Center for Early Learning Funding Equity
NORTHERN ILLINOIS UNIVERSITY



CELFE DIGEST

Funding Mechanisms:

Foundational Funding for Child Care

Why is this topic important?

Child care centers and family child care homes operate in a failed market. Most child care programs struggle to achieve financial stability or educational quality because parents cannot afford the associated costs and public investments have been inadequate to fill the gap. In many communities, the demand for child care far exceeds supply. Foundational funding responds to this market failure by providing a stable layer of revenue that works with tuition and voucher income to build supply and quality across the entire field.

Synopsis

In most communities, private child care tuition rates are low, based on what families can afford, and unpredictable, based on weekly enrollment or attendance numbers. Child care voucher payments are also unpredictable, received per-child based on enrollment or attendance of eligible children. Faced with low and unpredictable per-child payments, providers often keep wages low, pay teaching staff on an hourly basis, and vary schedules based on daily need. Staff turnover is high, staff qualifications are often minimal, and programs lack reserve funds to see them through enrollment downturns.

Foundational grants can cover the projected gap between per-child revenue and the cost of adequate and stable staffing.[1] They are typically non-competitive and easy to administer, with funds distributed according to a formula rather than a line-item budget. Funds are paid up-front upon assurance that programs will use them for the required activities or to meet specific performance requirements. This “funding first” approach differs from the rate add-on practice often used to reward child care programs that have already achieved a particular quality rating. Rate add-ons have not markedly improved quality across the field because most programs cannot get to quality until they can afford to attract and retain the needed staffing.

[1] This Digest uses the term “grants” to mean either grants or contracts. States and communities make technical distinctions between the two.

States distribute foundational funding based on formulas that reflect strategic goals. Some states and the District of Columbia have published minimum salary scales and they provide grants to every licensed program that agrees to pay those salaries.[2] They use cost modeling to find the difference between typical program revenue and projected costs when the required salaries are paid. Their funding formulas cover the projected difference per employee or per classroom. Massachusetts makes foundational grants with the broader goals of growing the number of programs, stabilizing budgets, and improving salaries.[3] Its funding formula includes components for program size and for staff numbers. Each state can tailor grants to address its strategic priorities.

Discussion

The following grant features have contributed to success in several states:



Non-competitive



Paired with external supports for performance



Fixed payment rates based on funding formulas



Use of intermediary organizations

Non-competitive: Foundational grants are typically non-competitive, available to a broad range of programs based on simple eligibility criteria. They are structured to advance strategic access and quality goals for the entire field. Although competitive grants are more common in early childhood education and care, they tend to favor the programs already best resourced – those that have the staff to write grants or the funds to hire a grant writer. The typical small child care center (approximately 5 classrooms) or family child care home may be unable to compete.

Fixed payment rates based on funding formulas: The line-item budgets that characterize most Early Childhood Education and Care (ECEC) grants impose significant administrative burden on state agencies and service providers. State agency staff need to review and approve every grantee's budget. Grantees must track and report every expenditure and submit periodic billings that also need state review. Some states have solved this problem by constructing funding formulas allowing them to pay fixed rates based on program characteristics.

- ***Funding formula components:*** The basic formula components are generally either program size or staff makeup or both. If based on program size, the grant would provide a certain dollar amount per

[2] Refer to documents in the Resource section: Washington DC Office of the State Superintendent of Education (website). Illinois Network of Child Care Resource and Referral Agencies (website).
[3] Refer to document in the Resource section: Massachusetts Dept. of Early Care and Education (website).

classroom or per licensed slot. In exchange for that funding, programs might be required to pay each position at or above a minimum salary level, or to add the staff needed to meet a specific performance standard. If based on staff makeup, the grant would consider each employee's highest credential or tier in the professional registry. In this approach, the funding is calculated to support a minimum salary based not only on position, but also on qualifications. Programs employing more highly qualified personnel would earn higher payments. Programs report periodically on their staffing, or a professional registry can report that information directly. States sometimes add a percentage to cover programs' administrative costs or other priorities.

- ***Cost estimation modeling:*** Foundational grants pay the average estimated difference between program revenue in a specific market and program costs if the grant conditions (such as higher salaries) are met. Specialists can build a cost model that estimates this revenue gap. The average gap can be calculated per child, per classroom, per employee, or per program, depending on the terms of the funding formula.

Pairing grants with external supports for performance: Some states have paired grants with external supports for meeting performance goals. Supports include continuous quality improvement coaching, consultation, and advising on business practices. This pairing is an example of the Funding First approach to higher standards. First, programs need enough funding to pay for the structural elements of quality. That funding is tied to higher expectations, and states offer professional resources to help programs meet those expectations.

Intermediaries: Intermediary organizations can help states achieve the broad reach and simple administration that make foundational funding effective. Where procurement procedures cannot support simple foundational grants to a broad range of providers, the state can issue a competitive grant to a not-for-profit intermediary. That organization then issues simple contracts to service providers and handles most of the administrative tasks.

Overall, foundational funding responds to flaws in the child care market. States can design grants focused broadly to stabilize and grow the market, or more narrowly to address quality issues like adequate pay. In either case, non-competitive, formula-based foundational funding can be designed for impact across the child care market.

Resources

- CELFE (2023). *Foundational Investments in Child Care* (Short video). https://celfe.org/our-work/designing-funding-mechanisms-and-tools/contracts-and-grants/
- CELFE (2024). *Foundational Funding for Child Care: The National Picture*. https://celfe.org/resources/foundational-funding-for-child-care-the-national-picture/
- Illinois Network of Child Care Resource and Referral Agencies (website). *Smart Start Workforce Grants*. https://www.ilgateways.com/smart-start/smart-start-workforce-grants
- Massachusetts Dept. of Early Care and Education (website). Commonwealth Cares for Children (C3) Grants. https://www.mass.gov/info-details/commonwealth-cares-for-children-c3-grants
- Washington DC Office of the State Superintendent of Education (2025). *Early Childhood Educator Pay Equity Fund: Guide to Minimum Salaries and CDF Payroll Funding Formula for FY26 for Child Care Providers*. https://osse.dc.gov/sites/default/files/dc/sites/osse/publication/attachments/Guide%20to%20Minimum%20Salaries%20and%20Funding%20Formula%20for%20FY26%20English.pdf