

# Care at the Cliff

**Kentucky's child care providers plan tuition hikes, wage cuts and closures unless state steps in with substantial investment**

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## Care at the Cliff: Kentucky's Child Care Providers Plan Tuition Hikes, Wage Cuts and Closures Unless State Steps In With Substantial Investment

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In a new survey of Kentucky child care providers, more than a quarter said closing their center is the likeliest or next-to-most likely action they'll be forced to take if \$330 million in annual federal funding for child care runs out without the state stepping in with substantial resources. Tuition hikes are the likeliest reported action in the survey, followed by wage cuts and layoffs, all of which directors acknowledge may put their centers in jeopardy even if they do not force immediate closure.

These responses came from a survey of 770 child care center directors and owners, representing roughly 40% of the regulated child care providers in the state and serving 64,100 children across 117 of Kentucky's 120 counties. Center directors noted that challenges related to the end of federal funds come on top of an already difficult combination of staffing shortages, unaffordable tuition and wages too low for child care workers to live on.

As a child care provider from Jessamine County noted, "It's a nightmare to think what will happen."

In 2020 and 2021, Congress passed four laws that invested a total of \$1 billion in Kentucky's child care industry and made a significant difference in the availability, affordability and quality of child care. These federal investments have greatly improved eligibility for assistance, provider reimbursement rates, help with starting new centers and the development of the child care workforce, and directly assisted child care centers through quarterly "stabilization payments." But those funds are temporary, and have either already expired or will expire during the fiscal year 2025.

The federal aid was "a needed boost to an already struggling system," a provider in Pike and Floyd counties said. "The pandemic created a unique demand for care, and providers welcomed the assistance. As we have progressed post-pandemic, the gaps of the system have been revealed. The cost of care and operation too often exceeds the means of families we are meant to serve."

Child care is a critical sector that is in a dire position, and without significant financial help from the General Assembly to make up for the loss of federal funds, child care providers say they and the families they serve will be deeply destabilized.

### Who completed the survey?

From Jan. 4 to Jan. 14, 2024, 770 child care directors and owners responded to the survey. They represent sites from all but three counties in Kentucky (although Martin County currently has no state-regulated child care providers).

# Providers Responded in All But Three Counties

Counties where state-regulated child care providers responded to the survey.



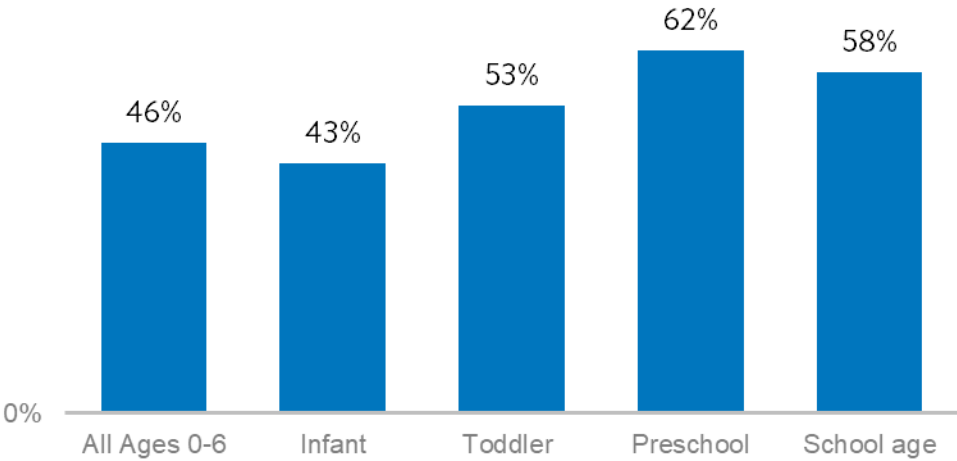
Source: 2024 Division of Child Care, Kentucky Voices for Health and Kentucky Center for Economic Policy child care provider survey.

Note: Martin County did not have a state-regulated child care provider at the time of the survey.

