RESEARCH REPORT

Using Contracts to Support the Child Care Workforce

Thinking Outside the Box

Gina Adams
URBAN INSTITUTE

Danielle Ewen
EDUCATIONCOUNSEL

Grace Luetmer
URBAN INSTITUTE

June 2021

ABOUT THE URBAN INSTITUTE

The nonprofit Urban Institute is a leading research organization dedicated to developing evidence-based insights that improve people's lives and strengthen communities. For 50 years, Urban has been the trusted source for rigorous analysis of complex social and economic issues; strategic advice to policymakers, philanthropists, and practitioners; and new, promising ideas that expand opportunities for all. Our work inspires effective decisions that advance fairness and enhance the well-being of people and places.

Contents

Acknowledgments

This report was funded by the Early Educator Investment Collaborative. We are grateful to them and to all our funders, who make it possible for Urban to advance its mission.

The views expressed are those of the authors and should not be attributed to the Urban Institute, its trustees, or its funders. Funders do not determine research findings or the insights and recommendations of Urban experts. Further information on the Urban Institute's funding principles is available at urban.org/fundingprinciples.

We thank Harriet Dichter, Theresa Hawley, and Albert Wat for their thoughtful feedback on drafts of this report, and Justin Milner and Oriya Cohen for their skilled convening design and facilitation skills at the convening, which generated many of the ideas described in the following pages. We also thank the people who participated in our convening for their creative thinking and insights, which inspired many of the themes in this report. These individuals are listed in box 1 on page 10.

Executive Summary

Using contract-based financing mechanisms to meet child care goals is of increasing interest to policymakers and stakeholders seeking to address key issues and inequities in the child care system, including how to address the major challenges facing the child care/early care and education (CC/ECE) workforce. However, relatively little is known about different ways to use contract-financing mechanisms, their strengths and weaknesses, and which strategies can work best to accomplish different goals. Based on a literature review and convening of 26 experts, this report provides an overview of different ways states can design contracts to support the CC/ECE workforce to meet different goals. The new federal pandemic-relief child care investments provide policymakers and stakeholders with a unique opportunity to move quickly to design and implement contract-based strategies to support the workforce.

The report first provides background information on the issues facing the CC/ECE workforce, defines contract-based financing mechanisms, and lists questions policymakers may want to consider as they weigh different options. It then focuses on ways to approach contracts to support the CC/ECE workforce and provides suggestions from the convening.

Key Insights

Challenges Facing the Child Care/Early Childhood Workforce and Opportunities for Action

As the novel coronavirus spread throughout the United States in spring 2020, child care workers in centers and home-based child care settings faced an enormous challenge. The early days of the pandemic saw a dramatic decrease in the number of child care workers, and as of April 2021, the number of child care workers is still only 84 percent of the prepandemic high.[1] The challenges created by the pandemic compound the challenges the child care workforce—especially many Black, Latina, and Native American providers—has faced for decades: low pay, inadequate benefits, high turnover rates, and challenging work (Austin et al. 2019).[2] If nothing is done to support the CC/ECE workforce through the instability of this crisis, we risk permanent job loss and damage to a field dominated by women of color.

However, in recent months, Congress has passed several new investments in child care, most recently through the American Rescue Plan. Overall, the three federal pandemic relief packages invested more than $50 billion[3] for states to spend to support child care over the next few years. As a result, policymakers are faced with a significant opportunity and challenge as they decide how to best invest these resources to have the maximum impact on the child care field—making the issues described in this report even more significant and providing states with the opportunity to take steps to support the workforce.

What Are Contract-Financing Mechanisms, and Why Focus on Them?

The challenges facing the child care field since the pandemic began are motivating policymakers to look for strategies that can stabilize the child care sector and begin to address the preexisting crises facing the CC/ECE workforce. One approach receiving special attention is using contract-based financing mechanisms, which for the purposes of this report are defined as follows:

> *In the child care financing context, a* ***contract*** *is an agreement between a funding entity and an individual or organization that involves a commitment of funds or resources, for a specified time period, and lays out conditions that the recipient must meet to access those funds and be in compliance.*

Because contracts provide funding for a set period of time, they can provide stability in what is often a dynamic and unstable funding context for child care workers and providers. Contracts have the potential, therefore, to provide stable, reliable resources that support more sustained efforts for improvement.

However, despite the important role contracts-based financing mechanisms can play in supporting child care, remarkably little information has been published about the use, design, and implementation of contract-financing mechanisms within child care, and even less information focused specifically on use of contracts to support the workforce. And the available information is not recent and generally focuses only on contracts linked to subsidies for a certain number of slots.

Identifying Equity-Focused Strategies with Help from the Field

To support more informed policymaking in this area, we convened 26 state administrators, researchers, stakeholders, and advocates in mid-February 2021 to discuss the potential of using contracts to advance specific workforce goals and address inequities affecting the workforce. The goal of our convening was to

- explore a range of contract-based financing strategies that could be used to directly support the CC/ECE workforce; and
- focus on strategies that support greater equity in allocation of resources and supports to members of the CC/ECE workforce who have traditionally faced disparities, inequities, and barriers in access to such supports. These include, but are not limited to, Black, Latina, Indigenous, and other CC/ECE workers from communities of color, as well as the home-based child care workforce (including those legally exempt from licensing) and providers living in underresourced communities.

This report presents many insights we gained from this meeting and the participants' contributions. In addition, we are releasing a companion brief, "Contracting in the Child Care System: Key Steps to Support Equity and Accountability," which provides suggestions for the design and implementation of contract-based approaches in general—not confined to contracts to support the workforce—addressing components such as the procurement process, partnering, accountability, monitoring, and so forth.

Questions to Consider in Using Contracts to Support the CC/ECE Workforce

Stakeholders interested in identifying the best way to use contracts to support the CC/ECE workforce and greater equity in access to resources may want to consider the following questions as they consider the ideas raised in this report:

1. What are the goals of the contract? Is the contract intended to support wages or salaries, benefits, professional development, or other CC/ECE workforce supports; or some combination of these goals?
2. Is supporting more equitable distribution of CC/ECE resources and supports a core goal? If so, can the contract be designed to meet this goal?
3. Which CC/ECE workforce members are the intended recipients of contract benefits (i.e., individual workers with particular characteristics, staff in specific programs serving particular groups of children, or workers who are located in particular communities)?
4. What is the best way to reach the intended recipients? Is it through contracts linked to payments for children receiving subsidies, contracts with programs, contracts with individual workers, or contracts with intermediary organizations that can support workers or programs?
5. What is the best financing source for the contract (e.g., subsidy funds from the Child Care and Development Fund or CCDF, CCDF funds to support the quality or supply of care, the tax

system, other federal programs or agencies with overlapping goals, flexible federal funds, state funds, or philanthropic resources)?

Carefully considering these questions, and designing a contract-financing strategy accordingly, gives states and other funders the ability to more effectively address challenges facing their CC/ECE workforce.

Contract-Based Financing Strategies to Support the CC/ECE Workforce

The brainstorming session during our expert convening resulted in a rich array of ideas and strategies that we discuss throughout the report and summarize in table 1 below. These ideas range widely—some are strategies currently undergoing testing and some are innovative and untested—and are meant to help policymakers and stakeholders see the range of strategies they may want to consider. Below we describe some key issues and approaches that emerged from our expert convening.

HOW CAN CONTRACTS BE DESIGNED TO SUPPORT GREATER EQUITY?

Consciously focusing on and prioritizing contract-based financing approaches to address systemic inequities is critical. Participants in our meeting were concerned that traditional contract strategies can limit public resources to those people or programs with more resources and experience that allow them to successfully apply and compete for a contract, and to meet the conditions of the contract. We provide examples of steps that states or funders can take to improve equitable access to contract resources, including soliciting input from those who are the focus of the contracts to ensure the design is useful and accessible, providing support through the application process as well as to help contracted entities meet contract requirements, and ensuring the needs of underserved groups are understood and met.

CONTRACTS CAN BE LINKED TO OR DELINKED FROM SUBSIDY SLOTS

Although to date much of the policy conversation about child care contracts has focused on contracts based on the provider having a set number of slots to be filled by children whose care is paid for by the subsidy system, this is only one approach to contracts. In fact, though such contracts can be useful to achieve some important child care goals around stabilizing resources, they can also face some limitations as a method to support the workforce, particularly because the funds are linked to slots for children, rather focusing on staff. This can undercut efforts to provide equitable and stable supports for staff.

