Healthy early development in a child’s first three years can put them on a path to a positive future with strong education, health, and economic outcomes. Access to affordable, quality childcare is a critical ingredient in a child’s healthy early development, and with 75% of mothers in our region in the workforce, it is crucial part of enabling parents and caregivers to work and drive our economy.

However, the current childcare market is broken:

- **The current cost of childcare is too great for many families** in Minnesota, which causes some to decide to reduce their working hours or drop out of the workforce so they can care for their children.
- **Existing childcare providers are unable to meet the demand** due to a staffing shortage – a shortage that can also increase providers’ costs.
- **The childcare shortage is more severe in the communities that need it most**, the childcare shortage has disproportionally impacted communities of color, low income communities, and rural communities, where disparities in outcomes already exist.

Childcare in Minneapolis-St Paul was already in crisis in 2019, and the pandemic only made things worse. The broken childcare market adversely affects children and their families, childcare providers, employers, and communities across Minnesota.

The current cost of childcare is expensive, with Minnesota having one of the highest childcare costs in the country for families. One of the primary reasons for Minnesota’s higher cost is the higher quality of care. While high-quality care has demonstrated significant positive impact on a child’s development, higher quality tends to be higher cost due to relatively higher wages to attract and retain talented teachers and lower child-teacher ratios. The median Minnesota family with children could end up spending 8-15% of their income on childcare, depending on the number of children in care. However, the families who would benefit the most from affordable, quality childcare – families with lower incomes – are the ones who find it the most out of reach.

For childcare providers, their capacity to deliver care and meet demand is primarily determined by their staff levels, which represent 56-68% of their operating costs. Because this field has higher stress and lower wages compared to other professions, it has struggled for years to attract and retain childcare workers; the COVID-19 pandemic only exacerbated that challenge. Nationally, the childcare workforce has 100,000 fewer workers than it had in 2019. As some providers reduce capacity or close due to staffing shortages, others have increased wages and benefits to attract workers. However, this often raises the childcare cost for families.
Employers across many industries are also directly affected by the lack of access to affordable childcare. Even though the demand for workers increased over the past year, workers have not been returning to the labor force as quickly as employers need. A study by the US Chamber of Commerce Foundation found that employers were negatively impacted up to $11 billion per year across Alaska, Arizona, Arkansas, Missouri, and Texas due to absences and employee turnover. In these states, “between 28 and 40 percent of respondents reported that they or someone in their household has left a job, not taken a job, or changed jobs because of problems with childcare in the last 12 months.” Over 50-75% of parents who voluntarily left their jobs were parents of children two years old or younger.

Fortunately, employers can play a critical role in supporting children’s healthy development while retaining and attracting workers. The Itasca Project, a cross-sector alliance of employers, recognizes the important role childcare plays in our region and state and understands that its challenges will not be solved by one sector alone. We encourage private-, public-, philanthropic-, and community-sector leaders to come together and explore potential solutions that:

- **Support families in affording quality childcare** through approaches like increased funding of subsidies and early learning scholarships, adoption of innovative employer benefits, and increased private and philanthropic investment in scholarship funds.

- **Increase capacity for childcare providers** through the use of public and private resources that help providers increase wages for early learning educators, and by developing long-term strategies and workforce development programs to bolster the pipeline of future early learning educators.

- **Prioritize and scale the above solutions** in the communities most impacted by this crisis so we can mitigate inequities.

Addressing these challenges and fixing the broken childcare market can unlock the full potential of our region and state for decades to come.
Early childhood development is critical to the region’s future and supporting families who need childcare could have a significant positive impact on the Minneapolis-St. Paul region. Investing in the over 100,000 families with children three years and younger will yield economic and societal benefits today and in the decades ahead – particularly for the most vulnerable – and will help reduce the socioeconomic and racial inequities that continue to exist in our region.

Research has deepened our understanding of the development of the human brain during the first 1,000 days of a child’s life – from prenatal to age three – and the long-term positive health and education benefits of that development for the rest of the child’s life. The brain’s development during those formative years is largely based on experiences through human interactions such as reading, talking, singing, and playing. Families who lack the resources, or experience discrimination and bias, often face the greatest barriers to healthy brain development, contributing to inequities in economic, educational, and health outcomes.

