Office of the Superintendent of Public Instruction
James F. Lane, Ed. D.

September 15, 2021

The Honorable Ralph S. Northam
Governor of Virginia
Patrick Henry Building, Third Floor
1111 East Broad Street
Richmond, Virginia 23219

The Honorable Janet D. Howell
Chair, Senate Finance and Appropriations Committee
Pocahontas Building, Room No. E509
PO Box 396
Richmond, Virginia 23218

The Honorable Luke E. Torian
Chair, House Appropriations Committee
Pocahontas Building
900 East Main Street, 13th Floor
Richmond, Virginia 23219

Dear Governor Northam, Delegate Torian, and Senator Howell:

We are pleased to submit the enclosed copy of the plan for Determining the Magnitude of the Gap between Regional Prevailing Child Care Market Rates and the Virginia Preschool Initiative per Pupil Amount, as required by Item 145.C.14 of the 2021 Appropriation Act.

The Plan explains the Virginia Department of Education's process in reviewing a process for determining the magnitude of the gap between prevailing methodologies for child care market rate and the current rate of the Virginia Preschool Initiative. The Plan acknowledges the significant impact of COVID 19 on the child care industry, and the state of disruption that continues to exist in any collected data since March 2020. The plan addresses a timeframe and proposal for a schedule to identifying the amount of the add-on grants for Virginia Preschool Initiative students served in community settings, factoring in Virginia's proposal to shift to a cost-of-care methodology for setting child care rates in future fiscal years.

Please direct questions to Jenna Conway, Deputy Superintendent of Early Childhood Education by email at Jenna.Conway@doe.virginia.gov.

Sincerely,

James F. Lane, Ed.D.
Superintendent of Public Instruction

JFL/JC/lh

Enclosure

A Plan for Measuring the Magnitude of the Gap between Child Care Market Rate and the Virginia Preschool Initiative

Virginia Department of Education

September 30, 2021

Introduction and Background

Chapter 1289 of the 2020 Acts of Assembly, Item 145 C.14.h, directs the Virginia Department of Education (VDOE) to develop a plan to determine the magnitude of the gap between regional prevailing child care market rates and the Virginia Preschool Initiative per pupil amount. The specific language is as follows:

> *3) The Department of Education shall develop a plan to determine the magnitude of the gap between regional prevailing child care market rates and the Virginia Preschool Initiative per pupil amount. The Department shall establish a schedule designating the amount of the add-on grants for each school division for fiscal year ~~2022~~ 2023. The amount of the add-on grant plus the Virginia Preschool Initiative per pupil amount shall not exceed prevailing child care market rates in a particular region. The Department shall report on the established schedule to the Chairs of the House Appropriations and Senate Finance and Appropriations Committees by ~~December 1, 2020~~ September 30, 2021.*

In October 2020, the Virginia Department of Education received a waiver to extend the deadline for this report to September 30, 2021 as a result of the COVID 19 pandemic and related impacts on child care market rates.

The following report includes a summary of the information available as of June 2021. The child care industry has been significantly impacted by the pandemic, causing extraordinary volatility in the child care market, both in the Commonwealth and across the country. As a result, the Department recommends continuing to use the same rates for the add-on grants until the market is less volatile and more stable. A summary is available in the following sections, as well as a proposal for the future timeline for considering an adjustment to the add-on grants for each school division.

Operational and Financial Impact of the COVID-19 Pandemic on Child Care Providers

While few industries escaped the impacts of the COVID-19 pandemic, the child care sector was uniquely harmed.