Because of the challenges with subsidy slot–based contracts as a mechanism to support the workforce described above, the ideas that emerged from the convening were of three types:

1. Contracts based on subsidy slots, which are most likely to support workers in an equitable way when all of the children served by the provider or program are paid for by the contract or where children are only cared for by one person, such as a home-based provider who works alone.
2. Contracts that are not linked to subsidy slots and instead are made to a recipient or program in return for the recipient agreeing to meet certain requirements. Such contracts could be made with individuals, programs, or with intermediary organizations that in turn contract with or deliver services to workers.
3. A hybrid approach, blending contracted subsidy slots to pay for children with a general program contract focused on workforce goals. These contracts can be with individuals, programs, or intermediary organizations.

CONTRACTS CAN BE WITH INDIVIDUAL WORKERS, PROGRAMS, OR INTERMEDIARY ORGANIZATIONS

Another way in which contracts can vary is who they are with—specifically, we distinguish between three types of contracts: with individual workers, with programs, and with intermediaries, though a state could also have a contract with an intermediary which then contracts with or delivers services to individuals or programs. Choosing which of these entities to contract with will depend on the goals of the initiative, as each approach has its own strengths. Broadening the conversation to explicitly include these different contract strategies makes it easier to identify the most appropriate and effective way to design contracts to achieve the initiative goals.

- **Individual workers:** states may choose to create child care contracts directly with individual workers, including home-based child care workers and staff in child care centers. Choosing to write contracts directly with an individual child care/early education worker or home-based provider, or through an intermediary, may be a desirable approach if policymakers are looking to increase offerings of specific services or supports to workers who have particular characteristics or interests. Furthermore, this approach allows the support to be portable if the worker wants or needs to change their place of employment. It also targets workers who want and are motivated to provide the priority service or access the priority training.

- **Child care/early education programs:** contracting with CC/ECE programs, whether through a subsidy slot approach or delinked from subsidies, allows for the adoption and implementation of supports, like additional training or bonuses, for some or all of the staff who work within a particular program. This type of contract could be applicable to home-based and family child care providers as well as center-based providers, allowing them greater access to funding that supports workforce development. It can be used to target programs that have specific characteristics or serve particular groups of children. However, should staff change jobs, they lose whatever benefit they received from the contract. Therefore, this strategy could support staff retention and stabilize the provider, but also could make supports less reliable for individual workers.
- **Intermediaries:** although contracting with individual providers and child care programs can offer resources directly to the child care workforce, there also can be situations where contracting with an intermediary organization, who in turn works to support CC/ECE workers, is the best strategy. This approach is most effective when workers or programs need specific services or supports outside their areas of expertise, or when states face challenges engaging with a large number of providers or workers if they don't have sufficient capacity to manage the contract workload.

Examples of different contracts to support the workforce that use each of these approaches are shown in table 1 (see page 3) and described in the full report.

CONTRACTS CAN BE TARGETED TO VARIOUS WORKFORCE GOALS, INCLUDING SALARIES, BENEFITS, AND/OR PROFESSIONAL DEVELOPMENT

In our conversation with ECE stakeholders, administrators, researchers, and advocates, they discussed three categories of workforce goals that contract use could support:

- **Salaries or money for workers:** of the various workforce goals that contract use could achieve, affecting the amount of money that staff get in their pockets is among the most important given the extremely low wages of most CC/ECE workers. Yet raising the wages or income of CC/ECE workers is among the most challenging of goals given the wages overall are driven by larger market forces. Our convening participants urged policymakers to consider the overall goal of contracts focused on salaries—is it parity with other CC/ECE sectors, assuring a living wage, or something else? And they urged policymakers to consider the pros and cons of raising salaries versus providing bonuses if additional investments are not sustainable.

- **Workplace and basic need benefits:** using contracts to support access to workplace benefits such as health insurance, paid time off and paid leave, retirement benefits, and so forth are also critical parts of CC/ECE workforce compensation initiatives given the small share of child care workers who have leave, health insurance, or pension plans. Further, the child care workforce is more likely to have incomes below the poverty level compared with similar workers in other occupations. As a result, public safety net benefits such as the Supplemental Nutrition Assistance Program (SNAP) and Medicaid also can play an important role for the CC/ECE workforce, and states could invest in contracts to support enrollment and access in these essential supports.
- **Training and professional development:** contracts are a common mechanism that states use to fund professional development and training opportunities to support the CC/ECE workforce. These contracts can go to intermediary organizations to provide these services, programs to support their staff in gaining training, or individual CC/ECE workers themselves to support their professional development attainment.

Examples of each of type of contract are shown in table 1 (see page 3) and discussed in the full report.

CONTRACTS CAN BE FINANCED THROUGH VARIOUS FUNDING SOURCES

Participants at our convening urged policymakers to think creatively about the types of funding sources used in providing contracts to support the workforce. For example, some funding sources raised in our convening included the following:

- stabilization grants and activities funded through pandemic relief funding
- the Child Care and Development Fund (CCDF), including funds used to pay for subsidies, funds designed to support infant-toddler care (commonly called the “infant-toddler set-aside”), and funds designed to support the quality and supply of care (commonly called the “quality set-aside” funds)
- the tax system—while not a traditional contract, a refundable tax credit, for example, could function in a similar way because it guarantees those who meet the requirements a financial benefit
- other flexible federal funding sources such as state and local relief funds through the pandemic relief packages as well as Preschool Development Grants and the federal Social Services Block Grant.

- state funding initiatives
- programs that have goals intersecting with CC/ECE workforce goals such as outreach funds for federal safety net programs, efforts to enroll providers in the Child and Adult Care Food Program, or funding from the Department of Labor to support workforce activities
- philanthropic funding

Conclusion

Contracts are an important financing tool for those interested in taking steps to address specific child care policy goals, including those involving supporting the workforce. This report outlines the various approaches that states and other funding entities can take to use contracts to support the workforce, which underscores the flexibility of this financing tool. Contracts also could be an important tool to address inequities in the current supports for the CC/ECE workforce if they are designed carefully with this goal in mind. The new federal pandemic-relief child care investments provide policymakers and stakeholders with a unique opportunity to move quickly to design and implement contract-based financing strategies to support the workforce, in addition to the steps they take to support parents and providers.

Using Contracts to Support the Child Care Workforce

Using contract-based financing mechanisms to meet child care goals is of increasing interest to policymakers and stakeholders seeking to address key issues and inequities in the child care system, including how to address the major challenges facing the child care/early care and education (CC/ECE) workforce. Despite this interest, however, relatively little is known about different ways to use contract-financing mechanisms, their strengths and weaknesses, and which strategy can work best to accomplish different goals. Based on a review of the relatively scant literature and a convening of 26 experts, this report provides an overview of different ways states can design contracts to support the CC/ECE workforce. Understanding these strategies is especially important as states consider how to best invest the significant federal pandemic-relief child care investments designed to stabilize child care.

After a brief discussion of questions to consider in contract design, the issues facing the CC/ECE workforce, and some background on contracts and this project, this report focuses on key issues that interested policymakers and stakeholders may consider as they determine how to best use contracts to support their workforce and provides suggestions from the convening. The issues include the following:

- **considering how contracts can be designed** to support greater equity in the distribution of resources and supports to meet the needs of staff who face barriers in accessing equitable salaries, compensation, or professional development opportunities. In this report, we identify strategies that can be used to support equity across race and ethnicity, geography, and income and focus on policies that address the impacts of systemic inequities in investments and access to opportunities for members of the CC/ECE workforce who have been affected by these inequities.
- **understanding the various ways to approach contracts:**
  - Contracts can be linked to or delinked from subsidy slots.
  - Contracts can be with individual workers, programs, or intermediary organizations.
  - Contracts can be targeted to support various workforce goals, including salaries, benefits, and professional development.
  - Contracts can be financed by various funding streams.

The brainstorming session during our expert convening resulted in a rich array of ideas and strategies that we discuss throughout the report and summarize in table 1 (see next page). These ideas range widely: some are strategies currently undergoing testing and others are innovative and untested. It was beyond the scope of this project to investigate all the strategies and ideas. Table 1 is meant, therefore, to support policymakers and stakeholders to see the range of possible strategies as they think about their goals for the CC/ECE workforce rather than to provide precise policy recommendations.

