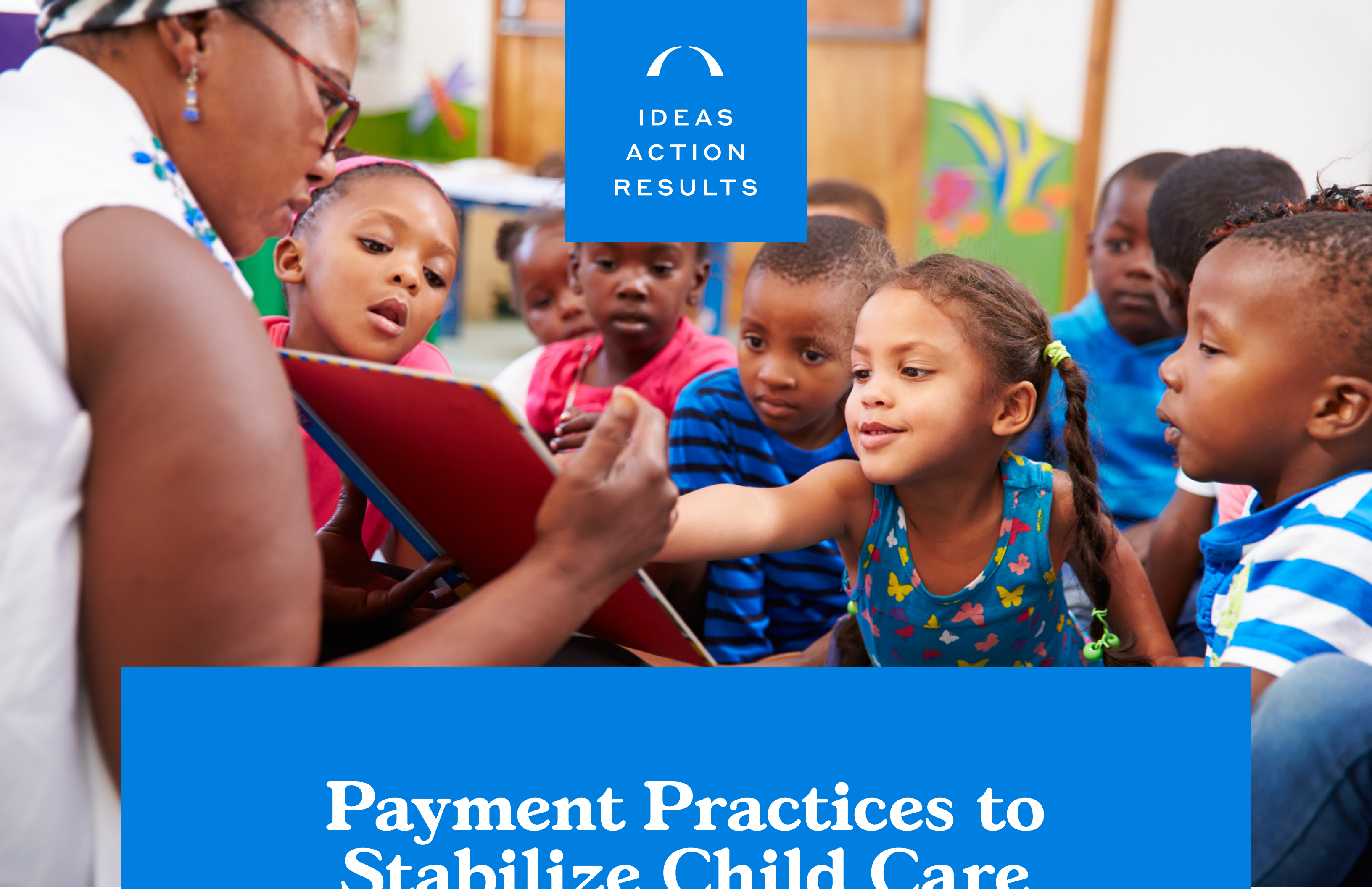

IDEAS
ACTION
RESULTS

Payment Practices to Stabilize Child Care

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EARLY CHILDHOOD INITIATIVE

January 2021

Introduction

The instability of the nation's child care system was evident before COVID-19. The cost to deliver quality child care is more than most parents can afford to pay. Additionally, the stability of the child care market is weakened by limited public investments, insufficient child care market rates and—as this brief argues—state payment practices that reduce child care programs' financial security. These practices compound to produce meager profit margins, low wages for child care workers, and—in some regions—lack of child care access for parents.

