



# MINNESOTA BUSINESS VITALITY COUNCIL

## Child Care Business Supports Working Group

### Final Report and Recommendations

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#### WORKING GROUP MEMBERS:

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#### WORKING GROUP CHARGE

The Minnesota Business Vitality Council (MBVC) identified an opportunity to support the creation and sustainability of child care businesses through connection with resources in training, navigation, technical assistance, and other supports. They charged a working group to look for potential recommendations within this scope, including consideration of support for community-level business partnerships and governance and funding opportunities to support and sustain child care businesses.

#### WORKING GROUP MEMBERSHIP

Minnesota Children's Cabinet  
Minnesota Department of Employment and Economic  
Development (DEED)  
Iron Range Resources and Rehabilitation Board (IRRRB)  
Minnesota Department of Education (MDE)  
Minnesota Department of Human Services (DHS)  
Minnesota Department of Labor and Industry (DLI)  
Minnesota Office of Higher Education (OHE)

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# EXECUTIVE SUMMARY

## Working Group Charge

The Minnesota Business Vitality Council (MBVC) identified an opportunity to support the creation and sustainability of child care businesses through connection with resources in training, navigation, technical assistance, and other supports. They charged a working group to look for potential recommendations within this scope, including consideration of support for community-level business partnerships and governance and funding opportunities to support and sustain child care businesses.

## Working Group Membership

For more detail on working group membership, see Appendix A.

Minnesota Children’s Cabinet

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## Background

Early care and education (ECE), a critical part of the economic infrastructure in Minnesota, is dealing with a long-standing crisis. Barriers to creation of stable and sustainable child care businesses have resulted in insufficient supply of child care across the state. This means not enough high-quality early learning opportunities for all our youngest Minnesotans, which reinforces racial and economic disparities. It also leads to greater instability for families with young children and impacts to workforce participation as families struggle to find reliable care. These challenges were further exacerbated by changes to family behavior and public health mitigation efforts during the COVID-19 pandemic.

Recognizing these challenges, the MBVC charged a working group with delving into the obstacles facing the child care industry in Minnesota, focused on a scope of state- and community-level supports that can promote creation and sustainability of child care businesses. The team examined research and case studies from other states and engaged with stakeholders who touch this issue from a variety of perspectives.

Due to multiple failures in the market for child care, the challenges facing this industry cannot truly be resolved without a systematic transformation of the early care and education system. While these root causes must be addressed, there are steps that can be implemented more immediately to continue building a foundation for the root-cause solutions. This report shares information on partner-informed, research-based strategies for achieving systemic transformation while also offering recommendations for steps that sprint research indicates would have meaningful impacts in supporting children, families, and providers.

Both these foundation-building steps and broader transformation must involve community-driven solutions that include partners from all sectors. Child care providers, of course, are part of these solutions by lending their expertise, creativity, and flexibility to offering care in ways that meet the needs of their communities. Government can be part of these solutions by directing resources to where they will have most impact on addressing underlying market failures and to where racial and socioeconomic disparities are most acute. Schools and school districts can be part of these solutions by collaborating in development of strong mixed-delivery systems that offer care and education to families through a variety of well-resourced, effective, interconnected settings. Employers can be part of these solutions by learning from each other about creative approaches to supporting child care access for their employees and communities through strategies such as flexible spending accounts, sponsoring of slots at nearby programs, offering of discounted or free space, or other strategies. While the recommendations in this report focus primarily on what government can do, they were developed with an eye to the impact of what all of these stakeholders can do by working together.





## Key Insights

### The financing of early care and education in Minnesota needs transformation

Child care—as opposed to publicly-provided K-12 education—remains largely a private market in Minnesota. However, child care programs face unique constraints on both the cost and revenue side of the business equation. Due to a variety of factors, including the typically small scale of child care programs, critical health and safety requirements around facilities and staffing ratios, and centrality of staff to providing care, there are limited options when it comes to reducing the cost of providing child care. At the same time, the costs of child care hit families in the earliest years of their child’s life, when families—especially lower-income families and families experiencing poverty—may be least able to pay. With limited ability to increase revenue or reduce costs, child care providers are stuck in the middle and often absorb the discrepancy in the form of low wages; the median hourly wage for child care workers in Minnesota as of 2020 is \$13.80 per hour.<sup>1</sup> These disconnects in the child care business model have wide-reaching impacts on families’ ability to access care, workers’ interest in entering or ability to stay in the ECE field, and workforce participation more broadly across our economy.

To solve these challenges, the financing of early care and education needs transformation. While there are opportunities to meet immediate needs and support child care programs in the short term, in order to have a deep and long-lasting impact on the child care industry we must address these market failures. Many groups of experts and practitioners in the early care and education field have offered sets of recommendations for doing so. An analysis of themes across these recommendations suggests that adopting the following practices, as a coordinated set of strategies, would have significant impact on the affordability and sustainability of child care programs and compensation of the child care workforce:

- **Transforming the child care subsidy system**, including fully funding the system so all eligible children can access subsidies, broadening and deepening eligibility of families for subsidies, capping family contributions at a percentage of income, and setting subsidy rates based on the cost of care.
- **Increasing stability and resiliency in the child care business model**, including providing family subsidy payments in a more consistent way, prioritizing investment in mixed-delivery models and infant-toddler care, and reducing friction in regulatory processes.
- **Helping family child care programs achieve some of the benefits of scale** through strategies like shared service alliances and program models licensed as special family child care where multiple independently-operated family child care providers operate in one building and share certain spaces and resources.<sup>2</sup>
- **Creating viable and coherent pathways for the ECE workforce** by improving workforce compensation, adopting clearly defined career pathways and wage ladders, and investing in multiple entry points into the field.

Many State of Minnesota agencies are working to implement elements of these strategies, and the recommendations outlined in this report would further build the foundation for this vision. However, wholesale adoption of these strategies would require significant investment beyond what the state and federal government currently invest in these systems. For instance, the Transforming Minnesota’s Early Childhood Workforce project estimates that instituting a system in which child care is affordable for families and wages are livable for the ECE workforce would require an additional investment of at least \$2.3 billion per year beyond current State and federal investments.<sup>3</sup> This level of investment would serve an additional estimated 34,000 children over current capacity levels while bringing wages to parity with kindergarten teachers and significantly increasing the number of families eligible for subsidies, helping to stabilize child care access, build supply, and increase quality.<sup>4</sup>

### Supporting cross-sector community partnerships can bolster stability for child care programs

To address child care shortages, local communities are coming together in creative partnerships to provide more stability to child care programs. These cross-sector partnerships may include public and private employers, school districts, local government, nonprofits, and other partners. By bringing additional resources to the table—whether by donating supplies or equipment, providing

<sup>1</sup> Center for American Progress. 2021. “Early Learning Fact Sheet: Minnesota.” [https://cf.americanprogress.org/wp-content/uploads/2021/12/Minnesota.pdf?\\_ga=2.250595393.658433605.1639496233-1686596356.1625579511](https://cf.americanprogress.org/wp-content/uploads/2021/12/Minnesota.pdf?_ga=2.250595393.658433605.1639496233-1686596356.1625579511)



free or subsidized space to child care programs, matching funds for grant applications, or other strategies—these partnerships create some flexibility and added supports for child care both on the business side and in programs’ work to increase the effectiveness of their programs in providing high-quality early learning experiences for children. The State can bolster stability for child care programs in local communities by supporting development of these kinds of cross-sector partnerships.

### **It is important to create alignment of child care business supports as they expand**

The State has recently invested significant federal relief funds in building and sustaining child care capacity, including in multiple programs to support the business side of child care programs. These capacity-building investments involve multiple state agencies and will be implemented through a variety of partnerships. As these initiatives launch and grow, it will be important to ensure that these initiatives are aligned around shared goals, are coordinating and connecting with each other, and are collecting and sharing data as appropriate to identify opportunities for continuous improvement. In addition, because many of these initiatives are currently funded in whole or in part by temporary federal funds, the State will need to identify

additional sources of funding for initiatives in order for them to continue. Collecting evidence about the impact of these capacity-building investments can help inform planning for extended or expanded investment.

### **Addressing child care workforce challenges is critical to other solutions**

Workforce challenges in child care must be solved to stabilize the child care system. Child care programs have long faced challenges with hiring and retaining staff due to low wages and limited benefits, even prior to the COVID-19 pandemic. These challenges are reaching a crisis point as wages increase in many other sectors, making it very challenging for child care programs to compete for employees. Unless we address compensation for the child care workforce and create coherent, viable entry points and pathways for a career in early education, other efforts to expand child care capacity will have limited impact. Addressing child care workforce challenges is critical to attaining the goals of the other solutions outlined in this report.

<sup>2</sup> For more information about special family child care licensing, see: <https://www.revisor.mn.gov/statutes/cite/245A.14#stat.245A.14.4>

<sup>3</sup> Transforming Minnesota’s Early Childhood Workforce Project. Spring 2021. “Transforming the Financing of Early Care and Education in Minnesota.” <https://ecworkforcemn.org/wp-content/uploads/2021/04/Transforming-the-Financing-of-ECE-in-MN-Spring-2021-.pdf>

<sup>4</sup> The 34,000 number is based on population estimates from the U.S. census combined with estimates from the Transforming the Financing report of anticipated percent changes in child care utilization.

# RECOMMENDATIONS

1

## Transforming financing of early care and education in Minnesota

- Increase subsidies for family access to child care
- Continue direct supports to providers to stabilize child care sector
- Use cost modeling data to inform future financing decisions

2

## Supporting cross-sector community partnerships

- Offer tax incentives to employers for investments in child care capacity
- Establish a Regional Child Care Facility Fund
- Ensure community planning funding and support are available in all regions

3

## Aligning and expanding child care business supports

- Support ongoing coordination across child care capacity-building efforts
- Extend funding for child care business supports
- Leverage connections between One Stop Assistance Network, economic development programs
- Evaluate innovative investments

4

## Addressing child care workforce challenges

- Increase investment in scholarships for postsecondary education opportunities
- Expand and develop “earn and learn” opportunities in ECE
- Conduct an updated child care workforce study

## INTRODUCTION

Early care and education (ECE) is a critical piece of Minnesota’s economic infrastructure. Parents rely on it to be able to work, employers rely on it to be able to recruit and retain employees, and the sector itself employs more than 40,000 people statewide.<sup>5</sup> The importance of this sector has been highlighted throughout the COVID-19 pandemic: as programs made decisions about staying open or closing, classrooms closed with quarantines, or families made decisions to keep children home, child care capacity was affected and this impacted caregivers’—especially women’s—ability to participate in the workforce.<sup>6</sup>

We are at an inflection point for our ECE system. Whether we will be able to create more access and affordability for families, more stability and sustainability for child care programs, and higher wages and benefits for the child care workforce has wide-reaching implications across our economy, including for:

- Parents’, guardians’, and caregivers’ ability to work and support their families financially
- Minnesota communities’ ability to attract and retain economic development, including employers’ interest

in locations with the infrastructure to support their workforce the possibility of attracting young families to Minnesota for the benefits of a strong ECE system; and

- The future workforce of our state, in providing high-quality learning environments in the foundational years of brain development.

Addressing the root of the challenges facing child care requires transformation – a new way of thinking about the role of early care and education in our society and our economy. Without this transformation, which would require substantial additional public investment and wide-ranging systems change, efforts to support the child care industry are unlikely to solve the underlying challenges. At the same time, there are steps we can take now to build a foundation for the investments required to achieve systemic transformation.

This report outlines the recommendations of the sprint working group convened by the Minnesota Business Vitality Council (MBVC) to focus on the business needs of the child care sector. Within this scope, the working group examined both system-wide needs and community-level solutions. This report presents key findings, including information on partner-informed, research-based strategies to transform the child care business model, as well as recommendations



## Sprint Process Overview

The MBVC convened a working group with membership from the Governor’s Children’s Cabinet, Minnesota Department of Employment and Economic Development (DEED), Iron Range Resources and Rehabilitation Board (IRRRB), Minnesota Department of Education (MDE), Minnesota Department of Human Services (DHS), Minnesota Department of Labor and Industry (DLI), and Minnesota Office of Higher Education (OHE). The MBVC charged the working group to develop a set of recommendations within a scope of supports for the creation and sustainability of child care businesses.

The sprint working group met regularly between September 2021 and March 2022 and utilized a number of human-centered design methods to facilitate a child care provider-focused problem-solving approach. The working group engaged with business leaders, ECE support organizations, community partnerships, state agency partners, and others connected to the child care system. (For a full list of stakeholders engaged in the sprint process, see Appendix E.) Throughout the engagement process, ideas and input from partners were used to shape and iterate the recommendations outlined to ensure viability. In addition to engagement with partners and others connected to ECE, the sprint working group completed a literature review to further understand the systemic needs that must be addressed to resolve the child care crisis. The working group used an equity framework as a tool for prioritizing needs of historically disenfranchised groups in development of recommendations: considering populations most affected, who would benefit or be burdened by a specific initiative, and how to mitigate potential unintended consequences.

for laying the groundwork for the transformation required for a stable, sustainable early care and education system in our state.

Both these foundation-building steps and broader transformation must involve community-driven solutions that include partners from all sectors. Child care providers, of course, are part of these solutions by lending their expertise, creativity, and flexibility to offering care in ways that meet the needs of their communities. Government can be part of these solutions by directing resources to where they will have most impact on addressing underlying market failures and to where the needs and disparities are most acute. Schools and school districts can be part of these solutions by collaborating in development of strong mixed-delivery systems that offer care and education to families through a variety of well-resourced, effective, interconnected settings. Employers can be part of these solutions by learning from each other about creative approaches to supporting child care access for their employees and communities through strategies such as flexible spending accounts, sponsoring of slots at nearby programs, offering of discounted or free space, or other strategies. While the recommendations in this report focus primarily on what government can do, they were developed with an eye to the impact of what all of these stakeholders can do by working together.

<sup>5</sup> National Survey of Early Care and Education (NSECE). 2019. Center-Based Care Survey: Minnesota Supplement Study; 2019 Home-Based Providers Survey: Minnesota Supplement Study.