TABLE 1

Ideas for Contracts to Support the CC/ECE Workforce

	Workforce Goals			Contracted Entity		
Contract ideas	**Salaries**	**Benefits**	**Training/ PD**	**Individual**	**Program**	**Interme-diary**
Implement a shared services model, particularly for smaller centers and home-based providers, with a focus on boosting wages and working conditions for practitioners by increasing revenue and shifting costs from administration to classrooms.	■					■
Provide programs or providers with funds they can give staff through bonuses based on longevity, time in service, or recognition or through salary supplements to recognize specialized skills, increased levels of training, or subject matter expertise.	■				■	
Require programs to provide minimum salary and benefits to their staff (the funds provided in the contract need to be sufficient to cover the costs of these staff supports) or provide programs with additional funds to meet higher standards for compensation (e.g., as laid out in a salary schedule).	■				■	
Establish contracts with family child care programs through family child care networks to guarantee subsidized slots while simultaneously paying sufficient rates to support higher compensation for the individual provider.	■					■
Establish contracts to buy into state health insurance pools, retirement systems, or other state benefit systems for CC/ECE staff who work with children from families with low incomes or in underresourced communities.		■				■
Create new insurance pools for child care workers or programs, with a focus on programs and workers working in underresourced communities or in programs serving children receiving subsidies.		■			■	■
Require contracted programs to participate in employer-sponsored health insurance programs or support reimbursing providers for the costs of supporting health insurance for their staff.		■			■	
Work with intermediary organizations to provide targeted outreach and enrollment strategies for CC/ECE workers to enroll in federal programs such as SNAP, Medicaid, and EITC or to support enrollment in federal programs such as the Affordable Care Act.		■				■
Support community development financial institutions or other fiscal agents to set up grants or loan forgiveness programs for workers who need financing to obtain professional development or credentials.		■				■

	Workforce Goals			Contracted Entity		
Contract ideas	**Salaries**	**Benefits**	**Training/ PD**	**Individual**	**Program**	**Interme-diary**
Contract with a professional employer organization familiar with the CC/ECE sector to identify low-cost health insurance options.		■				■
Bring together multiple providers (including smaller providers and home-based providers) to create a pool for workplace benefits.		■			■	■
Develop a contract to establish a pool of substitutes for providers in a community, including home-based providers, to allow for vacation, time off respite care, and time in training or participating in communities of practice.		■				■
Develop contracts to provide mental health supports for the providers and the children they serve.		■				■
Fund an intermediary organization to help enroll eligible CC/ECE workforce members in public safety net programs (e.g., SNAP, Medicaid, EITC)		■				■
Provide support services for staff, including mental health supports, financial counseling, health supports, and help navigating public systems.		■		■	■	
Create a contract with a community development financial institution to provide funds for loan forgiveness for staff who meet particular policy goals, such as gaining training.			■			■
Contract with a child care resource and referral agency that provides specialized training or supports to the workforce.			■			■
Contract with family child care networks to support family child care providers around a range of needs (e.g., professional development, financial management, referrals to services, and peer networks and supports).			■			■
Provide training and support to all licensed providers in the community and/or network, or to a targeted subset of providers, regardless of the funding streams supporting individual providers.			■	■		
Contract with an intermediary organization to centralize and coordinate professional development supports and activities in a certain community and/or across programs to make these activities and supports more coherent and less duplicative.			■			■
Support apprenticeship models, building on various apprenticeship efforts taking place in different states, and include adequate pay that rewards on-the-job training and completion of an apprenticeship, as well as supports for programs that sponsor apprenticeships.			■	■	■	■
To cover the costs of having staff participate in professional development, develop contracts to pay for substitute staff to cover staff time needed to participate in training, participate in communities of practice, and so forth.			■	■		■

Contract ideas	Workforce Goals: Salaries	Workforce Goals: Benefits	Workforce Goals: Training/ PD	Contracted Entity: Individual	Contracted Entity: Program	Contracted Entity: Interme-diary
Provide home-visiting supports to relatives and home-based caregivers.			■	■		
Support programs that serve underresourced communities or that provide services in short supply to take steps to improve their staff supports, whether through salary, supplements/bonuses, substitute pools and paid leave for their staff, or other workplace benefits.	■	■			■	
Revise contracts with programs serving 100 percent contracted slots to set requirements for higher compensation or professional development, and revise payment rates to account for the increased costs to the provider.	■	■			■	
Contract with a union that provides access to health insurance and other benefits.	■	■				■
Provide a targeted funding stream for intermediaries to create and operate comprehensive scholarships that lead to certifications or degrees and/or salary supplements for those in the workforce who are a priority for support.	■		■			■
Build increased levels of funding into contracts for providers that provide professional development supports to staff and recognize the need for increased wages to accompany higher levels of training and credentials.	■		■		■	
Contract with individual workers or home-based providers working alone (including providers legally exempt from licensing) to financially support staff or providers who are engaged in activities that meet policy goals.	■	■	■	■		
Establish refundable tax credits for CC/ECE workers who are engaged in activities that support particular workforce-related policy goals.	■	■	■	■		
Give funds to providers to cover minimum operating costs separated from the market rates in a particular community to let the provider create a budget to support staff compensation or other workforce supports.	■	■	■		■	
Give programs a flexible pool of funds they can use to support their staff in ways they identify as most necessary to support the well-being of their staff.	■	■	■		■	
Support a hybrid model in which a subsidy slot–based contract helps pay for the care for some children but would also include a basic level of operational support for the overall program—divorced from the number of children receiving subsidies in the program—to cover some of the non-classroom costs and support compensation or professional development.	■	■	■		■	

Source: "Using Contract-Based Funding Mechanisms to Support the CC/ECE Workforce," a virtual Urban Institute convening, February 19, 2021.

Notes: CC/ECE = child care/early childhood education; EITC = earned income tax credit; PD = professional development; SNAP = Supplemental Nutrition Assistance Program.

Understanding the Context

To contextualize this policy report, it is useful to begin with a brief description of the challenges currently facing the CC/ECE workforce, define what we mean by contracts, and describe the gaps in our knowledge and the convening we held to begin filling them.

Challenges Facing the CC/ECE Workforce and Opportunities for Action

As the novel coronavirus spread throughout the United States in spring 2020, child care workers in centers and home-based child care settings faced an enormous challenge. The early days of the pandemic saw the number of child care workers fall from 1.047 million in February 2020 to 673,000 in April 2020. Although the numbers have slowly risen, a year later (in April 2021) the number of child care workers was still only 84 percent of the prepandemic high.[4] Further, as the pandemic wears on, the instability caused by closures and health risks continues to affect the CC/ECE workforce across the country. In this report, CC/ECE workforce is defined to include center-based staff (including directors, teachers, and aides) and family child care and home-based providers (including legally operating unlicensed providers and family, friend, and neighbor caregivers) who care for infants through school-age children.

The pandemic has placed enormous stress on the CC/ECE workforce, which now must face the additional challenges and responsibilities associated with caring for children during these difficult times. However, these concerns simply compound the challenges the CC/ECE workforce—especially many Black, Latina, and Native American providers—has faced for decades: low pay, inadequate benefits, high turnover rates, and challenging work (Austin et al. 2019).[5] Child care workers are more than two and a half times more likely to be either Black or Latina compared with the overall workforce (Austin et al. 2019). If nothing is done to support the CC/ECE workforce through the instability of this crisis, we risk permanent job loss and damage to a field dominated by women of color.

However, in recent months, Congress has passed several new investments in child care, most recently through the American Rescue Plan Act of 2021. Overall, the three federal pandemic relief packages invested more than $50 billion[6] for states to spend to support child care over the next few years. As a result, policymakers are faced with a significant opportunity and challenge as they decide how to best invest these resources to have the maximum impact on the child care field, making the issues described in this report even more significant.

Definition and Significance of Contract-Financing Mechanisms

For this report, we define a contract as follows:

> *In the child care financing context, a* ***contract*** *is an agreement between a funding entity and an individual or organization that involves a commitment of funds or resources for a specified time period and lays out conditions the recipient must meet to access those funds and be in compliance.*

This report focuses on contracts to support the CC/ECE workforce, but contracts in the child care context can be used to meet various goals, including increasing access to child care assistance, increasing quality, improving compensation, addressing equity, or targeting specific groups of children or communities. Grants are another funding mechanism, and although they differ from contracts, many of the issues and ideas raised in this report could be considered within a grant structure as well.

The challenges facing the child care field since the pandemic have motivated policymakers to look for strategies that can stabilize the child care sector and begin to address the crises facing the CC/ECE workforce. Because contracts provide funding for a set period of time, they can provide stability in what is often a dynamic and unstable funding context for child care workers and providers. Contracts have the potential, therefore, to provide stable, reliable resources that support more sustained efforts for improvement.

