PRESERVE THE CHILD CARE SECTOR

A NECESSARY FIRST STEP TO ALLOWING WORKING FAMILIES TO REBUILD OUR ECONOMY AFTER THE CORONAVIRUS PANDEMIC

ABOUT THE EARLY CARE AND EDUCATION CONSORTIUM AND THE SECTOR'S UNPRECEDENTED CRISIS

The child care sector provides crucial services to over 11 million families across a broad socioeconomic spectrum, starting with children as young as six weeks. As experts in child care and early education, providers empower children to be ready for school, instill a lifelong love of learning, and provide a solid foundation for a successful future. At the same time, the child care sector is an essential part of the American workforce infrastructure, allowing parents to contribute to the economy.

The Early Care and Education Consortium (ECEC) is the trade association for the largest multi-state and multi-site child care providers in the country. Collectively, our members operate over **6,000 high-quality, purpose-built schools in 48 states,** serve over **1 million children**, and employ over **175,000 educators and support staff.** We also serve approximately **8,000 military families** at off-base sites. Over **one-third of our families** receive subsidies through the Child Care and Development Block Grant (CCDBG) program.

The child care sector is collapsing due to this unprecedented crisis. This is an urgent plea for immediate assistance to ensure the survival of the sector to serve children and families, as well as the workers who rely on child care for employment.

ECEC members have experienced a **75% drop in enrollment** due to state and local stay-at-home orders. This has resulted in the **closure of 75% of schools**, representing **$1.5 billion** in annual rent, mortgage payments, real estate taxes, and other fixed cost obligations that we are unable to meet without federal assistance. Due to the school closures and significant drop in revenue, ECEC members have also been forced to **furlough 70% of their teachers**.[1] In nearly every state, child care has been deemed essential. Any centers that remain open to provide care for **3.5 million children** of health care and other essential services industry workers are operating at a revenue loss because of significant increased costs to ensure the safety of children and staff.[2] Due to projections that companies will experience a 90% loss of revenue by May, child care providers will not have the liquidity to survive past this date and many will close for good.

CHILD CARE PROVIDERS ARE CRITICAL IN SUPPORTING THE U.S. ECONOMIC RECOVERY

Overall, the child care sector has an annual total economic impact of **$99 billion**, representing **over 2 million jobs** and **$40 billion in wages.** Child care is a crucial piece of the workforce infrastructure—**65% of children** under six have all parents in the labor force. Even before the pandemic, for **11 million parents**, lack of access to high-quality child care contributed to **$50 billion** in lost productivity, earnings, and extra recruitment costs.[3] If the nation's center-based child care infrastructure does not survive, parents will be unable to return to work, significantly stifling economic recovery. Congress must act now to ensure the child care sector survives and can reopen for America's workforce.

HOW CAN CONGRESS AND REGULATORS PREVENT THE COLLAPSE OF THE SECTOR

Mid-to-large child care providers have been left out of previously passed COVID-19 stimulus packages. ECEC members play a critical role in fighting the pandemic and once the current crisis passes, working families will immediately depend on our centers to be open so they can get back to work.

To ensure the majority of the center-based child care sector is able to survive, we implore Congress to:

1. **Urge the Treasury Department to give preference to and grant eligibility for our companies and other early care and education providers in the programs and facilities established under the Coronavirus Economic Stabilization Act of 2020 in Title IV of the *CARES Act.***

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[1] ECEC member survey, 2020.
[2] Child Care Aware of America, 2020. Child Care for Essential Workers during Coronavirus Outbreak. https://www.childcareaware.org/coronavirus/child-care-essential-workers-coronavirus-outbreak/.
[3] Committee for Economic Development, 2019. Childcare in State Economies. https://www.ced.org/childcareimpact.

- Given the importance of child care services to the U.S. economy, we respectfully request that the Treasury Department work with the Federal Reserve to establish a program or facility available for mid-to-large child care providers to address liquidity shortfalls under section 4003(b)(4) of Title IV of the *CARES Act.*
- We also ask that the Treasury Department exercise the statutory flexibility it has, including *the collateral and solvency requirements*. For example, nothing in the statute mandates a minimum credit rating requirement for collateral, and for a sector as important as child care, we suggest that the Treasury Department and the Federal Reserve take a flexible approach.
- Moreover, the preliminary guidelines the Treasury Department published for the air carrier/national security business financing in section 4003(b)(1)-(3) asked applicants to describe potential collateral without specifying any minimum credit rating requirement. We believe there should be parity in that regard between programs established under section 4003(b)(1)-(3) and section 4003(b)(4).
- Absent the flexibility outlined above, none of ECEC's child care providers would have access to much liquidity through the loan facility.

2. **Urge Congress to provide relief to child care providers through SBA Loan Programs. This would require the addition of NAICS Code 6244**, **similar to the relief provided to restaurants and hospitality industry**.
   - The Paycheck Protection Program under section 1102 of the *CARES* Act currently provides a waiver of affiliation rules for businesses classified as NAICS Code 72. These businesses are also permitted to calculate the number of employees based on each physical location, as opposed to the aggregate number of employees working for the entity as a whole.
   - NAICS Code 6244 for child care services should be added to a list of exceptions, so that child care providers may waive affiliation rules and calculate employees on a center-by-center basis. This would give providers that operate on razor-thin margins access to grant funding, as opposed to loans they will not be able to repay.
   - Similar to businesses under NAICS Code 72, child care centers were ordered to be closed by state governments and their revenues have dropped by over 75% overnight.[4]
   - It is imperative to support child care companies and ensure that they have the necessary funding to provide care during and after the COVID-19 pandemic. If parents do not have access to high-quality child care, other industries will not be able to successfully reopen their businesses.

3. **Provide financial assistance to child care providers during the coronavirus crisis to cover payroll and rent for child care centers, as well as financial assistance for reopening centers for teachers, children, and families post crisis.**
   - The COVID-19 pandemic has already cut more than 70% of ECEC's members' revenue.[5] As the pandemic continues to restrict most commercial activity, the companies project a 90% loss of revenue by May.
   - The economic recovery will be in waves and timelines will vary by state—families will not return to care at the same time. Centers may need to operate programs that are not at full capacity to accommodate parents who return to work during the early stages of economic recovery. Operational costs may exceed revenue for a few months. <u>Recovery funding will be necessary to help centers pay overhead costs.</u>
   - Child care centers will also face increased costs to bring back their workforce or recruit new educators and train them on program implementation, as well as on new health and safety practices such as enhanced health screenings and deep cleaning. There will be additional costs related to reopening facilities. Centers may also need to invest in changes to curriculum to accommodate children who have not had access to an educational setting in months.

4. **Provide child care assistance for working families who may have seen a decrease in wages prior to their return to the workforce. Relief could be provided in many ways, including:**
   - Increase eligibility and assistance through the Child and Dependent Care Tax Credit (CDCTC).
   - Increase contribution limits to the Dependent Care Assistance Plan (DCAP) FSAs and provide incentive for companies to provide child care assistance to employees.
   - Consider the creation of a child care tax credit or a one-time advance payment to all families with children under the age of six.
   - Urge the Department of Health and Human Services (HHS) to encourage states to raise the income eligibility threshold to 85% of the state median income and the reimbursement rate to providers to the 75th percentile of the market rate under the Child Care and Development Block Grant (CCDBG).

[4] ECEC member survey, 2020.
[5] Ibid.