<sup>6</sup> Lim, K., Zabeck, M. February 28, 2022. Women of color and women with children disproportionately left the labor force during the COVID-19 pandemic. Minneapolis Federal Reserve Bank. <https://www.minneapolisfed.org/article/2022/women-of-color-and-women-with-children-disproportionately-left-the-labor-force-during-the-covid-19-pandemic>

# DEFINITIONS



A variety of terms are used to describe the care and education settings available to families during the earliest years of their children's lives; these terms are sometimes used differently in different contexts. This section outlines how we will use terms throughout this report. Where relevant, these definitions are aligned with the definitions in use by the [Great Start for All Minnesota Children Task Force](#).

- ▶ **Child Care** – Early care and education settings that typically provide care to children before they are of school age or during out-of-school time. Due to the focus of this report, we have focused primarily on those settings where care is provided in a market-based way (though incorporating various kinds of subsidy programs).
  - **Child care center / Center-based care** – These programs are often in free-standing buildings, businesses, community centers, or places of worship. These centers are licensed and monitored through the Minnesota Department of Human Services (DHS) or a tribal licensing agency.
  - **Family child care / Home-based care** – Family child care providers may care for infants, toddlers, preschoolers, and school-age children in their homes. Some family child care programs are also provided in commercial spaces or places of worship. Family child care programs are licensed through DHS and monitored by the county or tribal licensing agency with delegated authority from the commissioner of human services.
  - **Special family child care** – A family child care program is licensed under special family child care statute if it is a non-residential child care program serving 14 or fewer children that is conducted at a location other than the license-holder's own residence.<sup>7</sup>
- ▶ **Early Care and Education (ECE)** – A broad term that encompasses the services provided to children from birth to age 5, through all types of programs that aim to support children's social, emotional, cognitive, and physical development.
- ▶ **"Earn and Learn" Models** – Workforce training models that allow individuals to earn a paycheck while gaining skills through on-the-job training paired with related education to prepare them for a specific occupation.
- ▶ **Equity** – When every person, regardless of race, ethnicity, gender, age, socioeconomic status, or geographic location has the opportunity to realize their full potential of physical, social, emotional, and cognitive well-being, without limits imposed by structural inequities. Equity is ensuring everyone has what they need to be successful. This is different from equality which involves treating everyone the same.
- ▶ **Mixed Delivery System** – System of programming and services for children from birth through age 5 delivered through a variety of providers, settings, and funding structures. These settings include licensed child care centers, licensed family child care providers, family friend and neighbor care, school-based pre-kindergarten, and Head Start programs. Minnesota and other states use a mixed-delivery system in order to offer choices to families that best meet the needs and preferences of families, children, and communities.
- ▶ **One Stop Assistance Network** – The One Stop Assistance Network referenced at various points throughout this report is a new initiative currently being implemented by the Department of Human Services in partnership with Minnesota's [statewide Child Care Aware system](#). The network will include staff in each Child Care Aware region, as well as in the central coordinating office, who will provide support, technical assistance, and connection to resources for new or existing child care providers with processes of starting, sustaining, or expanding their programs. Staff will help providers navigate processes including business planning, securing of financing, licensing, securing a facility, and more. The network will also include a website where information and resources related to these processes can be easily accessed.

<sup>7</sup>For more information about Special Family Child Care, see: <https://www.revisor.mn.gov/statutes/cite/245A.14#stat.245A.14.4>

# SPRINT KEY INSIGHTS AND FINDINGS

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## The financing of early care and education in Minnesota needs transformation

Many of the challenges facing the ECE sector boil down to the fact that parents cannot afford to pay what it costs to provide care that meets the minimum standards we have set in place, much less what it would cost to meet the highest standards of quality that would best support the early brain development of our youngest learners.<sup>8</sup> To meet the sprint charge of recommending resources that will support and stabilize child care businesses, the working group identified a need to understand the barriers child care programs face to earning enough income to meet their true costs. This section explores the child care business model in more detail and examines the reasons for these barriers.

According to Opportunities Exchange, an organization which researches child care business practices, the three elements of a successful business model for child care programs are full enrollment, full fee collection, and revenues that cover per-child costs.<sup>9</sup> Even programs that manage these factors carefully, however, operate on razor-thin margins with little room to absorb minor setbacks, much less the major disruptions of a multi-year pandemic.<sup>10</sup>

Part of the reason for such thin margins is that child care is a highly labor-intensive business. Care of children is not an activity where efficiencies are easy to come by; children require attention, interaction, and care. Minimum staff-to-child ratios are set by licensing rules; while there is good reason to mandate sufficient staffing to protect the health and safety of children, this leaves programs with little room to adjust on the cost side. A training led by Women Venture for child care providers counsels participants that child care centers should expect 85-95% of revenue to go toward expenses (with 60-75% going to staffing) and family child care programs should expect 40-60% of revenues to go toward expenses.<sup>11</sup>

Parents of young children are often unable to invest in their children's ECE experiences at a level commensurate with the benefits to themselves, their children, and society more broadly. Many families are stretching beyond their limits to pay for child care, with the typical family in Minnesota spending 11.1% of their income on child care.<sup>12</sup> This means that child care businesses also face constraints on the revenue side of the business equation. While most businesses can raise prices to cover increased costs, child care is a service used mainly by young families who are often already paying more than they can afford. As Liz Davis and Aaron Sojourner reason in a recent policy proposal, "[c]ompared to when their children are older, parents of young children have less private resources – less past income, lower current earning power, and less access to their future income." When parents need child care to work, but the wages they earn are not sufficient to meet the cost of care, it results in difficult choices for families and providers being unable to charge what the service actually costs.

Davis and Sojourner point out other areas of market failure in ECE, including the fact that benefits of access to ECE are broader than just to individual families with children, and that families may face significant hurdles finding, assessing, and enrolling in child care that meets their needs. In other areas where the market cannot effectively provide a service that is of significant benefit to society as a whole—in K-12 education, for example—public subsidy helps fill the gap. There is some level of public subsidy for child care, especially for low-income families, but this makes up a relatively minor portion of revenue for child care programs, most of which remain predominantly reliant on private-pay parent tuition. Figure 1, below, also from Davis and Sojourner's paper, highlights the differing levels of public investment in children's education based on age group.

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*Many families are stretching beyond their limits to pay for child care, with the typical family in Minnesota spending 11.1% of their income on child care.*

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<sup>8</sup>Center for the Study of Child Care Employment, April 2020. "Why do parents pay so much for child care when early educators earn so little?" <https://cscce.berkeley.edu/why-do-parents-pay-so-much-for-child-care-when-early-educators-earn-so-little/>

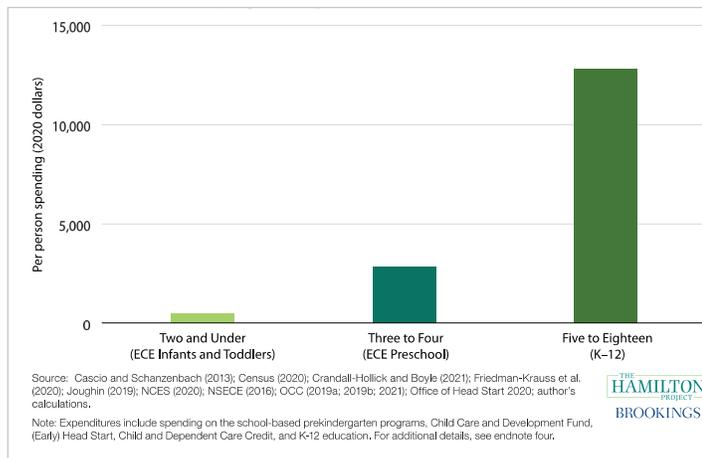
<sup>9</sup>Stoney, L. 2019. "The Iron Triangle: A Simple Formula for Financial Policy in ECE Programs." Opportunities Exchange. [https://info.childcareaware.org/hubfs/OpEx\\_2019\\_IronTriangle.pdf](https://info.childcareaware.org/hubfs/OpEx_2019_IronTriangle.pdf)

<sup>10</sup>Grunewald, R. June 24, 2020. "How a COVID-19 10-person group limit affects Minnesota's child care providers" Federal Reserve Bank of Minneapolis. <https://www.minneapolisfed.org/article/2020/how-a-covid-19-10-person-group-limit-affects-minnesotas-child-care-providers>

<sup>11</sup>Women Venture. Class offered August 9, 2021. "Exploring Child Care: Is Starting a Child Care Business Right for You?" For more information: <https://www.womenventure.org/CCBS/child-care-business-services-training/exploring-child-care.html>

<sup>12</sup>Center for American Progress. 2021. "Early Learning Fact Sheet: Minnesota." [https://cf.americanprogress.org/wp-content/uploads/2021/12/Minnesota.pdf?\\_ga=2.250595393.658433605.1639496233-1686596356.1625579511](https://cf.americanprogress.org/wp-content/uploads/2021/12/Minnesota.pdf?_ga=2.250595393.658433605.1639496233-1686596356.1625579511)

**Figure 1: Federal, State, and Local Government Spending on Child Care and Education in 2019**



Even where public subsidy is available to families seeking assistance paying for child care, it is often insufficient to cover the cost of high-quality care in their area. When this is the case, families receiving assistance must either find and accept care that costs less or pay the difference out of pocket. Current funding for child care assistance is not sufficient to meet the full need, leaving many eligible families on waiting lists when they urgently need care. The burden of these gaps is felt most deeply by Minnesota's lowest income families, who are disproportionately families of color and indigenous families; barriers to accessing care that meets these families' needs can reinforce existing disparities.<sup>16</sup>

While recent legislative action in Minnesota to increase rates relative to the median market rate for the Child Care Assistance Program (CCAP), Minnesota's child care subsidy program, helps, it does not fully eliminate the gap. Moreover, for the reasons discussed above, the market rate for child care is not a good indicator of the true cost to programs of providing high-quality care because the market rate is circumscribed by what parents are able to pay. Figures 2 and 3, below, illustrate the differences between baseline CCAP rates; CCAP rates for a program with the highest rating in Parent Aware, Minnesota's Quality Rating and Improvement System (earning a Parent Aware rating allows programs to access higher CCAP reimbursement rates); median market rates; and "true" costs based on Center for American Progress research on costs of providing care that meets the highest benchmarks of quality.



## Structural racism impacts access to early child care and education

The effects of structural racism on families' access to early care and education are critical context for the discussion of the need for systemic transformation in ECE. The cost burden of child care impacts Black and Indigenous Minnesotans and Minnesotans of color more than their white counterparts. The average cost of care coupled with racial disparities in median annual earnings limits access to child care and labor force participation for these communities. For instance, Native American, Black, Latinx, and Hmong workers in Minnesota tend to have lower annual earnings, with medians of \$27,900, \$28,700, \$29,000, and \$35,000, respectively. By contrast, Asian workers (excluding the Hmong population) and White workers have median earnings of \$42,800 and \$47,900, respectively.<sup>1</sup> Access barriers aren't limited to income alone. Native American and Latinx communities are more likely to live in child care deserts, creating additional challenges to accessing care.<sup>2</sup>

<sup>1</sup>Eng Ky, K., Startling, L., Nunn, R. November 2020. People of color face systemic disparities in Minnesota's labor market: Cumulative structural disadvantages create a challenging employment landscape for Minnesotans of color. Federal reserve bank of Minneapolis. <https://www.minneapolisfed.org/article/2020/people-of-color-face-systemic-disparities-in-minnesotas-labor-market>

<sup>2</sup>Rasheed M. et al. December 2018. America's Child Care Deserts in 2018. Center for American Progress, <https://www.americanprogress.org/issues/early-childhood/reports/2018/12/06/461643/americas-child-care-deserts-2018/>.

<sup>16</sup>Meek, S., Iruka, I. U., Allen, R., Yazzie, D., Fernandez, V., Catherine, E., McIntosh, K., Gordon, L., Gilliam, W., Hemmeter, M. L., Blevins, D., & Powell, T. December 2020. "Fourteen priorities to dismantle systemic racism in early care and education." The Children's Equity Project. <https://childandfamilysuccess.asu.edu/sites/default/files/2021-12/14-priorities-equity-121621.pdf>

**Figure 2: Annual Cost to Families of Care at a Child Care Center in Hennepin County<sup>17</sup>**

Age	CCAP - Base	CCAP - Parent Aware 4-Star	Median Market Rate	Cost of High Quality
Infant	\$19,032	\$22,838	\$19,864	\$28,700
Toddler	\$16,328	\$19,594	\$17,520	\$22,000
Preschool	\$13,780	\$16,536	\$15,600	\$16,600

**Figure 3: Annual Cost to Families of Care at a Family Child Care Program in Crow Wing County<sup>18</sup>**

Age	CCAP - Base	CCAP - Parent Aware 4-Star	Median Market Rate	Cost of High Quality
Infant	\$7,020	\$8,424	\$7,280	\$16,968*
Toddler	\$6,760	\$8,112	\$7,020	\$16,968*
Preschool	\$6,500	\$7,800	\$6,760	\$16,968*

Notes for Figures 2 and 3: CCAP and Parent Aware from DHS maximum CCAP rates as of November, 2021; median costs from 2021 Child Care Market Price Analysis, November 2021; quality costs estimated using Center for American Progress (CAP) Cost of Child Care tool and report from 2018. Where relevant, annual costs derived by multiplying weekly cost by 52.

\* Estimate derived from CAP cost estimate tool, which does not differentiate age groups for family child care.

A large part of what drives the higher cost of the “high quality” calculation is incorporation of compensation that is equitable and sustainable for the child care workforce.<sup>19</sup> The gap between market rates and the true cost of providing child care is, in essence, subsidized by the child care workforce in the form of low wages.<sup>20</sup> The median hourly wage for child care workers in Minnesota as of 2020 is \$13.80 per hour. Up-to-date data specific to earnings of family child care providers is limited, but a 2016 study by First Children’s Finance found that family child care

providers participating in the study had an average annual salary of \$24,566, which translated to a wage of less than \$8 per hour of operations.<sup>21</sup> Our willingness as a society to allow the child care workforce, which nationally is 94% female and 40% people of color,<sup>22</sup> bear the brunt of this broken business model speaks to gender and racial bias in the way society conceives of the value of care work and in the way our policy choices have failed to support this “workforce behind the workforce.”<sup>23</sup>

<sup>17</sup>Minnesota Department of Human Services. November 2021. “Minnesota Child Care Assistance Program - Standard Maximum Rates.” <https://edocs.dhs.state.mn.us/lfserver/Public/DHS-6441D-ENG>; Minnesota Department of Human Services. November 2021. “Minnesota Child Care Assistance Program – 20% Quality Differential Maximum Rates.” <https://edocs.dhs.state.mn.us/lfserver/Public/DHS-6824B-ENG>; Minnesota Department of Human Services. November 2021. “Final Report for the 2021 Child Care Market Price Analysis.” <https://edocs.dhs.state.mn.us/lfserver/Public/DHS-6226G-ENG>; Workman, S. February 2018. “Where Does Your Child Care Dollar Go? Understanding the True Cost of Quality Early Childhood Education.” Center for American Progress. <https://www.americanprogress.org/article/child-care-dollar-go/>

<sup>18</sup> Ibid.