We began to focus on contracts as a CC/ECE workforce strategy in the first phase of this project, in which we identified a broad range of policy strategies to support the CC/ECE workforce (see our earlier report, *Supporting the Child Care and Early Education Workforce: A Menu of Policy Options for the COVID-19 Pandemic and Recovery*, published in February 2021). We found, however, that although individuals across the country had experience with and knowledge about contracts, remarkably little information has been published about the use, design, and implementation of contract-financing mechanisms within the child care field, and even less information focused specifically on the use of contracts to support the CC/ECE workforce. And the available information was not recent.

Further, existing information focuses on one kind of contract—what we refer to as a "contract based on subsidy slots." This is a contract funded through the subsidy system that is generally based on the provider's enrolling a specified number of children (or having a specified number of subsidized slots) paid for by the subsidy systems. We discuss the pros and cons of this strategy to support the workforce in more detail below. However, a quick review of the limited resources available on even this narrow definition suggests that there is no common definition of subsidy slot–based contracts that states use, and that states vary widely in how they design and use contracts (Schumacher, Irish, and Greenberg

2003). Finally, little information exists about whether and how states use this form of contract to support the workforce, with most of the discussion focusing on supporting quality more broadly or supporting the supply of care for particular populations of children or families.

Starting to Fill the Knowledge Gap by Seeking Insights from the Field

To support more informed policymaking in this area, we convened 26 state administrators, researchers, stakeholders, and advocates in mid-February 2021 to discuss the potential use of contracts to advance specific workforce goals and address inequities affecting the workforce (see box 1 for a list of participants). The goal of our convening was to

- explore a range of contract-based financing strategies that could be used to directly support the CC/ECE workforce; and
- focus on strategies that support greater equity in allocation of resources and supports to members of the CC/ECE workforce who have traditionally faced disparities, inequities, and barriers in access to such supports. These members include, but are not limited to, Black, Latina, indigenous, and other CC/ECE workers from communities of color, as well as the home-based child care workforce (including those legally exempt from licensing) and providers living in underresourced communities.

This report presents many of the insights we gained from this meeting and the contributions of the participants. A companion brief, “Contracting in the Child Care System: Key Steps to Support Equity and Accountability,” provides suggestions for the design and implementation of contract-based approaches in general (i.e., not confined to contracts to support the workforce), including issues such as the procurement process, partnering, accountability, and monitoring.

BOX 1

Participants at the Urban Institute's Convening on Using Contract-Based Financing Mechanisms to Support the CC/ECE Workforce

On February 19, 2021, the Urban Institute hosted a virtual convening of 26 experts to discuss how to use contract-based financing strategies to support the CC/ECE workforce with a priority of supporting greater equity in the allocation of resources and supports. The participating experts included individuals from various perspectives and experiences:

Carol Burnett
Lori Connors-Tadros
Harriet Dichter
Lanette Dumas
Will Dunbar
Chad Dunkley
Shyrelle Eubanks
Alisa Ghazvini
Elizabeth Groginsky
Theresa Hawley
Lauren Hogan
Michelle Hughes
Christine Johnson-Staub
Francesca Longo
Calvin Moore
Sarah Neville-Morgan
Nasha Patel
Judy Reidt-Parker
Sue Russell
Jessica Sager
Mary Beth Salomone Testa
Yvette Sanchez Fuentes
Karen Schulman
Louise Stoney
Albert Wat
Simon Workman

Questions to Consider in Using Contracts to Support the CC/ECE Workforce

The goal of this report is to help states explore the range of ways they can use contract-financing mechanisms to support the CC/ECE workforce. In addition to considering the ideas in table 1, stakeholders interested in identifying the best way to use contracts to support the CC/ECE workforce and greater equity in access to resources may want to consider the following questions:

1. What are the goals? Is the contract intended to support wages or salaries, benefits, professional development, or other CC/ECE workforce supports; or some combination of these goals?
2. Is supporting more equitable distribution of CC/ECE resources and supports a core goal? If so, can the contract be designed to meet this goal?
3. Which CC/ECE workforce members are the intended recipients of contract benefits (e.g., individual workers with particular characteristics, staff in specific programs serving particular groups of children, or workers who are located in particular communities)?

4. What is the best way to reach the intended recipients? Is it through contracts linked to payments for children receiving subsidies, contracts with programs, contracts with individual workers, or contracts with intermediary organizations that can support workers or programs?
5. What is the best financing source for the contract (e.g., Child Care and Development Fund—CCDF—subsidy funds, CCDF funds to support the quality or supply of care, the tax system, other federal programs or agencies with overlapping goals, flexible federal funds, state funds, or philanthropic resources)?

Carefully considering these questions and designing a contract strategy accordingly will give states and other funders the ability to more effectively address the challenges facing their CC/ECE workforce. The new federal pandemic-relief child care investments provide policymakers and stakeholders with a unique opportunity to move quickly to design and implement contract-based financing strategies to support the CC/ECE workforce.

Key Insights

In the sections below, we share insights gathered from the expert convening and our literature review to provide policymakers and stakeholders with the ideas and options they need to design contract strategies that can support equity for the CC/ECE workforce and to understand the various ways to approach contracts.

Designing Contracts to Support Greater Equity

As noted above, we asked convening participants to focus on strategies that could be used to support greater equity in allocation of resources and supports to those members of the CC/ECE workforce who have traditionally faced disparities, inequities, and barriers in access to such supports. Consciously focusing on and prioritizing contract-based financing to address systemic inequities is critical. Participants in our meeting were concerned that traditional contract strategies can limit public resources to those individuals or programs with the resources and experience that allow them to successfully compete for and meet the conditions of a contract. Although it is understandable that agencies want to know that the entity they are contracting with can meet contact requirements, this practice directs resources to those who already have sufficient resources, thus eliminating those workers or providers who most need investments.

States or contracting entities can work to address this problem in various ways, some of which involve precontracting support to assist a wide range of entities to achieve success in submitting qualifying contract proposals, and others that occur after the contract has been awarded, which can support strong implementation and meeting the contract requirements.

Steps that states or funders can take to improve equitable access to contract resources include the following:

- **Ensure that the contract application process is relevant and accessible** by soliciting input from the individuals or programs that are the focus of the contract to inform the design of the contract. Test the contract application materials to see how easily potential applicants can complete the required forms and processes.
- **Work with providers and trusted community organizations** such as community development financial institutions, child care resource and referral agencies, staffed family child care networks, or other trusted community agencies to
    - » identify criteria for applicants that focus more on measures of capacity and need and less on proving they are already able to meet the requirements;
    - » identify potential applicants who may not be connected to traditional systems and provide information about the opportunity to access new resources;
    - » support applicants to identify and gather needed financial materials;
    - » recognize that some applicants may need up-front supports and resources to help them be competitive;
    - » provide ongoing technical assistance and supports to applicants to meet paperwork requirements and gather information needed for monitoring and accountability requirements; and
    - » recognize that applicants may not have access to the range of other resources needed to sustain progress without ongoing investments.

    These issues are particularly likely to affect individuals and programs that face structural barriers and systemic disparities in access to resources.
- **Get the word out to individuals or programs that face inequities in access to resources** by ensuring that information about contract resources is available as widely as possible in various formats (including multiple languages, in accessible formats, through trusted messengers, and in print and digital media).

- **Fund individuals to function as contract advisors or navigators to support applicants** through the process, develop templates and guidance, conduct outreach and technical assistance with applicants, and identify and address possible barriers.
- **Consider the unique needs of smaller home-based child care providers, including those who are legally exempt from licensing, in designing contract strategies.** Working through home-based child care networks and other intermediary organizations can be an effective strategy for ensuring workforce supports are available to this important group of child care providers. To directly support these providers through contracts, without an intermediary, states may need to work with procurement agencies to design appropriate application processes and accountability and monitoring requirements.
- **Design contracts and financing to directly address systemic inequities.** Strategies to consider include the following:
  - » providing differential levels of payment for individuals, programs, or communities that face barriers to adequate resources and supports for child care;
  - » targeting resources toward providers in communities that meet certain population-based criteria associated with structural inequities, such as the Centers for Disease Control and Prevention's Social Vulnerability Index;[7]
  - » providing funds in advance for providers or recipients who may otherwise find it difficult to access funding to meet requirements; and
  - » ensuring the funding associated with the contract is based on how much it will cost the individual or provider to meet the contract requirements, rather than on inequitable standards such as market rates.
- **Consider the larger impact of the contract on overall equity.** Another issue raised during the convening was the ongoing challenge of how to best allocate scarce resources to support equity in income. Should funds be allocated in a way that provides smaller benefit to more workers or a larger benefit to fewer? If the latter, which workers, and how can equity principles be maintained to minimize the extent to which these new investments inadvertently create new inequities?

