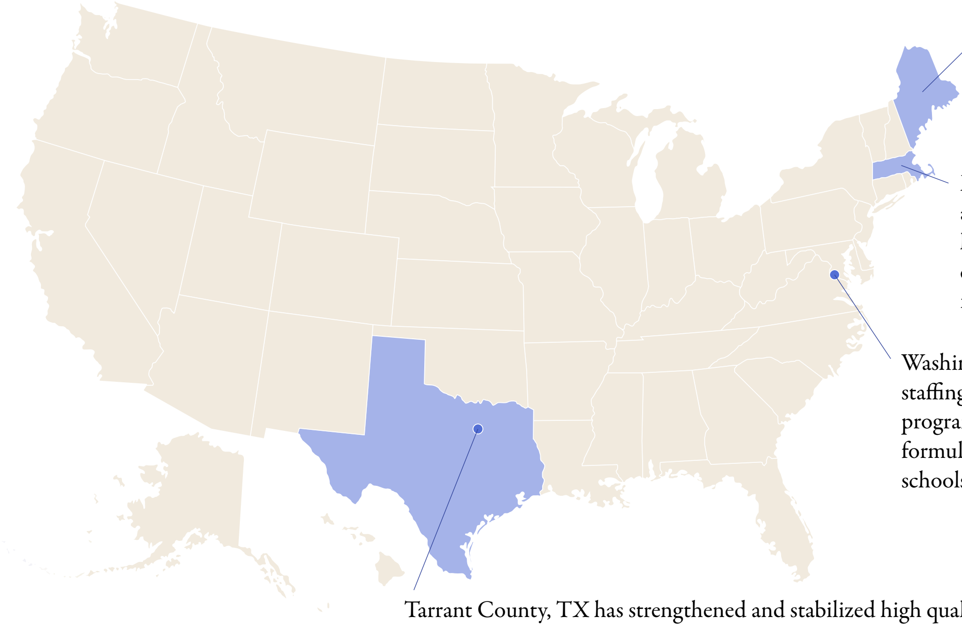
STRATEGY SPOTLIGHT

Foundational Funding for Child Care: The National Picture

STATE AND LOCAL INNOVATIONS FOR IMPROVED COMPENSATION, QUALITY, AND EQUITABLE ACCESS

A movement to reimagine child care funding is underway. Child care centers and family child care homes have long struggled to survive and thrive. In a 2019 survey of 35 states, the Bipartisan Policy Center found that existing child care slots met less than 70% of potential need,[1] and families report difficulty finding affordable, quality child care in communities nationwide. This long-term, ongoing failure of the child care market is driven primarily by the parent-paid financing model that can support only low pay and produces high staff turnover.

In a 2024 survey conducted by the National Association for the Education of Young Children (NAEYC), 68% of child care centers reported a staffing shortage.[2] This shortage inhibits growth, limits quality improvement, and drives many programs to close. The states and local governments featured in this Spotlight have developed innovative responses to this crisis, all providing a layer of "foundational funding" to stabilize and expand child care operations and grow the workforce.



Maine's salary supplement initiative has generated a 34% increase in the number of educators at the highest tier of its professional registry in the five months ending March 2024.

Massachusetts has stabilized child care operations and added more than 9,600 slots. This initiative has also raised educator wages, with 81% of centers and 43% of family child care providers reporting increases.

Washington, DC has built a career ladder to stabilize staffing and improve quality. Three hundred forty programs—80% of eligible centers and homes—receive formula-based funding, achieving pay parity with public schools through a six-step minimum salary scale.

Tarrant County, TX has strengthened and stabilized high quality child care programs in communities with high Social Vulnerability Index (SVI) scores, including minimum pay of $18 per hour for classroom personnel.

1 Estimate of need is based on the number of working families with children under 5. (Bipartisan Policy Center, 2021, "Child Care in 35 States: What we know and don't know).

2 NAEYC, 2024: We Are NOT OK: Early Childhood Educators and Families Face Rising Challenges as Relief Funds Expire.

Center for Early Learning Funding Equity
NORTHERN ILLINOIS UNIVERSITY

These initiatives have important features in common. They are designed to expand the child care market, grow the needed workforce, and increase quality. They are built on an innovative funding *mechanism*—foundational funding—that supports licensed child care centers and family child care homes with a stable layer of revenue. This Spotlight describes why a new, broad-based funding mechanism is needed, and it profiles these initiatives. Foundational Funding Spotlight No. 1 introduced similar initiatives in Illinois.

Per-Child Subsidies by Themselves Will Not Solve the Workforce Problem

Child care has historically been a low-wage field because program budgets are limited by what parents can afford to pay in tuition. The child care subsidy system, funded by the federal Child Care and Development Fund and state contributions, helps low-income families buy into the child care market, but that market is failing to meet demand and failing to attract and retain the needed workforce.

