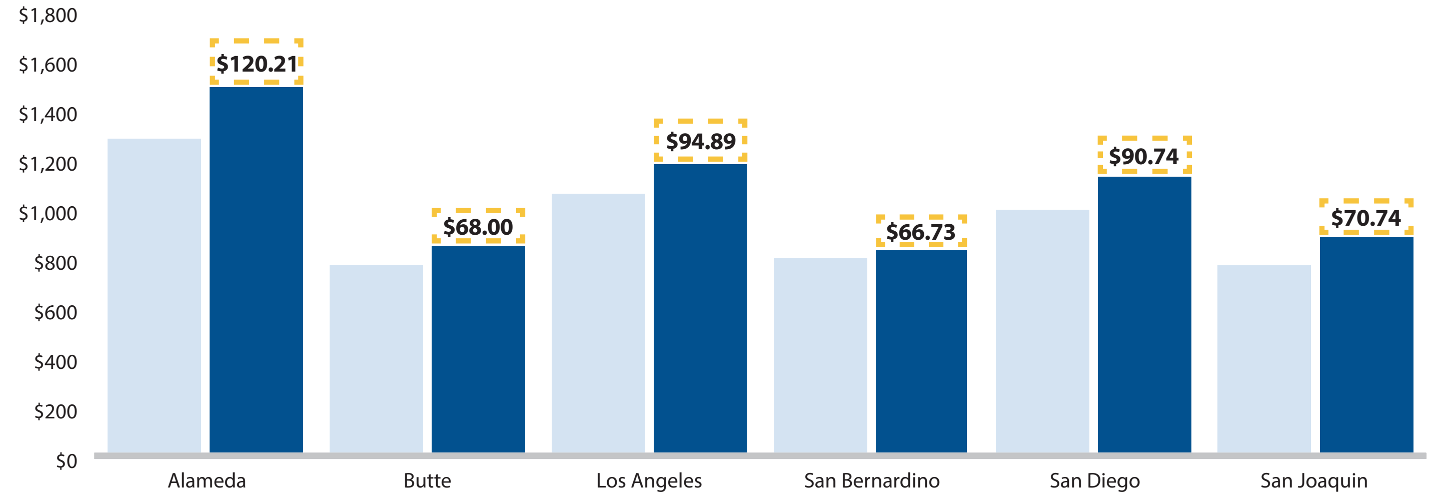
Child Care Providers' Rates are Still Not Keeping Pace with Inflation

The pandemic has reminded us of the essential role child care plays in keeping the workforce and economy moving. However, the pandemic has also shed light on and contributed to the instability of operating a child care business. Over the past two years, child care providers have taken on extra expenses to purchase necessary cleaning supplies and protective equipment to keep the children they care for safe. As health guidelines changed, providers struggled with the additional cost and time spent on each new series of requirements.