Using these strategies to improve equitable access to contract resources can help avoid a major challenge described above. Specifically, the challenge is that if contracts are predicated on applicants' ability to prove they can meet all contract requirements, then the contract is unlikely to increase the supply of care meeting the contract goals. Instead, such contracts are likely to stabilize the existing supply—a worthy goal but insufficient if the focus is to expand equitable access to supports.

Understanding the Various Ways to Approach Contracts

The discussion at the convening highlighted four areas that policymakers and stakeholders should be aware of as they develop contracts, each of which provides options and flexibility for designing contracts to support the CC/ECE workforce and greater equity in allocation of resources:

- Contracts can be linked to or delinked from subsidy slots.
- Contracts can be with individuals, programs, or intermediary organizations.
- Contracts can be targeted to support various workforce goals, including salaries, benefits, and professional development.
- Contracts can be financed by various funding streams.

Each of these contract considerations is discussed below. We want to stress that many ideas described here that came out of the convening have not been implemented or tested. Because implementation details will be critical, we present these ideas only as possible starting points for policymakers and stakeholders.

CONTRACTS CAN BE LINKED TO OR DELINKED FROM SUBSIDY SLOTS

To date, much of the policy conversation about child care contracts has focused on contracts that are based on providers having a set number of slots to be filled by children whose care is paid for by the subsidy system. Below we briefly describe this approach, note some of its strengths and weaknesses for addressing workforce issues, and offer three approaches to contracts.

What is a subsidy slot–based contract?

A subsidy slot–based contract guarantees the provider payment for a specific number of slots for a defined period of time (e.g., a year) as long as the provider meets certain requirements. Often other policy goals—such as stabilizing supply for a particular population or in a particular community, or to provide a particular level of quality care—are also part of the contract. In this situation, states sometimes offer higher subsidy rates for the children receiving subsidies through the contract to support meeting the desired goal, although these rates are not necessarily sufficient to cover the full cost of meeting the state goals.[8]

Such subsidy contracts are a relatively small part of the overall child care system,[9] with the vast majority of subsidy funds paid through certificates or vouchers with which providers are reimbursed based on attendance after providing service. Vouchers can be less reliable for providers to count on for workforce supports, as parents can leave the program and take their voucher with them to another provider. However, vouchers are critical to support parental choice, a core principle of CCDF—a goal that is less easily accomplished with subsidy slot–based contracts (Adams and Katz 2015).

Although using a contract based on subsidy slots can help stabilize funding for child care programs and target resources toward specific policy goals (such as stabilizing the supply of care that meets certain standards or serves particular populations) in a context that supports accountability, this approach can face limitations as a method to support the workforce unless it is complemented by additional funds. In particular, a key challenge to using this financing mechanism as a primary strategy to support the workforce is that the funds are linked to slots for children, rather than focusing on staff. As a result, unless the program is 100 percent contracted slots, or the provider is the only staff person working with the children (as would be the case in many family child care settings), the fact that subsidy slot–based contracts may only support a subset of the children in a program can limit their impact to only those staff working with those children. This unequal effect can create internal inequities; complicate or dilute any kind of consistent impact on workers who may move from one classroom to another within a program; and create personal, administrative, and personnel challenges if the provider must take away pay or benefits from these staff due to their internal movement in the program.

Subsidy slot–based contracts and alternative approaches

In response to the challenges with subsidy slot–based contracts as a mechanism to support the workforce, convening participants suggested three types of contract strategies:

1. **Contracts are based on subsidy slots.** All children served by the provider or program, or by one individual such as a home-based provider who works alone, are paid for by the contract. With this approach, a contract focused on workforce supports would likely benefit staff in an equitable way, as they wouldn't be targeted to only staff working with a subset of children in the program.

   In these cases, states can use a subsidy slot–based contract to address issues such as compensation and training, as long as they ensure the contract payments are sufficient to allow the provider to cover the costs of the required activity. Unfortunately, most states set their maximum payment rates for their voucher subsidies at levels insufficient to sustain quality care and good wages or compensation, which means that policymakers interested in using contracts based on subsidy slots to affect the workforce are likely to need to establish contract payment rates significantly higher than the rest of the voucher system.[10]

Related contract ideas discussed at the convening:

a. Establish contracts with family child care programs through family child care networks to guarantee subsidized slots that pay rates sufficient to support higher compensation for the individual provider.
b. Revise contracts with programs that are serving 100 percent contracted slots to incorporate requirements for higher compensation or professional development, and revise payment rates to account for the increased costs to the provider.

2. **Contracts are not linked to subsidy slots**. This approach involves a basic contract that involves the state or contracting agency providing funds to the recipient, *not* based on slots, in return for the recipient's agreeing to meet certain requirements. As is described in the next section, such contracts could be made with individuals, programs, or intermediary organizations. They could be targeted to providers or individuals with certain characteristics, such as those serving children from families with low incomes or receiving subsidies, or who operate in underresourced communities. When given to a provider, the funding could be built on the provider's existing budget and provide the differential amount required for the provider to meet the additional requirements of the contract. Further, these contracts would not be limited to just those providers who have sufficiently stable demand to ensure they can meet the enrollment and attendance requirements of a subsidy slot–based contract.

   Related contract ideas discussed at the convening:

   a. Support programs that serve underresourced communities or provide services in short supply to take steps to improve their staff supports, whether through salary supplements/bonuses, substitute pools and paid leave for their staff, or other workplace benefits.
   b. Provide funds to providers to cover a base or minimum level of operating costs separated from the market rates in a particular community (as defined by a cost of quality, living wage, base or minimum wage, or other model), allowing parent tuition or subsidies to continue to be collected to allow the provider to create a budget designed to support staff compensation or other workforce supports.

c. Give programs, including home-based settings, a flexible pool of funds they can use to support their staff in whatever ways they identify as most necessary to support the well-being of their staff (within certain defined parameters).
d. Provide a targeted funding stream either within or outside of CCDF for intermediaries to create and operate comprehensive scholarships that lead to certifications or degrees and/or salary supplements,[11] directed to those in the workforce who are a priority for support.
e. Fund an intermediary organization to help enroll eligible members of the CC/ECE workforce in public safety net programs such as the Supplemental Nutrition Assistance Program, Medicaid, earned income tax credit, and so forth.

3. **A hybrid approach blends contract types.** Finally, another approach suggested by participants in the convening was a hybrid approach to support providers that combines a subsidy slot–based contract and a more general contract.

   Related contract ideas discussed at the convening:

   Convening participants suggested this hybrid approach would have three components:

   a. subsidy slot–based contracts for some children
   b. private-pay parents paying for the remaining children
   c. a separate contract (not linked to subsidized slots) to layer on top of the parent fees and basic subsidy slot–based contract to ensure that funding is sufficient to bring all staff up to a desired level of compensation or other workforce goals; this hybrid model blends the function of stabilizing funding for children with the effort to support improvements for the workforce

   Alternatively, some respondents suggested that the subsidy slot–based contract have payment levels sufficient to cover the increased cost of compensation, therefore relying on the separate contract to simply bring the rest of the program up to the same level.

CONTRACTS CAN BE WITH INDIVIDUALS, PROGRAMS, OR INTERMEDIARY ORGANIZATIONS

We distinguish between three types of contracts—two of which are direct contracts and the third indirect. Direct contracts are with individuals or programs, and indirect contracts are with intermediary organizations, which then contract with or deliver services to individual workers or programs. Choosing which of these entities to contract with will depend on the goals of the initiative, as each approach has its own strengths. Broadening the conversation to explicitly include these different contract strategies will make it easier to identify the most appropriate and effective way to design contracts to achieve the initiative goals. Note that in the case of home-based providers who work alone, the strategies listed below as affecting programs or providers are in effect strategies focused on the individual worker as well.

Individual workers

States may choose to create child care contracts directly with individual workers, including home-based child care workers and staff in child care centers. Contracting directly with an individual CC/ECE worker or home-based provider, or indirectly through an intermediary, may be a desirable approach if policymakers wish to increase offerings of specific services or supports to workers who have particular characteristics or interests, and it allows the support to be portable if the worker wants or needs to change her place of employment. It also targets workers who want and are motivated to provide the priority service or access the priority training.