Today, COVID-19 has accelerated the system's fragility. Stay-at-home orders forced a majority of child care programs to close their doors without a replacement for full revenue. Even as states continued to pay child care subsidy payments when programs closed, other revenues were lost, either from parents who could no longer pay programs directly or co-payments that were not collected from subsidized parents. Currently, open child care programs are serving significantly reduced numbers of children, and child care workers fear financial ruin unless resources are identified to close the gap. Child care programs' current financial conditions are ripe for examination as state economies readjust during the COVID-19 crisis.

As they begin contemplating a return to the workplace, many working parents have found fractured access to child care. Child care is essential to support the country's economic rebound, as parents need healthy and safe places for their children when they return to work. States eager to reignite their economies after the public health threat is under control must include child care in reopening planning and implementation strategies, and seek opportunities to support child care programs' resilience for the long-term economic health of the country. State policies for publicly-supported child care slots can increase the financial stability of child care programs and the overall child care market. This brief examines an underutilized policy of using contracts and grants to pay subsidized child care slots and argues that more states should seize the opportunity amid COVID-19 to stabilize child care programs' financial outlook to ensure parent access to a diverse child care market now and in the future.

CHILD CARE SUBSIDY PAYMENT POLICIES

The Child Care and Development Block Grant Act of 2014 (CCDBG) provides oversight for the primary federal funding source for child care subsidy, the Child Care and Development Fund (CCDF). CCDF is administered to states in formula block grants. States use the grants to subsidize child care slots for low-income working families that meet certain criteria, such as income thresholds and work or training requirements. A tenet of CCDBG is parent choice. Parents that qualify for a child care subsidy choose which child care program they would like their child to attend. Child care program types can include center-based child care, home-based family child care, and relative child care. Child care programs serving children receiving a subsidy must meet certain health and safety standards in order to accept children in a subsidized slot, such as background checks and health and safety training.

While some variation exists across states, almost all child care subsidies are administered through a system of certificates, or vouchers. In a certificate program, parents who qualify for a child care subsidy are provided a certificate that they may then take to a child care program of their choice. The certificate pays for a portion of a child care slot in the selected child care program. In most states, the certificate payment is paid directly to a child care program, and often as a reimbursement after service is delivered. The total reimbursement payment amount may be determined by the exact number of days a child attended a program in each time period, or paid as an average amount as long as a child meets an attendance threshold. Certificates follow the parent and child, meaning if a parent chooses another child care program, the payment follows along as well.

THE IMPACT OF PARENT CHOICE ON CHILD CARE STABILITY

Certificates support parent flexibility within the child care market by providing portability among multiple child care programs. They also create financial instability for child care programs, as the timing of parent mobility can be unpredictable, and may inadvertently reduce the number of child care programs. Although states can counsel parents to choose a child care program that is best for their child, opportunities and changes arise that cause a parent to move child care programs. Parents may find a slot becomes available at a program closer to their work or home, or the parent's work hours change to reduce or increase the need for child care. State policies can require parents to notify child care programs in advance of their intent to change programs, and some states cap the number of times a parent may change child care programs within a localized region. When parents exit a child care program slot, they take the child care subsidy payment with them to another child care program.

The movement of child care certificates exacerbates financial instability if a state has a wait list for the child care subsidy program, or freezes enrollment for a child care subsidy program when there is not enough funding to meet the demand for all parents that qualify.[1] A vacated slot in a child care program can be filled by another child with a certificate, but the program must wait to receive payment if the parent is on a child care subsidy wait list. Very rarely do states pay for past child care service if a parent qualifies for subsidies and a slot is available when there is a wait to enter the state's child care subsidy program.