These centers collectively serve 64,100 children (out of Kentucky’s total capacity of 163,000), and provide care for children of all ages.<sup>1</sup>

# Respondents Care for Children of All Ages

Responses to the question: "What ages do you serve?(select all that apply)"



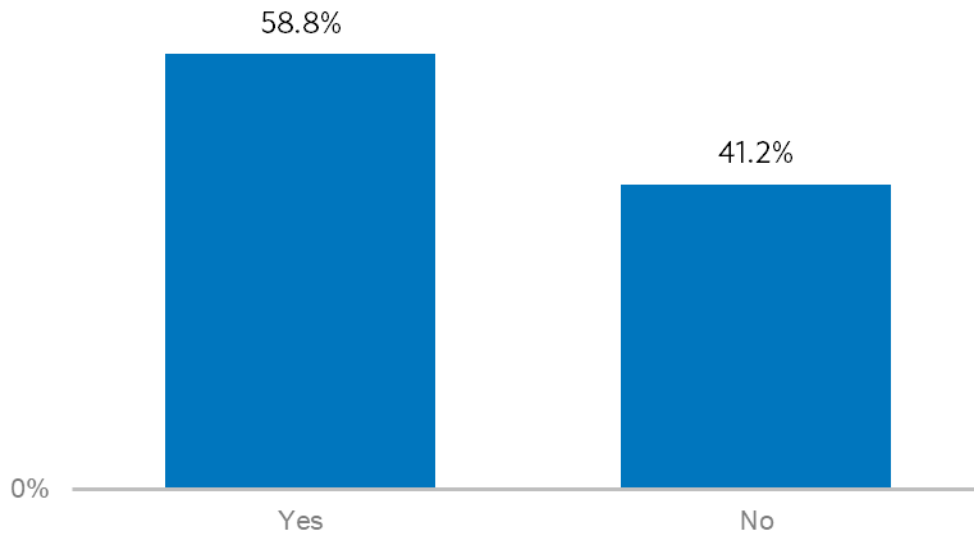
Source: 2024 Child Care Provider DCBS, KVH and KyPolicy survey.

### Staffing was already a growing concern

More than four in 10 respondents reported understaffing and reported needing a total of approximately 2,100 additional staff to be fully staffed – an average of 2.7 additional employees per child care provider.

## 4 in 10 Respondents Report Understaffing

Percent of responses to the question: "Do you consider your program to be fully staffed?"



Source: 2024 Child Care Provider DCBS, KVH and KyPolicy survey.

In open-ended comments, many providers emphasized the shortage of substitute teachers and floaters, who switch between classrooms to supplement the primary teacher, or oversee a class while the primary teacher is on a planning or meal break. Providers also described how the stabilization payments and federally-funded improvements to the Child Care Assistance Program (CCAP) helped to improve wages and retain employees. One Carroll County provider put it this way:

“Given the relatively low salaries of childcare workers, many are forced to seek employment in another profession that pays a decent wage. The stabilization payments helped increase the wages of workers and I believe had a positive impact on retaining employees. Without government support, it is unlikely that there will be enough caregivers to meet the demand of families.”

When asked how many more children child care providers could serve if they were fully staffed, 539 of the providers responded with a total of 21,000 children, or roughly 39 per center. At the same time, 30%, or 231 respondents reported already being at capacity.

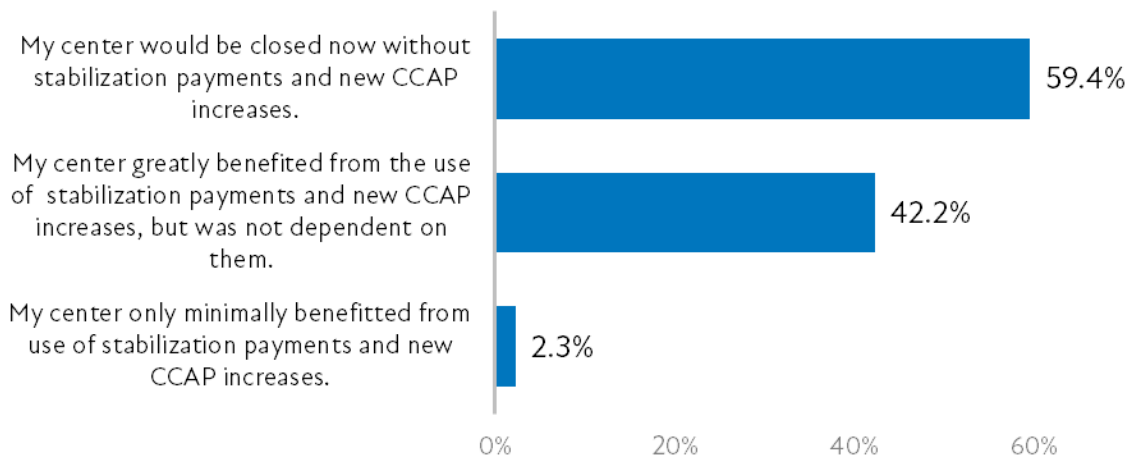
### How have federal funds helped?