Contracting with individuals can target both workers and workforce goals:

- **Specific kinds of workers** can be targeted, such as staff working in programs that operate in underresourced communities, working with particular groups of children (such as infants and toddlers), and working in programs serving children in the subsidy system. Contracts with individuals can also, of course, be made more broadly available if that is the policy goal.
- **Specific workforce goals with individual workers** can be targeted, such as increasing staff credentials or providing nontraditional-hour care, that policymakers want to promote. CC/ECE workers who are interested in that particular skill or goal will then be able to benefit from that contract. For example, the T.E.A.C.H. Early Childhood® initiative is a contract with an individual ECE educator and their employer that substantially underwrites the cost of attending college and provides cash incentives to support a policy goal (increased education).[12] Using contracts in this way allows policymakers to choose among various goals to support individual workers.

To ensure equity, this approach would require targeted outreach and supports for workers facing greater structural barriers to accessing and benefiting from the proposed activity. Because writing contracts with a large number of individuals may be inefficient at the state level and could place a substantial financial and reporting burden on the workforce, this strategy may be more effectively managed through an intermediary organization.

Related contract ideas discussed at the convening. Our convening participants discussed several strategies to directly support individuals:

- Establish contracts with individual workers or home-based providers working alone to financially support those staff or providers who are engaged in activities that meet policy goals, such as
  - » getting credentials or training;
  - » gaining specialized skills in short supply;
  - » working with particular populations (e.g., infants and toddlers, children who are homeless, children with special needs, or providing care during nontraditional hours);
  - » working in underresourced communities; and
  - » covering the additional costs of health insurance.
- Because refundable tax credits effectively function like a contract, establish refundable tax credits for CC/ECE workers who are engaged in activities that support particular policy goals, similar to those described in the previous bullet. Note, however, that tax credits are usually paid retroactively, which can be problematic for individuals with few resources. Tax credits, and whether they can be considered a form of contract, are discussed more in the section below on funding sources.

CC/ECE programs

As described earlier, contracts can also be established directly with child care providers or programs. The option to create contracts focused on the CC/ECE workforce rather than using a contract based on subsidy slots allows contracts to be targeted to a broader array of providers that policymakers wish to affect. Contracting directly with CC/ECE programs, whether through a subsidy slot approach or more broadly, allows for the adoption and implementation of supports, like additional training or bonuses, for some or all of the staff who work within a particular program. Some of our convening participants noted that many programs need flexible funds for the particular workforce needs of their staff, and this approach can be used for goals that the provider identifies as staff priorities, such as supporting professional learning opportunities, raising base salaries, or providing access to health insurance or paid leave. This type of contract could be applicable to home-based and family child care providers as well as center-based providers, allowing them greater access to funding that supports workforce development.

Contracting with a program can be an effective way to support the staff in that program and as such can be used to focus on programs that have specific characteristics or serve particular groups of children. However, staff members who change jobs lose whatever benefit they received from the contract. Therefore, this strategy could support retention and stabilize the provider, but it could also make supports less reliable for individual workers.

Related contract ideas discussed at the convening. Most of the contract ideas described in the earlier discussion of contract strategies based on subsidized slots and alternative approaches are examples of contracts that are made directly with providers.

Intermediaries

Although contracting directly with individual providers and child care programs can offer resources directly to the child care workforce, there are also situations in which contracting with an intermediary organization that works to support CC/ECE workers can be the best strategy. This indirect approach is most effective when workers or programs need specific services or supports that lie outside their areas of expertise. This approach also can address challenges states may have in engaging with a large number of providers if they lack the capacity to manage the contract workload.

Various types of intermediary organizations exist, including organizations that manage family child care networks; child care resource and referral agencies that provide specialized training or supports to the workforce; unions that provide access to health insurance and other benefits; benefits access programs that help enroll CC/ECE workers in federal safety net programs so they can have their basic needs met; or professional employer organizations that could support small business child care providers to manage payroll, benefits, and human resources tasks.

In particular, contracts with intermediary organizations can be effective mechanisms for two kinds of needs:

- **Creating centralized support for smaller providers.** Contracting with intermediary organizations can benefit workers and programs of any size but could be particularly beneficial for small or less-well-served providers who may need additional supports; for providers for whom the costs of administering the contract at the state level is inefficient given their small size; and for contracts with individuals. This approach involves establishing a contract with an intermediary organization to work directly with providers (centers and regulated or nonregulated home-based programs) or with individual workers to support them in exchange for their complying with certain requirements. Contracts with staffed family child care networks and shared service organizations are a prime example of this approach, with convening participants suggesting they may be a key mechanism to reach the important home-based child care sector.

  This method of contracting could benefit equity in the CC/ECE workforce by bringing historically excluded or underserved providers and workers access to the supports offered to the wider workforce. Intermediary organizations could fill the needs of these smaller or unlicensed providers and workers by offering various important supports, such as managing subsidy contracts, technical assistance, grants management, training, business supports, and peer-to-peer supports.

- **Delivering specialized supports to a broader group of CC/ECE workers or programs.** Contracting with intermediary organizations could broaden the types of supports available to providers. This approach is often used to provide professional development or training supports to individuals or programs and could be used in other ways, such as establishing a pool of substitutes for providers in a particular community or providing mental health supports for the providers and the children they serve. Further, contracts need not be constrained to CC/ECE-specific organizations. For example, contracting with organizations focused on benefits access could expand the number of CC/ECE workers who receive important health or retirements supports or help them enroll in safety net programs.

Related contract ideas raised at the convening. Our convening participants identified a broad range of innovative ways to use contracts with intermediaries to accomplish a range of important CC/ECE workforce supports, including ideas such as

- creating a substitute pool for child care programs and home-based providers;
- providing needed resources and supports to home-based providers who are legally exempt from licensing, including relative care;
- providing home-visiting supports to relative and home-based caregivers;
- implementing a shared services model,[13] particularly for smaller centers and home-based providers, with a focus on boosting wages and working conditions for practitioners by boosting revenue and shifting costs from administration to classrooms;
- providing support services for staff, including mental health supports, financial counseling, health supports, or help navigating public systems; and
- ensuring that all eligible staff are enrolled in federal safety net programs such as the Supplemental Nutrition Assistance Program, Medicaid, and earned income tax credit.

These ideas underscore the reality that a range of intermediary organizations could be tapped for these efforts, from organizations focusing on child care (such as child care resource and referral agencies, community child care organizations, and family child care networks) to those that are expert in other supports (such as safety net benefits–access organizations; organizations involved in other key supports, such as mental health or home visiting; community development financial institutions; or other unusual partners such as universities, hospitals, and school districts).

CONTRACTS CAN BE TARGETED TO SUPPORT VARIOUS WORKFORCE GOALS, INCLUDING SALARIES, BENEFITS, AND PROFESSIONAL DEVELOPMENT

CC/ECE stakeholders, administrators, researchers, and advocates at the convening discussed three categories of workforce goals that contracts could support. The first two discussed below—salaries and workforce benefits—are often combined in discussions of overall CC/ECE worker compensation. Here we discuss them separately as they may require specific approaches and different policy strategies. The third category is training and professional development opportunities.

Salaries or financial resources for workers

Of the various workforce goals that contracts could achieve, affecting the amount of money that staff are paid is among the most important. The national median wage for an early educator ranged from $11.65 to $14.67 an hour in 2019, with many workers receiving poverty-level wages (McLean et al. 2021). However, staff wages are one of the most complex CC/ECE issues to address for many reasons. Primary among these is that the child care market, which is largely driven by what parents can pay, does not support decent wages for most CC/ECE staff, particularly those in communities with parents with few resources. Public resources are often necessary to address this financial gap. Yet our public resources are usually too small to address this core market challenge, which then raises many of the challenging questions discussed in this report: which staff should be supported? Under what circumstances? How should we get these supports to them? Should supports be through contracts made directly with the worker or program, or indirectly through an intermediary organization?