Child care programs need stable revenues over sustained periods of time to be able to offer the quality early learning environments that best prepare children for school success. While parent choice is an important facet of CCDBG, it must also be weighed carefully against the other goals of public child care investments, including providing safe and healthy environments and high-quality early learning opportunities for children. In every state, the demand for high-quality child care outweighs the supply of high-quality child care options. A child care system that prioritizes parent choice over all other policy goals can weaken the ability of the child care market to meet parent demand for high-quality child care with adequate supply.

Experts say child care program management must meet three business practice criteria to secure a budget that supports a quality child care program—full enrollment of all available slots; full collection of all fees; and revenues, or rates, that cover the full cost of care per child.[2] The rate of child care subsidies is linked with how the payment of child care subsidy is delivered to a child care program. BPC laid out a case for increasing rates to provide revenues that cover the cost per child in a recent policy brief, The Limitations of Using Market Rates for Setting Child Care Subsidy Rates. Portable certificates reduce the ability of child care programs to maintain full enrollment of all slots and the full collection of fees at the time parents change programs or are no longer eligible to receive a child care subsidy.

WHILE PARENT CHOICE IS AN IMPORTANT FACET OF CCDBG, IT MUST ALSO BE WEIGHED CAREFULLY AGAINST THE OTHER GOALS OF PUBLIC CHILD CARE INVESTMENTS, INCLUDING PROVIDING SAFE AND HEALTHY ENVIRONMENTS AND HIGH-QUALITY EARLY LEARNING OPPORTUNITIES FOR CHILDREN.

When child care programs do not have secure funding, they are unable to make long-term investments in quality improvements, including making updates to physical facilities that meet children's health and learning needs and purchasing classroom materials—furniture, food, toys, and books—that stimulate appropriate skill development in children. Most child care program operators have challenges recruiting and retaining highly qualified staff with age-specific child development skills, knowledge, and abilities. Personnel is the largest cost share of a child care program's budget. State health and safety regulations set required adult-to-child ratios by age of child for a safe and quality classroom environment. These ratios can range from one adult to three babies in an infant classroom to one adult and 10 preschoolers in a pre-kindergarten classroom. These requirements mean child care programs must have a significant number of staff for the number of children they serve.

Additional factors that may be desired in a child care worker, such as advanced knowledge, years of experience, or a higher education degree, would typically drive a higher wage. As the cost of providing child care is too high for most families to afford and current public investments do not cover actual costs, child care programs offer low wages. With an average wage of $11 per hour, some experts have argued the low wages of the child care workforce as a whole are also subsidizing the child care system, and challenging the ability to recruit an effective, highly-qualified workforce.[3]

CONTRACTS AND GRANTS CREATE FINANCIAL RELIABILITY THAT CAN BE LEVERAGED TO INCREASE ACCESSIBILITY TO QUALITY CHILD CARE PROGRAMS FOR SUBSIDIZED PARENTS IN CERTAIN REGIONS OR FOR A DEFINED DEMOGRAPHIC.

The reauthorization of CCDBG in 2014 aimed to directly address the issue of financial instability within the nation's child care system. In the 2016 final rule for CCDF, states were strongly encouraged, but not required, to consider the use of contracts and grants as a strategy for increasing the supply and quality of child care for very vulnerable populations, including infants, toddlers, and children experiencing homelessness.[4] As stated in the preamble, "grants or contracts can play a role in building the supply and availability of child care, particularly high-quality care, in underserved areas and for special populations in order to expand parental choice."[5]

STATE APPROACHES

Some states address the financial uncertainty of certificates and preserving parent choice by administering their child care subsidy program through a hybrid of certificates and contracted slots. In these states, some child care subsidies are provided as a certificate, while a portion of child care subsidies are administered through direct contracts with child care programs, or by awarding grants for child care slots on a competitive basis. In hybrid child care subsidy programs, the state or a third-party representative enters into a contract or awards a grant to selected child care programs and pays an upfront rate for a specific number of slots on a yearly or multi-year basis. The amount may be paid in advanced or in pre-determined installments. In contract and grant programs, the child care subsidy payment stays with the child care program regardless of how often a slot turns over in a given year.

