Center for Early Learning Funding Equity
NORTHERN ILLINOIS UNIVERSITY



CELFE DIGEST

Funding Mechanisms:

Grants and Contracts

Why is this topic important?

Grant or contract design influences Early Childhood Education and Care (ECEC) program availability and outcomes.[1] Well-designed grants and contracts are the most effective funding mechanisms for filling service gaps and for supporting stable, adequate, and well-qualified staffing. Poorly designed ones, on the other hand, might exclude smaller programs. Grants work best when designed to work with other funding sources to meet a range of child and family needs.

Synopsis

By making grants, states support ECEC programs directly. In contrast, child care voucher or certificate funding is directed to families (helping them buy into the child care market), and benefits programs indirectly.[2] Each of those mechanisms has distinct strengths and weaknesses.[3]

Grant funding may be distributed on a competitive or non-competitive formula basis. Competitive grants are a commonly used vehicle wherein a government agency solicits proposals and ranks them using an evaluation rubric. Non-competitive grants may require applications but all applicants meeting certain criteria are funded, with funding amounts based on a formula. Some states, for example, fund their PreK programs through competitive grants to school districts and community-based organizations. Other states use some variation of the school funding formula and require school districts to pass some funds through to community-based programs.[4] Some states also use non-competitive formula-based foundational funding to advance child care quality and access goals not attainable through market-based parent fees alone.[5]

[1] This Digest will ignore the technical distinctions between grants and contracts, calling them all "grants".
[2] Grant funding is categorized as "supply side" or "provider-oriented" financing, while vouchers are considered "demand side" or "family-oriented" financing.
[3] A separate Digest addresses child care assistance vouchers and grants.
[4] Education Commission of the States (2018)
[5] See CELFE, 2024. Foundational Funding for Child Care: The National Picture.

Discussion

A grant program should advance strategic goals, maximize existing resources across the mixed delivery system, and minimize unintended consequences. The following paragraphs discuss key considerations for grant design.

Administrative burden: Chief among grant drawbacks is the administrative burden placed on applicants, grantees, and government agencies. Most child care centers and all family child care homes are small businesses that operate with limited administrative and accounting personnel. These organizations often lack the capacity to comply with state procurement procedures or to write competitive grants. If funded, they can be overwhelmed by extensive accounting and reporting requirements. In a competitive environment, even school districts can lose funding for lack of a good grant writer. Furthermore, government agency staffing might be insufficient to monitor detailed line item budgets and review reports from hundreds of programs. With these limitations in mind, states and communities have found several ways of streamlining grants.

Procurement: Perhaps the most fundamental way to reduce administrative burden is to issue non-competitive, formula-based grants. This type of grant is available to all programs meeting an established set of criteria, and committing to meet the performance requirements. If, however, legal requirements or other considerations require competitive grants, then state agency legal, finance, and program personnel can structure them with the following questions in mind:

- Can a complex, several month bidding process be reduced to a simple application?
- Can required financial reports and accounting records be simplified?
- Is technical assistance available to programs seeking to apply or to fulfill reporting requirements?

Payment basis: Grant payments may be structured either (a) to reimburse expenses, (b) to pay a fixed rate per unit of service, or (c) to calculate payments based on a formula. Head Start and many State Pre-K programs use expense reimbursement based on an approved line-item budget. This approach provides the most stable, predictable revenue for programs, but it also entails the highest administrative burden. Purchase of service billing based on a fixed unit of service is simpler to administer but that simplicity adds financial risk for programs. Some expenses, like food costs, vary by the number of children. Others, like teacher salaries, vary by the number of classrooms. And still others, like administrative staffing, vary by overall program size. If rates are calculated per child, for example, and a small number of children drop out, most operating costs will not change and the program will lose money. One solution is to embed fixed rates in a funding formula with multiple components. A formula might include **(1)** a base rate per classroom (considering the required staff-child ratio), plus **(2)** an add-on to support specialized staffing (for comprehensive family services, etc.), times **(3)** a percentage for administration.

Other funding: Multiple public funding streams support ECEC, addressing different but overlapping needs. Providers serve children and families with multiple needs, and therefore draw from multiple funding streams. If grant amounts are set without awareness of other program funding, some programs will be generously funded, while others will have too little. Grant budgets or formulas can be designed to complement other funding. For example, Illinois, Washington DC, and other states, complement Child Care Assistance payments with formula-based "foundational funding" to cover the added cost of meeting minimum salary standards.

Time period: Stable, predictable funding is a critical element in ECEC program quality and effectiveness. Staff team performance builds over time and programs become embedded in the life of a community. Stable teacher-child relationships are essential supports for learning. Therefore, rebidding of ECEC grants is often counter-productive. Multi-year awards and continuation grants for programs meeting standards can be better alternatives.

Intermediary organizations: Some states provide grants to intermediary organizations that assume many of the administrative responsibilities and distribute funds to child care centers and homes through sub-grants or contracts. Intermediaries can often simplify program applications and reporting. For family child care, staffed networks can serve as intermediaries.

Performance standards: A key strength of grant based funding is that it can be structured to support best practice. In order to reduce staff turnover, grants could require that salaries meet or exceed specified minimum levels, and grant amounts would be calculated to support that standard. In order to build organizational performance, grants could require continuous quality improvement activities, and funding would support enough teaching positions to allow for teamwork and planning time outside of the classroom. If other funding sources already support some of those goals, grants can be designed to complement rather than duplicate those resources.

Well-designed grants can be a key element in a strategic financing plan. They are the most effective mechanism for building program stability, quality, and effectiveness. Working together with other grant, voucher, and tuition revenue, they can address a wide range of child and family needs. To realize these benefits, state agencies and local governments must bring together program, legal, and finance personnel to design grant requirements and procedures most suited to support strategic goals.

Resources

- CELFE, 2025. *From Mixed Delivery Patchwork to Mixed Delivery System*, https://celfe.org/resources/mixed-delivery-system-series/. See Spotlight 4, *Braiding and Coordinating Funds for Strategic Impact*.
- CELFE, 2024. *Foundational Funding for Child Care: The National Picture*. https://celfe.org/wp-content/uploads/2024/09/CEL24-013_National-Picture-Spotlight_Digital-Version_REV.pdf.
- Education Commission of the States, 2018. *How States Fund PreK: A Primer for Policymakers*. https://www.ecs.org/wp-content/uploads/How-States-Fund-Pre-K_A-Primer-for-Policymakers.pdf
- 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