

America Needs Better Daycare Options

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KEY TAKEAWAYS

School closings have drastically increased the need for childcare. Parents should not face unnecessary barriers to finding the right provider for their children.

The number of home-based daycare providers has declined dramatically, harming families that prefer this option.

State lawmakers should reduce regulations, especially for home-based daycare. Government childcare programs should let parents find providers of their choice.

The transportation, communication, and energy sectors are recognized as vital to our economy, beyond their direct employment and contributions to the gross domestic product. These sectors provide essential infrastructure without which the other sectors of the economy could not function. Daycare can be considered in a similar light.

As of 2016, the daycare sector consisted of approximately 675,000 businesses throughout the United States.¹ Together, these businesses employed approximately 1.5 million workers and generated revenue of \$47.2 billion. However, the sector's impact on the economy is far greater: Daycare providers enable tens of millions of Americans to go to work each day, and therefore serve an essential part of the infrastructure that underlies the entire economy.

In fact, four in 10 working adults have children under age 18.² Before COVID-19 struck, nearly 60

This paper, in its entirety, can be found at <http://report.heritage.org/bg3526>

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percent of children under age five were in some kind of regular, weekly childcare arrangement. Approximately one-third of all children under age five attended a paid care facility, a daycare center, preschool, or prekindergarten.³

Daycare is especially critical for single head-of-household families or ones in which both parents work. According to Pew Research Center, the U.S. has the world's highest rate of children living in single-parent households.⁴ Another Pew study found 18 million American children younger than 18 live with a single parent.⁵ Almost 50 percent of married-couple families with children under 18 were dual-income households.⁶ For these demographic groups, childcare is essential to allow them to work every day.

Coronavirus's Impact: Reduced Supply, Increased Demand

In many parts of the country, workers were already frustrated with the challenge of finding accessible and affordable childcare, even before COVID-19 struck.

The average annual price of childcare exceeds \$9,000 per child, according to a comprehensive survey by Childcare Aware of America.⁷ But that average masks tremendous variation based on age of child (infants and toddlers being more expensive than older children); type of care (center-based care being more expensive than family-care providers); and location. Washington, DC, has the highest average price for a year of childcare per infant (more than \$24,000 for center-based care). However, many other states, such as Kansas and Indiana, have greater affordability challenges because the price of childcare requires a larger percentage of the average family's median income.

Cost is only one challenge that many families face. Limited spaces and few providers create shortages in daycare supply, both in urban areas with too few slots for too many children and in rural areas where there are few or no childcare providers to serve the community. For this reason, working women often sign onto daycare center waiting lists early in their pregnancies.⁸

COVID-19 compounded these existing problems by up-ending many existing childcare arrangements. In fact, the National Association for the Education of Young Children and the Early Care and Education Consortium reported a 70 percent drop in attendance at daycare centers during the initial economic lockdowns put in place in response to the COVID-19 pandemic.⁹ While some daycare centers continued to serve essential workers, many shut down completely.

As of April, 60 percent of all licensed programs were fully closed and not providing care to *any* children.¹⁰ For example, Bright Horizons, one of the country's largest daycare providers, temporarily closed 550 of its 700 U.S.-based centers.¹¹ The Learning Care Group closed more than one-third of its 900 facilities at the height of the pandemic. Many of these centers have been coming back online as states loosen restrictions, but thousands remain closed, affecting tens of thousands of families.¹²

Childcare centers typically operate with slim margins, which leaves them particularly vulnerable in these uncertain times. A March survey of center-based and family childcare homes found that 30 percent of the centers surveyed reported that they would not survive a closure of more than two weeks without extra support from the government.¹³ Seventeen percent of respondents thought they would not survive a closure of any length of time without support, and 16 percent would not survive longer than a month. A follow-up survey found that out of the more than 5,000 providers that responded to the initial survey, nearly half reported their centers were completely closed.¹⁴ These respondents alone would usually serve more than 215,000 children.¹⁵

As a result of these closures, thousands of childcare workers lost their jobs. Employment in the education and health services subsector, which includes daycare workers, fell by 2.6 million in April. The Bureau of Labor Statistics reported in June and July that this sector has begun to recover: Employment in the total education and health services sector increased in June by 568,000.¹⁶ However, that still means that tens of thousands of daycare workers are dislocated from their jobs.