In order to secure a contract or grant, child care programs typically need to meet targets determined by the state, such as quality standards or serving parents and children with specifically defined needs. Contracts and grants create financial reliability that can be leveraged to increase accessibility to quality child care programs for subsidized parents in certain regions or for a defined demographic. Targeted goals may also be established, such as increasing non-traditional hour child care options for parents that work outside of typical work hours, guaranteeing a child care slot for children in foster placements, or increasing child care in geographic regions with limited child care options.

MASSACHUSETTS

Massachusetts operates the longest-running continuous child care subsidy contract program in the country with approximately 220 child care subsidy contracts since the mid-1990s. Contracts are awarded through the state's procurement process to individual child care programs and family child care systems that operate as a centralized network of support for multiple family child care programs in a region. The historic nature of the program means contracts have become relatively fixed by region and child care programs. Policymakers are currently considering modernizing improvements with the foundational goal to stabilize the child care market. For instance, some slots are contracted by age of child, challenging continuity of care as children age and flexibility to meet changing community demographics and demand. State policymakers have set a target to procure the contract program in January 2021.[6]

States with a quality rating and improvement system, or QRIS, currently use grants and contracts to support child care programs, and can use this experience to implement grants and contracts for child care slots. For example, quality grants are incentives used by a state for specific quality building activities in a child care program, such as staff degree completion, or an award for child care programs meeting quality targets, such as attainment of a specific QRIS level. Forty-nine states and the District of Columbia have fully implemented or are piloting local or statewide QRIS.[7] States can leverage child care subsidy grants and contracts for slots to ensure and reward accountability measures for quality achievement while sustaining slots for low-income parents in high-quality child care programs.

Contracts and grants do have programmatic strengths, as well as caveats, that states should carefully consider. Contracts and grants are procured for a year or longer. While they are shown to increase a sustained enrollment in a child care program, contracts and grants are less nimble than certificates to respond to rapid population shifts or large-scale change in parents' child care preferences. Child care rates are linked with payment practices, meaning that rates have to be calibrated to create enough interest among child care programs to attract quality programs to participate. If the payment rate of a contract or grant is too low, there may be few child care programs willing to serve subsidized children or only lower-quality options. Should states choose to pay a higher rate for contracted slots, budget implications along with implementation costs will be a factor for state leadership to balance against the needs of all parents who qualify for child care subsidies.

DIRECT CONTRACTS

According to the U.S. Administration of Children and Families, 21 states have implemented contracts or grants to directly pay for child care services. Several states implement by contracting directly with selected child care programs for a set number of slots. In FY 2018, California served 42% of children receiving subsidies through contracts, as opposed to through a certificate, among the most significant shares of all states using contracts.[8] All contracts for subsidized child care are administered through the California Department of Education(CDE).

CDE contracts directly for a fixed number of child care slots with center-based child care programs

CALIFORNIA CONTRACTS DURING COVID-19

During COVID-19, California policymakers found that established contracts brought measurable stability to child care programs. When a portion of the federal CARES Act funding was used to continue to pay contracted slots, those programs reported that they were able to be fully closed and fully retain staff while providing additional supports to families through distance learning and staff professional development.[9]

and family child care networks that meet state regulations. Contracts are used to target specific vulnerable populations, in addition to parents that qualify for child care subsidy. Targeted populations include migrant children, children with development delays and physical disabilities, and parents enrolled in community college.[10]

Massachusetts also pays for child care subsidies through a mix of contracts and certificates. While some child care subsidies are delivered through child care certificates, a significant portion are delivered through direct multi-year contracts with child care programs. Massachusetts leverages contracts in two ways. First, policymakers use contracts to target and hold child slots for specific vulnerable populations, including children in foster care, children experiencing homelessness, and teen parents to reserve slots at child care programs for qualifying parents.[11] Second, Massachusetts uses child care contracts to meet the needs of income-eligible parents on the child care subsidy wait list while stabilizing the enrollment and fee collection for contracted child care programs.