Even if subsidy payment rates were raised above what parents generally pay, the additional revenue would be too little and too unpredictable to justify overall salary increases. It would be too little because most programs enroll relatively few subsidy children. Nationally, only 47% of centers enroll any children with subsidies, and only 10% of centers receive subsidy payments for more than half their children.[3] Similarly in home-based care, subsidies support fewer than 10% of all enrolled children.[4] The revenue would be too unpredictable to support salary increases because the number of subsidy children will vary from month to month. Increased subsidy payment rates are needed to cover costs in many areas, but a more stable, predictable and adequate source of revenue is needed to build the workforce, grow the market, and improve quality.

Foundational Funding: A Simple, Formula-Based Solution

The innovative foundational funding models described in this Spotlight address the market's failure to provide high quality, accessible programs that meet community needs. They work *with* programs' existing per-child tuition and subsidy income, providing a layer of stable, predictable revenue to support compensation and quality.

They were designed for broad reach and simple administration. For broad reach, most use simple eligibility criteria that smaller, newer, and less resourced programs can meet, rather than requiring complex applications or competitive proposals. They specify achievable performance requirements to meet policy goals. For simple administration, they use formula-based funding models in which programs earn fixed payment rates, rather than the cost reimbursement model commonly used for grants and contracts.

The fixed payment rates represent the estimated additional cost for most programs to meet the initiative's goals or requirements. For example, if the requirement is to pay employees based on a specified minimum salary scale, the funder might compare wages in the new salary scale against wages from a recent salary survey to determine a specific *dollar amount per employee* that would enable most programs to fill the gap. Or if the goal is to keep licensed or quality-rated programs open in an area where parents cannot afford the full cost, the funder might compare the estimated full cost against current market-based revenue (from a market rate survey) and determine a specific *dollar amount per classroom* that would keep most programs open.[5]

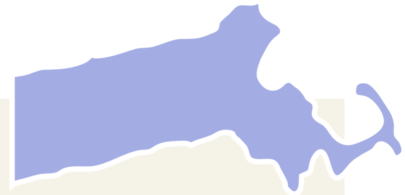
3 A R Datta, I Ventura, (2023). Enrollment size and subsidy density of child care centers receiving child care subsidies in 2019, OPRE Report No. 2023-008, Washington DC: Office of Planning, Research, and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

4 National Survey of Early Care and Education Project Team (2020). How Much of Children's Early Care and Education Participation in 2012 Was Publicly Funded? OPRE Report #2020-69, Washington DC: Office of Planning, Research and Evaluation, Administration for Children and Families, U.S. Department of Health and Human Services.

5 Formal cost modeling and salary scale development can help determine total program revenue needed to meet the goal; existing market rate surveys and salary surveys can help determine current conditions. Payment rates cover the gap between total need and current conditions. See this CELFE resource and this CELFE resource for more information.

Following are brief descriptions of four foundational funding initiatives that emerged in slightly different environments with slightly different priorities—all utilizing this innovative funding mechanism. The tables at the end of this Spotlight summarize the building blocks and variations among the initiatives.

MASSACHUSETTS



1

Strengthening the Field Through Base Operational Support

Massachusetts' Commonwealth Cares for Children (C3) grants are available to all licensed centers, family child care homes, and state-approved private school programs on a non-competitive basis. They are designed to stabilize and expand the market and to support increased compensation. As such, they support overall operational and workforce costs. Initially financed through federal pandemic-related funding, this successful initiative is now fully supported with State funds. Per-child subsidy payments are not affected.

The funding application is relatively simple for programs and a two-part funding formula is also simple for the State to administer. The funding formula includes a base amount that accounts for program size, which is determined by multiplying a fixed amount per licensed slot (child) by a "staffing level adjustment" that reflects actual staffing levels. An equity adjustment is then added via a multiplier based on the community-level Social Vulnerability Index or the percentage of subsidized child care enrollment.

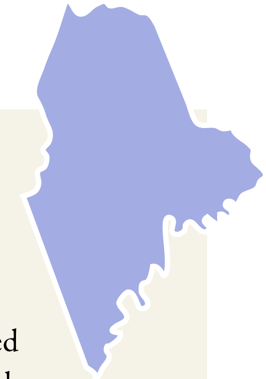
More than 7,300 child care programs (89% of all licensed and funded programs) are participating in the initiative. Programs submit a simple monthly report to recertify or update their application information, and they are paid monthly. Currently, programs are not required to implement a minimum salary scale, but the State is tracking the impact on salaries and staffing levels as it considers possible adjustments to initiative. In a recent survey, 81% of centers and 43% of family child care providers reported the initiative enabled them to increase salaries. In addition, almost half of all programs reported the initiative has impacted affordability by allowing them to delay tuition increases. Ten percent of centers and 21% of family child care providers reported they would have to close if the funds were no longer available.

