Solving Child Care Requires Strong Public Investment

Kelly Allen, executive director
August 2024

Please note: Quotes used throughout the piece are from child care providers (owners and directors) based in West Virginia. Both the quotes and much of the data that informs this piece come from a 2023 survey of child care providers conducted by the West Virginia Association for Young Children (WVAYC). This research would not have been possible without their partnership.

In recent years, much attention in West Virginia and around the country has focused on the need for quality, affordable care for families with young children. As advocates have long emphasized, child care (and care work more broadly) makes all other work possible. As such, public investments in child care could be considered to have a greater spillover economic impact than investments in other industries, given that they support jobs both in the child care sector and for the families who are able to work in other industries as a result.

Even so, the United States has long underinvested in its child care system compared to other affluent countries; however, pandemic-era federal dollars helped stabilize the industry by providing additional funding that families used to help afford the cost of care and child care centers used to increase worker wages and benefits and improve facilities.[1] As these federal dollars expire, West Virginia faces a child care cliff, with centers closing and families at risk of losing their child care subsidies if the state does not increase its investment. Broadly, policymakers agree that child care provides economic and child development benefits but have not been able to get additional funding across the finish line.

"The additional pay through COVID was a great help, and I am unsure how well we will survive now without it."

One question that repeatedly arises is why the free market hasn't "solved" the child care crisis. This brief dives into the child care landscape in West Virginia, as well as the market failures and challenges that impact the industry.

Child Care Landscape

The primary source of funding for child care is the Child Care and Development Fund (CCDF), which encompasses multiple federal funding streams and state matching funds. States use CCDF funding to provide child care assistance to families who meet eligibility requirements and to invest in quality improvement measures for child care providers like consumer education, safety protocols, and trainings. Because CCDF is a block grant, or a fixed pot of funding rather than an entitlement that goes to all who are eligible, the program serves fewer than one in five families who are income-eligible for child care subsidies nationwide.[2]

While states contribute a required match in order to pull down federal CCDF funds, the match represents merely a funding floor with many states spending more than the minimum. According to FY 2023 state budget data from around the region, West Virginia's state spending on child care lags behind its neighbors and has declined

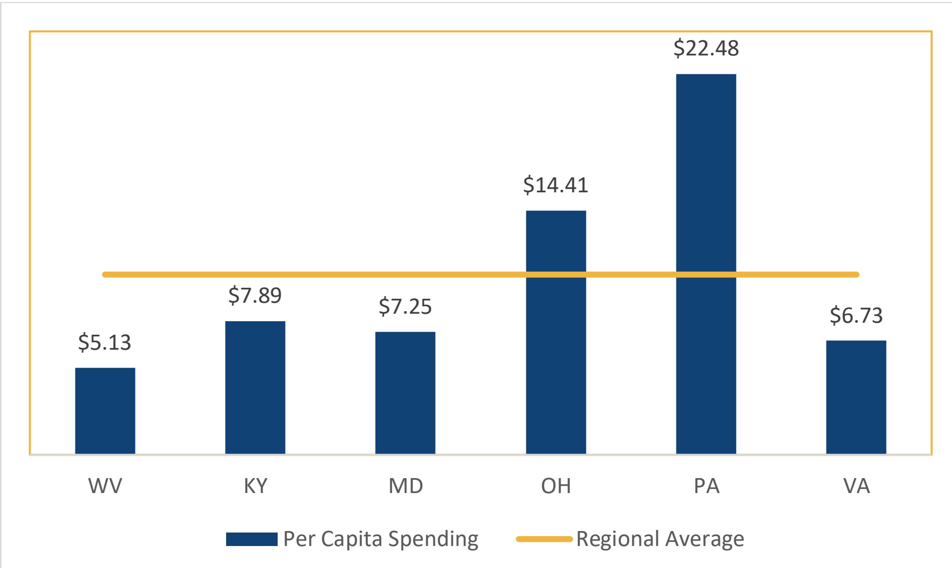
[1] Organization for Economic Cooperation and Development, "PF3.1: Public spending on childcare and early education", retrieved from https://www.oecd.org/content/dam/oecd/en/data/datasets/family-database/pf3_1_public_spending_on_childcare_and_early_education.pdf.

