

## Foundational Funding

INNOVATIVE FINANCING MECHANISMS TO SUPPORT IMPROVED CHILD CARE COMPENSATION AND QUALITY



Over the past several years, states have used federal Covid-19 relief funds and the federal Preschool Development Grant Birth to Five (PDG B-5) to address urgent child care needs in new ways. Whether the issue was program survival during the pandemic or quality development over a longer time span, the key element was program staffing—and how it is funded. Foundational contracts are emerging as an effective new funding mechanism that supports child care centers and family child care homes as they develop stable, adequate, and well-qualified staffing drawn from the communities they serve.

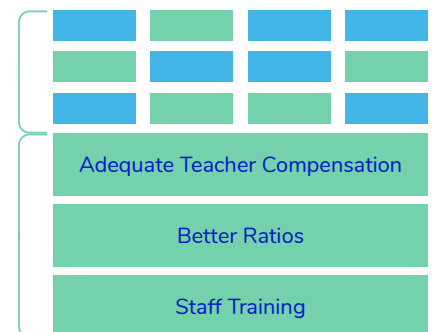
The Center for Early Learning Funding Equity (CELFE) has worked with Illinois to develop **three contracting models** to support child care centers and homes. CELFE has examined approaches in other states and found a movement toward contracts as an effective strategy. This strategy spotlight reviews lessons learned and suggests future direction.

### Start with Equity

The early care and education system is under-funded, but even existing funds are distributed inequitably. Per-child funding and competitive funding methods favor those already resourced, and they make no provision for new or emerging business development or staff development. They are designed to purchase a commodity: child care hours or days. Historically marginalized communities have fewer resources to survive funding variations in enrollment and attendance, or to employ the proposal writers and accountants required in a system of competitive contracts.

Foundational contracts take a different approach. They focus on staffing and they support child care centers and homes to become stable, learning organizations that draw on the unique strengths of their communities, their staff members, and their children. States have begun to demonstrate that these two approaches to funding—purchase of service and foundational contracts—can work together.

PER-CHILD TUITION  
AND SUBSIDY  
PAYMENTS



### WATCH THIS 2-MINUTE VIDEO

Learn more about how foundational contracts can support the unpredictable mix of per-child, per-diem revenue based on parent fees and subsidy payments.

[Learn More](#) →

# Emergence of Foundational Funding Models in Illinois

The foundational contract approach grew from the need to address immediate problems in the child care field, including a lack of progress toward broad-based quality improvement, the closing of child care centers and homes caused by Covid-19, and the worsening staffing crisis. Here’s a brief review of responses to those three needs in Illinois.

1

## The ExceleRate Illinois Child Care Center Pilot: A Program Quality Model

In 2019, Illinois’ QRIS began to conceptualize a funding mechanism that would support child care centers to implement team-based rapid improvement cycles as described in the literature on Continuous Quality Improvement (CQI). The State’s federal Preschool Development Grant Birth to Five (PDG B-5) funded a three-year pilot to develop and test the model. Model development began with a description of effective center-based CQI, but developers soon realized that CQI would work only if centers could reduce turnover and employ enough staff members to allow for planning time. Further analysis focused on shortcomings in the existing method of supporting quality through subsidy rate add-ons. Programs needed to demonstrate quality before they could receive a rate add-on, but building quality required up-front investment in staff. Furthermore, the add-on funding rarely resulted in higher compensation or more robust staffing.

The ExceleRate Pilot responded to these shortcomings by issuing foundational contracts that stabilize and expand staffing that in turn leads to quality improvement. These contracts are not based on per-child payments, nor are they cost reimbursement models. Instead, they employ a simple system of fixed-rate payments based on the real drivers of cost—the number of classrooms by age, and the number of staff required. As staffing is stabilized, center directors receive coaching to build on their personal strengths and develop cultures of improvement. This “funding first” model is open to every licensed program serving low-income families in targeted, historically under-resourced counties.