AT A GLANCE

- Hybrid funding formula considers program size (licensed slots), staffing adequacy (size), and equity components*
- Streamlined administration and reporting

* See table on page 7 for formula types.

MAINE



2

Providing Focused Support for Staffing

Maine re-established its Children's Cabinet in 2019 with a mission to prepare young children for school. The Cabinet established three pillars: access, workforce, and quality. The pandemic brought access to the forefront, and the State distributed pandemic-related funding under direction to get it out fast and make it easy. These initial grants were based on licensed capacity, with the goal of stabilizing programs. However, Maine soon recognized that the staffing crisis was limiting program viability, so it required programs to pass through $200 per month of grant funds to each staff member. It updated its tracking system to show the number of staff members receiving funds.

In preparation for the end of pandemic-related funding, Maine used its experience to design a new State-funded Early Childhood Educator Workforce Salary Supplement initiative. The initiative continues to provide non-competitive funding to all licensed child care programs (centers and family child care homes) that acquire a state vendor code. Currently, 1,367 child care programs participate, with annual funding ranging from $3,300 to $7,500 per staff member, plus support for administration. Programs submit monthly billing online.

Salary Supplement Amounts Based on Educator Credentials

Tier Level	Maine Roads to Quality Registry Levels	Monthly Supplement Amount
1	Level 1, Level 2, Level 3, Level 4	$275
2	Level 5, Level 6	$415
3	Level 7, Level 8	$625

There is no minimum salary scale, but programs must pay salary supplements *that increase as credential levels increase*. The State's professional registry records each employee's credential level. Its eight levels are grouped into three tiers. Supplement amounts are $275, $415, or $625 per month based on the tier. The State uses registry information to inform individuals of their supplement amounts. Basing supplement amounts on credentials has resulted in higher qualifications across the system.

AT A GLANCE

- Type 2 funding formula based on actual staff credentials plus administrative add-on
- Compensation requirement
- Streamlined administration and reporting

WASHINGTON, DC

3

Adding a Minimum Salary Scale and Quality Supports

Washington, DC has built a comprehensive universal pre-k program and robust birth to three services. In 2022, recognizing the urgent need for a stable and well-qualified workforce, the District established the Early Childhood Educator Pay Equity Fund to increase the compensation of child development staff. The Fund's goal is "to nurture a strong and stable child care *market* in which educators can rely on increased wages and programs can effectively plan their budgets. This kind of stability will attract and retain more qualified educators… and enhance the sustainability of child care businesses."[6]

The Pay Equity Fund, which initially provided direct payments to individuals, now operates through agreements with child care *programs*. Participating programs receive formula-based funding and agree to pay wages in compliance with a minimum salary scale based on each staff person's position and qualifications. The amount earned by a program is based on a three-part funding formula. First, base amounts are earned according to teacherand teacher assistant qualification levels (higher amounts for higher qualifications). Second, a fixed percentage is added as an "administrative enhancement" to cover additional payroll taxes and other costs. Finally, a variable percentage is added as an equity adjustment, based on the percentage of enrolled children in the subsidy system. Currently, 252 child care providers (340 sites) participate in the initiative.

Minimum Salary Requirements for Facilities Receiving Payroll Funding Formula Awards

Assistant Teacher or Associate Home Caregiver	FY24 Minimum Salaries
Less than a Child Development Associate (CDA)	$43,865
CDA	$51,006
Associate's degree or higher	$54,262
Lead Teacher, Home Caregiver, or Expanded Home Caregiver	
CDA	$54,262
Associate's degree	$63,838
Bachelor's degree or higher	$75,103

These financial supports are complemented by annual program observations to inform program improvement and help DC understand support needs. Observation results are not disclosed to the public or used in ratings unless the provider is required or chooses to participate in the Quality Rating and Improvement System (QRIS).

AT A GLANCE

- Type 2 funding formula based on actual staff credentials plus administrative and equity add-ons
- Compensation requirement
- External quality supports
- Streamlined administration and reporting

6 Report of the Early Educator Equitable Compensation Task Force, January 2022, page 8.

TARRANT COUNTY, TEXAS

4

Learning More From a Pilot

Tarrant County's Prime Early Learning Pilot was developed by Child Care Associates and its Institute to Advance Child Care in a multi-year pilot with research partner Texas Policy Lab at Rice University. The core pilot goals were to stabilize and strengthen high quality programs in the County's highest need areas and to demonstrate how contracts could accompany the voucher system for potential statewide use.