[2] U.S. Department of the Treasury, "The Economics of Child Care Supply in the United States", September 2021. Retrieved from https://home.treasury.gov/system/files/136/The-Economics-of-Childcare-Supply-09-14-final.pdf.

in nominal dollars over the last decade, even before adjusting for inflation.[3] For policymakers to maintain FY 2015 levels of state child care spending in the recently passed FY 2025 budget, they would have needed to dedicate $21 million rather than the $8.8 million that was allocated, which represents a 58 percent decline in inflation-adjusted state child care spending over the last decade.

Figure 1: West Virginia's Per Capita State Spending on Child Care Lags Behind All Neighboring States

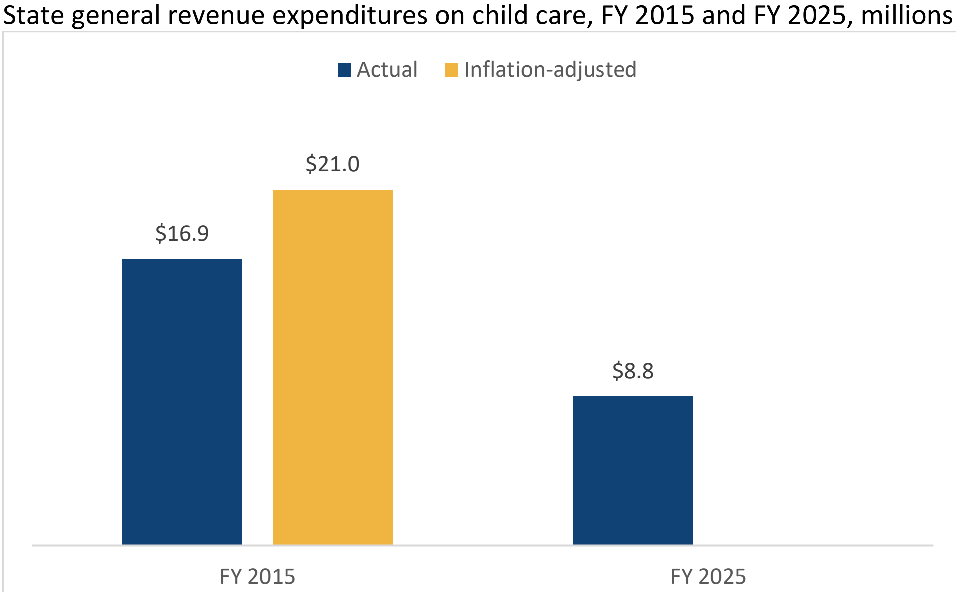
State budget allocations for child care services per capita, FY 2023 expenditures and FY 2023 population estimates



Source: WVCBP analysis of FY 2023 state general revenue and operating budgets, the Administration for Children and Families, and U.S. Census Bureau population data

Figure 2: State Spending on Child Care Down Nearly 50 Percent Even Before Adjusting for Inflation