Participants in our convening identified other issues to consider when exploring ways to use contracts to raise the amount of money that staff receive:

- **The goal of the additional money.** What is the additional money supposed to accomplish? Is it to try to get to pay parity with other CC/ECE sectors? Is it to reward or recognize workers for particular accomplishments such as longevity, particular skills or subject matter expertise, or credentials or training? Or is it designed to establish a minimum salary level similar to a minimum wage without having to be linked to extra accomplishments?
- **The pros and cons of using a bonus strategy or raising core salaries.** If we use public resources to supplement the low wages that the private market sustains, we must be aware of the impact this has on the lives of the workers who benefit as well as what happens if those resources are

withdrawn. For example, although providing a bonus is relatively easy through a contract approach, it may not have the same kind of impact on workers' well-being as an increase in their core salary, which allows workers to plan and budget the additional resources into their lives. However, if a supplement to a core salary is withdrawn because of changing political priorities or the loss of a contract, workers' basic well-being and ability to meet their family budget demands will be significantly impacted more than if they lost a bonus. One participant noted, however, that losing a bonus can also destabilize a worker's finances and that the possibility of a bonus does not necessarily make a child care career more appealing as it is not reliable.

Related contract ideas raised at the convening. Convening participants identified several strategies in which contracts could support improved salaries or money for the CC/ECE workforce, including establishing contracts that could achieve the following:

- providing funds to give staff bonuses based on longevity or time in service for retention purposes and recognition
- providing funds to give staff bonuses or salary supplements to recognize specialized skills or subject matter expertise
- requiring programs to provide minimum salary and benefits to their staff, a strategy that would require the funds provided in the contract to be sufficient to cover the costs of these staff supports, or providing programs with additional funds to meet higher standards for compensation (e.g., as laid out in a salary schedule)
- creating mechanisms in the contract for increased funding to correspond with supporting higher levels of training and credentials and compensation for staff with increased levels of training and credentials
- covering the costs of days off for professional development, in-service training, or paid time off and personal days

Workplace benefits

Workplace benefits such as health insurance, paid time off and paid leave, and retirement benefits are also critical components of CC/ECE workforce compensation. Findings from the Economic Policy Institute show that in 2014 only 15 percent of child care workers received health insurance from their employers (27 percentage points less than the average for similar workers in other occupations), and less than 10 percent were covered by a pension plan at work (24 percentage points less than the average for similar workers in other occupations). Further, the child care workforce is more likely to have incomes below the poverty level compared with similar workers in other occupations, and in many states their earnings are not sufficient to cover a basic family budget for one person (Gould 2015). As a result, in addition to traditional workplace benefits, public safety net benefits such as the Supplemental Nutrition Assistance Program and Medicaid can play an important role for the CC/ECE workforce.

Related contract ideas raised at the convening. Discussions from the convening suggest that contracts may provide opportunities to address this important challenge to the field. Some different strategies highlighted included using contracts to

- create opportunities to buy into existing state health insurance pools, retirement systems, or other state benefit systems for CC/ECE staff who work with children from families with low incomes or in underresourced communities;
- establish a contract to create new insurance pools for child care workers or programs, with a focus on programs and workers working in underresourced communities or in programs serving children receiving subsidies;
- require contracted programs to participate in employer-sponsored health insurance programs and/or to provide workplace benefits;
- contract with intermediary organizations to provide targeted outreach and enrollment strategies for CC/ECE workers to enroll in federal safety net programs such as the Supplemental Nutrition Assistance Program, Medicaid, and the earned income tax credit or to support enrollment in federal supportive programs such as the Affordable Care Act;
- support substitute pools that allow staff, including home-based providers, to have time off or for respite care; and
- support reimbursing providers for the costs of supporting health insurance for their staff.

Participants urged policymakers considering these strategies to ensure that the resources provided through contract financing are sufficient to cover these additional costs, as providers are unlikely to be able to pass these costs on to the parents they serve, particularly for those who operate in underresourced communities.

Training and professional development

Contracts are a common mechanism states use to fund professional development and training opportunities to support the CC/ECE workforce. These contracts can go to intermediary organizations to provide these services, programs to support their staff in gaining training, or individual CC/ECE workers to support their professional development.

Related contract ideas raised at the convening. Although there are many examples of state contracts that support professional development for the CC/ECE workforce, the experts in our meeting identified additional ideas that are less commonly discussed. These include, for example, using contracts to

- support apprenticeship models, building on various apprenticeship efforts taking place in different states and including adequate pay that rewards on-the-job training and completion of an apprenticeship, as well as supports for programs that sponsor apprenticeships;[14]
- build increased levels of funding into contracts for providers that offer professional development supports to staff and recognize the need for increased wages to accompany higher levels of training and credentials;
- cover the costs of having staff participate in professional development, pay for substitute staff to cover staff time in training, participate in communities of practice, and so forth;
- support community development financial institutions or other fiscal agents to set up grants or loan forgiveness programs for workers who need financing to obtain professional development or credentials; and
- support community development financial institutions or other fiscal agents to provide financial coaching, supports, and grants to home-based child care providers.

CONTRACTS CAN BE FINANCED BY VARIOUS FUNDING SOURCES

As policymakers consider expanding the use of contracts to support the CC/ECE workforce, a primary question is how to fund these contracts. One clear message resulting from our convening of CC/ECE experts is the need for policymakers to think creatively about the types of funding sources used in the provision of contracts. Participants in our convening suggested many sources of funding available to states, including the following:

- **Stabilization grants and activities funded through pandemic relief funding.** As noted above, under the various pandemic relief funding efforts, most notably the American Rescue Plan Act passed in early 2021, states have been provided significant new funds they can use to help parents pay for care as well as funds to provide stabilization grants to child care providers. Stabilization funds are designed as direct grants to providers to cover costs (e.g., rent or mortgage, salaries and benefits, costs of cleaning and sanitation supplies).
- **Child Care and Development Fund.** CCDF funds in the American Rescue Plan Act can augment stabilization grant funds to provide wage supplements, bonuses, salary increases, and access to

benefits and other workforce supports through contracts, even if providers are not currently participating in the subsidy system or a quality rating system. As the most common funding source for support, CCDF has several funding elements that states can use in contracts to support the workforce, including the following:

- » funds used to pay for subsidies (described above);
- » funds designed to support infant and toddler care (commonly called the "infant-toddler set-aside"), which states can use in numerous ways, including contracts that support the supply or quality of infant and toddler care; and
- » funds designed to support the quality and supply of care, commonly referred to as the "quality set-aside," which states can use in various ways, including contracts.

- **Tax system.** Creating refundable tax credits for individuals or programs that provide a specific service or meet particular goals may be a productive funding mechanism worth further exploration. A refundable tax credit, although not a traditional contract, would serve a similar function as it guarantees those who meet the requirements a financial benefit. Some participants suggested considering refundable tax credits for providers (as a business credit) or for individuals in the CC/ECE workforce (as an individual taxpayer credit).[15] These credits could be targeted in various ways to support the workforce, including providing a tax credit to providers based on workplace supports they provide their staff; to workers who get certain kinds of training or work in underresourced communities; and to providers who serve children in the subsidy system. However, because in a tax credit the funding would be provided after the conditions for getting the credit are met, this approach may need to be coupled with up-front resources to help the individual or program meet the requirements.
- **Other flexible federal funding sources.** In addition to funds provided through the American Rescue Plan Act, other sources of funding for which states have discretionary spending include the state and local relief funds through the Coronavirus Aid, Relief, and Economic Security Act and the Coronavirus Response and Relief Supplemental Appropriations Act, as well as the Preschool Development Grants and federal Social Services Block Grants.
- **State funding streams.** States could develop their own funding strategies to address these issues, such as setting up their own fund to provide resources to CC/ECE providers for different goals[16] or establishing a state tax credit.
- **Programs that have goals intersecting with CC/ECE workforce goals.** Funding for other programs that intersect with policy goals for the CC/ECE workforce can also be explored as

possible funding sources, either through direct contracts with agencies outside the government or with intergovernmental agreements. For example, convening participants asked whether there were ways to use funds or outreach efforts to support enrollment for federal safety net programs such as Medicaid or the Supplemental Nutrition Assistance Program to focus on the CC/ECE workforce. Similarly, states could fund contracts with programs to augment and collaborate with state efforts to enroll child care providers in the Child and Adult Care Food Program, which can be an important financial resource for providers. Finally, funding through the US Department of Labor, for example, through apprenticeship strategies, the Workforce Innovation and Opportunity Act, and other workforce efforts, could also be used to support the CC/ECE workforce.

- **Philanthropic resources.** Philanthropic funding can be an important resource, particularly for efforts that are testing different approaches; strategies to assess their implementation challenges and potential impact; or seed money to strengthen, support, and expand potential intermediary organizations, particularly in underresourced communities and when including nontraditional community partners.

These are only some ideas of funding sources that states could explore when considering how to fund child care contracts. Thinking outside the box when considering how to fund contracts will be essential to their long-term success.