Behind the statistics is tremendous heartbreak. Many childcare centers are small businesses, even run out of people's homes. One childcare owner in Philadelphia described laying off all 100 of her workers as "the worst day of my life."¹⁷ The director of Little Learners Child Care Center in Norman County, Minnesota, the one center-based provider in the area, notes how increased expenses compound the problem of lost revenue: "[O]ur costs are increasing to meet the small group size recommendations that allow us to serve children safely."¹⁸

Reopening these facilities will not be easy. In addition to new burdens (including expenses) associated with heightened sanitation requirements and concerns about virus transmission, childcare centers will struggle to regain their staff. Childcare workers are overwhelmingly female and often must care for their own children, too. Most schools closed for much of the spring of 2020, which meant that parents had to not only care for, but were expected to assist in the instruction of, their school-age children. Plans

to reopen schools in the fall remain uncertain: Some school districts have announced that they will provide no in-person instruction until at least February 2021. Some are providing in-school instruction on a much more limited basis (such as two days per week), and it is uncertain when a traditional school schedule would resume. This uncertainty makes it difficult, if not impossible, for many workers to commit to resuming a traditional work schedule.

Moreover, some childcare workers may not want to come back, especially in those cases where unemployment and other benefits are equal to or more generous than what they can earn on the job. Daycare workers, who earn on average less than \$11 per hour,¹⁹ are likely to be among those who earn more by collecting unemployment benefits than by working, thanks to the CARES Act, which provided emergency COVID-related spending including supplemental unemployment payments.²⁰

While there is already limited supply of childcare spaces due to the pandemic and enforced closures, demand is likely to expand. The same school closures posing problems for would-be daycare workers will create an increased need for childcare among the rest of America's working parents. In two-thirds of families with school-age children (6 years to 17 years), both parents work.²¹ Even parents of high schoolers are likely to be uncomfortable leaving their teenagers home alone while they return to work full-time, but, for those with younger kids, it is not even an option.

As policymakers move to reopen the economy, they will need to address this gap and consider how to expand the availability of childcare options.

In a functioning and free market, the supply of childcare would expand naturally to meet this increased demand, especially given that millions of Americans have been left jobless due to the economic disruptions caused by the pandemic. People newly out of work from other sectors (former hospitality, restaurant, and other heavily impacted industries) could transition to providing childcare services for those workers whose businesses are coming back online. However, regulations and other barriers to increasing the supply stand in the way of this process.

How Government Policies Shaped the Childcare Sector

Government childcare policies, including funding, regulations, and financial support for parents, all impact the availability (and lack thereof) of daycare providers and slots today. Decisions made during the last century have also tremendously shaped our childcare sector.

Government first became involved in childcare following the Great Depression.²² In 1933, the federal government allocated funds to hire unemployed teachers, nurses, cooks, and others to provide childcare services. The purpose of this push was to provide employment to those out of work; caring for children was a secondary consideration.²³ This effort ended when the public works program expired.

A similar effort occurred during World War II.²⁴ With men drafted and fighting on foreign shores, women were expected to support domestic production, which meant that many families needed care for children at home. According to the Congressional Research Service, between 1943 and 1946, the federal government provided \$52 million to communities to support childcare centers. Those centers supported as many as 130,000 children at 3,102 centers located in all but one state (New Mexico) and in Washington, DC.

Though the federal program ended after the war, undoubtedly it affected the trajectory of the childcare sector. Federal money was granted to communities, which then developed policies for disbursement that supported and set standards for childcare centers, many of which are familiar to us today, including staff-child ratios, worker credentials, and building designs. The Congressional Research Service describes a tension during this time period between those who wanted parents to have the option of using more home-based childcare—rather than daycare centers that are built and structured more like schools.²⁵ Federal funding was limited to official daycare centers. Given that some communities continued to support centers even after the federal program ended, this likely helped perpetuate a preference for government to support center-based, rather than home-based daycare, that continues to this day.