Access to affordable, quality childcare is a critical ingredient for a child’s healthy early development, for parents and caregivers who seek to work, and for employers trying to attract and retain talent. While all families benefit from quality childcare, families with low incomes and families of color benefit the most. In addition, employers across all sectors and sizes are struggling to retain and attract workers – particularly women. Those who support and invest in increasing access to affordable childcare will benefit both today and in the future.

The challenges families in Minneapolis-St Paul face in finding and paying for quality childcare have only become more severe during the COVID-19 pandemic. Several market failures have exacerbated the problem, including a shortage of childcare providers and increases in childcare cost.

The Itasca Project, a cross-sector alliance of employers, seeks to increase the economic competitiveness of the Minneapolis-St. Paul region and expand prosperity for all. While we have addressed the other long-term drivers of inclusive economic growth, we believe supporting healthy early childhood development represents one of our greatest opportunities.

If the region’s leaders can come together to improve our childcare system at scale, they can start to capture this immense opportunity, directly benefit our current workers and overall economy, and support the healthy development of children in our region.
Children

Research has shown that young children who attend high-quality early childhood education experience more positive outcomes across several dimensions that those who are unable to attend such programs. They:

“...perform better on grade school tests, stay in school longer, ... have better physical health, and have higher individual and household earnings...”

While the positive impacts have primarily been documented in programs involving group learning and care and may be stronger for disadvantaged children, the literature consistently suggests that investments in early childhood experiences can pay off over a lifetime. 5

Health in the earliest years – beginning with the future mother’s well-being before she becomes pregnant – strengthens children’s developing biological systems, which enable children to thrive and grow up to be healthy adults. Positive early experiences provide children with a foundation for building a sturdy brain architecture, which supports a broad range of skills and learning capacities throughout the lifespan. 6

Parents and caregivers

For parents, particularly mothers, access to quality childcare can help them obtain a job and create a long-term career. Although female labor participation rates in the United States peaked in the late 1990s, other advanced countries continued to see them rise. While many factors may be at play (for example, a similar drop was seen among men in the US), the availability and affordability of childcare is a contributing factor. 7

As our region has recovered from the COVID-19 recession, female labor participation has lagged that of men. Initial studies indicate the childcare can be contributing reason. McKinsey & Company estimates that the female labor participation rate in Minneapolis-St Paul will return to December 2019 levels more slowly than that for men. 8 Childcare was cited as a significant barrier for those seeking to return to work or enroll in skills training programs.

At a national level, the Brookings Institution found that Black women are leaving the labor force at higher rates than women of other racial groups, even as schools broadly reopened in fall of 2021 childcare disruption is seen as the primary driving factor. 9

Figure 1: Prime-Age Women’s Labor Force Participation in Select OECD Countries 7

Source: OCED, Stat Labor Force Statistics
Even temporary periods outside of the labor force can impact the long-term earnings and financial stability of women across all income and education levels. Economist Claudia Goldin and Larry Katz find that for college-educated women 15 years after graduation, an 18-month break in work was associated with a decrease in earnings of 41% for those with an MBA, 29% for those with a JD or a PhD, and 15% for those with an MD.”

Employers

The availability of childcare affects employers in Minneapolis-St Paul, as they continue to seek new workers and to retain the ones they have. The US Chamber of Commerce Foundation studied five states in 2021, and estimated that childcare challenges cost employers nearly $11 billion due to employee absences and employee turnover.

In the analyzed states, “between 28 and 40 percent of respondents reported that they or someone in their household has left a job, not taken a job, or changed jobs because of problems with childcare in the last 12 months.” Over half to three quarters of parents who voluntarily left their jobs were parents of children two years old or younger.

A 2019 analysis of Montana families and businesses led by Rob Grunewald, economist at the Federal Reserve Bank of Minneapolis, found that the annual economic losses due to inadequate childcare were significant across all major stakeholders – households, businesses, and taxpayers.

Employers in Minneapolis-St Paul and across Minnesota have been directly impacted by the childcare crisis. When the Plymouth-based candymaker Maud Borup was struggling to retain workers at their Le Center production facility, they bought the land next to their facility to build their own childcare center.