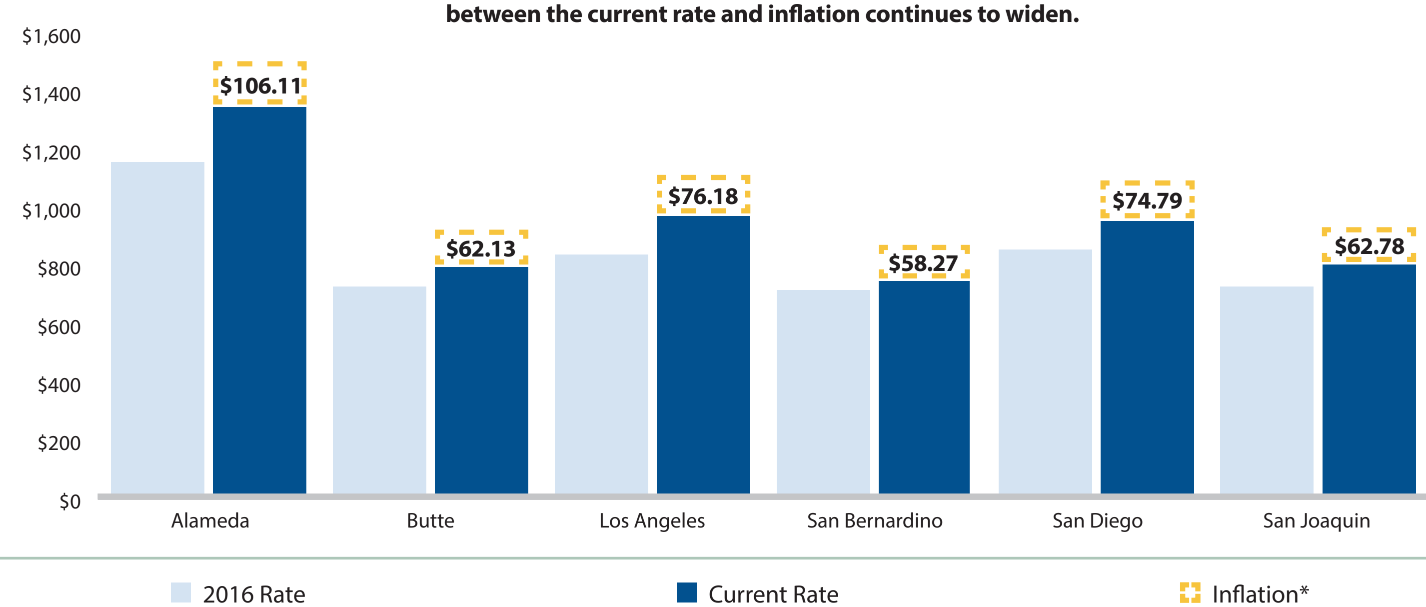
Providers also saw the cost of operating their programs increase while the reimbursement rates they were being paid to care for children were based on data from 2014. Although the California State Legislature made improvements in 2021 to adopt the newest data from the 2018 Regional Market Rate, **provider reimbursement is still insufficient, resulting in providers leaving the industry**.

Although rates are increasing, they are not keeping up with inflation. Providers were still paid based on market rate data from 2014 until new statute became effective on January 1st, 2022. For example, in San Joaquin the per child rate for child care centers increased, but inflation has risen 7% - or $71 - since the rate was calculated, and provider rates have not been adjusted to reflect this inflation (Graph 1). The trend is similar for family child care homes (Graph 2).

Graph 1. **While the monthly per child rate for a preschooler in a full-time child care center has increased since 2016, the gap between the current rate and inflation continues to widen.**

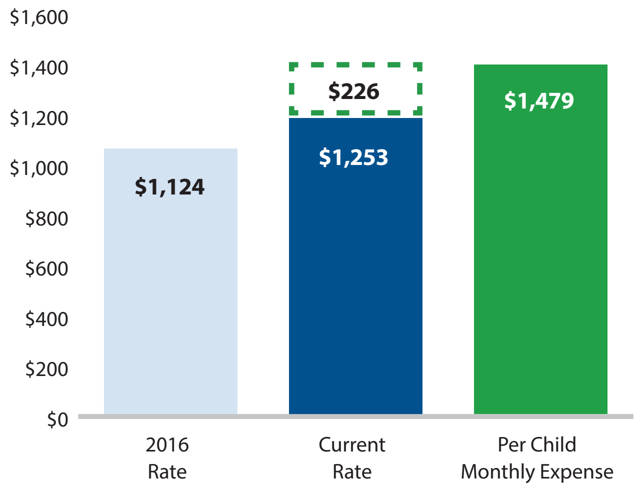


Graph 2. **While the monthly per child rate for a preschooler in a full-time child care home has increased since 2016, the gap between the current rate and inflation continues to widen.**



* The current rates (from 2018 Regional Market Survey) adjusted for inflation in 2021.

