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Action to Preempt the Financialization of the Early Childhood Sector

After years of underfunding, we are on the cusp of transformative public investments devoted to:

- build the supply of high quality, culturally competent care for young children;
- make early education programming affordable and accessible to more parents;
- improve compensation and working conditions for early educators; and
- strengthen the diverse network of small, women-owned businesses that make up the core of this sector.

As the early care and education (ECE) system grows with public investment, policy-makers must ensure that new funding programs do not push women and minority-owned businesses out of the market, but rather, that they are supported to continue and thrive. This will require prioritizing federal contracting or granting to support small, independently-owned and operated programs, and in particular, heavily regulating or explicitly excluding large corporate players from federal investment programs.

Just as expanded child care assistance will support mothers' participation in the labor force, it also has the potential to promote women's economic development, if and only if resources are directed toward capacity-building for existing and new independently owned and operated, small centers and home-based providers. Not only is this a clear equity goal, but it will support the current economic and cultural assets of communities, and maintain diversity in types of care and educational setting.The backbone of the country's balkanized child care system has always been the women—disproportionately women of color—who constitute the early care and education workforce, and who have historically earned poverty-level wages. Higher wages and employee benefits for early educators is overwhelmingly supported by Americans across the political spectrum. Increased public financing of early care and education—if translated into higher wages and employee benefits—will advance care workers' financial security, help to address the cost burden for families seeking care, and is crucial to help reverse the challenges of recruitment and retention that have long plagued the early care sector.

This funding cannot come soon enough. The challenges facing child care providers have led to the widespread sale or closure of programs over the last decade, especially among family child care providers. That dynamic has been exacerbated by the pandemic, and the landscape of child care delivery is increasingly vulnerable to acquisition of small programs by corporate for profit companies that operate multiple locations. Significant increases in public investments in both capital and subsidies will inevitably attract an even more intensified focus from these enterprises, as well as from for profit companies looking for lucrative ventures supplying ancillary services to providers.

Opportunism by corporate child care entities threatens to undermine the equitable benefits we hope to secure from expanded public financing. Educators working in for profit corporate settings have the lowest average hourly wage compared to those in community-based or school-sponsored settings. Most of those corporate enterprises are privately held (only Bright Horizons is a publicly-traded company), so their profits, executive compensation, and workforce expenditures are not public information. This raises questions of who profits—and to what extent—from the delivery of child care, and what are the ethical dimensions of funneling public dollars into inequitable profit distribution across an already under-valued sector?

It is critical—to the public trust, to the education of young children, to the support of their parents, and to the economic security of early educators—that publicly-financed investments in early care and education be devoted to build a system of stable, community-centered early care programs rather than misdirected to create a revenue stream for extractive public or private corporations. A stable and equitable system can be promoted for both infrastructure and direct service delivery in three ways:

1. **Prioritize the provision of public funds for both infrastructure and child care subsidies through contracts to public, non-profit, or small businesses owned and controlled by women or socially or economically disadvantaged individuals, as defined under the Section 637 of the Small Business Act.** Note that using the SBA definition is useful in potentially restricting the use of funds to franchises. A set of rules within the SBA statutes known as “affiliation rules,” consider a set of entities to be affiliates of one another when one has the “power to control” the other. If an SBA definition of small business is used, it would or could incorporate these SBA affiliation rules, which at the very least would offer a statutory hook for subsequent rule-making that relates to extractive practices by franchises.

   This should include funding, resources, and a requirement that states prioritize the expansion or creation of new child care programs owned and controlled by women or socially or economically disadvantaged individuals, including but not limited to resources for facilities/home reconstruction, small business owner development, and the incubation of worker cooperatives, for example.

2. Require that lead agencies provide seed funding and ongoing financing to support not-for-profit or cooperatively-owned entities that offer shared services to early childhood programs on a restricted fee basis.

3. Condition receipt of funds on compliance with requirements that promote equity, transparency and accountability. The Payroll Support Program established under the CARES Act included binding prerequisites attached to the receipt of federal funds by the airline industry that provide a model for ensuring equitable use of federal child care funding. At a minimum, this should include:

- Requiring that programs receiving financing for capital expenses and service delivery:
    - Limits on executive compensation, by comparison to the federal government's Executive Schedule, for example.
    - Prohibitions on the use of funds to finance the purchase of an equity security of the recipient or its parent company or contractor listed on a national securities exchange or for the payment of dividends or other capital distributions related to the recipient.
    - Require entities receiving funding to submit an annual cost report showing the share of total public revenues used to support direct worker costs, including wages and benefits.
- Provide good wages and benefits, as well as access to and support for professional development. Living wage and benefits standards should be established by local agencies that set the wage floor at the locally assessed living wage, articulate minimum annual paid leave standards, and paid non-contact hours (i.e. paid preparation/planning time). There is publicly funded precedent for this regional cost of living adjustment in the pay schedules that are applied to military child care staff;
- Agree to neutrality in the case of a union election;
- Provide free or reduced cost care to eligible families; and
- Incorporate cost controls and rate-settings, including by negotiating and securing a federal indirect cost rate.

Finally, it is essential that mechanisms be established in authorizing legislation to provide communities with authority to oversee and direct the use of funds. Specifically, the federal government, states and localities should each create a **Grassroots Policy Council** for early care and education that reflects the diversity of stakeholders, so policies are shaped and informed by the experience and expertise of Black, brown, and immigrant families and providers engaged in the subsidy system.The Grassroots Policy Council would promote co-governance to effectively respond to the needs of parents and providers, with a particular focus on current and proposed programs and policies related to equity, access, affordability, and job quality. Directly impacted stakeholders should be local and state leaders currently connected to their state/local subsidized early education programs with experience in power building and leading reform efforts in their communities.