In the weeks after the State of Emergency was issued in March 2020, thousands of programs temporarily closed their doors. Temporary closures peaked in mid-April 2020 with nearly half of all regulated programs (47 percent) closed to the public (see Table 1).[1] Programs that remained open saw their normal

[1] Based on data from Virginia's licensing system, available upon request.

business and service models upended. Based on guidance from the federal Centers for Disease Control and Prevention (CDC), providers were encouraged to implement more stringent cleaning procedures for high-touch surfaces; minimize the sharing of toys and supplies; encourage social distancing as much as possible; and limit mixing between groups of children.[2] These safety protocols required some programs to adjust their operating hours and institute enrollment caps to facilitate social distancing, which resulted in higher operating costs due to lower staff-child ratios and additional supplies.[3]

Table 1. Operational Status of Regulated Child Care in Virginia, March--December 2020

Date	Number of programs in Virginia's licensing system	Number of programs reporting temporary closure	Percent of programs temporarily closed
March 23, 2020	6,024	1,913	32%
April 10, 2020	6,040	2,829	47%
June 10, 2020	6,030	2,423	40%
August 10, 2020	6,050	2,185	36%
October 9, 2020	6,059	1,935	32%
December 10, 2020	6,050	1,424	24%

Source: Virginia's child care licensing database

At the same time, many parents chose to withdraw their children from care for a variety of reasons: some were furloughed or laid off and unable to pay; others were concerned about health and safety; and many were staying home with school-age children anyway.[4] As a result, enrollment plummeted, meaning a significant loss in revenue for providers at a time when operating costs were skyrocketing. Many parents that remained enrolled struggled to make copayments and tuition payments, yet providers continued to serve these families knowing that they needed care.[5]

---

[2] Virginia Department of Social Services, "COVID-19 Guideline and Information for Child Care Operations," revised April 12, 2021, https://www.dss.virginia.gov/files/division/cc/provider_training_development/intro_page/news_events_bullletins/Revised_COVID-19_Guidelines_and_Info_for_Child_Care_.pdf. Note this guidance was updated throughout the pandemic in response to changes in CDC recommendations and state policy.

[3] Daphna Bassok, Molly Michie, Deiby Mayaris Cubides-Mateus, et al., *The Divergent Experiences of Early Educators in Schools and Child Care Centers during COVID-19: Findings from Virginia*, EdPolicyWorks at the University of Virginia, September 2020, https://files.elfsightcdn.com/022b8cb9-839c-4bc2-992e-cefccb8e877e/710c4e38-4f63-41d0-b6d8-a93d766a094c.pdf; Child Savers, Smart Beginnings, Community Foundations for a Greater Richmond, and the Robins Foundation, *Early Childhood Education Task Force Childcare Provider Survey*, July 2020, https://smartbeginningsrva.org/wp-content/uploads/2020/08/Childcare-Provider-Survey-from-July-THE-RESULTS-1.pdf.

[4] Voices for Virginia's Children, Virginia PTAs, Families Forward Virginia, *Survey of Parents & Caregivers*, May 2020, https://vakids.org/wp-content/uploads/2020/06/Parents-Caregivers-Survey-Report_FINAL.pdf.

[5] National Association for the Education of Young Children, *A State-by-State Look at Child Care in Crisis*, March 2020, https://www.naeyc.org/sites/default/files/globally-shared/downloads/PDFs/our-work/public-policy-advocacy/state_by_state_child_care_crisis_coronavirus_surveydata.pdf;

This dramatic shift in conditions put program leaders and staff in difficult circumstances:

- In a survey of 763 family day homes, Child Care Aware of Virginia found that 1 in 6 had to lay off or furlough staff.[6]
- Nearly 80 percent of family day home educators surveyed by the University of Virginia reported declines in enrollment, with two-thirds reportng difficulty covering costs and remaining open during the pandemic.[7]
- In a survey of early childhood educators, 38 percent of program leaders reported that they had to reduce employees' hours; 26 percent reported that staff were laid off.[8]
- Twenty-four percent of child care teachers in the same survey reported spending an average of $124 on pandemic-related supplies for their centers.[9]

In 2020 and 2021, Virginia dedicated nearly $200 million in direct cash assistance to child care programs to curtail closures and provide financial relief. Providers have reported that the funding was instrumental in helping to keep them afloat in the face of higher operating costs and lower revenue. Some combined these resources with other sources of federal COVID relief, including the Paycheck Protection Program (PPP) grants, Economic Impact Disaster Loans (EIDL), and incentives to offer paid family and medical leave to employees for COVID-related leave.

