



Grants and Contracts

A Strategy for Building the Supply of Subsidized Infant and Toddler Child Care

By Taryn Morrissey and Simon Workman | August 4, 2020

High-quality child care provided by responsive and consistent adult caregivers is vital during children's earliest years, as it has been shown to have direct educational and socioemotional benefits for children.¹² Unfortunately, high-quality child care is expensive and hard to find, particularly for parents of infants and toddlers.³

Many low-income working families are eligible for public programs that help them pay for early care and education, including child care subsidies.⁴ For example, the federal Child Care Development Block Grant (CCDBG) provides funding to states to subsidize access to child care for low-income working families. The subsidies are typically administered as portable vouchers,⁵ which families can use in the child care market to help cover the cost of the program of their choosing.⁶ However, in many states, these traditional subsidy policies often create a disincentive for providers to accept subsidy vouchers since programs are reimbursed based on child attendance rather than enrollment, making subsidy revenue unstable, and reimbursement rates are below the true cost of care, especially for infants and toddlers.⁷ Moreover, CCDBG funding only reaches 1 in 6 eligible families, leaving thousands of working families unable not only to cover the cost of care but also to access subsidies.⁸ Due to these shortfalls, traditional subsidies have done little to improve program supply or quality.⁹

Several states and cities have tried to address these problems by using grants and contracts for child care slots. This strategy can be especially beneficial for supporting access to infant and toddler care, as it is particularly difficult for parents to find and afford.¹⁰

This issue brief takes a closer look at how Georgia used grants and contracts to increase access to child care. While this program was recently defunded due to COVID-19-related budget cuts, Georgia's experience can provide a useful guide for other states and cities exploring strategies to ensure that high-quality child care is available for all families.

How do child care grants and contracts help to increase access to child care?

An increasing number of states are using grant and contract systems to address some of the disincentives for providers to participate in the current subsidy system, in turn increasing low-income working families' access to high-quality child care settings, especially for infants and toddlers. In just the past few years, this strategy has gained significant momentum: In 2012, just nine states used contracts to pay a share of their providers,¹¹ yet a review of the 2016–2018 Child Care and Development Fund (CCDF) plans found that 30 states and territories were using grants and contracts with providers.¹²

Grants and contracts represent agreements between the subsidy program and child care providers to designate slots for subsidy-eligible children.¹³ In contrast to portable vouchers, where providers receive parental copayments and subsidy payments for services provided to individual eligible children when tuition is collected, grants and contracts allow the subsidy program to pay providers directly, either before or after services are provided. Importantly, because grants and contracts can be designated for specific populations or geographic areas, they can be used to help increase child care access for underserved families.¹⁴

Georgia's Quality Rated Subsidy Grant program

In Georgia, like in most of the United States, the supply of licensed, high-quality infant and toddler care is far below demand in many areas of the state.¹⁵ To help address this shortage, Georgia's Department of Early Care and Learning (DECAL) began its Quality Rated Subsidy Grant program in 2015. Under this system, child care providers who met certain requirements and applied via a competitive process received higher reimbursement rates—approximately 50 percent above the traditional rate—for their granted slots.¹⁶ Provider requirements included having and maintaining, or increasing, a two- or three-star rating in the state's quality rating and improvement system; maintaining lower child-staff ratios compared with licensing standards;¹⁷ and recruiting and enrolling children not yet eligible for Georgia pre-K—those who are younger than age 4—who live in families eligible for the state's child care subsidy program.

Importantly, under this system child care providers accepted the responsibility of filling slots with subsidy-eligible families and were trained by DECAL staff in how to recruit families and verify and recertify family eligibility. Participating child care centers' payment and contract renewals were contingent on slots being filled with eligible children. Families in the Quality Rated Subsidy Grant program did not pay copayments, unlike in Georgia's traditional subsidy program. This meant that participating in the Quality Rated Subsidy Grant program required families to pay less out of pocket. At annual reviews, DECAL staff reviewed the slot occupancy over the previous fiscal year and made adjustments to funding if the pro-

gram was unable to fill all of the slots. While there was ongoing discussion about how to include family child care providers, to date, only centers participated in the Quality Rated Subsidy Grant program.

In 2015, the program's first year, 12 providers enrolled; another 24 joined within six months.¹⁸ The program was able to maintain a considerable amount of continuity in providers, with those who were unable to fill slots or recruit eligible families leaving the program. As of spring 2020, the Quality Rated Subsidy Grant program funded about 3,000 slots across 141 child care providers. While the initial pilot years of the program were funded by a federal Race to the Top-Early Learning Challenge grant, following the expiration of that grant, the state allocated funding from its CCDF to expand the program. Unfortunately, in June 2020, the state budget was cut by 10 percent due to the economic impact of the coronavirus pandemic, and the Quality Rated Subsidy Grant program was discontinued.¹⁹ While the state is hoping to re-implement the program when future funding allows, families currently accessing care under the grant program are being transitioned back to the traditional subsidy system.

What makes grants and contracts successful?

Contracts can increase the supply of child care by addressing two challenges associated with serving children younger than age 3 and children receiving subsidies: low reimbursement rates and instability in subsidy receipt. First, infant and toddler child care is expensive because most costs go toward labor, as regulations set low child-staff ratios.²⁰ Because the quality of care is dependent on the warmth, responsiveness, and strength of child-caregiver bonds, these low ratios are critical—but they also increase the cost, making it higher than the rate at which states set their subsidy reimbursement.²¹ Grants and contracts that set higher reimbursement rates therefore make providing infant and toddler care a more financially viable option for programs.

