EXECUTIVE SUMMARY

Children Before Profits in the States

Empowering Communities to Constrain Private Equity Profiteering in Local Child Care Markets

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Child care is an essential building block of families' financial security, children's education and development, communities' wellbeing, and the country's economic foundations. Yet, despite its important public benefits, child care is too often perceived and funded as though it were a private luxury—a service that people can choose to pay for if they can afford it, but that is not guaranteed to all as a basic need.

It is time to reimagine child care in the United States so that it is recognized and supported as a public good. Under such a vision, the U.S. child care industry and policy system should be designed to prioritize five goals: (1) universal access to care; (2) universally affordable care; (3) thriving caregivers; (4) high-quality care; and (5) diverse choice of providers for families.

These goals do not preclude individuals or businesses from earning a profit from providing child care. However, these profits should be understood as a means to an end—that of achieving this vision of child care as a public good—as opposed to a policy priority unto themselves.

Achieving this vision will require federal, state and local governments to devote more funding and institutional support to child care providers. In 2024, a family would have needed an annual income of at least $187,000 (among the top 20 percent of household incomes) in order to consider the $13,128 average national price of child care affordable (7 percent of their income) without subsidies (CCAoA 2025). Given the pervasive scale of this challenge, government is the only source of funding large enough to close the gap between the true cost of providing high-quality child care to all communities and families' ability to pay for this service. Although federal leadership and investment is essential to truly solve the child care crisis, the federal government has yet to provide a sustained increase in child care funding. Absent increased federal investments, state and local governments are taking the lead to increase public funding to child care providers.

However, the increased public funding needed to achieve the vision of child care as a public good will also attract actors, most notably private equity funds, who are more interested in extracting wealth from taxpayer dollars than in building an industry that provides quality services, creates well-paying jobs, and supports the wellbeing of families and communities across the country. In addition to the well-documented experiences of the systemic harms experienced in other care industries that experienced significant private equity investment, evidence is growing that, left unchecked, profit-maximizing child care providers are already threatening all five goals of the vision for child care (Appelbaum and Batt 2020; Appelbaum et al. 2023; Ballou 2023; Batt et al. 2023; Gupta et al. 2021; Stienon and Boteach 2024).

Box A: What is Private Equity?

Private equity firms oversee funds that receive money from institutions like pension funds and from wealthy individuals, and whose purpose is to invest that money in ways that will maximize their returns. They do this by using debt to acquire companies, restructuring these companies' operations to maximize the profits they generate for their owners (such as by selling off assets, raising prices, or cutting operating expenses), and selling them to the highest bidder within three to five years. This is done with little regard for the long-term health of the companies in their portfolio, let alone their workers, customers, creditors, or suppliers. For a deeper analysis of the risks that classic private equity tactics pose to the child care industry, see Stienon and Boteach (2024).

It is therefore imperative that state and local policymakers work alongside the other stakeholders of the child care industry to build robust protections to ensure that the public resources that are devoted to this industry go towards advancing the public interest rather than lining investors' pockets.

A STATE AND LOCAL STRATEGY FOR PUTTING CHILDREN BEFORE PROFITS

It is the responsibility of policymakers to ensure that child care market incentives align with the broader goal of achieving child care as a public good. Private equity investors face more structural incentives to prioritize short-term profits than any other form of corporate ownership or investment. This makes them the quickest and most likely to identify and exploit opportunities to extract wealth from any market. By designing policies and market incentives that guard against the worst of private equity behavior, state and local policymakers will also be building strong guards against all types of profit-maximizing actors, and will protect the vision for child care that centers on children and families. State and local policymakers can do this by (1) strengthening guardrails, (2) protecting fair and competitive markets; (3) increasing equitable supply, and (4) building countervailing power.

I. STRENGTHENING GUARDRAILS: SETTING STANDARD RULES OF THE GAME

High standards backed by a well-funded system to enforce adherence to these standards are essential guardrails for socially important industries like child care—especially if a significant share of their revenues comes from public funding. Successful regulatory systems that define the rules of the game set a floor under corporate programs' operations, restricting their ability to cut costs at the expense of other stakeholders. To build adequate guardrails, state and local policymakers and advocates should strengthen their:

