



Contracting in the Child Care System

Key Steps to Support Equity and Accountability

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The various relief packages¹ passed by Congress over the past year have given states more than \$50 billion to support and sustain child care. This enormous influx of funds provides challenges and opportunities to transform the child care system, address systemic inequities, and implement innovative approaches to help children, families, and providers during this difficult time. Many states have demonstrated an interest in using contract-based financing mechanisms to drive stable and predictable resources to families and providers to increase resources and improve quality for both child care centers and home-based caregivers. This policy brief provides an overview on how state child care administrators can develop a thoughtful and detailed plan to approach state procurement agencies to most effectively use contract-based financing to meet their policy goals.

Contracts can help states address systemic inequities and implement policies that can impact accessibility, availability, and cost of care for families in the subsidy system. A contract-based approach offers an opportunity to provide funds that are targeted to particular goals or toward specific child care providers. Such an approach can be used to increase the supply of infant care within a neighborhood, create a network of support for family child care providers, provide higher payments to providers who meet quality standards or provide care during nontraditional hours, provide higher compensation to the

workforce and pay the full cost of care, and better enable families to access the quality care they need to work and ensure their children are safe and supported.

From a systems perspective, contracts offer several benefits. They can be used to move away from paying for individual children and instead identify enrollment goals; they offer predictable and stable funding to providers, enabling them to manage their finances and plan for improvements in compensation or other quality measures; and they can connect state expectations for quality and access directly to funding. In other words, a contract in the child care system can achieve many goals—it is not a fixed approach that can only support a single outcome.

A contract-based financing approach brings some of the most complex state government systems into the policy discussion. Coordinating with state procurement systems and working to ensure that programs receiving a contract are not overburdened by paperwork and reporting requirements mean that state administrators interested in this approach are best served by developing a detailed plan before implementing contracts with providers.

This brief identifies some questions to help develop a plan for a contracted approach:

1. Is a contract the best approach to achieving the desired goals?
2. What are the priorities of the procurement agency? What are its requirements for creating new contracts?
3. What existing contracts could support the goals of the new approach?
4. Are there opportunities to partner with existing intergovernmental agencies or other intermediaries?
5. What accountability provisions are needed to meet procurement requirements or child care agency goals?
6. How will the contract be monitored?
7. How can the contract be designed to limit the burden on recipient agencies?
8. How will the contracting process embed equity?

Each state process is different, and creating and implementing viable contract-based financing mechanisms for the child care workforce will require building relationships among staff, understanding the unique and complex processes involved, and—above all—maintaining patience and perseverance.

This brief stems from our team's work on the role of contracts in supporting the workforce, detailed in the report on *Using Contracts to Support the Child Care Workforce: Thinking Outside the Box*. In reviewing the literature and convening 26 experts for that study, we decided it would be useful to share insights on the practical considerations involved in setting up contracts in the child care system. The information in this brief is based on input from various experts (listed in the acknowledgements) and a review of materials on these issues.

Exploring Key Questions

Before examining the key questions policymakers and stakeholders should review as they consider using contract-based financing mechanisms to achieve their child care policy goals, it is useful to clarify what we mean by a contract. In this brief, we define a contract that meets goals in the child care system as follows:

*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.*

These contracts may or may not be limited to providers in the subsidy system. They 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.

In some states, contracts and grants are used interchangeably within the child care subsidy system, but grants may not need to move through the procurement system in the same way as a contract. Regardless, many issues raised in this brief may apply to the grantmaking process, and states may want to consider them during the design and implementation phases of grantmaking.

Is a Contract the Best Approach?

Before moving into the contracting process, states may wish to determine whether a contracted approach works best to achieve the desired goals, especially if this approach represents a significant change in practice. Stakeholders interested in identifying the best way to use contracts to achieve their goals and create greater equity in access to resources may benefit from detailed responses to the following questions:

- What is the goal? Is a contract (including the application processes, monitoring, and accountability requirements) the best way to achieve the goal? Could the goal be achieved with another mechanism?
- Who will the contract benefit (e.g., children or families, specific communities, individual workers, or programs serving particular groups of children or providing particular types of care)? Can the beneficiaries access a contract, and will the contract design reach them?
- Can the designated beneficiaries be reached most effectively through contracts linked to payments for children receiving subsidies, contracts with programs, contracts with individual workers, or contracts with intermediary organizations that can in turn support workers or programs? Would a different mechanism be more effective?
- Is there a funding source? What is the best financing source for the contract (e.g., Child Care and Development Fund subsidy funds, Child Care and Development Fund funds to support the quality or supply of care, state general funds, funding from other federal programs or agencies with overlapping goals, or flexible federal or state funds)?