Of the American Rescue Plan Act’s (ARPA) \$763 million investment into Kentucky’s child care centers, \$470 million was allocated for nine quarterly stabilization payments that child care providers received from 2021 to the end of 2023. These payments totaled just over \$50 million per quarter and averaged \$33,000 per eligible center. The remaining \$293 million in federal funds have been used for various improvements to CCAP (including reimbursements to providers) and other quality enhancements such as scholarships and start-up grants.

According to respondents, the stabilization payments and CCAP improvements were vital to their survival over the past several years. Nearly six in 10 respondents (457) reported that their child care center would have closed in the past two years without them. Another four in 10 say they helped substantially, though they were not dependent on them. Just 2% of respondents said the payments were minimally helpful. A Jefferson County provider said, “The funds were a lifeline to my business. I never would’ve made it through the pandemic without it. It allowed me to increase wages for my staff and do some much needed repairs to the facility.”

## Stabilization Payments and Improvements to Child Care Assistance Have Kept Providers Open

Percent of responses to the question: "How did use of stabilization payments and new CCAP increases prevent the permanent closure of your center?"

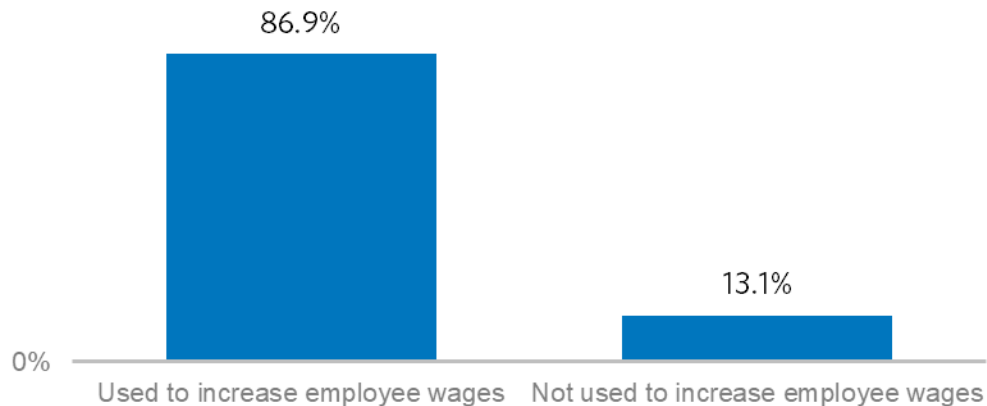


Source: 2024 Child Care Provider DCBS, KVH and KyPolicy survey.

Nearly 87% of respondents reported using the stabilization payments to boost low employee wages, which was especially important as wages rose across the economy. A Jefferson County provider said, “I was able to raise my staff payroll from 9 dollars to 13.” One child care provider from Christian County described worrying about how to keep staff after the stabilization payments run out: “I will not be able to keep my teachers, because I want to be able to keep paying \$10.00 an hour.” And a Wayne County child care provider said simply that when the stabilization payments expire, “I will have to change to start the starting pay to \$8.00.”

# Stabilization Payments Were Often Used to Provide Higher Wages to Child Care Employees

Percent of responses to the question: "Are stabilization payments being used to increase wages for employees?"