<sup>19</sup> Grunewald, R. Stepick, L. January 5, 2022. “What drives the cost of high-quality early care and education?” Federal Reserve Bank of Minneapolis. <https://www.minneapolisfed.org/article/2022/what-drives-the-cost-of-high-quality-early-care-and-education>

<sup>20</sup> Center for American Progress. 2021. “Early Learning Fact Sheet: Minnesota.” [https://cf.americanprogress.org/wp-content/uploads/2021/12/Minnesota.pdf?\\_ga=2.250595393.658433605.1639496233-1686596356.1625579511](https://cf.americanprogress.org/wp-content/uploads/2021/12/Minnesota.pdf?_ga=2.250595393.658433605.1639496233-1686596356.1625579511)

<sup>21</sup> First Children’s Finance. 2016. “Business Practices of Family Child Care: Expanding What We Know.” <https://lcc.mn.gov/tfcc/meetings/160830/FCF%20Data%20Brief%20-%20Business%20Practices%20of%20Family%20Child%20Care.pdf>

<sup>22</sup> National Conference of State Legislatures. April 2021. “The Early Care and Education Workforce.” <https://www.ncsl.org/research/human-services/the-early-care-and-education-workforce.aspx>

<sup>23</sup> Austin, L. Edwards, B., Chávez, R., Whitebook, M. December 19, 2019. “Racial Wage Gaps in Early Education Employment.” Center for the Study of Child Care Employment. <https://csce.berkeley.edu/racial-wage-gaps-in-early-education-employment/>



## Disparities in the child care workforce

Racial and economic disparities are at play in the ECE system not only in terms of family access to care, but also in who makes up the workforce. The ECE workforce, which nationally is 94% female and 40% people of color, is one of the most underpaid workforces in the country, with early educators among the lowest-paid workers in every state.<sup>1</sup> Even within the ECE profession, positions and correlated wages are unequal. Black and Hispanic workers are more likely to be in lower-level positions even when accounting for education levels. Additionally, Black early educators are typically paid 78 cents less per hour than their white peers.<sup>2</sup>

<sup>1</sup>Whitebook, M., McLean, C., & Austin, L. July 2016. Early Childhood Workforce Index. Center for the Study of Child Care Employment, University of California, Berkeley. <https://cscce.berkeley.edu/early-childhood-workforce-2016-index/>; “The Early Care and Education Workforce.” April 2021. National Conference of State Legislatures. <https://www.ncsl.org/research/human-services/the-early-care-and-education-workforce.aspx>

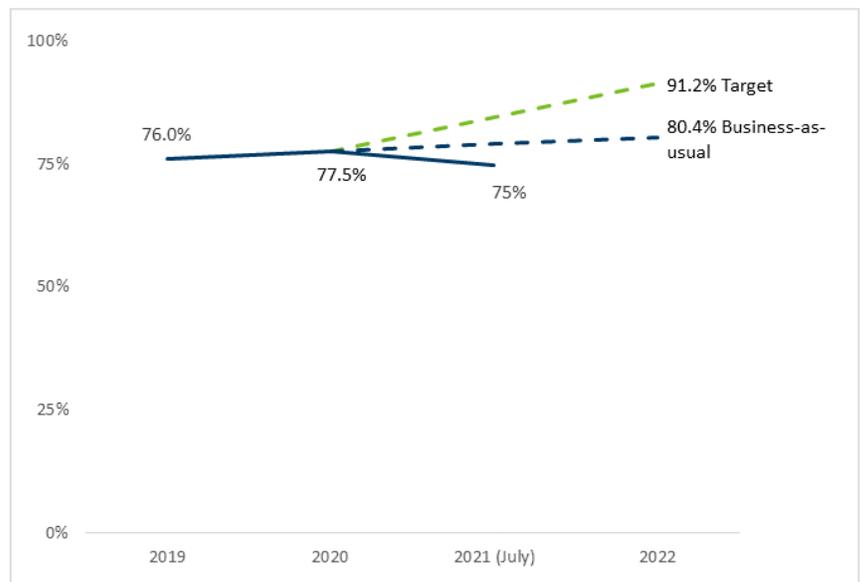
<sup>2</sup>Sethi, S., Johnson-Staub, C., Gallagher Robbins, K.. July 2020. An Anti-Racist Approach to Supporting Child Care Through COVID-19 and Beyond. The Center for Law and Social Policy. 2020 [https://www.clasp.org/sites/default/files/publications/2020/07/2020\\_antiracistchildcare\\_0.pdf](https://www.clasp.org/sites/default/files/publications/2020/07/2020_antiracistchildcare_0.pdf)

## Impacts of Market Failures in Child Care Business Model

The impacts of these market failures in the child care business model are far-reaching. The difficulty with creating a stable and sustainable child care business means that there is not enough child care available to meet families’ needs—the market does not produce sufficient supply to meet the demand.

The State has been partnering for several years with researchers at the University of Minnesota to examine data on child care supply to better understand trends in family access. As Figure 4 illustrates, Minnesota’s efforts to support the child care industry through the COVID-19 pandemic have prevented a dramatic decline in overall access, but significant capacity expansion is still required to meet the Walz-Flanagan administration’s target of 91% of families having adequate access to child care.

Figure 4: Percentage of families with adequate access to child care 2019-2022



Source: MMB Results

## Prioritizing Child Care Goals During the Pandemic

Access to affordable child care continues to be a priority that Governor Walz and Lieutenant Governor Flanagan hear from families, businesses, and Minnesotans across the state. As a result, the Governor and Lt. Governor made increasing the number of Minnesota families with adequate access to child care a key priority of their administration and called on leaders across state government to help achieve the goal.

During the pandemic, the Administration doubled down on its goal and focused in on trying to support open child care providers. This included engaging in a cross-agency emergency response in support of early care and education programs to maintain capacity in the child care industry and support families in being able to access the care they need. For more information about the emergency response and its impact on stabilizing the sector during the pandemic (see Appendix F).

Challenges with access vary widely by geographic region and by family situation. A trend for many years has been the consolidation of child care slots into center-based settings as the number of family child care programs has shrunk (see Figure 5, below). This trend has a disproportionate impact on families in more rural parts of the state where there may not be sufficient concentrations of families with young children to sustain a child care center. Whereas family child care programs may previously have been able to maintain a presence nearer to families in rural areas, consolidation into centers in regional population nodes can exacerbate transportation challenges and lack of access to child care. For additional discussion of long-term trends in child care capacity across settings, see Appendix F.



As noted above, another impact of the market failures in child care is unsustainably low wages for the child care workforce. Development of a pipeline into child care careers has been a longstanding problem “as people don’t see it as a viable career given the low wages and lack of opportunity for career advancement.”<sup>26</sup> Lack of available of early childhood educators becomes a self-perpetuating cycle as guidance counselors discourage students from such low-wage work and institutions of higher education close ECE degree programs for lack of enrollment. The workforce shortage has intensified in the last year. As employers across nearly all industries scramble to hire, child care programs have been unable to compete with other jobs that offer higher pay with lower barriers to entry.<sup>27</sup>

Other factors, including affordability, language, cultural competency, and hours of operation, affect family access even in areas where populations of children with families are sufficient to support child care centers at scale. These challenges are compounded for families facing systemic barriers to access, including low-income families, immigrant families, Black families, Indigenous families, and families of color. When children experience disparities in access to, experiences in, and outcomes of early learning, it affects their foundational development and reinforces systemic inequities.<sup>25</sup>

**Figure 5: Net Change in Child Care Capacity, 2000-2020<sup>24</sup>**

Greater MN	2000	2020	Net Change
Family child care	90,686	55,231	-35,455
Center child care	25,730	40,933	15,203
Twin Cities metro	2000	2020	Net change
Family child care	68,845	29,120	-39,725
Center child care	60,779	97,816	37,037
Total Greater MN capacity	116,416	96,164	-20,252
Total Twin Cities capacity	129,624	126,936	-2,688

<sup>24</sup> Werner, N. February 18, 2021. “Child care in rural Minnesota after 2020.” Center for Rural Policy and Development. <https://www.ruralmn.org/child-care-in-rural-minnesota-after-2020/>

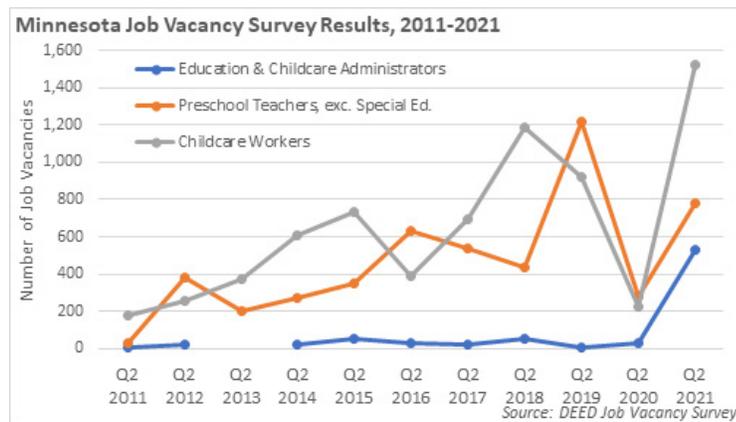
<sup>25</sup> Meek, S., Iruka, I. U., Allen, R., Yazzie, D., Fernandez, V., Catherine, E., McIntosh, K., Gordon, L., Gilliam, W., Hemmeter, M. L., Blevins, D., & Powell, T. December 2020. “Fourteen priorities to dismantle systemic racism in early care and education.” The Children’s Equity Project. <https://childandfamilysuccess.asu.edu/sites/default/files/2021-12/14-priorities-equity-121621.pdf>

<sup>26</sup> B8 Workforce Core Team. January 2019. “Transforming Minnesota’s Early Childhood Workforce.” Page 9. <https://ecworkforcemn.org/wp-content/uploads/2019/05/Transforming-MN-Early-Childhood-Workforce-Plan-January-2019-2-2.pdf>

<sup>27</sup> Cain Miller, C. September 21, 2021. “‘Can’t Compete’: Why Hiring for Child Care is a Huge Struggle.” The New York Times. <https://www.nytimes.com/2021/09/21/upshot/child-care.html#:~:text=Child%20care%20providers%20are%20struggling%20to%20hire%20enough,can%E2%80%99t%20recruit%20enough%20workers%20to%20meet%20the%20demand.>

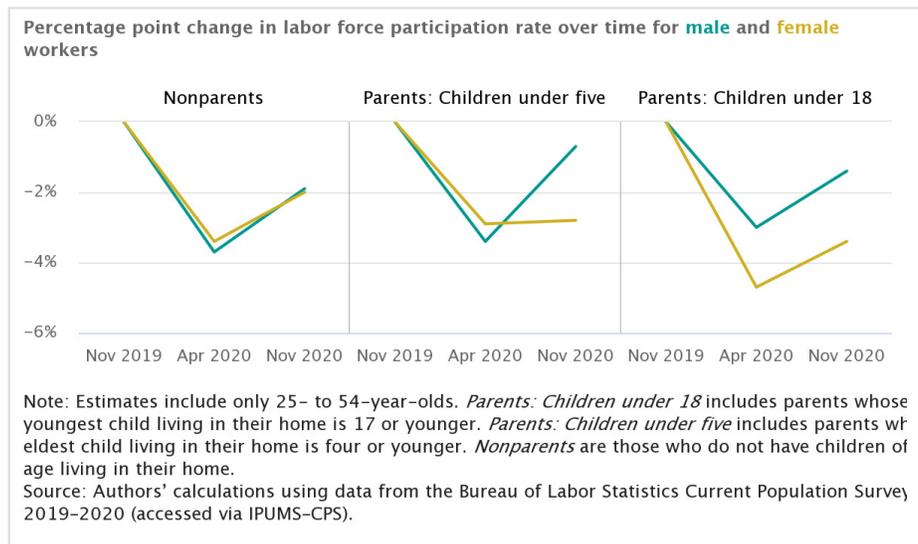
Data from Minnesota’s Labor Market Information system illustrates in striking detail the workforce shortage currently facing Minnesota’s child care industry. Figure 6 shows a dramatic spike in the second quarter of 2021 in job vacancies for the categories that most closely overlap with child care—to historic highs for both child care workers and education and child care administrators. (For more detailed job vacancy and salary data, see Appendix C). This compounds the challenges with access for families. Child care providers engaged for this sprint described situations in which directors were filling in as classroom teachers, or even forced to keep some of their classrooms closed for lack of teachers, forgoing revenue needed to keep their programs running and reducing access for families.

**Figure 6: Minnesota Job Vacancy Survey Results, 2011-2021<sup>28</sup>**



The market failures in child care also affect the ability of employers in other industries to recruit workers. A slew of recent headlines — “Return to Work? Not With Child Care Still in Limbo”;<sup>29</sup> “Child care centers’ hiring struggles hinder return-to-work plans”;<sup>30</sup> “Study Shows Return-to-Work Hesitancy is Fueled by Lack of Childcare, Vaccines”<sup>31</sup> — illustrate the clear linkages between lack of access to child care and challenges with recruiting and retaining employees. Research by the Federal Reserve Bank of Minneapolis shows a gendered element to this trend; as Figure 7 shows, while male and female workers left the workforce in similar proportions at the start of the pandemic, by November 2020 male workers were more likely to have returned to near-pre-pandemic employment rates while female workers with children under 18 were much less likely to have returned to work.