- Do the data support funding this activity with a contract? Are there data, research findings, or anecdotal information from parents and providers indicating some needs are better addressed through a contracted approach?
- Is there buy-in and input from potential contract recipients?
- How will this approach support the long-term strategic plan and goals for the child care and early education system?
- Will a contract create undue burden on some providers or promote inequities? Will the contract design ensure underresourced communities have access to the available resources?
- Do providers have the administrative capacity to manage a contract? Is technical assistance available to help providers apply for contracts?

Addressing these questions will help determine whether a contracted approach is useful and create meaningful opportunities to address inequities, build capacity, and improve and expand the child care system. Nuanced answers may also help identify the benefits of the contract for both the beneficiaries and the state agency, creating a “win-win” opportunity in the design and execution of the contract.

What Are the Procurement Agency’s Priorities? What Are the Agency’s Requirements for Creating New Contracts?

Before beginning the procurement process, the child care agency should work to help the procurement staff understand the goals of the contract initiative, as well as the nature of the child care system. All parties should acknowledge that large and small providers may apply for the contracts, providers may not have the staff or systems to provide large amounts of information, and providers may need more time or support to successfully participate in a contract. Creating this dialogue with the procurement agency before the contract is designed will help to ensure that the goals of the new approach can be achieved while meeting the needs of the procurement agency.²

Procurement agencies have their own priorities, which are often detailed in agency protocols and policy manuals.³ For instance, Georgia⁴ lists seven discrete steps in its procurement process, each with its own paperwork requirements, time frames, responsible staff, and desired goals (figure 1).

FIGURE 1

Seven-Step Procurement Process



Source: Georgia Department of Administrative Services.

When approaching the state procurement agency with a plan for adding contracts to the child care system, state administrators and other stakeholders should consider the following:

- **Timelines.** Know from the beginning of the process what the timeline is for getting a contract from beginning to end, including any important deadlines along the way. Many procurement processes can take weeks or months. Factoring in sufficient time is critical in planning, especially when working with child care providers who need funds in hand to pay their own bills and federal child care funds with specific obligation periods.
- **Clarity on contract needs and definitions.** Be clear about what information is required to create a contract and what rules and responsibilities accrue to contracts of various sizes and lengths. The child care services to be procured should be well defined or explained for procurement staff. It is important that this language is readily understood by the child care community and that it is relevant to both child care centers and home-based providers.
- **Roles and responsibilities.** Successfully navigating the procurement process may require learning a new set of skills. State offices may wish to identify a staff person with primary responsibility for understanding and navigating the procurement process. It may also be useful to identify specific roles and responsibilities for the child care office, the procurement office, and other partners, including a finance office and agency leadership.
- **Transparency.** State procurement agencies manage many types of contracts that may or may not be relevant to the child care agency's goals. Clearly naming the goals of the desired contract approach and working with the procurement agency to identify the right mechanism and process as part of initial planning will ensure the process can move as quickly as possible. These goals might include answering questions such as these: will the contract increase the number of slots in a large number of programs? Will there be one or two large contracts to partner agencies to provide technical assistance and support? Is the proposed contract a new approach to supporting the workforce, and will it require significant monitoring and oversight? Is it a

single- or multiyear contract? Will funds be available at the beginning of the contract or over time?