The pilot offered a public application process for qualifying centers and family child care homes, awarding grants to ten child care centers and nine family child care homes in communities with high Social Vulnerability Index (SVI) scores. Phase One was an intensive learning phase during which providers were paid to work alongside a business coach to report financial data, gather program data and build capacity to operate a public contract. Now in Phase Two, the participating programs are earning funding each month through a three-part formula that covers (a) 20% of certain typical operating costs plus (b) $7 per hour for each educator position (to support required minimum pay of $18/hour)[7], and (c) add-ons for local priorities including infant/toddler care, children with special needs, and child care for children of educators working in the program. Funding also supports contracted services for children and families including mobile medical care and therapeutic services, as well as trainings and conferences for professional development.

Programs must meet the minimum pay requirement and maintain their high QRIS status. The financial incentives are complemented by business advising. The Texas Policy Lab is collecting extensive data on financials and results, which will inform future phases and replication plans.

AT A GLANCE

- Hybrid formula including program size (operational expenses) and staff size, plus flexible components reflecting priorities
- Geographic targeting for equity, based on the community's Social Vulnerability Index (SVI)
- Compensation requirement
- External quality supports
- Streamlined administration and reporting

7 The total amount for this portion of the formula is based on educator FTEs (full time equivalent status).

SUMMARY TABLES

Components and Variations

Each of these four tables represents a potential building block in a foundational funding initiative and describes some variations. Taken together, the tables can serve as a reference for policymakers as they design or improve such initiatives. The two Illinois initiatives described in Foundational Funding Spotlight No. 1 are also included in the tables.

All initiatives provide a new layer of funding to support stability, compensation, and quality. Formula components vary.

Funding Formula Components						
	MA	IL S&G[8]	ME	DC	TX[9]	IL Pilot[10]
Type 1 **Program size** (no. of classrooms or licensed capacity) is the basic component in the funding formula.		X				
OR Type 2 **Staff size and qualifications** are the basic components. (e.g., each person's credential or tier in professional registry)[11]			X	X		X
OR Hybrid Includes **Type 1 + Type 2** components.	X				X	
Additional Equity Components Add-on for the community rating on the Social Vulnerability Index (SVI) or for the percentage of children receiving subsidy.	X	X		X		
Two initiatives targeted equity through eligibility criteria rather than in their funding formulas.					X	X

Type 1 example: $x per infant classroom ($x per toddler classroom, etc.) + equity add-on for SVI status. Type 2 example: $x per person in registry tier 3 ($x in tier 4, etc.) + add-on for admin costs + equity add-on for % of subsidy children.

All initiatives take a developmental approach to program improvement through up-front funding to build a stable, adequate, and well-qualified staff. Some also integrate external quality improvement supports.

External Supports for Quality						
	MA	IL S&G	ME	DC	TX	IL Pilot
Program quality assessments without high stakes (i.e., initiative requires no public disclosure or use in rating)				X	X	X
Coaching for CQI and leadership development					X	X
Business advising				X	X	
Expedited QRIS supports				X		

8 IL S&G = Illinois' Strengthen & Grow Model

9 TX = Tarrant County, Texas

10 IL Pilot = Illinois' ExceleRate Child Care Center Pilot

11 These initiatives add a percentage to cover administrative costs.

All initiatives include streamlined administration so the typical small child care center or family child care home can participate.

Streamlined Administration and Reporting						
	MA	IL S&G	ME	DC	TX	IL Pilot
Participating centers and homes are not classified as "subrecipients" of federal grants, freeing them from a number of qualification and reporting requirements	X	X	X	X	X	X
Simple application rather than complex Request for Proposals	X	X	X	X	X	X
Funding flows through an intermediary organization		X			X	X
The state or locality calculates payment amounts totally or partially based on program information	X	X	X	X	X	X
Payment system draws information from the professional registry or licensing records	X	X	X	X	X	X

Some initiatives include requirements for compensation or performance.

Compensation and Performance Requirements						
	MA	IL S&G	ME	DC	TX	IL Pilot
Implement minimum salary requirements based on *position*		X		X	X	
Implement minimum salary scale with steps based on each person's *qualifications*				X		X
OR pay defined salary supplements based on each person's qualifications			X			
OR spend a percentage of the funds on compensation improvements selected by each program		X				
Implement Continuous Quality Improvement (CQI) practices					X	X
Maintain specified QRIS status					X	

Next Steps

Variation among these models creates an opportunity for sharing experiences among states and localities as they continue to reimagine child care funding. Ultimately, federal policy makers and funding streams can learn from these initiatives, which are achieving more accessible, higher quality care for children while sustaining programs and equitably compensating educators.

CONTINUE THE CONVERSATION

For further discussion and dissemination of lessons learned and improvements planned, email **info@celfe.org**.

celfe.org

Center for Early Learning Funding Equity
NORTHERN ILLINOIS UNIVERSITY

Strategy Spotlight No. 2, published May 2024