Conclusion

Contracts are an important financing tool for policymakers and stakeholders interested in addressing specific child care policy goals, including those involving supporting the workforce. This report outlines the various approaches states and other funding entities can take to use contracts to support the workforce, which underscores the flexibility of this financing tool. Contracts could also be an important tool to address inequities in the current supports for the CC/ECE workforce if they are designed carefully with this goal in mind. The federal pandemic-relief child care investments provide policymakers and stakeholders a unique opportunity to move quickly to design and implement contract-based strategies to support the workforce, in addition to the steps they can take to support parents and providers.

Notes

[1] Author calculations based on data from the Bureau of Labor Statistics (BLS): "Employment, Hours, and Earnings from the Current Employment Statistics Survey (National)," BLS Beta Labs, updated June 1, 2021, https://beta.bls.gov/dataViewer/view/timeseries/CES6562440001.

[2] NWLC calculations based on "Current Population Survey Data for Social, Economic and Health Research," IPUMS-CPS, University of Minnesota, https://cps.ipums.org/cps/.

[3] Child care funds were included in three pandemic relief packages: (1) the Coronavirus Aid, Relief, and Economic Security Act from March 2020 allocated $3.5 billion for CCDF (see Shannon Christian, director of the Office of Child Care, "Child Care and Development Fund [CCDF] Discretionary Funds Appropriated in the Coronavirus Aid, Relief, and Economic Security Act [CARES ACT] [Public Law 116-136] passed into law on March 27, 2020," memorandum to state, territory, and tribal lead agencies, April 29, 2020, https://www.acf.hhs.gov/sites/default/files/documents/occ/ccdf_acf_im_2020_01.pdf); (2) the Coronavirus Response and Relief Supplemental Appropriations Act of 2021 from the US Department of Health and Human Services's Administration for Children and Families allocated $10 billion for CCDF (see Ellen C. Wheatley, acting director of the Office of Child Care, "Planned Use of Child Care and Development Fund [CCDF] Coronavirus Response and Relief Supplemental Appropriations Act, 2021 [CRRSA] Funds Report," memorandum to state, territory, and tribal lead agencies, February 12, 2021, https://www.acf.hhs.gov/sites/default/files/documents/occ/CCDF-ACF-PI-2021-01.pdf); and (3) the American Rescue Plan allocated $15 billion for CCDF (Alycia Hardy and Katherine Gallagher Robbins, "Child Care Relief Funding in American Rescue Plan: State-by-State Estimates," The Center for Law and Social Policy, March 10, 2021, https://www.clasp.org/publications/fact-sheet/child-care-estimates-american-rescue-plan) and another $24 billion in stabilization funds for providers in and out of the subsidy system to support supply building.

[4] Author calculations based on data from the Bureau of Labor Statistics (BLS): "Employment, Hours, and Earnings from the Current Employment Statistics Survey (National)," BLS Beta Labs.

[5] National Women's Law Center calculations based on "Current Population Survey Data for Social, Economic and Health Research," IPUMS-CPS.

[6] See note 3.

[7] See, for example, Connecticut's strategy to provide higher payments to programs in communities that have higher scores on the Centers for Disease Control and Prevention's Social Vulnerability Index : "Family Child Care Homes: Stabilization Funding Formula," Connecticut Office of Early Childhood, updated May 6, 2021, (https://www.ctoec.org/covid-19/ready-set-rebuild/stabilization-funding/family-formula/).

[8] For more information on contracts based on subsidized slots, see Taryn Morrissey and Simon Workman, "Grants and Contracts: A Strategy for Building the Supply of Subsidized Infant and Toddler Child Care," Center for American Progress (blog), August 4, 2020; for more on payment rates for subsidies, see Bipartisan Policy Center (2020).

[9] View percentage of children served by grants or contracts by state at "FY 2018 Preliminary Data Table 2—Percent of Children Served by Payment Method," US Department of Health and Human Services, Administration for Children and Families, Office of Child Care, updated December 3, 2019, https://www.acf.hhs.gov/occ/data/fy-2018-preliminary-data-table-2-percent-children-served-payment-method.

[10] Most states set their maximum payment rates for their voucher subsidy payments at levels below the level recommended in federal law. Specifically, the federal guidance is that states should set their maximum rate at the level that would allow them to pay three out of four providers the amount the provider charges private-paying parents (also known as the 75th percentile). However, in 2019, only four states set their rates at this

level, with many states setting their rates significantly below this level (see Schulman 2019). As a result, the amount most states pay providers is not sufficient to cover the prices charged by even three-quarters of market-based care, much less rates that would sustain quality care and good wages or compensation.

[11] For example, T.E.A.C.H. Early Childhood® and Child Care WAGE$® programs.

[12] See note 11.

[13] For more information on shared services models, see Easterling and Stoney (2018)

[14] For additional information on apprenticeships, see Bipartisan Policy Center (2019); Cara Sklar, "Youth Apprenticeship in Early Childhood Education: Lessons and Opportunities," *New America*, updated September 30, 2020, https://www.newamerica.org/education-policy/reports/youth-apprenticeship-early-childhood-education/; and Lucy Danley, "Strengthening the Early Childhood Workforce through Registered Apprenticeships," First Five Years Fund (blog), November 11, 2019, https://www.ffyf.org/strengthening-the-early-childhood-workforce-through-registered-apprenticeships/.

[15] For an example of a state tax credit, see "School Readiness Tax Credits," Louisiana Department of Revenue, accessed May 15, 2021, http://www.revenue.louisiana.gov/IndividualIncomeTax/SchoolReadinessTaxCredit.

[16] Oregon's Early Childhood Equity Fund provides an example of a strategy that could be used in a contract mechanism. See, for example, "Early Childhood Equity Fund," Oregon Department of Education, Early Learning Division, December 12, 2019, https://oregonearlylearning.com/student-success-act#equityfund.

References

Adams, Gina, Danielle Ewen, and Grace Luetmer. 2021. *Supporting the Child Care and Early Education Workforce: A Menu of Policy Options for the COVID-19 Pandemic and Recovery.* Washington, DC: Urban Institute.

Adams, Gina, and Michael Katz. 2015. *Balancing Quality Early Education and Parents' Workforce Success: Insights from the Urban Institute's Assessment of the Massachusetts Subsidized Child Care System*. Washington, DC: Urban Institute.

Austin, Lea J. E., Bethany Edwards, Raúl Chávez, and Marcy Whitebook. 2019. "Racial Wage Gaps in Early Education Employment." Berkeley: University of California at Berkeley, Center for the Study of Child Care Employment.

Bipartisan Policy Center. 2019. "Registered Apprenticeships: A Viable Career Path for the Early Childhood Workforce." Washington, DC: Bipartisan Policy Center.

———. 2020. "The Limitations of Using Market Rates for Setting Child Care Subsidy Rates." Washington, DC: Bipartisan Policy Center.

Easterling, Sharon, and Louise Stoney. 2018. "Shared Services: A Strategy for Building Stronger Systems among Early Child Care and Education Providers." Boston: BUILD Initiative.

McLean, Caitlin, Lea J. E. Austin, Marcy Whitebook, and Krista L. Olson. 2021. *Early Childhood Workforce Index: 2020*. Berkeley: University of California at Berkeley, Center for the Study of Child Care Employment.

Gould, Elise. 2015. "Child Care Workers Aren't Paid Enough to Make Ends Meet." Issue brief #405. Washington, DC: Economic Policy Institute.

Schulman, Karen. 2019. *Early Progress: State Child Care Assistance Policies 2019.* Washington, DC: National Women's Law Center.

Schumacher, Rachel, Kate Irish, and Mark H. Greenberg. 2003. *Untapped Potential? How States Contract Directly with Providers to Shore Up Child Care Choices for Low-Income Families.* Washington, DC: Center for Law and Social Policy.

About the Authors

Gina Adams is a senior fellow in the Center on Labor, Human Services, and Population and directs the Low-Income Working Families project and the Kids in Context initiative. She is a national expert on factors that shape the affordability, quality, and supply of child care and early education services and the ability of families with low incomes to benefit from them.

Danielle Ewen is a principal at EducationCounsel in Washington, DC. She has experience in research, advocacy, policy, and implementation and has worked on federal, state, and local financing of child care and early education programs for low-income children and their families.

Grace Luetmer is a research analyst in the Center on Education and Policy. Her research focuses primarily on early childhood care and education, with a particular focus on the workforce.

Statement of Independence

500 L'Enfant Plaza SW
Washington, DC 20024

www.urban.org