**Figure 7: Fathers and mothers both left the labor force, but fathers were more likely to return<sup>32</sup>**



<sup>28</sup>Minnesota Department of Employment and Economic Development Job Vacancy Survey – Second Quarter 2021. <https://apps.deed.state.mn.us/lmi/jvs/Results.aspx>

<sup>29</sup>Cain Miller, Claire. August 5, 2021. “Return to Work? Not With Child Care Still in Limbo, Some Parents Say.” The New York Times. <https://www.nytimes.com/2021/08/05/upshot/covid-child-care-schools.html>

<sup>30</sup>El-Bawab, Nadine. July 29, 2021. “Child-care centers’ hiring struggles hinder return-to-work plans.” NBC News. <https://www.nbcnews.com/business/economy/child-care-centers-hiring-struggles-hinder-return-work-plans-n1275424>

<sup>31</sup>Backman, Maurie. July 10, 2021. “Study Shows Return-to-Work Hesitancy Is Fueled by Lack of Childcare, Vaccines -- Not Government Benefits.” MSN. <https://www.msn.com/en-us/money/personalfinance/study-shows-return-to-work-hesitancy-is-fueled-by-lack-of-childcare-vaccines-not-government-benefits/ar-AAM0cHN>

<sup>32</sup>Boesch, Tyler, Rob Grunewald, Ryan Nunn, and Vanessa Palmer. February 2, 2021. “Pandemic pushes mothers of young children out of labor force.” Federal Reserve Bank of Minneapolis. <https://www.minneapolisfed.org/article/2021/pandemic-pushes-mothers-of-young-children-out-of-the-labor-force>

Child care-induced reductions in labor force participation are not solely a pandemic-era phenomenon, however. The baseline state of the child care system in the U.S. leaves many parents of young children sitting out of the workforce, or unable to work as much as they would like. Research indicates that this has significant economic implications for our nation and our state; for more detail, see “Economic Impact of the Child Care Sector” box below. Increasingly, employers are recognizing the importance of child care as a piece of critical infrastructure to support their own workforces and are getting involved in efforts to expand child care access in their communities.<sup>33</sup>



## Economic Impact of Child Care Sector

Though the factors influencing workforce participation across industries are complex, attempts to estimate the economic impact of increasing caregivers’ ability to participate in the workforce by expanding access to affordable child care indicate that this impact would be significant. A recent report from Wells Fargo estimates that, nationally, raising the labor force participation

of mothers with young children to match that of women with school-age children would mean approximately one million additional participants in the workforce.<sup>1</sup> A 2012 analysis by Booz & Company estimated that increasing women’s workforce participation to parity with men’s—an outcome for which child care access would be one, though not the only, important factor—would mean an increase of 5% in the U.S. gross domestic product.<sup>2</sup> For Minnesota in particular, the Center for American Progress recently estimated an annual economic benefit to Minnesota of \$1.02 billion if the state were to institute universal pre-K; the inverse conclusion is that Minnesota is experiencing an annual loss in foregone economic productivity of at least that amount—and likely more, given the acute lack of access to care for infants and toddlers, who would not be covered by pre-K.<sup>3</sup> A more comprehensive study of the economic impact of child care in Minnesota could be a fruitful area for additional research.

<sup>1</sup>House, S., Pugliese, M. and Vesely, K. March 1, 2022. “Who Cares? How the Childcare Industry’s Problems Are Every Employer’s Problem.” Wells Fargo Economics. <https://wellsfargo.bluematrix.com/docs/html/3f0d1aae-6a00-472a-8a4c-6f9fe2d6c4e6.html>

<sup>2</sup>Aguirre, D., Hoteit, L., Rupp, C., Sabbagh, K. 2012. “Empowering the Third Billion: Women and the World of Work in 2012.” Booz & Company. [https://www.tias.edu/docs/default-source/documentlibrary\\_fsinsight/boozco\\_empowering-the-third-billion\\_full-report.pdf](https://www.tias.edu/docs/default-source/documentlibrary_fsinsight/boozco_empowering-the-third-billion_full-report.pdf)

<sup>3</sup>Center for American Progress. 2021. “Early Learning Fact Sheet: Minnesota.” [https://cf.americanprogress.org/wp-content/uploads/2021/12/Minnesota.pdf?\\_ga=2.250595393.658433605.1639496233-1686596356.1625579511](https://cf.americanprogress.org/wp-content/uploads/2021/12/Minnesota.pdf?_ga=2.250595393.658433605.1639496233-1686596356.1625579511)

<sup>33</sup>For a collection of examples of employer efforts across Minnesota, see the Itasca Project’s First 1000 Days resources: <https://itascaproject.org/first-1000-days/>



## Estimated Return on Investment in Early Childhood

While estimates of needed investment in early childhood supports are significant, research finds that these investments yield significant benefits. Beyond all the other societal benefits of investing in a system that makes child care affordable and wages livable, the efforts to quantify the benefits of investing in ECE have found significant returns on investment. The National Bureau of Economic Research has shown that high-quality ECE programs for disadvantaged children can deliver a 13% annual return on investment.<sup>1</sup> This study found that returns on investment are higher the earlier in a child's life the investment is made, and that investment in high-quality early childhood programs also yield higher returns.

According to the Children's Defense Fund Minnesota, "investments in early education and intervention programs not only support future learning and development, but also reduce the need for remedial services like Special Education, justice systems, and public work support programs, and can result in societal returns on investment of up to \$16 for every \$1 spent on prevention and intervention."<sup>2</sup>

There is additional research that shows that availability of quality ECE programs can serve as an attraction to parents in where they choose to live. The W.E. Upjohn Institute for Employment Research estimates that for each \$1 spent on high-quality ECE, local property values will go up by \$13.<sup>3</sup>

<sup>1</sup>García, J., Heckman, J., Leaf, Ermini, D., Prados, M. The Life-Cycle Benefits of an Influential Early Childhood Program. December 2016. National Bureau of Economic Research.

<sup>2</sup>Children's Defense Fund Minnesota. 2017. Evaluating Early Childhood Program Access: An Analysis of Participation Data for Lower Income Children, Children of Color and American Indian Children from the Minnesota Early Childhood Longitudinal Data System. <https://www.cdf-mn.org/wp-content/uploads/sites/5/2018/07/evaluating-early-childhood.pdf>

<sup>3</sup>Bartik, T., 2011. Early Childhood Programs as an Economic Development Tool: Investing Early to Prepare the Future Workforce. Upjohn Institute for Employment Research. [https://www.purdue.edu/hhs/hdfs/fii/wp-content/uploads/2015/07/s\\_wifis31c03.pdf](https://www.purdue.edu/hhs/hdfs/fii/wp-content/uploads/2015/07/s_wifis31c03.pdf)

## Systemic Solutions for Root-Cause Problems

For ECE to thrive and meet the needs of all children, families, and communities across our state, the issues described above must be addressed, which requires significant additional investment in child care and early education systems. Without significant additional investment, any efforts to address the symptoms of these root causes are unlikely to solve the problems. The Transforming Minnesota's Early Childhood Workforce project has estimated that instituting a system in which child care is affordable for families and wages are livable for the ECE workforce would require an additional investment of at least \$2.3 billion per year beyond current State investments.<sup>34</sup> An investment of this scale would serve an additional estimated 34,000 children over existing capacity levels, meeting both current levels of demand and projected increase in demand for child care services while supporting a high-quality and more stable system.<sup>35</sup> The sprint recommendations outlined later in this report were developed through a frame of steps that would not only address immediate needs but also build foundational elements to support a broader transformational investment in the ECE system.

At the same time, our sprint research highlighted steps that many researchers, policymakers, and practitioners in the field have identified as leading to broader ECE transformation. While these steps would require significant investment of financial resources, time and effort, and political capital, they would also pay significant dividends in early childhood development, family stability and prosperity, and economic gains in Minnesota. This section outlines some of the most commonly recommended strategies for addressing the root causes of the challenges facing the ECE sector and cites related State efforts focused on achieving them where relevant.

<sup>34</sup>Transforming Minnesota's Early Childhood Workforce Project. Spring 2021. "Transforming the Financing of Early Care and Education in Minnesota." <https://ecworkforcemn.org/wp-content/uploads/2021/04/Transforming-the-Financing-of-ECE-in-MN-Spring-2021-.pdf>

<sup>35</sup>The 34,000 number is based on population estimates from the U.S. census combined with estimates from the Transforming the Financing report of anticipated percent changes in child care utilization.

## 1. Transform the Child Care Subsidy System

A number of strategies relate to transforming how the State's child care subsidy and scholarship system operates. This includes **fully funding the subsidy system** to eliminate waiting lists and ensure that all eligible children can access subsidies to help pay for care. It also includes **broadening and deepening eligibility** of families for child care subsidies and scholarships—expanding the upper limit of income eligibility to include more middle-income families and increasing amounts so that families contribute a lower percentage of their income.<sup>36</sup> One goal of this strategy is to increase families' ability to pay higher rates, increasing revenue to child care programs and expanding their ability to cover their true costs, including higher compensation for their staff. A related strategy is to **cap family contributions at a certain percentage of family income**, designing the system so that no family has to pay more than an amount deemed to be affordable.<sup>37</sup> A final related strategy is to set rates based on an assessment of the cost of high-quality child care, rather than on the market rate which, as described above, is artificially constrained.<sup>38</sup> This approach to setting rates is currently allowed under federal funding guidelines, but few states take this approach.

Current State initiatives related to these strategies include:

- ▶ The **Governor's Council on Economic Expansion** made a number of recommendations related to child care in their recent Phase I report,<sup>39</sup> including increased investment in the Child Care Assistance Program and Early Learning Scholarships.
- ▶ The **Great Start for All Minnesota Children Task Force**, which launched in November 2021, is tasked with developing a plan to ensure that family costs for ECE are affordable; children's access to high-quality early care and education is not determined by the child's race, family income, or zip code; and Minnesota's early childhood educators are qualified, diverse, supported and equitably compensated regardless of setting.

- ▶ The Minnesota Department of Education was recently awarded an **Early Childhood Governance and Financing** grant, which provides \$1 million over three years to evaluate promising practices for financing of ECE programs that could be scaled up.
- ▶ DHS published a **Minnesota Cost Model Report** in August 2020, which examines the true costs of providing child care in Minnesota as an additional input to inform child care subsidy rate setting.<sup>40</sup> An update to this work is underway in partnership with First Children's Finance and anticipated to be available in 2023.

## 2. Increase Stability and Resilience in the Child Care Business Model

As described above, child care businesses currently operate on very thin margins, which makes them highly susceptible to any disruption, from missed payments to changing enrollment levels. A variety of strategies offer ways to increase the stability and resilience of the child care business model by increasing predictability for providers. One recommendation is to **provide subsidy payments in a more consistent way**, such as contracts for a certain number of slots, rather than as a reimbursement based on family attendance.<sup>41</sup> Another is to **prioritize mixed-delivery models for pre-kindergarten programs**, and to prioritize investments in infant and toddler care, so that expansion of public pre-K does not compromise the business models for community-based child care providers. Because they can provide care to a higher number of preschool-age children per staff member, child care programs often rely on income from older children to "subsidize" more-expensive care for infants and toddlers. Promising models for achieving more stability in mixed-delivery approaches include Head Start-Child Care partnerships and settings where preschool and school-age care are co-located with care for younger children.<sup>42</sup>

<sup>36</sup>Transforming Minnesota's Early Childhood Workforce Project. Spring 2021. "Transforming the Financing of Early Care and Education in Minnesota." <https://ecworkforcemn.org/wp-content/uploads/2021/04/Transforming-the-Financing-of-ECE-in-MN-Spring-2021-.pdf>; Davis, Elizabeth E. and Aaron Sojourner. May 2021. "Increasing Federal Investment in Children's Early Care and Education to Raise Quality, Access, and Affordability." The Hamilton Project. [https://www.hamiltonproject.org/assets/files/Child\\_Care\\_PP\\_final.pdf](https://www.hamiltonproject.org/assets/files/Child_Care_PP_final.pdf)

<sup>37</sup>Alliance for Early Success. September 2020. "Build Stronger: A Child Care Policy Roadmap for Transforming Our Nation's Child Care System." <https://earlysuccess.org/content/uploads/2020/09/AllianceforEarlySuccessRoadmap20200916.pdf>

<sup>38</sup>Ibid.

<sup>39</sup>Governor's Council on Economic Expansion. November 2021. "Phase I Report." [https://mn.gov/deed/assets/Governors%20Council%20on%20Economic%20Expansion%20Recommendations\\_ACC\\_tcm1045-511480.pdf](https://mn.gov/deed/assets/Governors%20Council%20on%20Economic%20Expansion%20Recommendations_ACC_tcm1045-511480.pdf)

<sup>40</sup>Minnesota Department of Human Services. August 31, 2020. "Minnesota Cost Model Report." <https://edocs.dhs.state.mn.us/lfsrver/Public/DHS-7180-ENG>

<sup>41</sup>Alliance for Early Success. September 2020. "Build Stronger: A Child Care Policy Roadmap for Transforming Our Nation's Child Care System." <https://earlysuccess.org/content/uploads/2020/09/AllianceforEarlySuccessRoadmap20200916.pdf>

<sup>42</sup>Meek, S., Iruka, I. U., Allen, R., Yazzie, D., Fernandez, V., Catherine, E., McIntosh, K., Gordon, L., Gilliam, W., Hemmeter, M. L., Blevins, D., & Powell, T. December 2020. "Fourteen priorities to dismantle systemic racism in early care and education." The Children's Equity Project.

Another way of ensuring greater stability and predictability for providers is to find ways to **reduce friction in regulatory processes**. Providers we engaged with through the sprint process were adamant that they understood the importance of health and safety regulations for protecting children in their care, but wished for processes that are faster, simpler, and easier to navigate. This was true both for required processes such as licensing or certification and for processes like Parent Aware accreditation that are voluntary but provide access to additional resources such as grants and Early Learning Scholarships. Finding ways to continuously improve and streamline processes, and to provide clear and easily accessible technical assistance around those processes, can reduce provider time spent on administration, which translates to significant cost savings for programs.

Current State initiatives related to these strategies include:

- MDE is **promoting mixed-delivery partnerships** in a variety of ways, including developing guidance for school districts around these partnerships; conducting a survey of existing mixed-delivery partnerships; and undertaking a policy inventory to understand variations in requirements between programs.
- The **increases to CCAP rates** passed by the 2021 legislature increased rates for infant-toddler care to the 40th percentile of market rate and the 30th percentile for preschool-age care.
- The **One Stop Assistance Network**, which is being implemented through the state's Child Care Aware system, will provide regional staff support statewide to support child care providers in navigating business startup and licensing processes.
- The 2021 legislature has directed DHS to **update child care licensing regulations** in a variety of ways, including modernization of both the technology systems and of the licensing rules.