State general revenue expenditures on child care, FY 2015 and FY 2025, millions



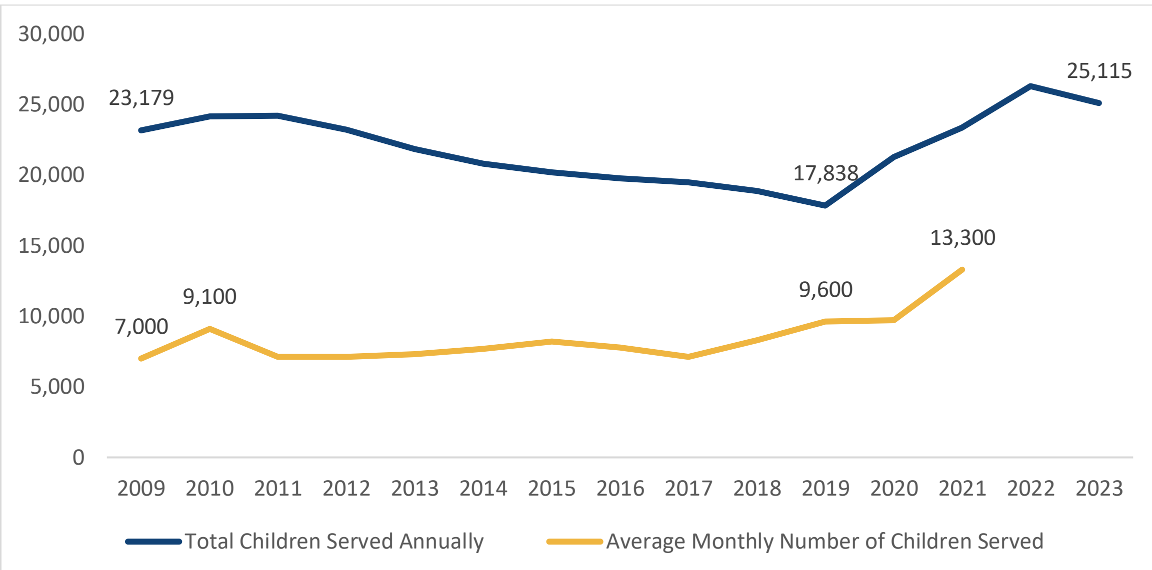
Source: WVCBP analysis of West Virginia enacted budget and Bureau of Labor Statistics data

[3] Administration for Children and Families, CCDF Expenditures for FY 2020 all appropriation years. Retrieved from https://www.acf.hhs.gov/occ/data/ccdf-expenditures-fy-2020-all-appropriation-years.

In FY 2023, West Virginia's child care program served 25,115 children across 15,273 families with child care subsidies, and approximately 12,000 children filled a subsidized slot in any single month.[4] After declining steadily between 2011 and 2019—in part due to reduced state funding for child care and increased copayment costs for families—the number of children served annually by the child care program has been on the rise since 2020, driven by expanded eligibility from increased federal funding for the program.

Figure 3: After Years of Decline, Increased Federal Funding Supported Child Care Subsidies for More Families

Total children served annually and average monthly number of children served in child care program, federal Fiscal Years 2009- 2023



Source: West Virginia Bureau for Family Assistance, Division of Early Care and Education and the Administration for Children and Families

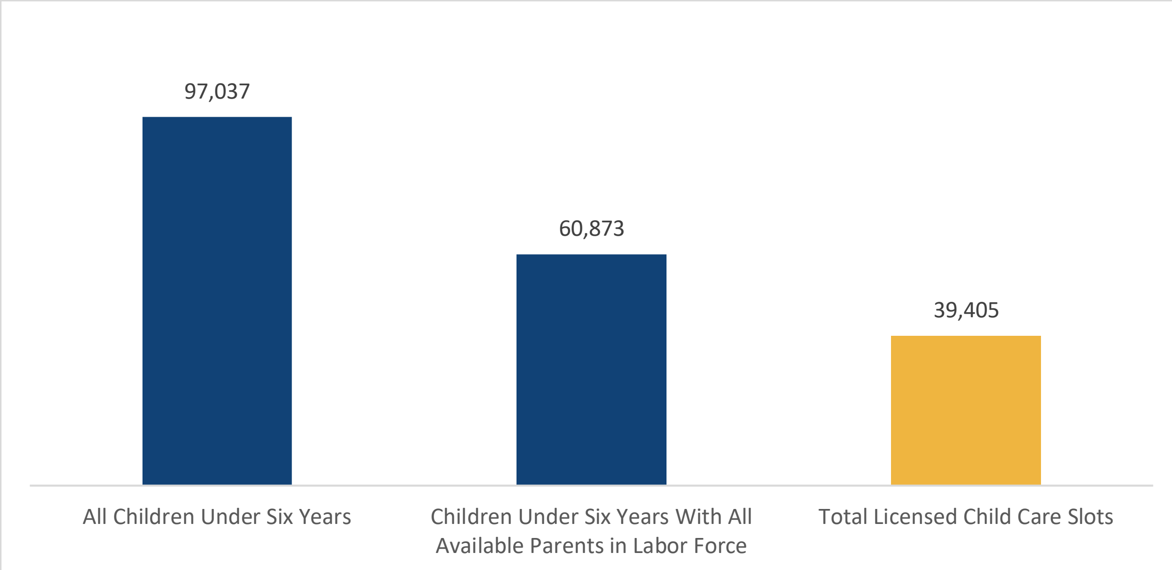
Note: Comparable 2022 and 2023 data not yet available for average monthly number of children served