All of these impacts have created extreme volatility in the child care market in Virginia. Supply and demand have increased and/or decreased on a monthly, if not weekly, basis at times, depending on what is happening in the local community (e.g., school closure decisions, local case rates, etc.). Accordingly, the actual costs of care as well as the market rates charged have oscillated significantly.

Status of Virginia's Child Care Sector in June 2021 and Considerations for Recovery

Virginia has been fortunate to see many programs reopen over the course of the last year. As of June 2021, 90 percent of all programs known to the Commonwealth--meaning they are licensed, registered, or otherwise regulated by the state in some capacity--are open and operational. The 10 percent that remain temporarily closed are mostly before/after-care programs for school age children whose decision to close (and not reopen) were informed by school schedules. If excluding before/after-care programs, 95 percent of known programs are open. Providers and advocates attribute this success to state-sponsored supports such as direct cash assistance to providers and flexible policies due to COVID in the Child Care Subsidy Program (CCSP).

Other important policy milestones to facilitate reopening and support educators have included:

- Including child care educators in early priority groups to receive the COVID-19 vaccine, along with K-12 teachers and staff;

---

[6] Child Care Aware of Virginia, *COVID-19: Challenges Faced by Virginia Family Child Care Home Providers*, November 2020, https://vachildcare.com/wp/wp-content/uploads/2020/12/FINAL-Survey-Report-Family-Child-Care.pdf.

[7] Daphna Bassok, Kennedy Weisner, Justin B. Doromal, et al., *Virginia's Family Day Homes in the Early Months of COVID-19*, EdPolicyWorks at the University of Virginia, January 2021, https://files.elfsightcdn.com/022b8cb9-839c-4bc2-992e-cefccb8e877e/5ebe3729-c47d-4559-92f8-80a0a38016f4.pdf

[8] Bassok et al., *The Divergent Experiences of Early Educators.*

[9] Bassok et al., *The Divergent Experiences of Early Educators.*

- Using federal relief funds to make shipments of personal protective equipment (PPE) to providers;
- Including a "COVID bonus" in the educator incentive program for teachers in participating Preschool Development Grant community programs; and
- Temporarily increasing paid absence days in the CCSP and paying providers for mandated periods of closure due to COVID exposures in their facilities.

While many more programs are open today than there were in the spring of 2020, they continue to face significant challenges in resuming "normal" operations. The most commonly cited challenge among providers--described to state leaders during listening sessions and as reported in the media[10]--is staffing. Providers report difficulty recruiting qualified staff, primarily due to the low wages available to child care staff. Some prospective employees are unable to return to work because they can't find affordable care for their own children. Providers need sufficient staff to comply with teacher-child ratios, which are set by the state to ensure adequate supervision and keep children safe. If providers can't recruit and retain qualified educators, they won't be able to respond to the increasing demand for care and support the Commonwealth's economic recovery.

Virginia recently received $488 million in federal relief funding from the *American Rescue Plan Act* to launch a Child Care Stabilization Grant Program.[11] This program will build upon the nearly $200 million in support Virginia already provided throughout 2020 and 2021 by allowing the state to offer significant, sustained relief for providers beginning in the fall of 2021. Virginia will design grant awards that cover a portion of programs' operating costs based on approved capacity, with higher awards for providers that are located in high-need communities and a one-time bonus for providers that participate in or enroll in the CCSP during the grant period. Providers will receive grant awards on a quarterly basis for up to 9 months. Virginia will strongly encourage programs to use these sustained resources to address staffing shortages in their programs. We expect that these resources--coupled with additional investments and policy flexibility in the Child Care Subsidy Program--will help shore up providers in the short-term, lay the foundation for long-term recovery, and help additional families access quality care.