### 3. Help Family Child Care Achieve the Benefits of Scale

One challenge, particularly for family child care programs, is that space constraints mean programs cannot scale up as a strategy for balancing income and costs. One solution is to **pursue strategies that help family child care programs achieve some of the benefits of scale**, like staffed family child care networks.<sup>43</sup> By centralizing back-office functions like accounting, record-keeping, or coordinating substitutes, these networks create some economies of scale. A related strategy is a program model, licensed as special family child care, in which **multiple independently-operated family child care programs share a space**.<sup>44</sup> Programs have separate classrooms, but can share kitchens, playgrounds, and indoor recreation space, reducing facility costs for each individual program. Another related strategy is **providing child care programs access to child care management software**, which helps automate many of the record-keeping functions that otherwise require significant amounts of providers' time to manage.<sup>45</sup>

Current State initiatives related to these strategies include:

- In December 2021, DHS launched a Request for Proposals for a **shared services pilot**, to solicit proposals of shared services for family child care programs. Pilot initiatives will be evaluated with an eye to potential future scaling of these strategies.
- Several recent modifications have been made to child care licensing rules related to the **operation of multiple family child care programs in a shared space**, also known as special family child care. Changes over the years clarified the situations in which multiple programs can operate under one contiguous roof, and recent legislation taking effect July 1, 2022, allows a single organization to hold up to four family child care licenses for individual programs operating out of a commercial space such as a church or school. Additional potential models not currently allowed for under statute are being considered by an Alternative Models Working Group in 2022, with the goal of providing recommendations to the Legislature by the end of the year.

<sup>43</sup>Opportunities Exchange. 2021. "Staffed Family Child Care Network Implementation Guide." <https://www.oppex.org/sfccn-start-up-guide>

<sup>44</sup>For more information about special family child care licensing, see: <https://www.revisor.mn.gov/statutes/cite/245A.14#stat.245A.14.4>

<sup>45</sup>Stoney, Louise. April 23, 2021. "OPINION: A shared "back office" — and 21st century technology — could save small child care businesses." The Hechinger Report. <https://hechingerreport.org/opinion-a-shared-back-office-and-21st-century-technology-could-save-small-child-care-businesses/>

#### 4. Create viable and coherent pathways for the ECE workforce

The financing reforms described above are crucial to **enabling child care programs to increase compensation for their workforce**, which is the primary workforce challenge for the child care sector. Alongside these strategies to ensure the revenue exists to increase compensation, experts recommend working to align what is currently a highly-fragmented field. This includes efforts to **adopt clear career pathways and wage ladders**, where professional requirements and responsibilities are more consistent across settings and increases in experience, expertise, and credentials are more predictably related to increases in compensation.<sup>46</sup> Such career pathways and wage ladders can be built into Quality Rating and Improvement Systems and subsidy contracts, among other strategies. This work must also include a plan to **address racial disparities in compensation** of early educators.<sup>47</sup> Even when controlling for educational attainment, Black ECE educators make 78 fewer cents per hour than their white peers.<sup>48</sup>

Experts also recommend **investment in multiple entry points** into this profession. Some of these entry points may include higher education, other credentials such as the Child Development Associate (CDA) credential,<sup>49</sup> and on-the-job learning. In tandem with addressing the underlying compensation issues, investments in these educational opportunities are important to ensure a pipeline of knowledgeable educators into the field. These investments, too, must be made with equity at the forefront, with particular support provided to educators from marginalized communities and dual language educators.<sup>50</sup>

Current State initiatives related to these strategies include:

- ▶ Through a partnership between Transforming Minnesota’s Early Childhood Workforce Compensation Committee and DEED, a **wage scale for the early care and education workforce in Minnesota** was published in March 2021.<sup>51</sup> This wage scale is based on the Power to the Profession Unifying Framework and on compensation parity with K-12 educators. Before being adopted, this scale should be updated to reflect recent changes in economic conditions and in wages across industries.
- ▶ MDE is leading on a variety of initiatives related to **entry points into early care and education**, including convening a workgroup on expanding access to the CDA credential, updating the state’s Knowledge and Competency Framework for Educators and embedding the updates into professional development offerings, and partnering with institutes of higher education to define a more equitable, connected, and coherent professional pathway for early care and education.
- ▶ MDE and the Office of Higher Education (OHE) are both piloting **scholarships aimed at increasing the diversity of the early education workforce**. MDE recently announced a pilot expansion of the Grow Your Own program to include preparation for ECE settings; OHE launched an Aspiring Teachers of Color Scholarship Pilot Program, which includes students in 2-year ECE programs.
- ▶ The 2021 legislature appropriated federal funds for several DHS programs aimed at supporting the ECE workforce, **including a new workforce development initiative** to be implemented through the Child Care Aware system to help interested individuals complete required training and find employment in child care programs. Investments also included expansions of T.E.A.C.H., which provides **scholarships to early childhood educators** pursuing further education, and R.E.E.T.A.I.N., a bonus program aimed at retention of early childhood educators.

<sup>46</sup>Power to the Profession. March 2020. “Unifying Framework for the Early Childhood Education Profession.” <http://powertotheprofession.org/wp-content/uploads/2020/03/Power-to-Profession-Framework-03312020-web.pdf>

<sup>47</sup>Meek, S., Iruka, I. U., Allen, R., Yazzie, D., Fernandez, V., Catherine, E., McIntosh, K., Gordon, L., Gilliam, W., Hemmeter, M. L., Blevins, D., & Powell, T. December 2020. “Fourteen priorities to dismantle systemic racism in early care and education.” The Children’s Equity Project.

<sup>48</sup>Racial Wage Gaps in Early Education Employment. December 2019. Bethany Edwards, Raúl Chávez and Marcy Whitebook, Center for the Study of Child Care Employment, UC Berkeley. <https://cscce.berkeley.edu/racial-wage-gaps-in-early-education-employment/> <https://cscce.berkeley.edu/racial-wage-gaps-in-early-education-employment/>

<sup>49</sup>For more information, see the Council for Professional Recognition website: <https://www.cdacouncil.org/en/>

<sup>50</sup>Meek, S., Iruka, I. U., Allen, R., Yazzie, D., Fernandez, V., Catherine, E., McIntosh, K., Gordon, L., Gilliam, W., Hemmeter, M. L., Blevins, D., & Powell, T. December 2020. “Fourteen priorities to dismantle systemic racism in early care and education.” The Children’s Equity Project.

<sup>51</sup>Casale, O., Noel, Z. March 2021. “Minnesota Early Care and Education Wage Scale.” Minnesota Department of Employment and Economic Development. <https://mn.gov/deed/newscenter/publications/trends/march-2021/earlycare-wagescale.jsp>



### **Supporting cross-sector community partnerships can bolster stability for child care programs**

To manage within the current landscape of insufficient child care access, communities are building cross-sector partnerships—involving businesses, other large employers, school districts, local governments, philanthropy, nonprofit partners, and more—to support child care. The sprint scope highlighted this type of partnership in particular as a potential child care business support that the State could help incentivize or reinforce. The sprint working group found that these partnerships are coming together in creative ways: repurposing underutilized space in existing buildings, donating materials and supplies, providing direct financial support to child care programs, and more. (For a map of examples of types of partnerships, see Appendix D). By covering some costs through donated or discounted space, assistance with renovation, playground equipment, or other materials—or by offering matching funds that allow child care programs to leverage available grants—these partnerships create more financial stability for programs than they would be able to achieve on their own. This helps support programs both in terms of business management and in their work to increase the effectiveness of their programs in providing high-quality early learning experiences for children.

Over the course of the sprint, the working group engaged with participants in these kinds of partnerships, including private employers, public schools, local government leaders, nonprofit agencies, and child care providers. (For a full list of stakeholders engaged in the sprint process, see Appendix E). A number of themes recurred across these conversations in terms of what works well to bring partnerships together and where there are challenges. Learnings from these conversations include:

- A helpful strategy is to organize employers around the need for high-quality early learning experiences, beginning with sharing about the science of early brain development.

- Many employers immediately think of on-site child care centers as the only strategy for expanding child care access, but this model is difficult and expensive. It is helpful to share examples of other successful models and strategies that employers can participate in.
- Even if they want to directly provide child care to their employees, businesses that specialize in other fields don't need to get into the child care business; it's a good strategy to bring in, or contract with, a provider with expertise in child care.
- There are a variety of ways employers can help make child care less expensive for their employees, including pre-tax child care savings accounts, on-site child care offerings, subsidizing slots at nearby programs, etc. However, many employer-provided child care benefits are not tax-advantaged the way some other employer-provided benefits, like health care, are. Exploring tax incentives for employer-provided child care benefits may be one way to incentivize more employers to offer this type of benefit.
- There are major needs and challenges around facilities for child care and having partners to support a program in this area can be a huge help.
- Development of new facilities is an extremely high-touch process which child care providers generally are not experts in. Doing this successfully requires partner funding and people involved who deeply understand the child care business model.
- For a child care business, being provided free or highly discounted space can provide the flexibility to make the rest of the business model work better.
- Partnerships must think outside the box to use resources in creative ways—look for existing resources (space, grant funds, etc.) that could be repurposed or adapted to support child care.
- Multiple partnerships cited the DEED child care economic development grants as an important catalyst for bringing together partners in their community to work on a child care project—whether or not they ultimately were funded.
- In developing partnerships, there's no shortcut around the hard, slow work of relationship development. At the same time, it's crucial to maintain the group's sense of urgency to act.
- Marketing and communications must be central to state supports, not an add-on or afterthought. If resources are there but no one knows about them, it doesn't help.

These learnings informed the sprint team's recommendations around State supports for community partnership development, described below.



### **It is important to create alignment of child care business supports as they expand**

The COVID-19 pandemic has brought into sharp focus how precarious the business model is for child care. Long-existing challenges have been exacerbated and new ones have been created. The State's efforts to respond and support child care providers through this crisis have highlighted the importance of business supports for child care. While the State has a variety of programs in place intended to support child care programs, historically many of them have approached child care providers as service providers or educators. The pandemic has reinforced the importance of considering providers' needs as business owners as well. In order to achieve the sprint goal of recommending additional opportunities to support and stabilize child care as an industry, the working group sought to understand current child care business support efforts and how they are currently coordinated.

Availability of federal relief funding and a renewed focus, both nationally and locally, on how critical child care is to the overall functioning of our economy have opened new opportunities for business supports. The State has recently invested significant federal funds in multiple programs to support the business side of child care, including both expansions of existing programs and creation of new ones. Existing programs that have been expanded include:

- Business training and consultation through First Children's Finance
- Workforce supports through T.E.A.C.H. scholarships and R.E.E.T.A.I.N. bonuses
- DEED's Child Care Economic Development Grant program, which provides grants to local communities to increase quality child care providers to support economic development across Minnesota. The program has created an estimated total of 6,675 additional child care slots across the state with \$15.7 million in total funding across grant cycles in four different years.
- Support for community planning around child care through the Minnesota Initiative Foundations

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*Implementation of these initiatives creates an opportunity not only to assist providers in navigating existing systems, but to identify roadblocks and work to build systems that are easier to navigate in the first place.*

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New programs include:

- Child Care Stabilization Grants to provide financial assistance to stabilize programs during the pandemic
- A One Stop Assistance Network implemented through the Child Care Aware system to provide navigation, technical assistance, and connection to resources to existing and aspiring providers
- A workforce development initiative also implemented through Child Care Aware to provide individuals with training, resources, and job placement assistance to advance a career in early childhood
- A Shared Services pilot to test approaches to supporting family child care providers with shared services such as accounting, technology access, bulk purchasing, or shared substitute pools
- A Facility Revitalization Fund to cover costs of facility upgrades and minor renovations

These capacity-building investments involve multiple state agencies and will be implemented through a variety of community partnerships. As these initiatives launch and grow, it will be important to ensure that these initiatives are aligned around shared goals, are coordinating and connecting with each other, and are collecting and sharing data as appropriate to identify opportunities for continuous improvement. Implementation of these initiatives creates an opportunity not only to assist providers in navigating existing systems, but to identify roadblocks and work to build systems that are easier to navigate in the first place.

It will also be important to ensure that providers know about all the available resources and technical assistance for business management, training, career advancement, quality rating systems, and community partnerships and that guidance on how to access them is easily available, which will require coordination and awareness across many partners.

Many of these initiatives are currently funded in whole or in part by temporary federal funds. The State will need to identify additional sources of funding for initiatives in order to continue them. Collecting evidence about the impact of these capacity-building investments can help inform planning for extended or expanded investment.



### Addressing child care workforce challenges is critical to other solutions

Even as cross-sector partnerships and increased investment in child care subsidies provide some level of added financial stability for child care programs, they do not comprehensively solve challenges that child care centers face with hiring and retaining employees. Addressing these workforce challenges is critical to expanding families' access to child care; without sufficient staffing, centers are forced to keep some classrooms closed, even if they are licensed to serve additional children. This has implications for a program's business model as well, making workforce challenges central to the sprint's scope around supports for the child care industry. Challenges with finding and retaining staff were highlighted across nearly all of the partnership efforts described above.

The sprint working group heard about challenges with the child care workforce consistently across stakeholder conversations with employers, nonprofits supporting child care providers, community partnership participants, and colleagues in other state agencies. Some of the sprint team's learnings in this area include:

- The primary barrier to attracting and retaining employees in child care programs is low wages and lack of access to benefits. Workforce challenges cannot be addressed without addressing compensation.
- Illustrating career pathways beyond entry level and investing in helping people reach those next steps is one helpful strategy that has been employed in other sectors such as healthcare.
  - Anecdotally, many people enter child care with the intention that their work in this field will be short-term—often during the years when their own children are pre-school-age. Thinking about career pathways in early care and education must consider this.
  - Early educators who develop their skills, qualifications, and experience may transition into a career pathway in K-12 education, where wages and benefits are often better. Thinking about career pathways in early care and education, and about development of strong mixed-delivery partnerships, must consider this.