West Virginia's child care supply is limited. Because of inadequate public investment, many families who are income-eligible for child care subsidies do not receive them. But even families who can afford child care face accessibility challenges. Many West Virginia families live in a child care desert, defined as a place where there are no licensed child care providers or too few for the number of children who need care, though the landscape varies widely in different parts of the state. While there are an estimated 60,873 children under age six with all available parents in the workforce, thus likely needing child care support, there are only 39,405 licensed slots statewide.[5] That leaves an estimated gap of more than 20,000 children under six who likely need care but are unable to access it due to too few child care slots.

[4] Data provided by Bureau for Family Assistance, Division of Early Care and Education.

[5] Author's calculation using data from the West Virginia Department of Human Services, U.S. Census Bureau, and Child Care Aware of America.

Figure 4: More Than One-third of West Virginia Children Who Could Need Child Care Cannot Access It
Children under age six in West Virginia compared with total licensed child care slots, 2023



Source: U.S. Census Bureau and West Virginia Department of Human Services data

What's more, child care shortages are likely even worse than described above. While the gap estimate is based on the number of licensed child care slots in the state, many child care providers are operating below their licensed capacity. A 2023 survey of child care providers found that 45 percent of respondents were operating below their licensed capacity due to staffing shortages and high employee turnover.[6] Additionally, there have been several high-profile closures of child care centers and family care providers this spring and summer that are not accounted for in the capacity figures above.

Recent Developments

To stabilize the child care sector during the pandemic, Congress passed several bills to send additional resources to state child care programs via the CCDF. Pandemic-era federal funding allowed states to temporarily increase payments to child care providers and help additional families afford the cost of care. In West Virginia, the additional funding extended child care assistance subsidies to all essential workers regardless of income; increased overall income eligibility guidelines; temporarily increased provider reimbursement rates, including reimbursing providers based on student enrollment rather than attendance; provided funding for startup grants to expand child care accessibility; and provided for quality bonuses for child care providers to offset increased pandemic-related costs.[7] Most pandemic-era child care funds expired in the fall of 2023, with the American Rescue Plan Act's supplemental CCDF funds expiring in September 2024.

While eleven states and counting have increased state spending on child care to offset the loss of pandemic-era funds and maintain the gains the industry was able to make during the pandemic, West Virginia has not yet done so.[8]

---

[6] Survey conducted by West Virginia Association for Young Children.
[7] West Virginia 2021-2024 Child Care Development Fund State Plan, retrieved from https://dhhr.wv.gov/bcf/ece/Documents/For%20Final%20Review%20State%20Plan%20preprint%20FY%202022%20for%20public%20comment_.pdf.
[8] Shengwei Sun, "Women and Families Struggle with Child Care Following the Federal Funding Cliff, But Far Better in States with Additional Funding for Child Care," National Women's Law Center, May 2024.

Nearby, Kentucky dedicated an additional $50 million in state funding for child care stabilization in FY 2024 (funding not reflected in Figure 1 above). In West Virginia, the expiration of federal funding and lack of new state investment has meant that most pandemic-era improvements have ended, with the exception of increased income eligibility for households, which has been temporarily sustained but will likely require increased state funding to continue.