Altogether these federal relief funds have and will continue to serve as a lifeline for the child care industry. At the same time, however, these funds may have a distortionary effect on the market, especially if these funds are used to defray higher operating costs. In other words, the actual costs of care may go up but the market rates will not reflect these costs because the providers use the one-time federal funds to address the difference in costs..

---

[10] See for example, Lex Gray, "Addressing staffing shortages: Free Hampton Roads childcare training offered next week," *WAVY,* April 14, 2021, https://www.wavy.com/news/business/addressing-staffing-shortages-free-hampton-roads-childcare-training-offered-next-week/, Elliot Haspel, "There's a massive child-care worker shortage and the market can't fix it," *The Washington Post*, May 26, 2021, https://www.washingtonpost.com/business/2021/05/26/child-care-center-worker-shortage/; Sabrina Shutters, "'They're not showing up': Central Virginia daycares struggle to staff centers, turning parents away," *WRIC,* June 2, 2021, https://www.wric.com/business/theyre-not-showing-up-central-virginia-daycares-struggle-to-staff-centers-turning-parents-away/.

[11] For more information about the ARP Act Child Care Stabilization Grant program, see CCDF-ACF-IM-2021-02 at https://www.acf.hhs.gov/occ/policy-guidance/ccdf-acf-im-2021-02.

Challenges Associated with Measuring the Magnitude of the Child Care Cost Gap During a Pandemic

Given the evolving impacts of the pandemic on the demand for and supply of child care, the changes to program operations based on public health guidance, and the influx of federal relief funding for early childhood care and education, estimating market rates--or even "true costs"--is challenging.

Historically, Virginia has used data from a triennial market rate survey (last conducted in 2018)[12] to estimate variations in the price of care across the state, based on geography, provider type, and age of children served. This data has been the basis for the "maximum market rate" for reimbursement under the Child Care Subsidy Program and informed other estimates of per-child costs in publicly-funded programs.

This strategy had limitations even before COVID-19. Market rate data reflects prices charged by programs, which is inherently capped at what families can pay. Research has consistently demonstrated that the operating costs associated with providing high-quality care (characterized by a stable, well-paid, well-trained workforce; evidence-based curriculum and instructional materials; and low teacher-child ratios) far exceed what families can afford.[13] Given that the largest cost for programs is staffing, wages and benefits are one of the only areas where programs can cut costs without sacrificing other "quality" inputs, like curricula, training, and other wraparound services. As a result, child care educators earn an average of less than $11 per hour in Virginia,[14] equal to $22,176 annually when working full time (just above the 2021 poverty threshold for a family of three).[15] Few have access to paid time off or employer-sponsored benefits like health insurance. For this reason, states that use a market rate survey to set reimbursement rates are also required by the federal Administration for Children and Families (ACF) to conduct a "narrow cost analysis," which provides some estimates of the differences between prices charged and true operating costs.

Both prices and costs have been further skewed by the pandemic, in which providers' business models have been upended by shifts in enrollment, unstable staffing, and the high costs of supplies. Based on anecdotal reports, some providers are effectively providing care for free because the families they serve can't afford to pay, while others have raised prices or assessed additional fees to account for higher costs and fewer enrolled children. The Center for American Progress estimated that true operating costs for child care programs had increased by 47 percent on average, with higher costs for programs serving preschool-aged children.[16] While this is likely ticking downwards towards "normal" as public health

[12] Michael Theis, *Virginia's Child Care Subsidy Program 2018 Market Rate Survey Report,* Virginia Department of Social Services, 2018,
https://www.dss.virginia.gov/files/division/cc/interested_subsidy_vendors/notices/Market_Rate_Survey.pdf.