- **Quality and Labor Standards**. Corporate providers extract profits by cutting operating costs, especially around labor, in ways that risk harms to workers, children, and families. State policymakers can set standards that either apply to all providers, or else as a condition for those receiving public funding. These standards should include:
    - **Standards on staffing levels**, such as child-to-staff ratios, worker qualification standards, fair scheduling laws, or career paths or lattices;
    - **Standards on wages and benefits** that raise the wage and benefits for workers across the industry based on levels of experience, qualifications, expertise, and workplace responsibilities;
    - **Standards for part-time, just-in-time, and gig-workers**, such as part-time parity laws, "access to hours" policies, or laws against worker misclassification of gig workers;
- **Funding Strategy**. State and local governments shape the incentives, market structure, and outcomes of the child care industry by setting the conditions under which public funding is distributed to local providers. State policymakers can ensure that public funding is used in ways that advance the vision of child care as a public good by introducing:
    - **Funding conditions** that clearly define expectations about what services providers must supply in exchange for receiving public money, and set limitations on uses of public funding that do not advance the public interest like dividend recapitalizations;
    - **Disclosure requirements** that increase transparency to ensure public money is used in ways that advance the vision of child care as a public good and not corporate profits;
    - **Prioritization of non-corporate providers** ensuring that programs most likely to advance the public interest receive a greater share of public funding;
    - **Restrictions on funding to corporate providers** through, for example, caps on the share of public money that goes to any one company.
- **Support Given to Providers to Meet Standards.** State and local policymakers must ensure that non-corporate providers have the financial and technical resources that they need to meet higher standards. Helping non-corporate providers comply with standards is a more effective way of supporting them than keeping standards low in the hope that this will reduce their operating costs, since the latter also helps corporate providers boost their profits and market power;
- **Enforcement.** Governments must design and fund enforcement systems that are capable of identifying and penalizing corporate providers who fail to abide by government regulations. This can be done by expanding inspection capabilities, increasing transparency, and imposing financial penalties on providers who violate quality regulations.

II. PROTECTING FAIR AND COMPETITIVE MARKETS: PREVENTING ABUSES OF MARKET POWER

Policymakers must proactively level the playing field in child care markets to prevent corporate providers from using their relative market power to unfairly shape the industry to their advantage. It is the unique responsibility of state governments to protect local markets from behaviors that harm local markets, but whose impacts may be too small or localized to attract a federal intervention. This is especially important for child care, an inherently local service that all communities need. Therefore, policymakers must prevent corporate providers from using unfair, harmful, or illegal tactics to push their competitors out of the market. This can be done using:

- **Market Monitoring Capabilities**. State and local policymakers must proactively protect the health of child care markets so that they remain open and fair to diverse types of providers. This can be done by:
  - **Increasing transparency** through greater disclosures from providers about their ownership, conflict of interest, and practices like dividend payments, executive compensation, staffing levels, or debt-asset ratios;
  - **Increasing market oversight** by investing in the institutional capacity that state regulators need to ensure that markets remain fair and open, and by setting guidelines about acceptable levels of child care market concentration or control by corporate ownership;
- **Restrictions on Corporate Consolidation**. Child care is a fragmented industry whose longstanding structural programs are driving small providers to exit; these characteristics makes it an appealing target for private equity funds who want to create profits through consolidation—an outcome that threatens the goal of providing families with a choice of diverse providers. State policymakers can restrict corporate expansion in child care markets by:
  - **Blocking acquisitions** that threaten the competitiveness of local markets using state antitrust law enforcement;
  - **Capping the share of licenses or public funding** that goes to any one child care provider;
- **Enforcement of Fair Market Rules**. Corporate providers can use their market power—gained through their size or access to debt and other financial resources—to gain an unfair advantage over local competitors. Policymakers can address this by:
  - **Enforcing competition laws** against companies that monopolize local markets or use tactics like unfair price discrimination or exclusive deals;
  - **Limiting the sale** of local providers to private equity-owned companies by restricting the permissible frequency at which programs can change ownership, and by providing financial and technical support to alternative buyers.

III. INCREASING EQUITABLE SUPPLY: CREATING ALTERNATIVES TO PRIVATE EQUITY

Among the greatest challenges to achieving the vision for child care as a public good is that of increasing child care supply in a way that creates opportunities for diverse types of providers to thrive in this industry. Corporate providers' high growth rates and profits are not indications that these companies are the solution to the child care supply problem—rather, their tactics risk undermining public progress towards the vision of universal and affordable care. Corporate providers nevertheless have structural advantages over smaller providers due to their size and access to financial resources that help them corner the profitable pockets of existing markets. State and local policymakers must find ways to support non-corporate providers so that they can compete with corporate providers and offer diverse care options to local families. Policymakers can supply:

- **Access to Capital**. Corporate child care providers benefit from their ability to access large amounts of financial capital, especially from debt. Yet their business model does not incentivize them to make long-term investments in the programs that they acquire. State and local policymakers must work to provide non-corporate programs with the revenues and capital that they need so that they are not dependent on private equity for funding. This can be done by:
  - **Increasing public funding** by supplementing federal funding with state money in order to ensure that providers' revenues cover the true cost of supplying high-quality care;

    - **Increasing access to alternative financing** such as Community Development Financial Institutions (CDFIs) or Small Business Investment Companies;
    - **Reforming incentives for employer-sponsored care** so that employers integrate these benefits programs into the wider child care system;
    - **Supporting worker buyouts** as an alternative to private equity acquisitions of local programs by giving workers a right of first refusal during a sale, and by providing financial and technical assistance to workers;
- **Economies of Scale.** Corporate chains benefit from centralizing business operations such as accounting or scheduling. State and local policymakers can help non-corporate programs replicate these operational benefits of scale by:
    - **Supporting shared-services alliances** by providing seed funding for programs to join these alliances;
    - **Providing public technical assistance** by, for example, partnering with Small Business Development Centers or CDFIs;
- **Additional Public Resources.** As part of their broader efforts to equitably increase child care supply and guarantee this service as a public good, state and local governments have many avenues for more actively participating in child care markets, including:
    - **Public child care options** that operate within a robust mixed-delivery system to increase local child care supply while checking corporate providers' market power;
    - **Public real estate** that governments can lease to non-corporate programs at subsidized rates;
    - **Public registries** that increase the information available to all child care stakeholders about opportunities in local markets, including about potential buy-out opportunities or about the ownership, size, and openings of local programs.

IV. BUILDING COUNTERVAILING POWER: ENSURING CORPORATE ACCOUNTABILITY TO THE PUBLIC GOOD

The interests of the diverse stakeholders in the child care industry—including workers, families, non-corporate providers, and even long-term investors—will only be properly served if the child care industry achieves the five goals that make up the vision of child care as a public good. If properly empowered and mobilized, these stakeholders can help push back against corporate efforts to put short-term profits over other priorities, including child wellbeing and the growth and long-term financial stability of the sector. Building this countervailing power among child care stakeholders requires creating more opportunities for them to collaborate around advancing their shared priorities, and to have the means of participating in, and influencing, the creation and enforcement of child care policies and programs. Much of the work of building this countervailing power will fall on the stakeholders themselves, but state and local policymakers should also commit to including, engaging with, and strengthening these organizing efforts. Sources of this countervailing power can include:

- **Stakeholder Advocacy Organizations.** Families, workers, non-corporate enterprise owners, and other community members are the first to observe or feel the harms from the profit-maximizing tactics of corporate providers, and advocacy organizations can help connect these stakeholders with policymakers and regulators.
- **Small Business Organizing.** Corporate providers can leverage their financial resources and market power to influence policymaking processes and structure markets to prioritize their profits. Small businesses and other non-corporate providers should cooperate with each other, such as by forming cooperatives or industry associations, to act as a counterweight to corporate providers in state and local policy and regulatory discussions.

- **Worker Organizing.** Unionization and collective bargaining remain important mechanisms for empowering workers to improve their working conditions, and thereby improve the quality of care provided to families. State and local policymakers can, in their funding contracts with providers, strengthen child care workers' ability to defend their own right to good jobs and fair wages and to speak out against corporate practices that undermine the child care vision. Policymakers can also ensure that workplace protections extend to all child care workers, including home-based providers.
- **Industry Committees.** Policymakers can ensure that diverse stakeholders remain actively involved in the creation and enforcement of child care policies and standards by creating child care industry committees that allow workers and other stakeholders to advocate for and design child care standards and policies.
- **Asset Manager and Investor Action**. Although investors, like public pension funds, benefit from corporate profits, they also have their own motivations to minimize risk and broader societal harm. These asset managers could consider reducing their investments in private equity funds, increasing their oversight over the investments and management practices of the funds or companies that they have invested in, and providing clear guidelines about the standards to which they are holding private funds.

The child care system has been pushed to the breaking point, but a renewed commitment from policymakers and stakeholders from across U.S. society could enable the country to build a child care system that is the envy of the world. The U.S. has the unique opportunity to get out ahead of the private equity investors who are now entrenched in private child care markets across countries, and to craft a set of market rules and incentives that contribute to, rather than detract from, the vision of child care as a public good that is available to all families. Achieving this vision will require contributions from all stakeholders, including providers and investors, and a commitment from all actors to put the wellbeing of children ahead of their individual profits.

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