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Figure 2: Women’s labor force participation rates by race and ethnicity, January 2021 to November 2021

Black women have exited the labor force at a higher rate than any other racial group since the reopening of schools

Note: Data for Asian women represent the labor force participation rate for women aged 16 years and older
Source: Bureau of Labor Statistics; chart reproduced from Brookings Institute analysis

Figure 3: Estimated Annual Losses to the Montana Economy Caused by Inadequate Childcare

<table>
<thead>
<tr>
<th></th>
<th>Losses to Households</th>
<th>Losses to Businesses</th>
<th>Losses to Taxpayers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average per Household</td>
<td>$5,700</td>
<td>$2,150</td>
<td>$1,260</td>
</tr>
<tr>
<td>Total</td>
<td>$145,146,000</td>
<td>$54,562,000</td>
<td>$32,036,000</td>
</tr>
</tbody>
</table>

Source: Federal Reserve Bank of Minneapolis and Bureau of Business and Economic Research, University of Montana-Missoula, 2020
Several interlocking issues continue to weaken the childcare market:

- **The current cost of childcare is too great for many families** in Minnesota; because of this, some decide to reduce their working hours or drop out of the workforce to care for their children.

- **Childcare providers are unable to meet demand** due to a staffing shortage of early learning educators — a shortage that can also increase providers’ costs.

- **The childcare shortage is more severe in the communities that need it most** — the childcare shortage has disproportionately impacted communities of color, low income communities, and rural communities, where disparities in healthy child outcomes already exist.

All these challenges have become more acute since the beginning of the COVID-19 pandemic.

**Cost of childcare too great for families**

Most parents with young children are still at the start of their careers, which means they have the least earning power and limited savings. As a result, they have to deal with childcare costs when they can least afford it.

Minnesota also has one of the highest childcare costs in the country — it ranks 4th in terms of “most expensive infant care” out of 50 states and the District of Columbia.\(^{16}\) These high costs mean that the low-income families who would benefit the most from affordable, quality childcare are the ones who find it the most out of reach.

Childcare providers range from family, friends, and neighbors who may operate outside of the licensed system to licensed family childcare homes and childcare centers. This report focuses on the licensed providers, primarily because data is available for them. However, we also acknowledge that families navigate and use a patchwork of providers where some may be licensed and unlicensed providers can play an important role in meeting families’ childcare needs across the income spectrum.

In the US, in 2019, nearly 50% of children three years and younger were cared for solely by their parents; the remaining half received care from a nonparent or in a childcare center. However, in families where the mother worked 35 hours per week or more, less than one in five children received care solely from a parent — highlighting the crucial role that nonparent care plays for working families.\(^{19}\)

The U.S. Department of Health and Human Services defines childcare as affordable if it is less than 7% of income. In Hennepin County, the estimated cost of home care for a four year old is $9,672 and for an infant is $10,764, which represents 7.7-8.6% of the median household income. Center-based care for a four year old is $13,728 and for an infant is $18,356 – 11-14.7% of median household income. For reference, the cost of tuition at a public four-year university in Minnesota is $11,540.\(^{20}\)

The high cost of childcare hits families with low incomes especially hard and public support has been unable to keep pace. In Minneapolis-St Paul, 39% of eligible children (nearly 16,000 children) are unserved or underserved by public subsidies due to lack of funding. For children under the age of three, nearly 64% are unserved or underserved (over 13,000 children). For the entire state of Minnesota, nearly 31,000 eligible children are unserved or underserved.\(^{21}\)

These cost barriers not only elevate risks for healthy development in children, but also create challenges for families that want to enter the workforce or increase the number of hours they work. Serving all eligible children in Minnesota with public support would require an annual investment of over roughly $360M.\(^{22}\)
Limited childcare capacity with higher costs

A childcare provider’s staff is the primary driver of their capacity and costs. Depending on the type of facility and the age of the child, a national analysis found salaries and benefits for childcare educators can contribute approximately 56-68% of a provider’s total cost. 23