In 1954, Congress passed the childcare tax deduction, enabling low-to moderate-income families to deduct up to \$600 for childcare from their income taxes in an attempt to make childcare more affordable for families.²⁶

Yet government policy also made childcare more expensive and scarcer. In 1962, the federal government passed social services block grant legislation, which provided new funding for childcare, but also stipulated that childcare facilities must be licensed by the state in order to be eligible for federal funding grants. In fact, 40 percent of the \$800,000 of federal grant money went toward the licensing process, rather than to help support the provision of care.²⁷ Due to the costs associated with the licensing process and complying with those regulations, childcare availability actually *dropped*.²⁸

As a part of President Lyndon Johnson's War on Poverty, the federal government launched the Head Start program in 1965. Initially, this program offered an eight-week summer program for 560,000 low-income preschoolers at dedicated Head Start centers across the country. The hope was to support their education development and well-being. This program quickly grew to offer more full-year care to an increasing number of children.

In 1968, Congress mandated the development of regulations that would apply to all federally run childcare programs. The Federal Panel on Early Childhood established the Federal Interagency Day Care Requirements (FIDCR), which set standards for health care, nutrition, physical settings in the facilities, education levels for center employees, parent participation, and staff-child ratios.²⁹ The child-to-staff ratios were a focus of the requirements, with different requirements for family daycare, group daycare, and daycare centers. But realizing that increased numbers of staff members would raise costs and make it harder for families to afford childcare (resulting in fewer children in care and fewer parents working), the FIDCR authors allowed all adult employees and volunteers in a center to count as caregivers.³⁰ This compromise resulted in ambiguous and unenforceable standards that had little effect on the programs it covered.³¹

Federal involvement in childcare at this time had distinct and separate goals. The Head Start Program had a child-development approach with the goal of reducing poverty through early intervention in children's lives meant to improve school readiness. Other childcare efforts were designed to enable and support parental employment, and therefore to reduce welfare and other costs associated with poverty and adult dependency.

Over the following decades, federal support and involvement expanded in a variety of forms—with low-income families receiving direct assistance for childcare expenses, the federal government providing block grants to states to support childcare systems that serve low-income communities broadly, and with middle- and upper-class families primarily receiving tax credits and deductions to help offset the costs of childcare.

Specifically, today federal childcare assistance is composed of programs such as the Child Care and Development Block Grant, Head Start, the childcare tax credit and the Temporary Assistance for Needy Families program. The 2017 Tax Cuts and Jobs Act increased relief to parents when it doubled the child tax credit from \$1,000 to \$2,000.³² The Government Accountability Office estimates that as of 2015, the federal government administered 35 programs related to early learning and childcare, which together cost taxpayers roughly \$15 billion per year.³³

Regulating Childcare Providers

While different programs continue to have different focuses and priorities—with some like Head Start remaining child-centered, and other programs' primary purpose being to enable employment and thereby to reduce dependency on welfare—there is broad recognition that *all* childcare centers ought to promote the well-being and development of the children in their charge.

Today, daycare providers are regulated at the state and local level, with tremendous variation.³⁴ Daycare centers, which operate in school-like centers with dedicated office/building space and serve larger populations of students, face the most comprehensive regulations governing staff size, staff qualifications, operations and financial administration, the safety and adequacy of the space, and numerous other factors. They are inspected prior to licensing and typically routinely inspected to ensure compliance.

Home-based, family-care providers tend to be less heavily regulated. States set standards for how many children can be cared for in such facilities, licensing and inspection processes, and staffing and facilities standards; however, they tend to be less onerous than they are for dedicated centers.

Conceptually, this approach makes sense: The public supports regulations and policies that ensure that all children are in a comfortable, safe, compassionate, and stimulating environment that is not overcrowded. However, in practice, many of the regulations imposed on childcare centers and family-care providers go far beyond ensuring safety and well-being; they are prescriptive and limiting for facilities. Onerous regulations increase costs for daycare providers, as well as parents, and are not always associated with improved quality of care.

For example, George Mason University's Mercatus Center studied the impact of a variety of childcare regulations and found that child-staff ratios and group size limits were not associated with higher quality care.³⁵ These regulations did, however, significantly increase costs for parents. Undoubtedly, these regulations also reduce the supply of childcare by making it more expensive to operate.