Income-eligible parents may turn down a contracted slot or certificate based on preference up to three times. Income-eligible parents who accept a contracted child care slot must use the contracted program they are assigned. A parent offered a contracted slot can choose to accept or reject the contracted slot with that program, but a parent may not choose among multiple contracted slots at different programs.[12]

ILLINOIS' THIRD PARTY CONTRACTS

Illinois operates a complex system that includes Site Administered Child Care, a program in which licensed child care providers and family child care networks contract directly with the state. These contractors operate as third parties for the management of the contract, as they are responsible for managing child care slots that are billed to their own contract, determining parent eligibility, and assessing parent co-payments. Contractors may request supplemental funding for children who enter the program and are determined to have developmental delays or disabilities that require wrap-around services in addition to child care. Illinois holds a similar contract with city of Chicago, which the city matches with locally derived funding.[13]

Third-party Representatives

A state may also use a third-party alternative to support contracted or grant awarded slots in child care programs. Vermont's network of 15 Parent Child Centers provides diverse comprehensive services to parents and children that are reflective of individual community need.[14] In addition, some Parent Child Centers directly provide child care slots, or work with community partners to secure child care slots in classrooms.

Pilots

Some states, such as Oregon and Pennsylvania, have implemented pilots to test the impact of contracts and grants on the child care market in specific regions or among a defined population. Pilots offer states the opportunity to implement at a small scale and for a limited period of time, while evaluating both intended and unintended consequences of the program. Oregon's child care contracted slot pilot ran from 2012 to 2015.[15] Contracts were issued for 12-month slots in high-quality child care programs under the goals that children have access to continuous quality care and education, families have continuity of quality child care and education to support their employment, and providers have stable funding in serving children and families experiencing low incomes in high-quality child care programs. Oregon's pilot was evaluated across the three years and demonstrated a majority of participating programs had experienced a positive impact on both the stability of enrollment and program finances.[16]

Pennsylvania's pilot began in 2018 and continues under an expansion provided in 2019 and includes a longitudinal evaluation.[17] Contracted slots are managed through third parties—the state's Early Learning Resource Centers and the Pennsylvania Key—under the goals of increasing capacity for infants and toddlers while also increasing the financial stability of child care programs. The pilot is implemented in a limited number of regions to ensure that parent choice is maintained within a locality.

CONCLUDING RECOMMENDATIONS

For states that are grappling with the impact of COVID-19 on their child care options, grants and contracts are a salient option to ensure there is child care available now and in the future for parents. The Bipartisan Policy Center recommends the following for states to support a more stable child care market in the future:

- States should implement child care subsidy contracts or grants alongside child care subsidy certificate programs. Implementation can occur through pilots or as a part of the state's child care subsidy program.
- States should use grants and contracts to hold child care programs accountable in meeting specific measures to improve the quality of programs and increase workforce knowledge, skills, and abilities.
- States should target contracts or grants to underserved populations and regions, including vulnerable children and parents, and regions with little supply of quality child care.
- States should use contracts or grants to stabilize family child care programs by supporting staffed family child care networks that can apply for and manage contracts and grants on behalf of multiple individual family child care programs.
- States should rigorously evaluate the stability of the child care market, including the impact of grants and contracts on the supply of child care and the financial stability child care programs, as well as analyze trends in parental movement across multiple child care programs.

With tangible standards and rigorous evaluation, contracts and grants help ensure accountability while providing financial stability to child care programs. As the months during COVID-19's stay-at-home orders and mandated closures demonstrated, child care is an essential service at the heart of our nation's economy and many working parents' work-life balance. The country's child care system is on the precipice of collapse, with predictions that as many as half of all child care programs may close their doors permanently by the year's end, wiping out decades of public investments and dependability for local economies and parents. In order to ensure child care's future, grants and contracts are a policy choice that cannot be ignored.

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