Graph 3. The monthly expenses for a Los Angeles County, quality-rated, center-based preschooler was $1,480 per child in 2021; 15% higher than the rate providers received at the start of January 2022.



Taking a closer look at Los Angeles County, the per child monthly rate for a preschooler at a full-time child care center is currently $1,253, but the monthly expenses were $1,479 per child in 2021. That means expenses exceed the current reimbursement rate by $226 (Graph 3). And with minimum wage increases, the cost to have additional staff at centers and large family child care homes has made running a child care business more taxing on providers.

Using the market rates to set child care reimbursement rates for subsidized child care is never enough to help keep a child care program afloat because they are two years behind current market rates due to the methodology used to collect and analyze information and are not keeping pace with inflation and minimum wage increases.

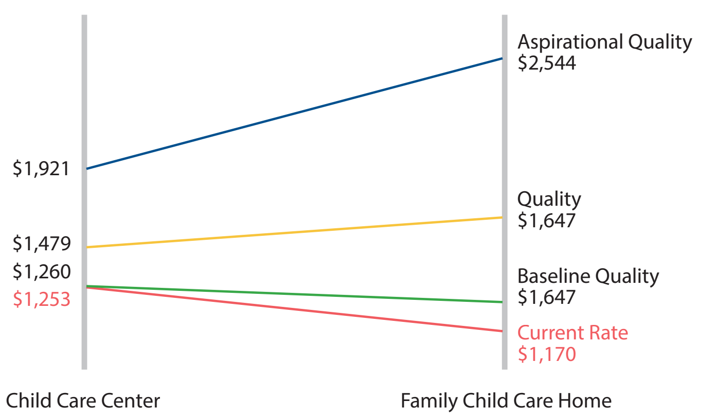
Establishing reimbursement rates based on market rates instead of the true cost of child care leads to low quality care for the children who need it most.[1] Subsidy reimbursement rates not only fail to meet the true cost of care, they also increase inequities in areas where child care is most needed. For example, in Los Angeles it costs $1,647 to provide quality care for a full-time preschooler in a licensed, large family child care home setting, but children with subsidized child care can't even afford the baseline quality (Graph 4).[2]

Prior to the pandemic, child care for a center-based program was roughly $10,000 a year, now parents are spending an average of $14,000 – and those hardest hit are parents with children five years old and younger.[3] Yet, child care provider and teacher compensation continues to fall behind and turnover rates continue to rise.[4]

1 The Limitations of Using Market Rates for Setting Child Care Subsidy Rates. Bipartisan Policy Center. February 10, 2022. https://bipartisanpolicy.org/report/the-limitations-of-using-market-rates-for-setting-child-care-subsidy-rates.

2 This data was adjusted for inflation at the 2021 rate. Data is extracted from A Comprehensive Fiscal Analysis of the Los Angeles County Early Care and Education System. First 5 LA. February 17, 2022. https://www.first5la.org/article/a-comprehensive-fiscal-analysis-of-the-los-angeles-county-early-care-and-education-system.

Graph 4. In Los Angeles County, when comparing quality for full-time, monthly preschool rates in 2021 per child in center-base care or large family child care home, the current rate is still below the baseline quality.



The COVID-19 pandemic has shed light on the fragility of the child care ecosystem, and without public investment and sufficient rates, the instability of the child care system will lead to negative consequences:

- Fewer providers and teachers to care for children,
- Lack of child care options for families, especially in high need areas, and
- Loss of the child care knowledge and skill sets needed to provide children with quality child care.

3 The Cost of Child Care has Risen by 41% During the Pandemic. Fortune.com. February 8, 2022. https://fortune.com/2022/01/28/the-cost-of-child-care-in-the-us-is-rising.

4 What does the Tennessee pre-K study really tell us about public preschool programs? Brookings. February 15, 2022. https://www.brookings.edu/blog/brown-center-chalkboard/2022/02/10/what-does-the-tennessee-pre-k-study-really-tell-us-about-public-preschool-programs.

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