The National Association of Regulatory Administration reports that regulations are becoming more stringent: Between 2009 and 2011, states lowered child-staff ratios and group size limitations, increased requirements related to fencing play areas and emergency preparedness, and held more frequent inspections.³⁶

Indiana's guidelines for childcare centers, which runs 60 pages long, show the stringent and often tremendously specific and prescriptive requirements that centers face. The regulations include more than a dozen specific types of equipment and toys that must be made available to *each*

group of children over age two. This includes an art easel with paint and paper, a water/sand/alternative type of activity, a shatterproof mirror, a set of wooden unit blocks, musical listening equipment, and musical instruments. The regulation implies that it would not be enough for a childcare center to have one sand table available for the center to be used by different groups at different times, but is required for *each* group of qualifying children. Similarly, all classroom areas are required to have “learning centers.” The learning centers must also provide groups of children over age two with “small climbing equipment that they can go in and out of, over, and around in their area.”³⁷

Indiana also stipulates the type of discipline that cannot be used, which ranges from overly specific (such as that timeouts may not be used for any child under age three) and some that are so vague as to seemingly outlaw nearly any form of correction (such as the restriction that centers may not “use punishment to correct unacceptable behavior”). Requirements for meal times not only relate to adequate nutrition and safety, but specify when divided plates can and cannot be used, and require a “period of time away from the lunch table before the noon meal in quiet or calming activities.” Note that this is not the required nap time (that occurs after lunch) but an additional requirement for a restful period pre-lunch.

Any Indiana childcare center daring and ambitious enough to consider hosting a picnic lunch must ensure that “the lunch must conform to the menu guidelines for children who are on table food”; they also must “(1) Adjust menus accordingly, if juice is substituted for milk. (2) Keep cold foods under forty-one (41) degrees Fahrenheit. (3) Provide equipment to maintain hot foods at one hundred forty (140) degrees Fahrenheit or above.”

One can hope that those charged with enforcing these regulations at Indiana childcare centers look to ensure that centers are complying with the spirit of these regulations, rather than policing every minute detail, such as whether any preschool classrooms’ building blocks are made of plastic rather than wood. However, childcare directors (or those considering opening a childcare center) reviewing these specifications cannot assume that there will be any commonsense application of the rules. Undoubtedly, such regulations discourage centers from opening and tremendously increase the costs of running a facility, raising prices for parents and depressing wages for childcare workers.

Given these onerous regulations, it is no surprise that Indiana is among those states with the least affordable center-based childcare according to a 2019 ChildCare Aware report.³⁸ Additionally, it is notable that Indiana’s regulations on family or home-care facilities are much less restrictive and more

broad—and, unsurprisingly, family care in Indiana is much more affordable. ChildCare Aware ranks Indiana as the third-worst in terms of affordability for center-based care for toddlers, but 35th for family-based care.³⁹ The difference is almost certainly driven by these different regulatory regimes.

Indiana may be among the most onerous, but it is certainly not alone in overly prescriptive regulations. Oklahoma’s 182-page document governing childcare centers precisely lays out how many toys in a variety of categories must be made available.⁴⁰ A chart lays out the number of one-year-olds in any given classroom, with eight separate categories (of 1–2, 3–4, 5, 6, 7, 8–9, 10–11, and 12). It then specifies how many balls of various sizes are needed for each number of children (two balls will do for fewer than four children; seven are needed if there are 10 to 11 children, but an additional ball must be added if a 12th child joins the group). The list of items with these detailed specifications runs to *17 separate categories* of toys and equipment, which must be available and meet certain qualifications based on group size. They include everything from “small rubber or plastic animals”; “small cars, trucks, boats, trains, people”; “puppets”; and “large push and pull items.” Regulations governing Oklahoma’s family-care homes are less onerous and prescriptive, but still run 91 pages long, an intimidating document for someone considering starting a business to care for a few children in her home.⁴¹

Regulations governing overnight care can be particularly onerous: Several states, including Minnesota,⁴² Oklahoma,⁴³ Nevada,⁴⁴ and Indiana,⁴⁵ require that a caregiver be awake at all times through the night (Indiana requires *two* caregivers remain awake). The Nevada regulation reads: “Every member of the staff of a child care center, child care institution, accommodation facility, facility for special events, nursery for infants and toddlers or special needs facility who is on duty at night shall remain awake during duty hours.”⁴⁶ Given these limitations on care, it is little wonder that such services are costly and in short supply.