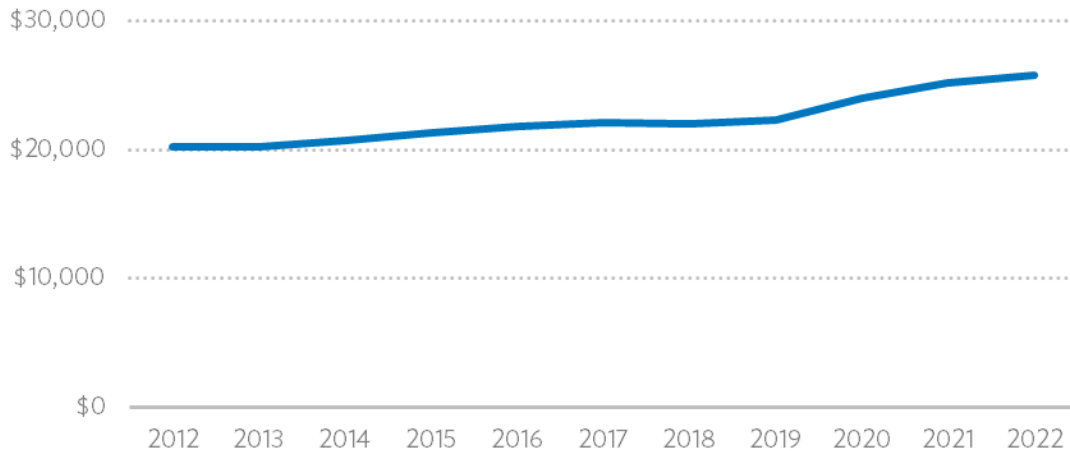


Source: 2024 Child Care Provider DCBS, KVH and KyPolicy survey.

Data from the Bureau of Labor Statistics confirms the survey results about rising wages. The Quarterly Census of Employment and Wages shows that employees in Kentucky's child care sector have seen an acceleration of wages since 2020. Between 2016 and 2019 child care worker wages (including directors and administrative staff) only grew an inflation-adjusted 2.2%, but between 2019 and 2022, they grew 15.4%, resulting in a still-low \$25,790 (after adjusting to 2023 dollars).

# Average Child Care Wages Only Accelerated After Federal Funding Influx, Still Too Low

Average child care annual pay in Kentucky 2012-2022 (inflation-adjusted to 2023 dollars)



Source: Analysis of data from the Quarterly Census of Employment and Wages and the Consumer Price Index for all Urban Areas.

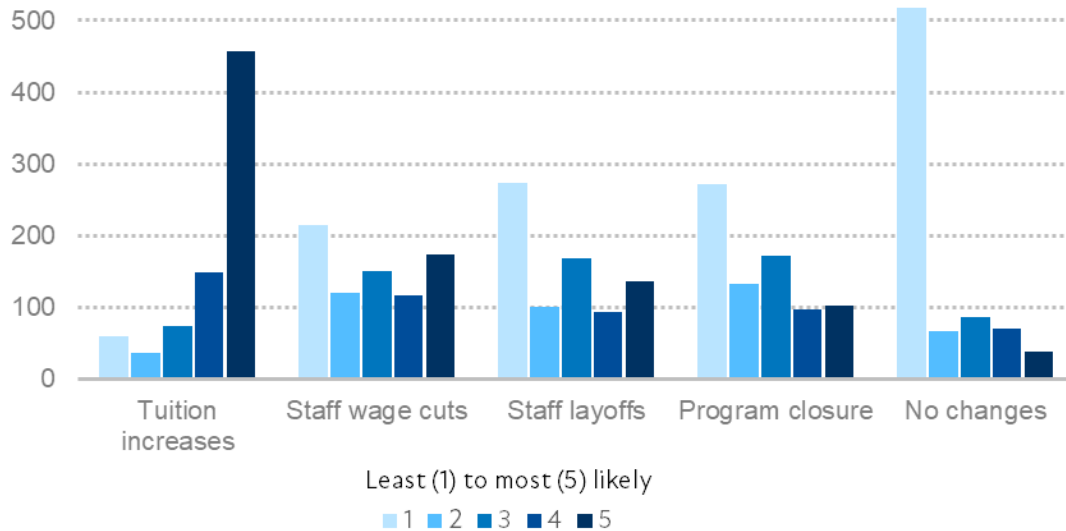
## Child care providers anticipate higher tuition and lower wages this year and many may close their doors unless the state acts