- **Capacity.** For some states, the number of contracts under consideration will help define whether a contracted approach is the right approach to the policy goal. Will the state be supporting contracts to a large number of providers of various sizes? Or can the policy goals be achieved through a set of larger intermediaries that are themselves charged with working with small providers? What is the overall capacity of both the child care and procurement agencies to manage a large number of contracts?
- **Performance-based contracting.** Some states have a mandate that contracts of a certain size or with certain goals must meet measurable performance outcomes in delivering the services identified in the contract. Whether and how these performance outcomes might apply to a child care contract should be explored with stakeholders, including the potential recipients themselves, before initiating the contracting process (Martin 2005).
- **Targeted contracting goals.** Many states have priorities or initiatives for vendors or businesses that meet certain state goals, including directing funds toward minority-owned businesses, small businesses in particular geographic areas, or women-owned businesses. These priorities may create opportunities for new child care contracts, as the child care field is dominated by women of color operating small businesses, although state certification requirements may make it difficult for some providers to get these designations. Identifying these priorities in advance and gathering data on the programs that might participate could help move the contract proposal through the system if the child care agency can demonstrate that it will help the state meet its goals in these areas.
- **Data systems.** In many states, the child care data system may have limited capacity to include contracts with large numbers of providers or manage the data needed for accountability. Understanding the potential limitations of existing data systems and whether and how they may impact the ability of the child care agency to manage contracts should be part of the initial planning process in working with the procurement agency (Matthews and Schumacher 2008).
- **Reporting requirements.** At the beginning of the process, all partners should identify the reporting requirements that the procurement agency may need and whether and how they can be modified for the child care community. What kind of financial statements are required under procurement rules? What happens if contracted organizations miss reporting deadlines or provide incomplete information? How will contracted groups access reporting systems? Does the state have, or could it develop, a performance management system to ease reporting from contracted providers?

What Existing Contracts Could Support the Goals of the New Approach?

Often it is easier to amend an existing contract than to start a new process, especially if the contract is of significant size or reach. Examining current contracts with partner agencies, both inside and outside of the child care system, could make contracting significantly easier.

For example, many states have existing contracts with child care resource and referral agencies to help parents find child care and support centers and home-based providers through training and technical assistance. It might be useful to work with these agencies to understand if they could have expanded capacity, through an amended contract, to add new activities. These activities could include forming a network of child care programs, providing scholarships or bonuses directly to staff, or creating common enrollment applications for a group of programs and sharing the burden of paperwork and other reporting requirements (including in a shared services arrangement). Similarly, existing contracts with the agencies that monitor for the Child and Adult Care Food Program could be modified to achieve additional goals to improve and expand child care, including developing and supporting family child care networks, especially in underresourced communities. Contracted agencies may need planning time built into the new contracts to increase capacity, identify beneficiaries, plan for outreach, and create monitoring and accountability systems that focus on equity.

The state might look to contracts and grants in related systems, such as those through the state prekindergarten program or city and county relationships with Head Start, that might also provide a starting point for contract modifications. These existing contracts might also provide useful models of contracts with other providers.

States might also consider contracted agencies outside of traditional child care partners to understand whether and how they could support programs. For example, many states have existing contracts with health care agencies to deliver various services. Exploring whether these contracts could be expanded to support the child care community—whether through access to health care, the delivery of physical and mental health supports for the adults in a program or network, or by providing comprehensive services and supports for children—could expand the availability of quality programs while limiting the need for more contracts. Other agencies, including child care licensing or child welfare agencies that are used to working with families and helping with applications for services, could also provide new capacity to support families.

Are There Opportunities to Partner with Existing Intergovernmental Agencies?

States often have research and other agreements with state universities or other quasi-public agencies to achieve specific goals. These agreements might be expanded to meet goals within the child care system. For example, if a state university has a resource and referral agency, participates in research or evaluation, or collects data on the child care system, it might be possible to expand these contracts to meet new goals. Other entities not directly associated with child care could also serve this role, including educational services districts, intermediate units, regional service centers, or county or municipal government agencies.

Agencies like these may not need a full contract, and certain goals could be achieved through agency transfers of funds that bypass the procurement process entirely. It is worth exploring whether interested partners could administer a new grant program for providers or if they could become the platform for a family child care network that can apply for contracts.

What Accountability Provisions Are Needed to Meet Procurement Requirements or Child Care Agency Goals?

The design of a contract should include accountability measures—either based on performance or outcomes—that benefit children, families, individuals, and the provider while not placing significant burdens on the state agency or the program receiving the contract. Both child care agencies and state procurement agencies are required to demonstrate that funds are used responsibly; the accountability provisions in a contract can also be designed to demonstrate that funds are used to address policy priorities. For example, the state might use the following language to ensure that contracts are meeting desired goals:

- **Requiring child care providers receiving a contract to provide salaries and benefits on parity with the K–12 system.** The Coronavirus Aid, Relief, and Economic Security Act; the Coronavirus Response and Relief Supplemental Appropriations Act; and the American Rescue Plan Act Child Care and Development Block Grant funds encourage states to “place conditions on payments to child care providers that ensure that child care providers use a portion of funds received to continue to pay the salaries and wages of staff.”⁵
- **Allowing child care providers receiving a contract to have a small vacancy rate (e.g., a 10-to-15 percent vacancy rate over the course of a month).** This practice allows for changes in enrollment over time while still paying for full enrollment and allows the state to ensure slots are available in a particular community or type of setting while guaranteeing financial stability for the provider. Head Start programs have language in their federal grants that require them to do outreach and provide support for families to promote attendance, but they are also allowed some vacancies over the time of the grant.⁶
- **Creating new slots for specific populations, such as infants and toddlers, or targeted slots in new communities.** In Washington, DC, the Quality Improvement Network grants are designed to create new slots that meet quality standards for infants and toddlers. The application for the funds requires providers to meet a set of requirements, including capacity requirements, geographic location, and agreeing to meet licensing and other standards.⁷
- **Providing a higher payment or bonus within the contract if the program retains staff over a period of time that exceeds the local or state norm.** Minnesota has implemented the REETAIN (Retaining Early Educators Through Attaining Incentives Now) program that rewards center staff or family child care providers who stay in their positions for at least one year after receiving the bonus.⁸ Evaluation shows that the program payment has increased the likelihood that providers will remain in the field (Shaw et al. 2019).

Successful child care contracts must address the needs of children and families, providers, and the state, but accountability may have different meanings in the child care and procurement agencies. For the child care agency, accountability may mean a focus on accessibility, affordability, and quality. For procurement managers, accountability measures may apply both to the design of a contract and the process of creating, implementing, and monitoring the contract. Procurement agencies must be concerned about consistency, impartiality, performance, and compliance (Fox and Morris 2015).

How Will the Contract Be Monitored?

States have an obligation to monitor contracts and ensure that agencies receiving contracts meet the terms. States can decide whether to directly monitor the contract themselves, include virtual monitoring, or give monitoring responsibility to another entity that may have additional resources and capacity to provide technical assistance and supports. States may also determine whether they have the capacity to help programs through a continuous improvement approach or whether those activities are better outsourced to an intermediary organization (such as a Child and Adult Care Food Program–monitoring agency). Key to successful contract implementation will be a clear delineation of the monitoring process, which will require answers to questions such as the following:

- How will the child care agency ensure regular and transparent communication between and among contracted organizations, procurement offices, and the child care agency?
- What will trigger contract removal?
- Will contracted organizations be able to modify accountability measures during the contract period?

States must also decide how often the contracted organization will be monitored. Child and Adult Care Food Programs are monitored three times a year, including two unannounced visits. This approach allows the monitoring agency to provide needed supports in a timely way and ensure that any concerns or issues are addressed quickly and that any improvements can be sustained over time. Other programs, such as Head Start, are monitored less regularly, although they may be subject to unannounced visits. States may have a regular schedule of monitoring visits through the licensing agency, though the frequency of license-monitoring visits varies across states and different types of care, and the contract may follow this schedule or have additional monitoring requirements built into the contract design.

Finally, states may wish to create a monitoring rubric or template that is specific to contracted agencies or programs and focuses on the accountability goals of the contract.

How Can the Contract Be Designed to Limit the Burden on Recipient Agencies?

Currently, child care subsidies reach a subset of centers and home-based providers. It is likely, given the significant resources available through the Coronavirus Aid, Relief, and Economic Security Act; the Coronavirus Response and Relief Supplemental Appropriations Act; and the American Rescue Plan Act that many new providers may seek funding to stabilize their businesses and continue to provide

services. A contract-based approach should be designed with the needs of small organizations in mind. That is, contracts should be simple to understand, widely advertised, and available in several languages, and they should require limited information or background materials while still meeting the goals of the contracting initiative.

Contracts should also be designed so that reporting throughout the contract period is as simple as possible and considers the technology available to all organizations, their capacity to provide complex financial reports, and the time constraints faced by many smaller agencies. The contracting process should include significant investments in technical assistance in agencies that can work with various types of agencies, including child care providers, to successfully complete the application process. Agencies offering technical assistance can include child care resource and referral agencies, community development financial institutions, community action programs, and other community supports. These supports may need to be in place before the contracting process begins and may need to be adequately funded to support contract recipients throughout the life of the contract.