American Enterprise Institute’s Angela Rachidi details the onerous regulations imposed on family-care providers (typically serving between four and eight children in their homes) in her home state of Wisconsin.⁴⁷ The licensing rules ran 37 pages long and included a checklist of more than 400 requirements, many of which relate to the minutiae of operations:

[T]he regulations require that “a center shall have at least 35 square feet of usable floor space per child” and “a time-out may not exceed 3 minutes and may not be used for a child under 3 years of age.”... The regulations even require that each child have a choice of up to three toys to play with when all children are involved in activities.

These regulations seem particularly onerous considering the scope of the care: These are homes caring for as few as four children making it a modest business enterprise. They are often started by a mom who has her own children and wants to earn money but still be available for her own children. Having to worry about what constitutes “usable floor space” and measuring out what that means per child, and trying to make sense of other specific, but hard-to-implement regulations undoubtedly encourage many potential home-based care providers to look for other income-earning options instead.

Any policymaker concerned about the cost and availability of childcare services ought to begin by reviewing the regulatory requirements with an eye toward streamlining rules and moving toward a less prescriptive model that would still ensure that children are in appropriate, safe, and stimulating environments—without unnecessarily burdening providers.

Regulations Causing Contractions in Family-Care Providers

While regulations are onerous for both center and family-care providers, centers are often affiliated with schools, religious institutions, businesses, or are a part of a network of centers run by a corporation. Such centers have more support to help with compliance. Smaller centers, or those with fewer resources, both financial and administrative, are more likely to have difficulty complying with regulations. Churches and religious institutions facing financial challenges may have difficulty supporting on-site childcare as requirements become more onerous.

Policymakers and childcare advocates often express support for the idea of more personalized, community-based care, but the push for more stringent regulations will make it more likely that such facilities cannot afford to operate, and for-profit childcare businesses will become a larger share of providers.

This dynamic is already at work with family-care providers, which are becoming more scarce around the country. Family-care providers, even when facing less onerous restrictions, have a greater challenge in interpreting regulations and ensuring that their family home complies with the government’s rules.

In their 2019 report, “The U.S. and the High Price of Child Care,” Child-Care Aware of America noted the sharp decline of family childcare providers during the past decade. The report noted that compared to the previous year’s survey results, 83 percent of states reported a decrease in the number of providers.⁴⁸

The National Association for Regulatory Association's 2017 Child Care Licensing Study noted:

According to the U.S. Census Bureau, between 2014 and 2017 the number of children of child care age (0 to 12) in the United States rose slightly, from approximately 52.6 million to almost 52.8 million, a growth rate less than 0.3 percent. However, during that same time period, the number of licensed child care programs in the U.S. across all program types dropped by nearly 11 percent, or just over 27,000 programs in total; primarily in family child care homes. However, during the same time period, licensed capacity across all program types fell by approximately 0.1 percent.⁴⁹

The White House also cited a 30 percent drop in licensed childcare providers since 2005, which was driven by the loss of family-care providers:

This drop is almost entirely attributable to a decline in home-based licensed family child care providers, which decreased by half from nearly 200,000 providers in 2005 to less than 100,000 in 2017. The loss of these family child care providers is the equivalent of approximately 540,000 "slots" for children.⁵⁰

As the American Institute for Economic Research says, "[W]hen there is a disconnect between demand and supply, regulations are almost always the problem."⁵¹ While many factors may contribute to the decline in family-based care, regulations such as those described above, along with overly burdensome licensing practices, certainly play a central role to the reduction in childcare supply.

Policy Changes to Expand Supply in Age of COVID

Before coronavirus, policymakers ought to have been reviewing childcare policies to make childcare more plentiful, affordable, and innovative by rationalizing regulatory policies and empowering parents to find care situations that meet their unique needs. The challenges created by coronavirus and the economic shutdown make this cause more urgent than ever.

Overall, policymakers should recognize that just as parents have broad leeway over their children's upbringing, they ought to be able to choose care environments based on their preferences. We are moving beyond a 9-to-5 model of work life; we need to also allow greater innovation in the types of care provided to support families with different needs.