When asked what changes were most likely to occur once the stabilization payments run out, directors said the most likely scenario is families paying higher tuition. There were 605 respondents who said that was the most or next-to-most likely scenario. Families already find child care unaffordable, with half of families paying 20% or more of their household income on care, nationally.<sup>2</sup> In Kentucky, for example, infant care at a child care center cost families \$8,336 on average in 2023.<sup>3</sup> After that, 291 respondents reported wage cuts were most or next-to-most likely to occur.

An alarming 199 of the 770 respondents, or one in four, reported that closing their program was the most or next-to-most likely scenario after the sustainability payments expire. There are approximately 12,700 children in care at these centers.

# Tuition Increases and Wage Cuts Most Likely Once Stabilization Payments Run Out

Responses to the question: "Once stabilization payments run out, which changes are most likely?"



Source: 2024 Child Care Provider DCBS, KVH and KyPolicy survey.

In open-ended comments, many providers illustrated how these scenarios relate to each other. A common theme was that tuition must be raised to sustain higher but still modest wages. But even higher tuition won't be able to make up the shortfall, and so wages will need to be cut, or employees will have to be laid off to make up the difference. In the end, dozens were unsure if even those measures would be sufficient to stay open.

The expiration of federal assistance is seen not just as a financial setback but as the cause of a permanently harmful degradation of child care provision in the commonwealth. Providers' responses reflect a deep-seated anxiety about their ability to continue delivering quality care and maintain a skilled workforce, coupled with the ethical and practical dilemmas of raising costs for families already struggling with affordability.

A Kenton County provider shared this reflection: "There will be no chance to keep the center open if I have to decrease pay. But if I don't I can't afford to keep it open." An Oldham County provider laid out the connection between these issues: "Currently we able to have tuition rates at an affordable rate for parents. Without the help of the payments tuition will go up causing some families hardship. If families cannot pay us, then we cannot pay staff. We need to be able to offer quality child care for children." And a Jefferson County provider said, "We cannot pay our teachers \$13 an hour and stay in business without the stabilization funding. We cannot employ teachers at less than \$13 an hour, thus no teachers means no children and no business."

## Kentucky's child care sector needs significant state investment to survive

The final stabilization payment went to providers in December of 2023, and the many ARPA-funded enhancements to CCAP and child care quality will expire in September of 2024. Once that happens, the cumulative effect will be \$330 million less in annual public support for child care. This survey demonstrates just how dire those federal fiscal cliffs are to the child care providers of Kentucky.



The General Assembly will need to take quick and substantial action to provide state funding to child care centers and CCAP to prevent the consequences of going over the fiscal cliff. While the full cost of the ARPA-funded improvements has been roughly \$330 million per year, \$200 million of that was used for the stabilization payments.<sup>4</sup> Inadequate action from lawmakers in Frankfort will threaten providers, child care workers, parents, kids and the Kentucky economy as a whole.

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<sup>1</sup> Kentucky Center for Statistics, "Early Childhood Profile," August 2023, <https://kystats.ky.gov/Latest/ECP>.

<sup>2</sup> Lucy Danley, "Over Half of Families are Spending More than 20% of Income on Child Care," First Five Years Fund, June 29, 2022, <https://www.ffyf.org/resources/2022/06/over-half-of-families-are-spending-more-than-20-on-child-care/>.

<sup>3</sup> Data from the National Database of Childcare Prices, U.S. Department of Labor, accessed Jan. 24, 2024, <https://www.dol.gov/agencies/wb/topics/featured-childcare>.

<sup>4</sup> Eric Friedlander, "Child Care Update to the Senate Standing Committee on Children and Families," Kentucky Cabinet for Health and Family Services, Jan. 9, 2024, <https://apps.legislature.ky.gov/CommitteeDocuments/362/28472/01%2009%2024%203.%20Friedlander%20CHFS%20Child%20Care%20Update.pdf>.