- Child care has not been an industry of focus for many of the State's workforce development initiatives due to the low wages in the field.
- Child care programs are not interfacing significantly with even those State workforce development tools that are available to them, such as the CareerForce system.
- Though the barriers related to wages and benefits are significant, the fact that these barriers are the predominant message to the broader public about working in early education is creating impediments to development of a pipeline into these careers. Where there are benefits to working in this field, government, business, and programs should communicate them. This communication, however, cannot substitute for urgent work to secure increased funding to be able to address the compensation issues in early care and education.

### Cross Sector Partnerships in Practice

A good example of a cross-sector partnership around on-the-job learning and mentoring is visible at the Winona State University's Children's Center, a licensed, NAEYC accredited, and Parent Aware rated child care center on the campus of the university. This higher education-child care partnership provides on-site year-round child care for WSU students who are parents, as well as for families in the broader community, while also offering hands-on learning experience for students in WSU's Early Childhood and Elementary Education and Child Advocacy Studies programs by providing employment as well as practicum and student teaching experiences. Over the course of its history, the Children's Center has also developed partnerships involving school districts, Head Start, and local government to open additional child care and pre-K classrooms in public elementary schools. The Center staff also works with other area early learning and care professionals to host an annual regional conference.





- Experiences that pair formal learning with practicums, field placements, or other on-the-job training could be an important opportunity for professional development for the child care workforce. Resources are needed both to support educators’ participation in such experiences and to compensate mentors and supervising teachers for their participation.
- Experiences that pair formal learning with on-the-job training and mentoring can also provide opportunities for development of cross-sector partnerships.

An area for further research that the sprint group identified is around training requirements, particularly as it relates to programs’ participation in Parent Aware, Minnesota’s quality rating and improvement system. This theme came up in several conversations related to challenges in supporting professional development for the child care workforce. Themes include:

- Staying up to date on training requirements involves a significant investment of time, effort, and resources both for individual child care employees and for program directors who must track and report on completion of these requirements.
- Programs may be navigating multiple sets of training requirements for different purposes, such as Parent Aware and external accreditation. Training that can “count” for multiple purposes, and/or training that provides credit toward a credential or degree is valuable, as is training that both meets requirements and advances an educator’s professional goals and interests.

- Efforts to streamline reporting and documentation requirements where possible to save programs time and resources would help in this area.
- One specific suggestion was to align entry into Parent Aware with completion of licensing requirements, as some other states do.

The Parent Aware team at DHS regularly collects feedback from stakeholders on how the system is meeting their needs and has recently been undertaking several equity assessment and planning activities related to the program. The 2021 legislature also appropriated federal funds for a validation study of the Parent Aware system. These activities may offer additional opportunity for exploring the themes above and identifying opportunities to continuously improve the system so that it makes the biggest positive impact possible for child care businesses as well as for families seeking high-quality care and education for their children.

The learnings outlined throughout this section informed the sprint team’s recommendations around State supports for addressing ECE workforce challenges, described below.



## RECOMMENDATIONS

This section outlines recommendations developed in response to the sprint charge of supporting the creation and sustainability of child care businesses and informed by the key insights described above. These recommendations are shaped by stakeholder engagement and research on promising practices and initiatives in other states. Recommendations in this section aim to continue building on the State of Minnesota’s foundation of support for child care programs, better preparing the State to make the transformative investments needed for a truly stable and sustainable child care business model.

Cost estimates in this section are intended to provide a sense of scale of investment needed to implement the recommendation. Additional budget analysis would be needed to attain a fully-developed and precise budget proposal for each recommendation. Cost estimates with an asterisk are informed by the costs of proposals included in the 2022 Governor’s Proposed Budget. In cases where the recommendation is to expand an existing program or to continue increased investment made with one-time funding, cost estimates reflect the expansion rather than the full cost of the program.

In addition to further budget analysis, recommendations outlined in this section require additional equity analysis to ensure that program design and implementation result in equitable outcomes. The sprint working group identified several important considerations for this equity analysis process, including avoiding creation of “cliff” effects in eligibility of lower-income families for subsidies;

being aware of the differing needs, business models, and communities served by child care centers and family child care programs; ensuring that supports are not more accessible to communities that already have more access to resources (in thinking about matching fund requirements, for example); awareness that lower-income communities, communities of color and indigenous communities may have fewer existing connections to business or community partnerships that can invest and build a thriving child care capacity (when it comes to incentivizing public-private sector partnerships); and ensuring that data about program outcomes and impacts can be disaggregated by race and socioeconomic status.

### Transforming financing of early care and education in Minnesota

#### Increase subsidies for family access to child care

Increase investment, expand eligibility, and increase rates for the state’s child care subsidy and scholarship programs, including the Child Care Assistance Program (CCAP) and Early Learning Scholarships, to provide a more stable funding source for child care programs. Subsidy rates should reflect the cost of providing care, including increased compensation for providers and early educators. Rates should also reflect the recommendations of the Great Start for All Minnesota Children Task Force around affordability for families.

**Cost Estimate:** Cost would be highly dependent on how the increase is structured (e.g., the newly proposed increased income limit) and any changes to payment rates (e.g.,

estimates and methodology to determine the true cost of care). The 2022 Governor’s Proposed Budget includes proposals that would help more families afford early care and education by expanding public pre-k for eligible 4-year-olds, increasing CCAP rates to the 75th percentile and expanding the family definition for CCAP, fully funding and eliminating waiting lists for CCAP for eligible families, expanding the child and dependent care tax credit, increasing funding for the Early Learning Scholarships to expand access to 10,000 additional children, and establishing paid family and medical leave. For information about the costs of these proposals, see Appendix B.

### **Continue direct supports to providers to stabilize child care sector**

Continue child care stabilization grants, which are currently funded with federal American Rescue Plan Act (ARPA) resources set to expire in July 2023, to preserve, as much as possible, current child care capacity through continued impacts of the COVID-19 pandemic. Use data from completed rounds of grants to inform future rounds of grants and longer-term changes in how the State finances early care and education by analyzing what level of support truly enables a viable financial model for child care. A proposal in the 2022 Governor’s Proposed Budget to extend this funding is aligned with this recommendation. For more detail, see Appendix B.

**Cost Estimate:** Cost should be informed by analysis of successes and challenges from completed rounds of grants together with an analysis of what level of support will be meaningful to providers as the reality of the pandemic continues to shift. For information about costs of the stabilization grants completed and underway to this point, see Appendix F.

### **Use cost modeling data to inform future financing decisions**

DHS is currently partnering with First Children’s Finance to complete an updated cost model study that examines the true costs to providers of operating a program under current circumstances as well as costs of a system where providers receive equitable compensation and have more of the supports needed to sustain highly effective programs. The cost model will estimate these costs as they vary by provider type, quality, geographic location, and age groups served. This report is anticipated in August 2023, with regular updates planned every three years. Use data from this report to inform future decision-making about financing the early care and education system—both in setting CCAP rates and in considering other changes that would provide greater stability in the child care business model, such as adoption of a salary scale that ensures equitable compensation for the child care workforce.



**Cost estimate:** The study is already funded by DHS. Future costs of using the cost model for rate-setting will be informed by the study.

### **Supporting cross-sector community partnerships**

#### **Offer tax incentives to employers for investments in child care capacity**

Create a Child Care Expansion Tax Credit, a targeted and limited tax credit incentive to encourage more private employers to invest in child care supply. Provide a refundable credit, at 25% of the contribution amount, to private employers that make qualified cash contributions to increase child care capacity in their communities. The maximum credit per employer would be \$100,000 and the total credits available would be \$2.5 million per year. Investments could be made into a regional child care facility fund such as that proposed below, or designated for other uses as determined by additional planning conversations around this recommendation. 100% of expenditures from employer contributions would be reserved for eligible projects that serve qualifying child care deserts or low-income and/or Black communities, indigenous communities, and communities of color.

**Cost Estimate:** \$2.5 million in credits per year leveraging \$10 million in private sector investment in new child care capacity.

#### **Establish a Regional Child Care Facility Fund**

Fund a dedicated child care facilities fund with 1-to-1 local matching requirements that could receive requests and award funds to eligible, shovel-ready projects in focus communities where need for more child care capacity is most acute. Pair this funding with high-touch community development assistance as needed to assist providers and communities with complex real estate transactions. This fund could be the vehicle for the Child Care Expansion

Tax Credit proposed above. The Governor’s 2022 bonding proposal would provide funding dedicated to development of early education facilities and is aligned with this recommendation. For more information, see Appendix B.

**Cost Estimate:** Current proposal under consideration includes \$10 million per year\* in facility funding. \$1 million per year in development assistance services.

### **Ensure community planning funding and support are available in all regions**

Make planning resources available in the metro area to assist communities in their planning efforts to address their communities’ child care challenges. Similar resources are provided in Greater Minnesota through the Minnesota Initiative Foundations (MIFs), but communities in the metro area do not have equivalent access to these resources to support the critical and hard-to-fund planning stage of their work. DHS has recently begun funding First Children’s Finance to expand its Rural Child Care Innovation Program, a community planning initiative, to additional communities, including those in the metro area; this recommendation would provide additional expansion of metro-area community planning resources.

**Cost Estimate:** \$1.5 million per year.

## **Aligning and expanding child care business supports**

### **Support ongoing coordination across child care capacity-building efforts**

The Department of Human Services is currently forming a coordination team of cross-agency staff and community partners to help guide the implementation of several child care capacity-building initiatives. Once these initiatives are up and running, charge this body with regularly reviewing outcomes of capacity-building efforts and making recommendations for improvements to community- and State-level systems that impact child care business startup and sustainability. Provide necessary resources, such as funding for continued administrative support, to sustain this group beyond the implementation phase of these initiatives.

**Cost Estimate:** A minimum of \$100,000 per year for administrative support of coordination

### **Extend funding for business supports for child care programs**

Many of the state’s emerging child care capacity-building and business support initiatives are funded with federal CRRSA and ARPA resources set to expire by the end of FY23 or FY24. In order to solidify the foundation of support for



child care programs that these initiatives seek to develop, seek state funds to extend these initiatives beyond the expiration of federal resources. This recommendation is aligned with a proposal in the Governor’s 2022 proposed budget to extend funding for the One Stop Assistance Network, Workforce Development initiative, and shared services for family child care. For more information, see Appendix B. The existing budget proposal does not include continuation of ARPA funding for expanded child care business training and consultation through First Children’s Finance, which is included in this recommendation.

**Cost Estimate:** \$4.3 million per year\*

### **Leverage connections between One Stop Assistance Network and economic development programs**

Take intentional steps to ensure connections and two-way information sharing between staff of the One Stop Assistance Network and economic and workforce development programs that touch on the work of connecting child care providers with resources in training, navigation, technical assistance, and other supports. These programs may include the State’s CareerForce system and local workforce boards, chambers of commerce, Small Business Development Centers, business development consultants, Minnesota Initiative Foundations, and any loan or grant programs that may be available to child care programs. Develop resources for use in One Stop navigation activities in a way that is user-focused and provides guidance about how to layer different available funding sources to maximize support for child care programs and workforce.

**Cost Estimate:** Low/no cost

### **Learn from innovative investments**

As business supports for child care programs are implemented or expanded, prioritize learning what is working and for whom. Build data collection efforts into

the design and rollout of these initiatives. In addition, we recommend that agencies involved in capacity-building work engage with the Results Management team at Minnesota Management and Budget (MMB) to identify a small number of initiatives that could be candidates for impact evaluations. These studies would address the extent to which program(s) produced the intended impact on family wellbeing and child care provider sustainability. In particular, we recommend MMB focus on evaluating the impact of initiatives on the following outcomes: number of child care slots and providers, disparities in access and quality, retention and compensation for the child care workforce, and employment and wages for participating families. Based on recommendations, MMB is engaging with agencies to explore the potential to evaluate child care stabilization and subsidies, business supports, and workforce development programs. The findings from this and other evaluations can be used to inform future decision-making about early care policies and financing.

**Cost Estimate:** Informed by research questions

## Addressing child care workforce challenges

### Increase investment in scholarships for postsecondary education opportunities

Increase investment in scholarships for individuals seeking postsecondary training in early childhood education, such as the T.E.A.C.H. scholarship, scholarships for earning a Child Development Associate (CDA) credential, and scholarships for those wishing to earn a postsecondary certificate, diploma, or degree. In particular, seek State resources to continue support for scholarship investments created or expanded with one-time resources, including T.E.A.C.H., R.E.E.T.A.I.N., and the Aspiring Teachers of Color Scholarship Pilot. Take steps to ensure that resources for these scholarships keep pace with demand for them.

**Cost Estimate:** \$3 million per year<sup>52</sup>

### Expand and develop “earn and learn” opportunities in ECE

To help with development of coherent career pathways in early childhood education, invest in opportunities that pair on-the-job training with related instruction that results in the completion of a degree or industry-recognized certificate. Examples of earn and learn models exist for other industries working with the [Minnesota Dual-Training Pipeline program](#) and registered apprenticeships at the



Minnesota Department of Labor and Industry; similar approaches could be offered for ECE. The Minnesota Department of Education’s [Grow Your Own program](#), currently available to those seeking licensure, could further benefit ECE with expansion to include anyone seeking advancement in the field. This recommendation is aligned with proposals in the 2022 Governor’s Proposed Budget to expand Grow Your Own and the Dual Training Pipeline to include ECE. For more detail, see Appendix B.

**Cost Estimate:** Current proposals under consideration include \$4.2 million per year\*

### Conduct an updated child care workforce study

Conduct an update to a 2012 study commissioned by DHS which examined the size, stability, demographics, wages and benefits, and level of experience and professional preparation of the early care and education workforce in Minnesota. Use data collected through this study to inform other State efforts to support the early care and education workforce.

**Cost Estimate:** \$200,000 one-time

*\*Cost estimates with an asterisk are based on the cost of proposals included in the 2022 Governor’s Proposed Budget.*

<sup>52</sup>This cost estimate is based on continuation of increased investment in T.E.A.C.H. and R.E.E.T.A.I.N. made with ARPA funds (\$3 million over two years) and continuing current levels of investment in the Aspiring Teachers of Color Scholarship Pilot, currently funded with one-time resources set to expire in FY24. Additional information about demand for Aspiring Teachers of Color scholarships and for another new OHE program, Future Together Grants, could provide a more detailed estimate for this recommendation, and should be available in fall 2022.

