

BY HAILEY PHELPS

Child Care Legislation During COVID-19

In early 2020, many business owners had their world turned upside down as COVID-19 restrictions forced them to close. Among them was Cynthia Farris-Lynch, who runs a home child care center in Virginia. “I try not to think about the future because it’s terrifying,” she told the *Virginia Mercury* last September. “I’m 76 years old and I’ve been doing this for 52 years — this is my livelihood.” She was not alone among child care providers: More than 2,000 child care centers in Virginia have closed at least temporarily since March 2020.

“The pandemic, much like many other things, has exposed long-standing issues in child care,” says Erika Bell, a community development regional manager at the Richmond Fed.

Even before the coronavirus crisis, families struggled to find affordable child care options. Child care workers made an average of only \$12.24 per hour or \$25,000 a year, which is less than the federal poverty level of \$26,500 for a family of four. And child care programs ran on razor-thin profit margins and high staff turnover rates. To comply with COVID-19 guidelines, child care centers were subjected to increased operating costs as well as decreased enrollment, contributing to losses in revenue. As a result, many child care programs were forced to shut down.

One consequence has been the widening of a child care gap: Currently, the potential child care need is greater than the number of spots available in legally operated and state-recognized providers, including home-based child care and license-exempt child care. Within the Fifth District, Bell found that there are over 1.4 million children who need child care, but only approximately 847,000 spots were available

prior to the pandemic. Since then, the gap between demand for child care and availability has widened. “As people return to work, child care facilities are reopening but with fewer spots,” says Bell.

To help the struggling child care industry and make child care more accessible, Congress passed the largest-ever program of support for American child care in the American Rescue Plan Act in March 2021, distributing \$39 billion (over \$3.6 billion in the Fifth District) to the child care industry. Nearly \$15 billion of the \$39 billion has gone to the Child Care and Development Block Grant, which subsidizes child care costs for low-income families. The remaining \$24 billion has been allocated to a new state-administered stabilization fund for eligible child care providers, which can be used to cover a range of expenses, including personnel costs, rent, facility maintenance/improvements, and personal protective equipment. A recent brief from the Fed’s Early Care and Education Workgroup explores considerations for deploying these funds.

President Biden, in his first address to the joint houses of Congress on April 28, 2021, proposed further federal assistance for child care through the American Families Plan. This \$1.8 trillion proposal includes \$225 billion toward the expansion of affordable, accessible, and high-quality child care to support families and child care workers. Under the proposal, low- and middle-income families making up to 1.5 times the state’s median income would pay no more than 7 percent of their income for children under 5. Biden’s plan takes steps to improve the quality of child care by covering the costs of creating developmentally appropriate curricula, decreasing

class sizes, and facilitating culturally and linguistically inclusive learning environments. Additionally, Biden’s proposal aims to increase the pay of the child care workforce by mandating a \$15 minimum wage for child care employees. The Biden administration argues that the American Families Plan will significantly strengthen “inclusive and equitable economic growth” by enabling more parents to join the labor force and better preparing the future labor force.

Republican members of Congress have criticized Biden’s plan for its spending and for expanding the government’s role too much. “They want to make sure that any federal spending is supported by outcomes,” says Sam Louis Taylor, a Richmond Fed public policy analyst. They are also concerned that paying child care workers more may decrease affordability and worsen profit margins, while child care advocates say that increasing funding for child care providers and subsidizing child care for families will likely alleviate such effects.

To pay for the plan, the Biden administration has proposed raising the top marginal tax rate, increasing capital gains taxes, raising the corporate tax rate, and providing the IRS with more resources, though the future timeline of the proposal is unknown. “The need for improving access and supporting the child care industry is there,” says Taylor. “In this case, it’s more of a matter of the size of help, what the need really is, and how much both parties are willing to spend on it.”

And child care isn’t the only issue, Taylor adds. “Having schools open, with high educational quality, is important, too.” **EF**