One of the primary reasons for Minnesota’s higher cost is the higher quality of care. While high-quality care has demonstrated significant positive impact on a child’s development, higher quality tends to be higher cost due to the relatively higher wages needed to attract and retain talented teachers and lower child-teacher ratios. 24 However, while Minnesota’s educators may receive higher wages than the national average, the profession is still lower wage. “[T]he average early childhood teacher makes just $10.72 per hour. Teachers of infants and toddlers fare even worse, about $2 less per hour on average, than teachers serving children ages 3 to 5, even [with the same credentials].”25

With a stressful environment and relatively low wages, many childcare providers find it difficult to recruit and retain educators, a challenge that has been worsened by the pandemic. This talent crisis is creating a constraint and causing many providers to limit capacity or close their doors altogether – which reduces access for families even further. While some providers have increased wages and benefits to attract educators, this also increases costs and results in higher tuition, which exacerbates the affordability challenge.

Any increase in educator-to-child ratios could have a negative impact on quality. Studies from other states that have reduced regulations or increase ratios have found that these states still face tremendous staffing shortages.

Figure 4: Distribution of Childcare Costs by Age and Type of Facility 22

Source: Child care costs are based on data from interactive, “Where Does your Child Care Dollar Go?”, available at www.costofchildcare.org (last accessed November 2018). Family child care costs are based on authors’ unpublished cost model.
Mismatch between access and greatest need

Access to childcare, while limited for all, is particularly acute in the communities that would benefit the most. Prior to the pandemic, Minneapolis-St Paul saw a shortfall of 38% – nearly 46,000 children – between the number of children under six that could be served by current childcare providers and what is needed in the region. A 2016 study found that two-thirds of Minneapolis-St Paul residents lived in a childcare desert. Spatial mapping revealed that the lack of childcare is concentrated in those communities that have a higher proportion of families of color, of families with low incomes, of rural families, in more rural parts of the metropolitan area, or a combination of all three.26

This lack of access to affordable, quality childcare has the potential to increase inequities in outcomes for these children and their families.
The COVID-19 pandemic affected childcare providers and their businesses in three important ways: the demand for childcare dropped, the cost of operations increased due to increased sanitation requirements, and childcare educators left the profession. Each of these changes increased risks for a business model that already operated with a thin margin.

At the onset of the pandemic in March 2020, workers started working remotely or lost their jobs and the demand for childcare dropped. First Children’s Finance surveyed 781 childcare providers in spring 2021 across Minnesota. They found 62% of respondents in Minneapolis-St Paul said their enrollment had decreased since the start of the pandemic a year prior. Revenue also dropped a corresponding amount. “In 2021 alone, Minnesota lost a net 494 in-home child-care businesses, eliminating slots for 10,217 children, [Minnesota Department of Human Services] found. The closures represented jumps – from 323 in 2020, and from 420 in 2019.”

Childcare is labor intensive, and educators are integral to providing quality care. Nationwide, employment of childcare services fell by 30% from its January 2020 peak.

While the number of childcare workers has recovered somewhat, it still is 7% below that peak.

The closures of childcare providers, along with the stress of providing care during a pandemic, has driven many childcare educators to leave the profession or retire. First Children’s Finance’s survey also indicated that 57% of respondents were struggling to maintain staffing. In response, many providers have increased wages, which puts more pressure on their operating costs.

As families go back to work, the demand for childcare is increasing. Although providers received one-time supports from the Coronavirus Aid, Relief, and Economic Security Act (known as the “CARES Act”) and the American Rescue Plan Act (known as “ARPA”), they are still finding it difficult to grow their capacity to meet ongoing demand. The cost of operating is higher than it was two years ago, and they are having issues hiring staff. These costs are rising because the demand for childcare staff is increasing educators’ wages. At least a portion of this expense will be passed on to families, making what was already costly even less affordable for many families – and especially for the most vulnerable.

**Figure 6: All Employees, Child Day Care Services in United States**

**Thousands**

![Graph showing the number of employees in child day care services from 1985 to 2020.](source: U.S. Bureau of Labor Statistics)
Potential Solutions Exist

As we look ahead, we believe several potential solutions should be explored. They could help mitigate this crisis by making childcare more affordable for families, addressing the talent shortage, and helping providers increase their capacity. They would also focus on those families and communities who have the greatest need.