## APPENDIX A: Working Group Membership

The Minnesota Business Vitality Council (MBVC) seeks to address the new economic opportunities in our global economy. Formed in 2020 by the Walz-Flanagan Administration, the MBVC is an interagency group in state government designed to tackle complex economic development issues, discover cross agency solutions, and capitalize on opportunities to grow Minnesota's economy. The MBVC is centered on work groups – where teams from relevant agencies come together for six month project sprints to focus on burgeoning business opportunities critical to our state's economic growth.

The MBVC convened the child care sprint working group to support the creation and sustainability of child care businesses through connection with resources in training, navigation, technical assistance, and other supports. They charged a working group to look for potential recommendations within this scope, including consideration of support for community-level business partnerships and governance and funding opportunities to support and sustain child care businesses.

The following representatives from seven state agencies formed the core working group for this child care sprint:

- Angela Butel, Early Care and Education Business Support Specialist, Children's Cabinet
- Paul Daniels, Grants Specialist, Department of Employment and Economic Development (DEED)
- Nikki Farago, Deputy Commissioner, Department of Human Services (DHS)
- Megan FitzGibbon, State Financial Aid Manager, Office of Higher Education (OHE)
- Chris Ismil, Community Development Representative, Department of Iron Range Resources & Rehabilitation (IRRRB)
- Sandra Myers, Early Learning Services Supervisor, Department of Education (MDE)
- Amy Schrempp, Director of Customer Innovation, DEED
- Dan Solomon, Minnesota Dual-Training Pipeline Manager, Department of Labor (DLI)
- Brandon Toner Director of Office of Small Business Partnerships, DEED

Additionally, the team received important support from:

- Dru Fryberg, Senior Librarian, DEED
- Cameron Macht, Regional Analysis & Outreach Manager, DEED
- Natalie Siderius, Southeast Business Development Manager and Executive Director of Minnesota Business First Stop and Minnesota Business Vitality Council, DEED

# APPENDIX B: Walz-Flanagan Budget Proposals

## Aligned with Sprint Recommendations

As the sprint team was developing recommendations for this report, the Walz-Flanagan Budget to Move Minnesota Forward was released. Many of the proposals included in this budget align with the recommendations of the sprint. In the event that some of these proposals do not pass during the 2022 legislative session, we would recommend moving forward with these or similar proposals in future years.

### Transforming the Financing of Early Care and Education in Minnesota

General Fund, \$ in 000s

Budget Proposal	FY2022 - 23	FY 2024-25
Expand the Child and Dependent Care Credit	\$17,900	\$26,500
Public Pre-K for Eligible 4-Year-Old Children	\$155,000	\$370,000
Increase CCAP Rates to 75th Percentile	\$51	\$267,240
Expand CCAP family definition	\$56	\$37,460
Forecasting Basic Sliding Fee Child Care Assistance Program	\$81	\$467,630
Interaction Between CCAP rate increase and forecasting Basic Sliding Fee	(\$689)	\$174,142
Redefine Early Learning Scholarships for 0–3-Year-Old Children	\$75,000	\$150,000
Paid Family and Medical Leave Insurance	\$11,748	(\$6,091)
<b>TOTAL</b>	<b>\$259,147</b>	<b>\$1,486,881</b>

#### Provide Tax Cuts for Middle Class Families with Child Care Costs

Child care and other dependent care expenses continue to increase for Minnesota families. This proposal recognizes the challenges of the current environment by increasing the income threshold and maximum credit amount for Minnesota’s Dependent Care Credit, which will provide tax cuts to more Minnesota taxpayers. The income threshold would increase from \$53,100 to \$70,000. This would make about 20,900 more Minnesota households eligible for the credit with an average tax cut would be \$271. This proposal would also update Minnesota’s Newborn Credit to be available for all taxpayers regardless of marital status. Under this proposal, about 2,600 more taxpayers will be eligible for the credit.

#### Expand Access to Prekindergarten

Access to high-quality prekindergarten benefits children from all backgrounds, especially children in low-income families. This investment will fund access to public pre-K for 6,000 additional children through a mixed delivery model requiring a combination of school-based programs, Head Start, child care centers and family child care programs. The investment also extends the duration of programming for existing pre-K seats. This expansion, which in total could serve more than 23,000 eligible young learners, supports the Governor and Lieutenant Governor’s Due North Education Plan goal of ensuring that every child receives a high-quality education, no matter their race or zip code. The program would ensure ease of navigation and choices for families, as schools and communities work together to promote high-quality, cohesive early learning systems.

#### Make Child Care More Affordable for More Minnesota Families

Significant investments in child care assistance will provide long-term stability for providers, working families, and their children. The proposal will help thousands of providers stay open and provide stable care so families can work, and children can thrive. While changes last year made improvements, the Walz-Flanagan proposal will ensure financial predictability for child care providers and improve their capacity to meet challenges such as the pandemic. This proposal increases provider payment rates to the federal standard covering more of the costs of providing care and increases access to affordable child care for 15,000 families and 30,000 children. A proposal also expands the CCAP family definition to include some foster families who previously had not been eligible.

### Eliminate Waiting Lists for Child Care for Eligible Families

Child Care Assistance helps many eligible, low-income Minnesotans who need assistance paying for child care, but often times, the waiting lists for these child care slots can be up to two years long. Governor Walz and Lieutenant Governor Flanagan know that Minnesota families who are eligible for child care assistance cannot afford to wait. Fully funding the Basic Sliding Fee Child Care Assistance Program will eliminate waiting lists and improve access to child care for Minnesota families and children. Right now, funding for Basic Sliding Fee assistance is capped, so families who are eligible sometimes must wait to access child care. The Walz-Flanagan proposal will allow Basic Sliding Fee child care assistance to provide help paying for child care to all eligible families and children and do away with waiting lists, where 500 to 8,300 families have faced delays over the past decade. Full funding will allow Basic Sliding Fee child care assistance to serve about 16,000 Minnesota families including 32,000 children.

### Expand Early Learning Scholarships

Early Learning Scholarships increase access to high-quality early childhood programs for young children with the highest needs to support the development of young children and provide connections for families. In an effort to promote a cohesive early childhood system that can support families all the way through kindergarten entry, the Walz-Flanagan proposal shifts the focus of the scholarships to prioritize 0– 3-year-olds in the highest need populations. The proposal nearly triples the current amount spent per year on direct scholarships to families, reaching an additional 10,000 children per year.

### Provide Paid Family and Medical Leave

The Walz-Flanagan Budget to Move Minnesota Forward creates a Paid Family and Medical Leave Insurance program. Right now, too many Minnesotans, especially those in lower-wage jobs, must make the unfair choice between a paycheck and taking time off work to care for a new baby or a family member with a serious illness. This can lead to significant economic instability for families during some of their most challenging times. The creation of this program is necessary to support businesses, ensure more equitable economic opportunities for Minnesotans, retain more women in the labor force, and positively impact the lives of children.

## Supporting Cross-Sector Community Partnerships

*General Fund, \$ in 000s*

Budget Proposal	FY2022 - 23	FY 2024-25
Child Care Facility Funding	\$10,375	-
<b>TOTAL</b>	<b>\$10,375</b>	<b>-</b>

### Provide Dedicated Funding for Early Childhood Facilities

The Walz-Flanagan Budget to Move Minnesota Forward includes funding dedicated to new construction or major renovation for early childhood facilities. This funding fills a gap in availability of other funds for early childhood facilities, which are largely restricted to facility improvements and minor renovations. Proposed funding includes \$5 million in bonding dollars, \$5 million in general fund dollars, and \$375,000 for administration of the program.

## Aligning and Expanding Child Care Business Supports

*General Fund, \$ in 000s*

Budget Proposal	FY2022 - 23	FY 2024-25
Building Child Care Capacity/Grants to Stabilize Child Care Providers	\$31,703	\$71,379
<b>TOTAL</b>	<b>\$31,703</b>	<b>\$71,379</b>

## Support Child Care Providers Affected by the Pandemic

The Walz-Flanagan Budget to Move Minnesota Forward includes funding to stabilize child care providers and programs experiencing extreme financial hardships as they continue to navigate the COVID-19 pandemic. The pandemic has worsened Minnesota's child care shortage, burdening providers with difficulties including lost revenue and higher costs amid a shortage of workers. With a quarter of Minnesota families lacking reliable access to child care, the Walz-Flanagan Administration is proposing continued financial support and extension of funding for local child care support services, including technical assistance for child care providers, training and recruitment of qualified staff to work in the child care sector, child care shared services alliances, and support for provider business practices through technology access and supports. These investments will result in more Minnesota families with access to affordable, quality child care.

## Addressing Child Care Workforce Challenges

General Fund unless otherwise noted, \$ in 000s

Budget Proposal	FY2022 - 23	FY 2024-25
Frontline Worker Pay*	\$1,000,000	-
Dual Training Competency Grants	\$2,000	\$4,000
Increase funding for Grow Your Own	\$21,725	\$39,450
<b>TOTAL</b>	<b>\$1,023,725</b>	<b>\$43,450</b>

\*Proposed to be funded with American Rescue Plan flexible resources

### Recognize Frontline Workers

The Walz-Flanagan Budget to Move Minnesota Forward recommends \$1 billion to provide payments to frontline workers who have sacrificed during the pandemic to keep Minnesotans safe, healthy, fed, and cared for. This proposal would provide \$1,500 payments to an estimated 667,000 workers, including health care, child care, school, grocery store, food service, transportation, long-term care, building service, public safety, retail, and manufacturing workers. These frontline worker payments recognize the essential work of Minnesotans who have risked their health and continue to provide the vital services needed to keep our state running during this pandemic.

### Expand Dual Training Program

The dual-training model pairs on-the-job training with classroom instruction for high-need career areas like manufacturing, agriculture, health care, and information technology. This proposal includes expansion of the Dual Training industries to include child care and transportation. As of 2020, employers have supported nearly 1,900 employees into dual-training programs through the state's Dual Training Grant Program (DTG). These dual trainees are able to earn a living wage while learning their craft. They are connected to companies that are invested in their success and can potentially provide long-term employment.

### Expand Grow Your Own Teacher Training Program

About 34% of K-12 students are nonwhite, while teachers of color and American Indian teachers make up only 5 percent of full- and part-time teachers. The Walz-Flanagan budget increases access to opportunities for people of color and Indigenous people to pursue a career in teaching, including in ECE, by expanding Grow You Own Teacher Training Programs, which benefits students of color and Indigenous students who see themselves in their educators. Having teachers of color and Indigenous teachers also benefits white students who experience teaching and learning through a different lens.

## APPENDIX C: Job Vacancy Data for Child Care Occupations

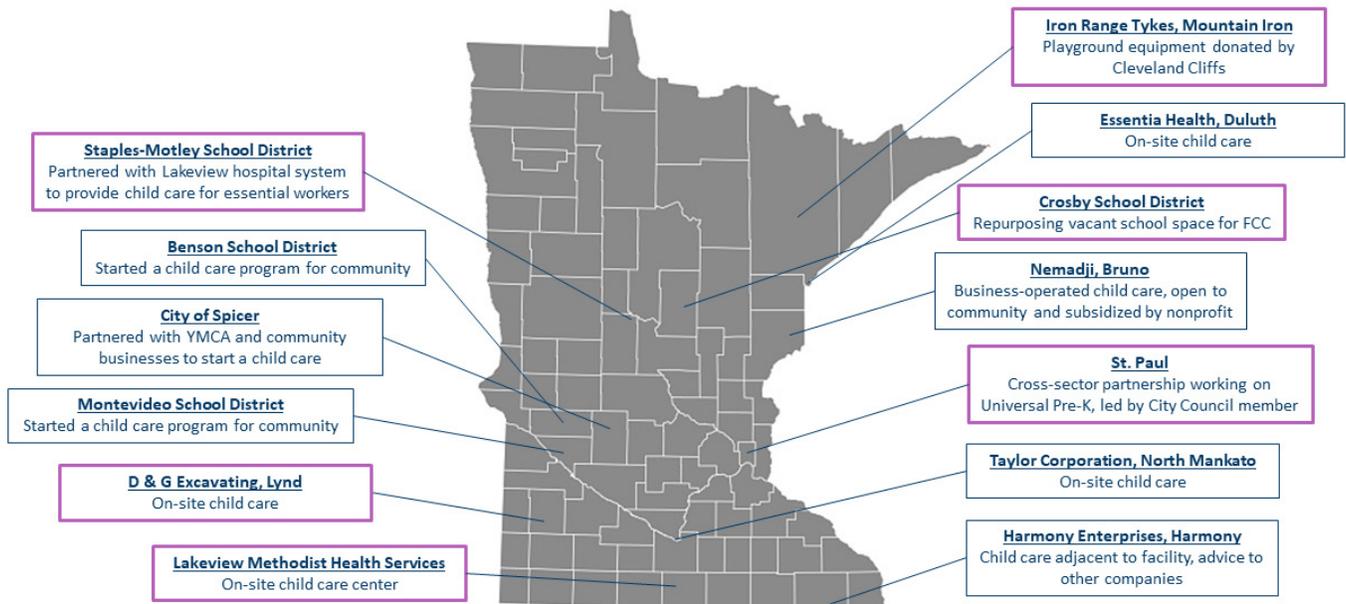
This data comes from Minnesota’s Labor Market Information system, from the Job Vacancy Survey for the second quarter of 2021. You can find more detail and updated data on the DEED website: <https://apps.deed.state.mn.us/lmi/jvs/Results.aspx>

### 2nd Qtr. 2021 Job Vacancy Survey Results, Minnesota

Occupation	Number of Job Vacancies	Job Vacancy Rate	Part-Time	Temporary or Seasonal	Requiring Post-Secondary Education	Requiring 1+ Years’ Experience	Requiring Certificate or License	Median Wage Offer
Education & Child Care Admin., Preschool	530	82.8%	1%	12%	99%	99%	54%	\$18.47
Preschool Teachers*	778	8.7%	28%	18%	98%	86%	94%	\$17.24
Child Care Workers	1,519	17.3%	51%	26%	48%	65%	70%	\$14.94
Teaching Assistants*	1,653	4.7%	46%	33%	13%	88%	91%	\$16.66

\*The “Preschool Teachers” and “Teaching Assistants” categories include people working in those job types regardless of setting; this could include educators in child care centers, faith-based settings, civic and social organizations, and school-based settings. “Teaching Assistants” includes all grade levels except post-secondary.