Regulations and licensing practices ought to focus on true health and safety issues—but avoid dictating aspects of childcare which ought to be left to parents. Regulations and licensing practices have always been an imperfect tool to ensure quality: Standards for staffing and facilities miss the nuances that are so important to a child and family’s actual experience with providers. Among the most powerful tools for ensuring quality are customer feedback mechanisms, which allow parents to share their experiences and ensure that services are high quality.

Policymakers considering how to support working parents should also consider the care arrangements parents prefer and believe are best for children. Research consistently shows that most parents think that children are best off when cared for by a family member.⁵² If that is not an option, then parents typically want a care setting that most closely resembles home life. Center-based daycare tends to be parents’ least preferred option.

Additionally, while childcare-center advocates argue that high-quality centers help prepare children (particularly from lower-income families) for success in school, there is little evidence to support the contention that children generally are better off in center-based care. For example, the federal government’s largest investment in childcare is Head Start, a program which costs \$9 billion each year to provide services to approximately 900,000 children (at a cost of \$10,000 per child).⁵³ A long-term congressionally mandated study to assess the impact of Head Start on those children who participated, compared to similarly situated peers, could find essentially no lasting benefits associated with Head Start participation.⁵⁴

There are many reasons that parents may prefer family-care settings over center-based care. Parents often value the environment offered in home-based care arrangements, which more closely resemble family life, including great interaction between age groups and more customized or niche care approaches. Family-care providers are also more likely to be willing and able to accommodate the needs of families with irregular work hours and needs. Moreover, especially with concerns about coronavirus and other contagious illnesses, many families may prefer to have their children in a smaller group setting in order to limit their families’ exposure.

Given that there is no compelling research to show that center-based care benefits children from the general population, policymakers ought to prioritize reducing the barriers to entry for family-care providers.

Also key to creating more childcare supply and a greater variety of childcare options is to provide resources to parents, rather than to fund any particular center or daycare system. Too often government programs subsidize bureaucracies, rather than actual caregivers or care for children.

Government can continue to help parents with the financial burden of childcare costs (and raising children broadly) through a combination of tax deductions and credits, but ought to avoid subsidizing one type of care over another to encourage innovation and enable parents to make decisions based on what they believe is best for their families.

Recommendations

Specific policy recommendations include:

- **Streamlining regulations.** Governors in Connecticut,⁵⁵ New York,⁵⁶ Tennessee,⁵⁷ Hawaii,⁵⁸ Nebraska,⁵⁹ and elsewhere included measures to relax childcare regulations as a part of their emergency COVID-19 response orders. Others should follow suit. However, in addition to loosening regulations in the immediate aftermath of the pandemic, they should review *all* current regulations governing childcare providers and move to reduce those not related to affect health and safety that are needlessly prescriptive and limiting.
- **Encouraging the creation of family-care providers.** State and local officials should take a particularly close look at the regulations governing home-based childcare providers and seek to eliminate those regulations, particularly facilities and paperwork regulations, that would needlessly discourage people from considering offering services from their home.
- **Supporting parents, not childcare programs or bureaucracies.** The federal government currently invests approximately \$15 billion in childcare programs, predominantly through Head Start and the Child Care and Development Block Grant. Policymakers ought to consider how these funds could be better used to empower parents, rather than to support an inefficient childcare bureaucracy. For example, as described by the Foundation for Equal Opportunity, Head Start costs more than the average cost of full-time childcare in 37 states, while providing about half the hours of care.⁶⁰ Parents ought to have control of the resources that are being spent on their children so they can find alternative care providers.
- **Implementing legal reform.** Policymakers should pursue reform to grant immunity from COVID-related lawsuits, as well as from minor

accidents for providers operating in good faith. Would-be daycare providers already face a considerable barrier with the need to obtain additional liability insurance to cover any accidents or incidents. Now they also must consider their legal exposure if there was a COVID illness among those under their care. Market forces already provide a powerful incentive for daycare providers to take anti-COVID precautions, as no provider wants to be known as contributing to the spread of the virus. They should not fear reopening due to the possibility of lawsuits.

Conclusion

America needs a diverse, innovative childcare sector to allow parents to work and to help support and nurture the next generation. Overregulation has discouraged many would-be childcare providers from entering the market—leaving parents with more limited, and less desirable, options. By returning resources to parents and removing regulations that are not directly related to ensuring the health and safety of children, we can create a better system.

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Endnotes

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