"Losing the monthly bonus money was very detrimental for our program."

Additionally, in April 2024, the Office of Child Care at the U.S. Department of Health and Human Services (HHS) finalized a rule requiring states to permanently reimburse child care providers based on enrollment rather than attendance.[9] Child care providers in West Virginia have celebrated this rule, as it will continue a vital revenue stream they received through the pandemic that better reflects the true costs of operating a child care business. Costs to child care providers are largely fixed whether or not a child attends on a particular day, with overhead costs and staffing needs remaining largely the same. At the same time, this requirement from HHS is essentially an unfunded mandate, coming with no new federal funds. As such, to permanently comply with this reimbursement requirement, the state child care agency will need increased state funding or to offset costs elsewhere, likely by reducing the number of families eligible for child care subsidies by cutting income eligibility thresholds back to pre-pandemic levels. This could lead to additional center closures, reduced accessibility of child care, increased child care staff turnover, and fewer parents in the workforce.

Low Wages and High Turnover

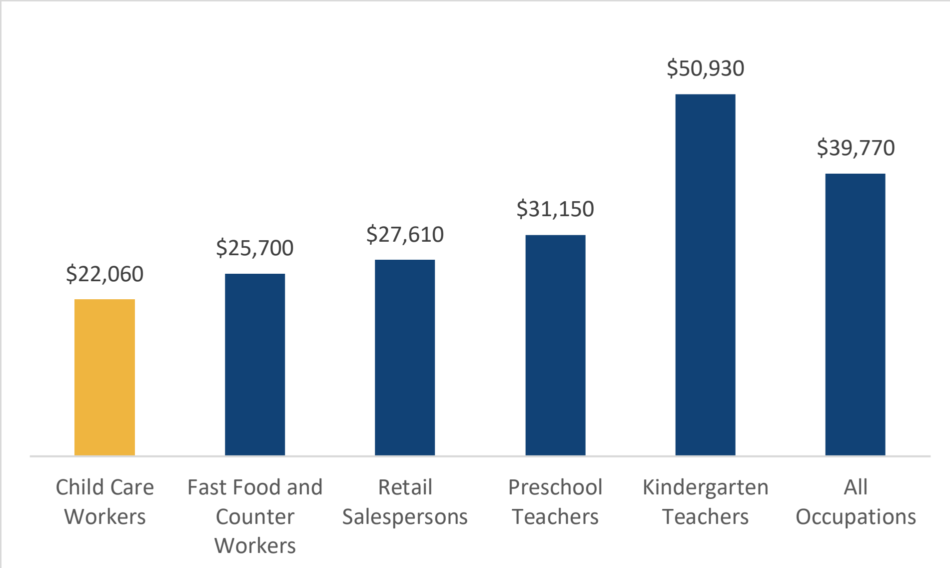
Child care workers, on average, receive salaries and benefits far lower than their similarly situated colleagues in other sectors or even in entry level positions in other industries. In West Virginia, the median annual wage for child care workers is 29 percent below that of preschool teachers and less than half of that of kindergarten teachers. Additionally, very few child care workers receive fringe benefits like health insurance or retirement benefits through work. According to national data, more than half of all workers have employer-sponsored health insurance, compared with just one-fifth of child care workers. Only one in ten child care workers have retirement benefits, compared with one in three workers overall. Few early childhood education workers have collective bargaining rights that might allow them to better advocate for higher wages and benefits, while unionization rates are much higher among Pre-K - 12 educators.[10]

"I need to be able to pay staff as much as they can make as an aide in an elementary school."

[9] Federal Register, 45 C.F.R. 98, pages 15366-15417, retrieved from https://www.federalregister.gov/documents/2024/03/01/2024-04139/improving-child-care-access-affordability-and-stability-in-the-child-care-and-development-fund-ccdf.

[10] Asha Banerjee, Elise Gould, and Marokey Sawo, "Setting higher wages for child care and home health care workers is long overdue", Economic Policy Institute, November 18, 2021.