Contracts support three steps over time: **1** funding, followed by **2** stable and adequate staffing developed over time and made possible by the funding, followed by **3** continuous quality improvement made possible by the staffing and coaching.



### CHECK OUT THIS PROOF POINT

Learn more about how the ExceleRate Pilot is strategically funding quality improvement in early learning in Illinois.

[Learn More](#) →

## Child Care Restoration Grants (CCRG)

In early 2020, child care services were decimated by the Covid-19 pandemic. Emergency licensing rules limited program capacity, and the child care per-diem funding system provided insufficient income to support program operations. Illinois responded by investing \$290 million of its flexible federal COVID relief funds to restore adequate income for child care programs as they reopened to all families in the summer of 2020.

This new funding source allowed the State unprecedented flexibility, but the challenge was to distribute significant funds to thousands of child care centers and homes quickly and efficiently, based on their size, location, and other characteristics. The State extended eligibility for CCRG to all licensed child care programs, not just those in the subsidy system. It used fixed payment rates based on the licensed capacity of centers and family child care homes with bonus funding for programs in areas that had been disproportionately impacted by the pandemic. The Child Care Resource and Referral system administered the program with a simple online application and simple reporting format. This work established a model for quick, simple, and effective grantmaking separate from the subsidy system—essentially a more streamlined version of the ExceleRate Pilot funding model.

## Strengthen and Grow Child Care Grants (SGCC)

In 2021, Illinois established the Early Childhood Transformation Team—now CELFE with a national perspective—to consider whole-system improvements along with continued crisis response. The team worked with the Illinois Department of Human Services to develop this next generation of grants using Covid relief funding with a more targeted focus on the child care workforce. The model builds on the CCRG grant system, including a simple budgeting and distribution method based on fixed payment rates by classroom or family child care home. Programs were required to dedicate 50% of the funding to staff salaries, benefits, or other professional development (PD) supports (that percentage has now been increased to 75% of funds). Each program reports how it has used the funds through an online form.

The model maintains CCRG simplicity and timeliness for programs while strengthening the reporting and accountability systems. The SGCC grants have continued to evolve and have become the basis of a multi-year Illinois initiative focused on sustained funding for increased workforce compensation.

## Foundational Contract Characteristics

An equitable “funding first” approach includes:



**FOCUS ON COMPENSATION**  
as first step to equity and quality



**NOT COMPETITIVE**  
available to newer, smaller, and less resourced programs



**SIMPLE TO ADMINISTER**  
practical for newer, smaller, and less resourced programs; easily implemented by state agencies



**EXTEND BEYOND THE SUBSIDY SYSTEM**  
to improve wages and quality throughout the field



**FLEXIBILITY**  
to change as conditions change



**ACCOUNTABILITY**  
for meeting specified goals

## Equity Beyond the Subsidy System

SGCC grants have been designed to improve compensation for programs serving even a small percentage of subsidized children. A major strength of almost all child care programs is their employment of staff members from the communities served, representing the cultures and languages of the children in the program. However, the low wages have discouraged long-term employment and career development. Equity and quality fall short. SGCC was developed as a first step to changing this reality. Illinois has committed to build on these foundational funding models as pandemic-related funding ends.



## The National Picture

In 2022, CELFE began a review of all fifty states, looking for comparable or innovative strategies to distribute COVID-19 relief funds to the early childhood system. In total, thirty-seven states used contracts (or grants)\* to fund child care worker compensation in the form of bonuses, salary increases or incentives. Fourteen states provided funding for bonuses, while 23 provided funding more broadly to be used in some form of compensation. Overall, states used creative data-informed strategies and focused on the workforce.

## STAY IN THE LOOP

For more information on contracting as an innovative approach to addressing compensation and quality, email [info@celfe.org](mailto:info@celfe.org).

[celfe.org](https://celfe.org)



\*Federal rules distinguish contracts from grants. Depending on a state's distribution mechanism, what this strategy spotlight calls a foundational contract might actually be a foundational grant. Each state will need to determine what works best in its context.