Before a state engages in a contract-based approach, it should engage with stakeholders—including child care centers, home-based providers, and supporting community agencies—to understand their capacity to apply for and successfully participate in a contract. Stakeholder engagement should include input from the intended beneficiaries in the design of the contract (including required activities, monitoring, and accountability measures).

How Will the Contracting Process Embed Equity?

Contracts can be a mechanism to address inequities in the child care system; they can also support and continue the existing inequities by limiting access to child care in underresourced neighborhoods, prioritizing child care centers over home-based providers, failing to translate applications and other materials, and using language and requirements that favor one culture over others. To ensure a contract-based approach disrupts rather than maintains inequitable structures and is inclusive of the broad range of providers, states should take the following actions:

- Work with stakeholders to identify whether and how contracts could be used and clearly identify the goals and intended outcomes of a contracted approach.
- Engage a range of organizations, including centers, home-based programs, potential intermediary organizations, and other stakeholders (including families and programs currently participating in the child care subsidy system and those who are not) to understand whether and how a contract approach might be implemented, including the design of the contract, the application process, and measures of success.
- Invest in technical assistance to providers through all stages of the contracting process, from preapplication through implementation, monitoring, and reporting.
- Analyze data to answer the following questions:

- » Which providers are currently receiving subsidies through vouchers and contracts (as applicable), and what gaps exist that impact equitable access to child care assistance that could be addressed through contracts?
 - » Are contracts distributed in a way that supports the full range of the workforce? Are providers in certain communities, from different racial or ethnic backgrounds, or serving different age groups of children being included or excluded from the benefits of contracted initiatives?
 - » Where are communities underserved? What communities are child care deserts, have limited access to subsidies, or lack supports and providers for families who speak languages other than English, are experiencing homelessness, or whose children are in the foster care system?
 - » Are quality programs distributed equitably across the state? Do all families have access to programs that meet quality standards?
 - » Which families are underserved within the child care subsidy program?
 - » What are the costs associated with carrying out the goals of the contract approach, including living wages and benefits, overhead, and other related costs?
- Ensure the criteria that determine who might receive a contract do not embed inequities but include priorities that will foster equity.
 - Develop criteria that are framed and scored so that they do not limit access for providers with few resources.
 - Identify agencies that can provide technical assistance to providers interested in contracts and ensure they represent the full range of the provider community, languages in the state, and the various neighborhoods of the state (both urban and rural communities). These agencies should have a proven track record of support for child care providers.

Conclusion

Contracting provides a critical approach to meeting a broad range of goals for the child care system, such as improving access to care, supporting the quality of care, expanding supply, and supporting the workforce. Yet effective contracting systems that promote equity require states to thoughtfully consider a range of questions and carefully plan how they want to proceed given their state procurement systems and goals. Taking these steps will help state agencies successfully use contracts to achieve their goals for children, families, and the broader child care community.

Notes

¹ 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.
- ² For a deep dive on how procurement works in one area of child care contracting (research and evaluation), see Derrick-Mills, Reginal, and Isaacs (2020).
 - ³ Every state has its own definitions, laws, and regulations governing the procurement process. For information about each state, see “2020 Survey of State Procurement Practices,” National Association of State Procurement Officials, accessed May 15, 2021, <https://www.naspo.org/research-innovation/publications/survey-state-procurement-practices/>.
 - ⁴ For more information, see “Seven Stages of Procurement,” Georgia Department of Administrative Services, accessed May 15, 2021, <http://doas.ga.gov/state-purchasing/seven-stages-of-procurement>.
 - ⁵ See note 1.
 - ⁶ See “1302.16 Attendance,” Head Start Policy and Regulations, Head Start Early Childhood Learning and Knowledge Center, accessed May 15, 2021, <https://eclkc.ohs.acf.hhs.gov/policy/45-cfr-chap-xiii/1302-16-attendance>.
 - ⁷ See “Office of the State Superintendent of Education, Notice of Funding Availability (NOFA), Fiscal Year 2020, Quality Improvement Network (QIN) Grant,” Office of the State Superintendent of Education, updated June 19, 2019, <https://osse.dc.gov/sites/default/files/dc/sites/osse/publication/attachments/Quality%20Improvement%20Network%20NOFA.pdf>.
 - ⁸ For information about REETAIN in Minnesota, see “Financial Rewards for Committed Professionals,” ChildCare Aware of Minnesota, accessed May 15, 2021, <https://www.childcareawaremn.org/providers/grants-and-scholarships/reetain-bonuses/>.

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