Figure 5: Child Care Worker Wages Fall Far Below That of Early Educators and Entry-Level Work
Median annual salary for selected industries, West Virginia, May 2023



Source: Bureau for Labor Services, State Occupational Employment and Wage Estimates
Note: Preschool and Kindergarten median salary data refer to non-special education positions

The workers who provide child care around the state are primarily women and disproportionately women of color—a driving force in why care work has for so long been undervalued and underpaid. In West Virginia, 97 percent of child and day care service workers are women, the highest concentration of any industry.[11]

Low wages matter beyond the economic well-being of the workers, as they drive high turnover in the child care industry. Prior to the pandemic, researchers estimated that 26 to 40 percent of the child care workforce leaves their job each year.[12] According to the 2023 WVAYC survey of in-state child care providers, 91 percent of in-state child care businesses experienced turnover in 2023, with an estimated 47 percent of staff leaving their job over the previous 12 months.[13]

High Costs to Families

A contradiction of the child care industry is that it simultaneously provides low wages for workers and imposes exorbitantly high costs for families. According to data from Procare, a child care management software company, the average cost of child care in a center in West Virginia is just over $10,000 annually for an infant and $9,000 for a four-year-old.[14] The Economic Policy Institute estimated in 2020 that the average annual cost of child care ranged from $8,736 for infant care to $7,644 for four-year-olds. Even at that lower estimate, infant care for just one child would take up nearly 20 percent of the median family's income in West Virginia, while a typical family with two children would have to spend one-third of their income on child care.[15]

---

[11] WVCBP analysis of U.S. Census Bureau, 2018-2022 American Community Survey 5-year microdata.
[12] U.S. Department of the Treasury, "The Economics of Child Care Supply in the United States", September 2021. Retrieved from https://home.treasury.gov/system/files/136/The-Economics-of-Childcare-Supply-09-14-final.pdf.
[13] WVAYC survey conducted December 2023.
[14] Procare Solutions, Child Care Costs by State 2023. Retrieved on July 29, 2024 from https://www.procaresoftware.com/blog/child-care-costs-by-state-2023/.
[15] Economic Policy Institute, Child care costs in the United States. Retrieved on July 25, 2024 from https://www.epi.org/child-care-costs-in-the-united-states/#/WV.

Child care workers themselves often need access to affordable child care and find cost a barrier both to care and to work. Of child care providers who responded to the 2023 survey, 72 percent of their employees had their own children under the age of six. While most providers offer a tuition waiver or discount to their employees with young children, they report that doing so comes at the cost of higher wages, offering benefits, and stabilizing overall operating margins.[16]