# APPENDIX D: Examples of Partnerships Supporting Child Care in Minnesota



## APPENDIX E: Stakeholders Engaged in the Sprint Process

	Group Engaged	Method of Engagement
Child Care Programs	Center directors participating in a Directors' Credential cohort	Prototype testing session
	Iron Range Tykes child care center	Interview
	New Horizon Academy	Interview
Child Care Support Organizations	Think Small	Focus group
	Families First of Minnesota	Focus group
	Sourcewell	Focus group
	Wonderschool	Interview
Higher Ed	Rasmussen University	Interview
	Aaron Sojourner, University of Minnesota	Interview
Members of Local Child Care Partnerships	Lakeview Methodist Health Services	Interview
	D&G Excavating	Interview
	Crosby School District	Interview
	Staples-Motley School District	Interview
	St. Paul Councilmember Noecker	Interview
Business Community Leaders	Itasca Project	Several conversations
	DEED Workforce Strategy Consultants	Resource sharing
	Minnesota Chamber of Commerce	Email
	Minnesota Chamber of Commerce member companies	Survey
	Hormel Foods	Interview
State Agency Partners	CareerForce System – DEED	Interview
	Child Development Services division – DHS	Several conversations
	Early Learning Services division – MDE	Several conversations
	Impact Evaluation team – MMB	Several conversations
	CCAP team – DHS	Interview

## APPENDIX F: Minnesota's COVID-19 Response in Support of Child Care

Access to affordable child care continues to be a priority that Governor Walz and Lieutenant Governor Flanagan hear from families, businesses, and Minnesotans across the state. As a result, the Governor and Lt. Governor made increasing the number of Minnesota families with adequate access to child care a priority of their administration and called on leaders across state government to help achieve the goal.

The COVID-19 pandemic led to unforeseen, new challenges to the child care sector – including increased costs and decreased revenue that further disrupted an already fragile and vulnerable sector. As a result, the Administration doubled down on its goal and focused in on trying to support open child care providers. This included engaging in a cross-agency emergency response in support of early care and education programs to maintain capacity in the child care industry and support families in being able to access the care they need.

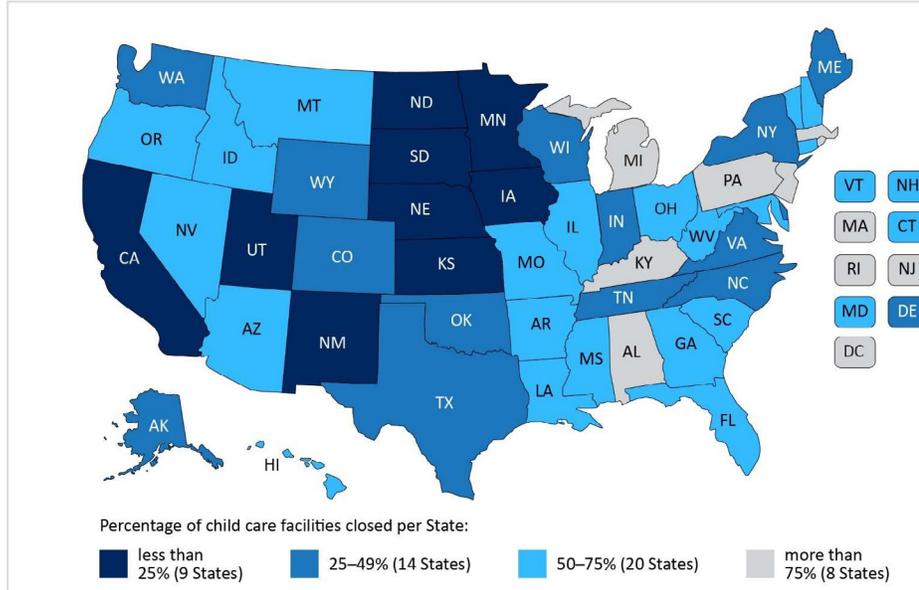
Efforts to support the child care industry during the pandemic included everything from building supply chains for sanitizer to financial supports (more detail below). The state created one of the first in the nation's screening testing program for child care providers, prioritization of child care workers in the vaccine rollout, policy and procedural changes for flexibility in licensing, CCAP, Parent Aware, and Early Learning Scholarships, communication and engagement through a phone line dedicated to providers and regular calls with providers and advocate organizations, support around supply chain needs for child care providers, support around connecting families who need care with open providers and with other critical resources, and coordinated public health guidance.

For financial supports, Minnesota leveraged significant federal and state resources to support the child care industry and the needs of families seeking care, particularly the needs of lower-income families receiving CCAP support. Of particular relevance to the scope of this sprint around business supports for child care, Minnesota was among the first states to provide direct grants to child care providers to stabilize the sector during the pandemic. Minnesota has leveraged various sources of federal funds for several rounds of stabilization grants to child care programs. These grants have included:

- ▶ Peacetime Emergency Child Care Grants – provided to child care providers at the start of the COVID-19 pandemic. These grants have now concluded. Between April and June 2020 these grants provided \$41.137 million in a combination of State General Funds and federal CARES Act funds to providers through a competitive selection process as directed in statute.
- ▶ COVID-19 Public Health Support Funds for Child Care – provided to child care providers prior to the rollout of the Child Care Stabilization Grants. These grants have now concluded. Between July 2020 and May 2021, these grants provided \$199.645 million from federal CRRSA funds to child care providers in direct payments available to all licensed and certified providers in good standing with DHS and willing to comply with program requirements.
- ▶ Child Care Stabilization Transition Grants – provided to child care providers to stabilize the industry while DHS finalized the implementation of the Child Care Stabilization Base Grants described below. These grants have now concluded. Between July and August 2021, these grants provided \$17.3 million in federal ARPA funds in direct payments available to all licensed and certified providers willing to comply with the program requirements.
- ▶ Child Care Stabilization Base Grants – provided to child care providers to stabilize the child care market. Beginning in September 2021 and continuing through June 2023, these grants will provide \$211.6 million in federal ARPA funds to providers through a monthly application process and using a formula based on the number of full-time equivalent staff who regularly care for children in the program. Providers are required to use 70% of funds to increase compensation or benefits for staff regularly caring for children.
- ▶ Child Care Stabilization Financial Hardship Grants – developed to support child care providers experiencing extreme financial hardship. Beginning January 2022 and continuing until funds are expended, this grant program will provide approximately \$70 million in federal ARPA stabilization grant funding to child care providers experiencing extreme financial hardship through an application process that determines whether providers meet initial eligibility criteria.
- ▶ One-Time Supplemental Stabilization Grants – provided to address the increased costs to child care providers as a result of the surge in COVID-19 cases brought on by the Omicron variant. These grants have now concluded. In January 2022, \$20 million in federal ARPA funds was distributed to child care providers as part of their January 2022 Child Care Stabilization Base Grant application. This one-time grant did not require providers to use 70% of funds to increase compensation for staff.

Minnesota’s proactive steps to offer direct grants to child care providers during the pandemic was critical to stabilizing the industry and minimizing program closures, especially compared to other states. A federal audit in September 2020 found that Minnesota was among nine states where less than 25% of child care programs had closed, as the map below illustrates.<sup>53</sup>

### Percentages of Closed Child Care Facilities by State



Data below from Office of Inspector General, Licensing Division (Minnesota Department of Human Services) illustrates long-term trends in net gains and losses of child care licenses in child care centers and family child care programs, and also highlights what these trends have looked like from 2020 through the start of 2022. Though many factors affect these trends, the data show that the trend line for child care centers during COVID-19 has been nearly flat, while the number of licensed family child care programs decreased during COVID-19 by a slightly higher percentage than in the previous three years.

### Change in Number of Child Care Centers

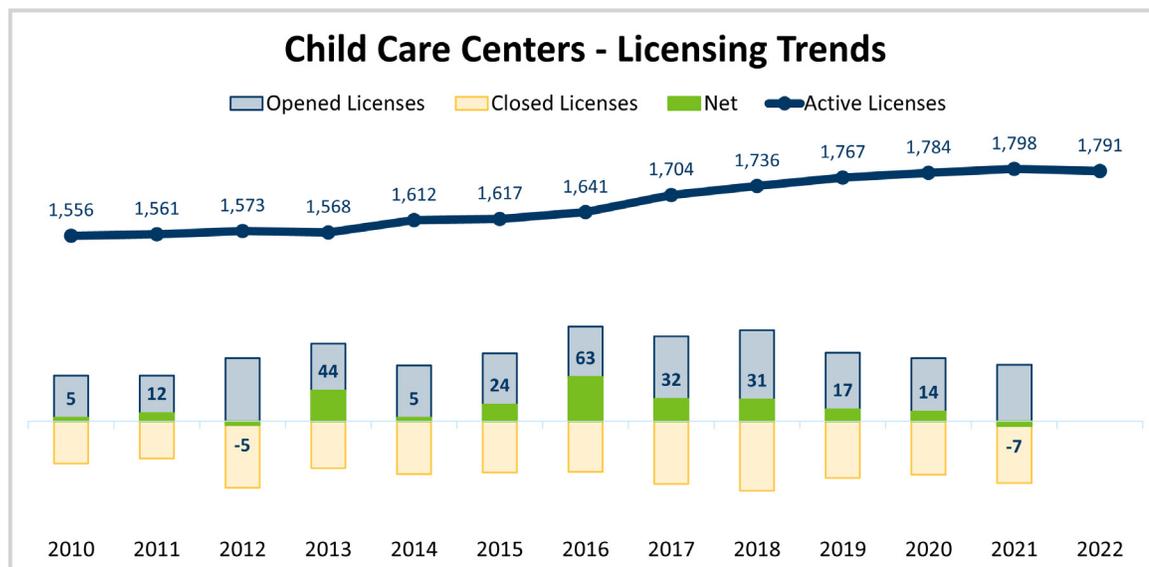
Chart 1, below, provides the number of active child care center licenses on the first day of each calendar year. It also provides the number of newly opened licenses, closed licenses, and the net gain or loss in licenses by year for child care centers. The trend line in number of child care centers during the COVID-19 pandemic has been nearly flat, with a small loss of 7 child care centers from January 2021 to January 2022. The number of licensed child care centers during the pandemic has increased 1 percent or 24 programs, from 1,767 in 2019 to 1,791 in 2022. For purposes of comparison, the number of licensed child care centers increased 8 percent or 126 programs in the 3 years prior to the pandemic, from 1,641 in 2016 to 1,767 in 2019.

### Change in Number of Family Child Care Providers

Chart 2, below, provides the number of active family child care licenses on the first day of each calendar year. It also provides the number of newly opened licenses, closed licenses, and the net gain or loss in licenses by year for family child care. The trend line in number of family child care providers during the COVID-19 pandemic has continued downward, with a loss of 545 family child care providers from January 2021 to January 2022. The number of licensed family child care providers during the pandemic has decreased 16 percent or 1,290 providers, from 7,932 in 2019 to 6,642 in 2022. For purposes of comparison, the number of licensed family child care providers decreased 14 percent or 1,279 programs in the three years prior to the pandemic, from 9,211 in 2016 to 7,932 in 2019.

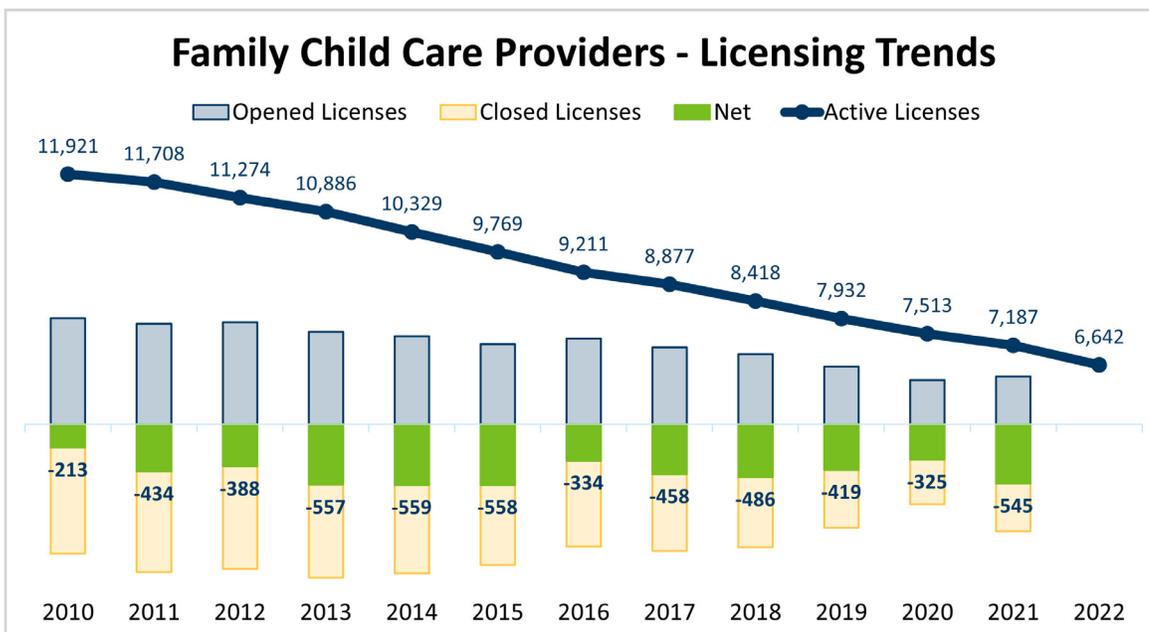
<sup>53</sup>Department of Human Services Office of Inspector General. September 2020. “National Snapshot of State Agency Approaches to Child Care During the Covid-19 Pandemic.” <https://oig.hhs.gov/oas/reports/region7/72006092.pdf>

**Chart 1. Number opened, closed, net and overall number of licensed child care centers in Minnesota from 2010 to 2022**



Data source: DHS Licensing, February 15, 2022

**Chart 2. Number opened, closed, net and overall number of licensed family child care providers in Minnesota from 2010 to 2022**



Data source: DHS Licensing, February 15, 2022

**MINNESOTA BUSINESS  
VITALITY COUNCIL**

**Child Care Business Supports  
Working Group**

Final Report and Recommendations

April 2022