcare and family childcare providers, Head Start, state pre-kindergarten, and home visiting. As of October 2022, the federal government had awarded nearly $300 million in PDG B-5 grants to 42 states. Florida stood among the eight not receiving an award.

   - The American Rescue Plan Act (ARPA or ARP Act) provided nearly $39 billion in funding for the childcare sector, with about $24 billion for stabilization grants to providers and $15 billion in supplemental discretionary funds for Child Care and Development Fund (CCDF) programs. The supplemental discretionary funds were made flexible for any allowable uses of CCDF funds. Lead agencies across the nation, sister agencies to the ELCOC, have used these funds to support increased rates and changes in payment practices in the subsidy program, such as paying for children's enrollment rather than attendance and using contracted slots rather than exclusively portable vouchers. Changes in payment practices and increased rates proved particularly important for family childcare (FCC) providers, whose self-

[16] https://www.congress.gov/bill/117th-congress/senate-bill/1360

employed, small business runs from home finances and operate differently from centers. Guidance from the US Department of Health and Human Services focuses on how the ARP CCDF supplemental discretionary funds can be used to support the childcare workforce and increase compensation.[17]

The use of funds set the stage for experimentation with compensation strategies to improve childcare workforce compensation, including adjustments to provider payment rates linking high-quality care and workforce compensation. The impact of this approach depends on the family mix (a substantial proportion of children enrolled need to be receiving subsidies to make a difference) and attention in the contracting process to ensure the agreement contains requirements for staff compensation levels—either a minimum wage or the use of a compensation scale.

Provider-level grants to support workforce compensation are distinct from most of the CCDF funds, which are child-based. A different approach accounts for compensation levels as program-level expenses. Funds provided through the ARP Act stabilization grants provide a different (but parallel) mechanism for funding that could be used to support increased compensation for family childcare providers and their employees and all staff or all child-facing staff in a childcare center, rather than only those working with children receiving subsidies.

Programs would still receive the child-level certificate or voucher for children receiving subsidy, but also these program-level grants that permit program-level investments in staff compensation. This implementation could provide predictable, sustainable funding and require programs base salary and benefits on a specific scale or pay a minimum level.

Direct to childcare workforce bonuses or wage supplements provided bonuses or stipends directly to workers at specific childcare programs (e.g., licensed or regulated centers and FCC homes). Bonuses or stipends serve as retention bonuses or as sign-on bonuses to promote the hiring and retention of staff, particularly for staff slots more difficult to fill, such as infant care.

- Expand awareness of T.E.A.C.H. Early Childhood Scholarship Program[18] and Early Childhood Educator INCENTIVE$ Florida[19] (an affiliate of Child Care WAGE$), particularly to expand the workforce pipeline in high schools.

[17] https://www.acf.hhs.gov/sites/default/files/documents/occ/CCDF-ACF-IM-2022-02.pdf
[18] https://teach-fl.org/
[19] https://login.thechildrensforum.com/wages/landing

T.E.A.C.H. Early Childhood Scholarship Program provides funding for educators working towards credentials, college credits, or degrees in early childhood education. INCENTIVE$ Florida rewards educators with financial payments based on their level of education and sustained employment. Together, T.E.A.C.H. and INCENTIVE$ help to educate, retain, and provide additional supports for the early childhood workforce.

B. Deepen awareness and prioritize relationship-building to take advantage of research and technical assistance to be made available through the new National Early Care and Education Workforce Center.[20]

- Expand shared service participation to improve provider margins needed to make investments in workforce compensation, including increased wages, expanded benefits, and training and development. Shared resources/services models improve efficiencies and lower operating costs that can mitigate pressures on providers to raise tuition.

- Make available scholarships modeled after T.E.A.C.H. Early Childhood Scholarship Program to encourage provider participation in the Early Learning Shared Services Alliance (ELSSA).[21] Shared services reduce administrative load, increase revenues, and make available resources needed to improve hiring and retention rates. Reduced cost structures also enable investments in curriculum enhancements, as well as staff training and development, contributing to the overall quality of care and education.

C. Generate Political Will and Momentum for Action

The realization of the policies changes referenced in this report will require significant public resources and a mindset shift in the way early care and education is framed. Any action plan aspiring to succeed must generate significant political will across the spectrum of stakeholders. A first step requires framing the policy as a cross-cutting problem linked to the economy and quality of life, rather than limited to discussions within the ECE sector. The case for addressing challenges with demonstrable socio-economic impact is solid, but the landscape can still be described as fragmented.

[20]https://www.acf.hhs.gov/media/press/2023/hhs-launches-first-national-early-care-and-education-workforce-center
[21] https://www.earlylearningservices.org/

Agencies, philanthropists, and individual stakeholders whose continuation and livelihood rely on government funding often find their hands tied in terms of advocacy activities. The local and state landscape appears to be missing the powerful private sector voice to convene and navigate the policy integration needed to craft a consensus agenda, as well as champion the long-game of advocacy.

A final recommendation is the call to evaluate best practices in policy integration to build consensus and sustain action for change. Policy integration begins with expanding understanding that ECE policies intersect with other policy domains, such as poverty reduction, healthcare, or workforce development. Innovation and policy change must be approached holistically. By considering the broader social and economic context, ECE challenges become collective problems. The work of developing integrated strategies that tackle multiple challenges then occurs simultaneously, leading to more effective and sustainable solutions.

Policy integration encourages collaboration between different sectors, such as education, health, social services, and labor. By bringing together stakeholders from these sectors, policy integration facilitates a more comprehensive understanding of the issues and encourages collective action. Through dialogue and negotiation, the collaborative process of policy integration builds consensus on shared goals and strategies. Integrating policies across sectors can lead to better resource allocation and optimization.

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