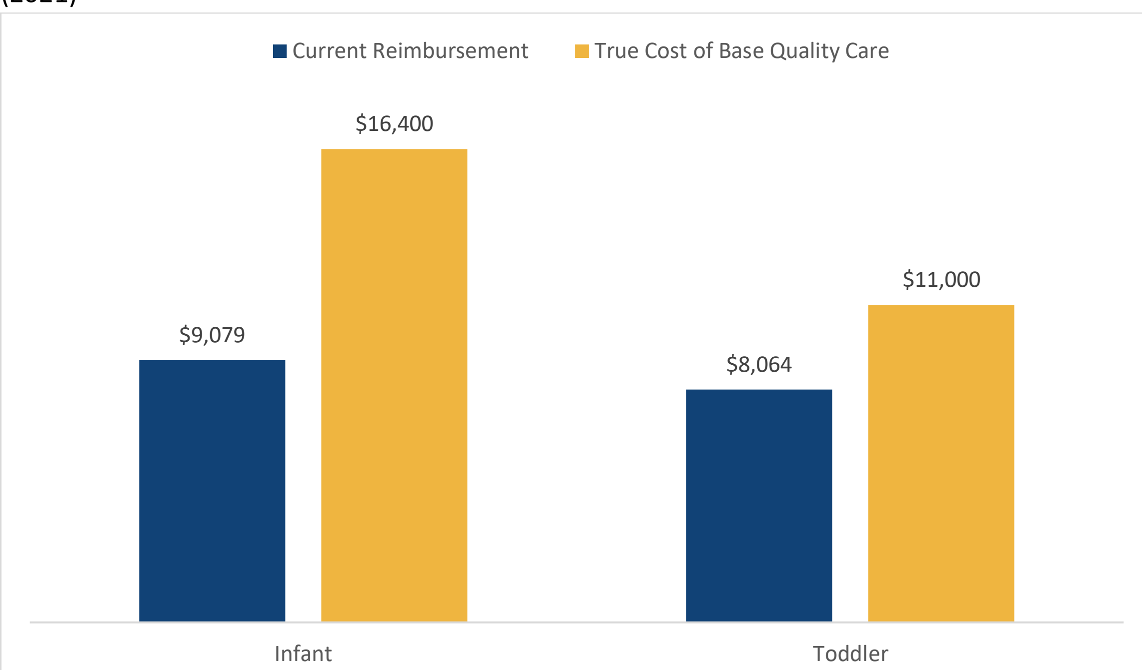
Balancing the Contradiction

Recent research has shown a significant gap between what child care providers are paid to provide care and the true cost of providing such care. The annual estimated costs provided in the preceding section reflect private pay costs, and the state reimburses child care providers at a comparable but somewhat lower rate. The average cost of subsidized care in West Virginia in early 2024 was $8,064, with 85 percent covered by the program and 15 percent via parental copayments. The cost of care typically declines as the child's age increases, as younger children require more hands-on care and smaller teacher-to-child ratios. As such, the average cost of care for children under one year old in early 2024 was $9,079.

Researchers at the Center for American Progress estimated the true cost of care in each state at base quality and high-quality levels. In West Virginia, they estimate the true cost of base quality infant care in a child care center to be $16,400 annually, an amount nearly twice what providers are currently reimbursed, while the true cost of care for a toddler is $11,000, 36 percent more than what they are currently reimbursed for on average.[17]

Figure 6: Child Care Provider Reimbursement Rates Do Not Represent the True Cost of Care

Average annual cost of subsidized child care in West Virginia (2024) compared with true cost of care estimates (2021)



Source: Bureau for Children and Families, Division of Early Care and Education and Center for American Progress

[16] WVAYC survey conducted December 2023.
[17] Workman, Simon, "The True Cost of High-Quality Child Care Across the United States", Center for American Progress, June 28, 2021.

Market Failures

Researchers have identified a few reasons why the free market alone is inadequate to stabilize the child care system, wherein the cost of child care for families allows for adequate reimbursement and supply.

First, the expense of child care hits families when they are least able to afford it. People generally earn higher incomes as their careers progress, but most parents are in the early stages of their career with little work experience and time in the labor force. Young parents are often also balancing other major expenses (e.g., student loan repayments, mortgages), which makes the high costs of child care at that period in their lives particularly difficult to afford. To put this in perspective, in West Virginia and around the country, the annual costs of child care are higher than in-state tuition.[18] However, public investments in college including grants and loans are widely available to families who need them, but no similar universally accessible support is available for offsetting child care costs.

Additionally, child care as a job is incredibly labor intensive, requiring a significant amount of hands-on care in order to provide quality early education and keep children safe. Parents consistently value quality care in addition to affordable, accessible care. Unlike other industries, caring for children cannot be automated with technology or experience significant productivity advancements. The number of children a child care worker can safely care for is largely fixed. One study estimates that labor makes up 60 to 80 percent of a child care business's expenses, with that share expanding when the care is for younger children.[19] While some suggest that child care workers should care for more children to improve the cost, smaller teacher-child ratios are known to offer numerous benefits, including enhanced child health and safety, improved quality of caregiving, increased learning, and better student outcomes.[20]

Finally, parents of children are not the only beneficiaries of child care, as research shows that child care has positive externalities or spillover effects on society more broadly. The positive impacts of public investments in child care are similar to the economic and societal benefits of providing K-12 education as a public good.