The following are potential near- and long-term ways stakeholders across sectors could help make this a reality.

Help families afford quality childcare

• **Increase public funding for early childhood subsidies and Early Learning Scholarships** to help Minnesota families pay for quality childcare, beginning with the 31,000 children from families with low incomes that are currently eligible but unserved or underserved

• **Identify and promote innovative approaches employers can take to support** the 200,000 working families with young children, which may include childcare stipend benefits, subsidized or onsite childcare, flexible schedules, etc.

• **Encourage investments of private and philanthropic dollars in Early Learning Scholarship funds** to bolster public spending that supports families, such as community-led funds like the Northside Achieve Zone in North Minneapolis and Interfaith Outreach – Caring for Kids in the western suburbs

Increase childcare provider capacity and cross-sector collaborations

• **Explore programs to provide wage subsides, grants, tax-credits, and other supports to childcare providers** so that costs to increase early learning educator wages are offset and are not passed on to families, modeling these on such programs as the state of Minnesota’s TEACH program and the RETAIN Bonus program

• **Develop long-term strategies and workforce development programs** to bolster the pipeline of future early learning educators by collaborating with public- and private-sector partners; this could follow examples such as the Minneapolis YWCA’s assistant training program. Also, support two-generation approaches through collaboration within higher education and childcare to upskill and reskill working adults while simultaneously supporting children ages 0-3.

• **Build the capacity of childcare centers and their partners to deliver excellent care**, which includes developmentally appropriate and trauma-sensitive practices. Greater Twin Cities United Way's 80x3 initiative, a new, five-year project, will work with the early education community and families to build our region’s capacity to deliver trauma-informed care

Prioritize communities with greatest need

• **Prioritize and scale the above solutions in the communities most impacted by this crisis** including communities of color, communities with lower incomes, and specific geographic communities, to mitigate inequities

By coming together to find solutions that address the childcare challenges we face, we can collectively support our economic recovery and strengthen the foundation for our children’s future.
## Analysis number of eligible children served and un-/underserved by public funding

<table>
<thead>
<tr>
<th></th>
<th>Children ages 0-2 Served</th>
<th>Children ages 0-2 Un-/Under-Served</th>
<th>Children ages 3-4 Served</th>
<th>Children ages 3-4 Un-/Under-Served</th>
<th>Total Children Un-/Under-Served</th>
<th>For Minneapolis-St. Paul county metro area, multiply times .51</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$14,941</td>
<td>$26,227</td>
<td>$32,091</td>
<td>$4,503</td>
<td>$30,730</td>
<td>$15,672</td>
</tr>
<tr>
<td><strong>COST TO SERVE UN-/UNDERSERVED CHILDREN WITH SCHOLARSHIPS</strong>*</td>
<td>$317,029,967</td>
<td>$43,699,990</td>
<td>$360,729,957</td>
<td>$183,972,278</td>
<td>$360,729,957</td>
<td>$183,972,278</td>
</tr>
</tbody>
</table>

*Based on most recent funding data on state and federal investments in children ages 0-5 in the following: Headstart, School Readiness, Voluntary Pre-K, School Readiness +, CCAP, and Early Learning Scholarships.

**Assumes Eligibility of 185% FPG or below. Assumes 80% take-up of children ages 3-4 and 60% take-up of children ages 0-2.

***Considers all investments across all funding streams. Assumes average cost for 3-4 year olds of $9,704 and for 0-2 year olds of $12,088.

Model developed in 2016 by Wilder Research. Most recent analysis completed by “Close Gaps by 5” on January 5, 2022, with technical assistance from Rob Grunewald.


4 Ibid


6 Harvard University, Center for the Developing Child, 2021, https://developingchild.harvard.edu/science/key-concepts/brain-architecture/


10 Ibid


13 Ibid

14 Ibid


16 Ibid

Sources (cont.)


21 Model developed in 2016 by Wilder Research, most recent analysis conducted by Close Gaps by Five in January 2022; Rob Grunewald of Minneapolis Federal Reserve Bank provided technical assistance. See Appendix for details.

22 Ibid


27 Ibid


31 Ibid