A second problem with the traditional subsidy system is that historically, families' duration of child care subsidy receipt is short, as the subsidy recertification process can be burdensome, requiring families to submit paperwork and complete other time-consuming administrative tasks.²² When families lose their subsidy, providers have unpredictable or inadequate revenue, making it difficult for them to meet their labor and other expenses. Grant and contract systems stabilize funding to support child care for children in families eligible for subsidies, which in turn supports children's development²³ and parents' employment outcomes.²⁴ In grant and contract systems, providers are paid based on child enrollment, rather than attendance. Moreover, these systems are not child specific; when a specific child or family exits the child care or subsidy program, the provider can fill that slot with another child whose family is subsidy eligible, rather than lose the funding. This mechanism for stable payment has been particularly useful during the COVID-19

pandemic, as states can continue to provide monthly payments over the year to fund slots with grants and contracts at a time when many centers have had to close or only a fraction of children could attend due to public health measures, resulting in lost revenue. Beyond the pandemic, contracts have the potential to stabilize subsidy payments and revenue, which can help providers to improve administrative support and program quality.²⁵

Compared with traditional subsidy vouchers, grant and contract subsidy programs allow administrators to retain more control over the providers with whom they contract. Administrators can require grant- or contract-receiving child care programs to meet certain quality rating benchmarks; be located in specific geographic regions; provide comprehensive services such as health screenings; or enroll specific age groups or groups of underserved families such as children in foster care or families receiving Temporary Assistance for Needy Families (TANF). For example, in order to help boost the supply of infant and toddler care in the context of Georgia's public pre-K program—which enrolled 60 percent of the state's 4-year-olds in 2019²⁶—Georgia's Quality Rated Subsidy Grant program was limited to children younger than the Georgia pre-K enrollment age. The state has also used expansions in the program to target certain geographic areas.

What should states know when considering grants and contracts?

There are several potential benefits to using grants and contracts for both families and subsidy programs. For example, they may increase access to high-quality, stable child care for children and families; stabilize revenue for providers; and reduce the administrative burden for the state, providers, and parents.²⁷ Meanwhile, states can customize the rules of grants and contracts to increase child care supply, improve quality of care or facilities, target certain populations, and broaden the scope of services.²⁸ Research links higher subsidy rates and provider-friendly payment policies—such as payment for days when children are absent or programs are closed—with higher-quality care in subsidized centers and family child care.²⁹ In Georgia, providers participating in the Quality Rated Subsidy Grant program reported making a number of improvements to their programs, including buying equipment and supplies, investing in staff training, and increasing staff wages.³⁰

To meet enrollment requirements, several providers in Georgia have created innovative strategies for recruiting and retaining subsidy-eligible families; for instance, they maintain a waitlist and partner with local high schools and tech or vocational colleges to recruit subsidy-eligible families. Families using grant-funded slots also benefit from the lack of copays, which reduces costs and may enhance family-provider engagement. For advocates, the children and families served as well as the services funded by grants and contracts—and the gaps in these services—can be communicated in a straightforward way in terms of describing the number of slots or children served at a given time or across the year.

There are, however, certain challenges associated with the use of grants and contracts for child care subsidies. These may include parents having trouble finding contracted slots in their communities that meet their needs, such as program hours or cultural or linguistic fit. Moreover, in Georgia, because providers were required to meet quality requirements, grants and contracts may have supported programs' quality improvements but not led to immediate increases in the supply of child care. Over time, however, if designed to bring new providers into the subsidy system or market, grants may increase the child care supply.

Furthermore, although grants and contracts are designed to enhance programs' financial stability and families' child care stability, an early study in New York City found no link between contracts and the stability of subsidy receipt among providers.³¹ Subsidy grant and contract programs require a commitment of funds from state and accountability measures. For providers, they must maintain enrollment and meet other requirements. In Georgia, providers were required to recruit, enroll, and reenroll families in the subsidy system; while this could have resulted in parents having a trusted source of information about the subsidy system, the requirement placed demands on providers' administrative and technological capacity.³² The use of grants and contracts as a payment mechanism also requires new and streamlined administrative procedures at the state level.

Despite these challenges, grants and contracts can serve as a mechanism for subsidy program administrators to target specific needs in the child care market, including supply or quality, while offering stable, predictable funds to providers and stable, high-quality child care to families.

Conclusion

Georgia's experience illustrates that the use of grants and contracts can be a successful strategy for increasing access to high-quality infant and toddler care. As states increasingly recognize the importance of high-quality early childhood education starting from infancy, they should consider the use of grants and contracts to help support families' access to these programs. States should experiment with pilots of different models and administrative procedures over time to determine what works best in their specific context. In Georgia, for example, feedback loops between the subsidy program and child care providers provided real-time information for improving the program, with the state and providers serving as partners in the Quality Rated Subsidy Grant program. Provider input and data analysis can also be useful in localizing the program, developing and updating specific targets or priorities that are tailored to local needs. Meanwhile, the use of grants and contracts inherently develops a mechanism for consistent payments, which is particularly useful to continuously support child care programs during the COVID-19 pandemic and resulting economic fallout. Furthermore, as states face

budget shortfalls due to the economic impact of the pandemic, they should carefully consider the benefits of programs such as the Quality Rated Subsidy Grants program, and the critical role access to child care plays in supporting working families, before considering budget cuts.

Many of the problems with the current child care market can only be solved through a significant increase in public investment. However, in the absence of comprehensive child care reform at the federal level, states must seriously consider using grant and contract systems to expand access to high-quality child care for the children and families left behind by the current system.

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