As highlighted above, child care work supports all other work, as many parents cannot participate in the workforce or receive an education without it. A broad array of research highlights the economic benefits of early childhood education, including increased earnings and employment of parents, reduced anti-poverty program spending, and long-term benefits to children like better health outcomes and reduced criminal system involvement.[21] One recent study found that investments in child care have a nine-to-one return on investment—in other words, for every dollar spent on early childhood education, there is a nine dollar benefit to society.[22]

Conclusion and Recommendations

Policymakers must take seriously the importance of maintaining the gains that were made in the child care industry during the pandemic-era thanks to increased federal investment. Any additional funds provided to the state child care program should balance both the needs of families and child care providers. For instance, funding to allow families at higher income levels to continue to be eligible for child care assistance should be prioritized alongside increasing reimbursement rates to better reflect the true cost of providing child care.

---

[18] Author's analysis of child care cost and College Tuition Compare data.

[19] Simon Workman, "Where Does Your Child Care Dollar Go? Understanding the True Cost of Quality Early Childhood Education", Center for American Progress, February 2018.

[20] Center on Enhancing Early Learning Outcomes, "Why does class size matter?", available at http://ceelo.org/toolkit/cpqr/class-size/.

[21] Executive Office of the President of the United States, "The Economics of Early Childhood Investments", December 2014.

[22] Jorge Luis Garcia et al, "The Dynastic Benefits of Early Childhood Education", Becker Friedman Institute, June 2021.

Care work is among the most important jobs in our society. Families must feel confident that their loved ones are safe and well-cared for when they are not able to provide that care themselves. One child care provider surveyed put it best: “Historically and even now the industry cannot pay wages that are equal to the importance of the job.”

Additionally, care work provides significant benefits to our economy and society more broadly. Because of those broad benefits, the amount a family pays for child care does not represent the full value of child care to West Virginia. In scenarios where goods or services have spillover benefits, it’s natural for public investment to bridge the gap between what households can pay and the true value of the service. Doing so in West Virginia will help child care workers and providers have sustainable, well-paying jobs, increase the supply of child care for families, and broadly benefit our economy.

“We must be able to pay wages that are equal to the importance of the job.”

Below are three recommendations to improve the child care landscape in the Mountain State:

Reverse years of state funding attrition and increase general revenue budget spending on the state’s child care infrastructure. Funding options include:

- ✓ **$28 million annually to fund enrollment-based reimbursements to child care providers**
- ✓ **$34 million to subsidize an additional 5,000 child care slots**
- ✓ **$39 million to raise reimbursement rates to better cover the true cost of providing care, allowing providers to increase worker wages and invest in maintaining and improving their facilities**

Prioritize the concrete needs of the industry via a statewide approach as outlined in the 2023 Child Care Needs Assessment.

- ✓ **Create a curriculum and learning environment that strengthens workforce training and creates a career ladder within the industry**
- ✓ **Develop and enhance community education and outreach to ensure all are aware of available services**

Consider the holistic needs of children, families, and workers.

- ✓ **While many parents would join the workforce with affordable, accessible child care, others want to remain in the home to care for family themselves. Flexible cash assistance policies like Child Tax Credits allow families to choose the option that is right for them with better economic security.**
- ✓ **Families face early learning barriers beyond child care affordability and accessibility, including lack of transportation and job training, health issues, and income instability. Policies that address these root causes of poverty would improve many facets of life for children and families.**

West Virginia Center on Budget and Policy
1610 Washington St. E., Suite 200
Charleston, West Virginia 25311
Tel 304-720-8682 | Fax 304-720-9696
Like us on Facebook
Follow us on X @WVCBP
Visit us at wvpolicy.org

WEST VIRGINIA CENTER ON
BUDGET & POLICY
Data-driven policies. Shared prosperity.