[13] See for example, Lindsay Oncken, "The First Pillar of Care: Cost," in *The Care Report*, New America, https://www.newamerica.org/in-depth/care-report/first-pillar-care-cost.

[14] Gould, E., Whitebook, M., Mokhiber, Z., & Austin, L. (2020). Financing Early Educator Quality: A Values-Based Budget for Every State. A series of state-by-state reports produced by the Economic Policy Institute and University of California Berkeley's Center for the Study of Child Care Employment. Retrieved from https://cscce.berkeley.edu/financing-early-educator-quality-a-values-based-budget-for-every-state/.

[15] Office of the Assistant Secretary for Planning and Evaluation, 2021 Poverty Guidelines, https://aspe.hhs.gov/2021-poverty-guidelines.

[16] Simon Workman and Steven Jessen-Howard, *The True Cost of Providing Safe Child Care During the Coronavirus Pandemic,* Center for American Progress, September 2020,

guidance evolves, agency leaders expect that operating costs will remain elevated for the foreseeable future.

Recognizing these challenges, Virginia requested a waiver to delay its triennial market rate survey and narrow cost analysis until summer 2021. The Virginia Department of Social Services (VDSS) and VDOE worked together to modify survey questions to reflect the current COVID context and better understand the impact of the pandemic on market rates and true costs. Partners at Old Dominion University are actively collecting survey data from child care programs. Data will be analyzed in fall 2021. Cost analyses are also in progress. Findings from both sources will be available in late 2021 or early 2022.

The delay in the market rate survey combined with the acknowledged unprecedented strain on child care centers and their operational budgets make estimating the proposed market rate cost, and its corresponding difference to that of the Virginia Preschool Initiative rate, implausible at this time. Estimates would either be using current data, which is demonstrably unstable, or be based on data that is over three years out-of-date, and reflects pre-pandemic conditions.

Proposal for alternate cost of care methodology: Based on the challenges associated with the traditional market rate survey, the VDOE is seeking approval from ACF to use an alternate methodology to estimate the actual cost of providing high-quality early childhood care and education services in community-based settings. The alternative approach will be summarized in a report to the Governor and the Chairs of the House Appropriations and Senate Finance and Appropriations Committee in 2022.

Proposal for Future Estimations and Recommended Approach for Community Provider Add-On
Given the current context, VDOE does not have sufficient data to recommend a schedule for the community provider add-on in the VPI program to be used for the Virginia State Budget. The VDOE proposes the continuation of the current community provider add-on rate schedule, as prescribed in Chapter 1289 of the 2020 Acts of Assembly, Item 145 C.14.h for FY23:

> *2) The amount of these add-on grants shall vary by region and provide a grant of: (i) $3,500 per child for divisions in Planning District 8, (ii) $2,500 per child for divisions in Planning District 15, Planning District 23, and for the counties of Stafford, Fauquier, Spotsylvania, Clarke, Warren, Frederick, and Culpeper and the Cities of Fredericksburg and Winchester, and (iii) $1,500 per child in any other division.*

This methodology, which has been used in both FY21 and FY22, has supported a remarkable uptake in VPI programs operating a community-provider model. In school year 2020-2021, 619 slots were requested for the community provider add-on. In the second year (2021-2022), this increased to a requested 1,163 community provider slots, representing a near doubling in response.

For the 2022-2024 biennial budget, the VDOE recommends using the current appropriations language stated above for FY23. For FY24, the VDOE recommends using the alternative cost of care methodology

---

https://www.americanprogress.org/issues/early-childhood/reports/2020/09/03/489900/true-cost-providing-safe-child-care-coronavirus-pandemic/.

that will be implemented in replacement of the market rate survey methodology in 2022, and reported to the General Assembly. Looking ahead, VDOE will leverage market rate survey data, cost analyses, and additional data collected through stakeholder engagement with the field to recommend a schedule for the state fiscal year 2023 and beyond.