

Untapped Potential? How States Contract Directly with Providers to Shore Up Child Care Choices

By Rachel Schumacher, Kate Irish, and Mark H. Greenberg

Over the 1990s, states have used federal and state dollars to expand child care assistance for low-income families. Nevertheless, persistent gaps in child care supply continue in many communities, and supply problems are often reported for particular populations, such as infants and toddlers, children with special needs, school-age children, and families needing care during non-traditional hours. In addition, state expansion of child care funding has slowed recently, and most states now face major fiscal crises, which will put additional pressure on state child care spending.

These gaps in child care supply have come amidst an ongoing discussion about how to finance

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child care assistance for low-income families. Much of the debate has centered on how vouchers for parents and contracts with providers each affect the supply of child care and the opportunities parents have to exercise choice from that supply. Prompted in part by a 1990 federal requirement, most states have moved to all- or majority-voucher systems for delivering child care assistance to low-income working families. However, contracts with providers remain an allowable use of federal funds. While access to vouchers is sometimes seen as synonymous with “choice,” persistent gaps in supply raise questions about whether voucher-only systems can fully address the child care needs of low-income families. Nearly half the states are using contracts to fill supply gaps and expand choices available to families, but the full potential of contracts has not yet been tapped.

In the first in-depth national study of contracting policies,

SUMMARY

Although nearly half the states use contracts to shore up child care supply for low-income families, the full potential of contracting directly with providers has not yet been tapped, according to a survey by CLASP. States can use contracts to increase the supply of child care in certain high-need areas, to provide child care to special populations, and to improve the quality of child care program standards and enhance services. A full, 90-page report on this survey, which includes state-by-state data, is also available from CLASP.

CLASP interviewed child care state administrators in most of the 24 states¹ that reported use of contracts for child care assistance to us in 2002.² This policy brief offers a brief history of federal child care policy and a discussion of why voucher-only systems may not meet the needs of low-income families. Then it describes the results of the CLASP survey and makes recommendations for federal and state policymakers.

DEFINITION OF TERMS

For the purposes of this paper, a **voucher** is a certificate awarded to a parent determined eligible for child care assistance that may be used by that parent to select a child care provider of his or her choice in the child care market, so long as that provider is willing to participate in the voucher system and meets applicable state licensing requirements. Parents usually establish eligibility with the designated state voucher management agency (which could be a welfare, child care, or nongovernmental agency). Providers are usually paid after the service has been provided on a reimbursement basis based on a rate set by the state.

By a **contract**, we mean a legal agreement made between a state and a child care provider prior to service delivery that the provider will make available a certain number of child care slots, which will be paid for by the state so long as contracted state program or attendance conditions are met. In some states, a family may establish eligibility for assistance with the child care provider, in addition to the voucher management agency. Payment may be made prior to or after service provision, and the rate can be based on negotiation between the state and the provider. For the purposes of this paper, we did not include state prekindergarten programs delivered in child care settings.

Federal Policy and How Child Care Assistance is Distributed

In 1990, the Child Care and Development Block Grant (CCDBG) law provided dedi-

cated funds for low-income families whether or not they were current or former welfare recipients. The law also required that states provide parents with the choice of a voucher or a child care slot with a contracted provider and required states to have voucher programs in place by October 1, 1992. While the CCDBG statutory language specified that participating families be given a choice between receiving a contracted slot or a voucher, implementing regulations only required that families be offered a voucher (with the instruction that services offered through a contract or grant be offered “if such services are available”), and the federal requirements for parental choice have been understood to be satisfied through the provision of vouchers to families.

In 1996, Congress consolidated CCDBG and the pre-existing welfare-related child care funding streams into one block grant structure (which became known as the Child Care and Development Fund), placing all funding within the authority of one set of rules modeled on the original CCDBG. Congress kept much of the main language of the original CCDBG in the reauthorization, including the requirement that states offer all qualifying parents a choice to enroll their children with

providers receiving grants or contracts from the state or to receive child care certificates or vouchers. Final regulations promulgated in 1998 maintained the distinction that vouchers *must* be available and that states could choose whether to also make contracted slots available.

Between 1998 and 2000, the percentage of children receiving child care subsidies through a contracted provider hovered between 10 and 12 percent, according to state reports to the federal government (see Figure I). However, these national data mask great variation among states: 33 states reported no contract usage for FY 2000, while the remaining states reported 2-73 percent of children served through contracts.

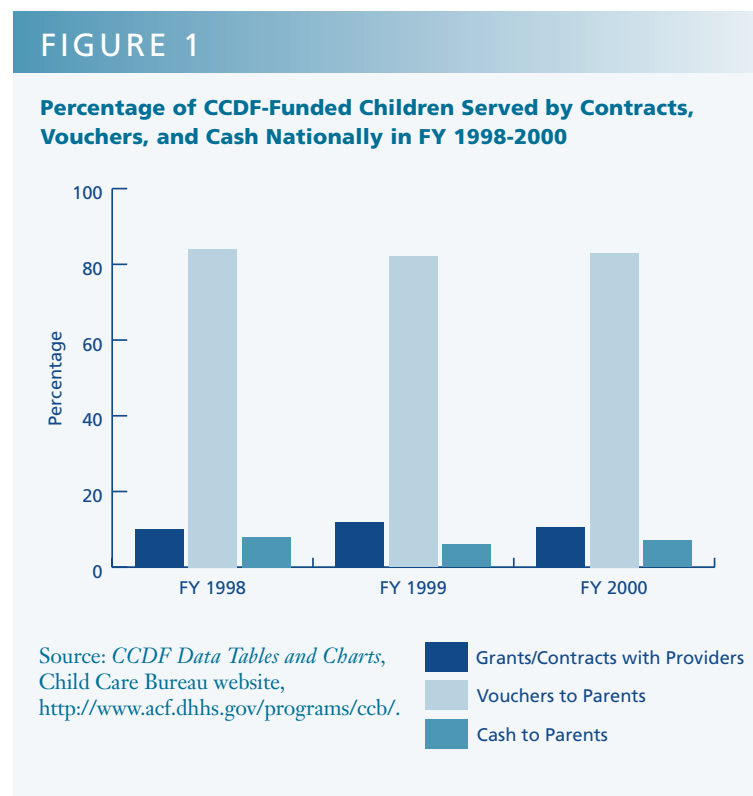
Why Voucher-Only Systems Do Not Address Some Needs of Low-Income Families

Although most states now rely exclusively or almost exclusively on vouchers to provide child care assistance, there are sound theoretical and practical reasons to consider the use of contracts in a mixed approach. Academic theory and evidence of persistent child care supply deficits indicate that, because of particular characteristics of the child care market, the exclusive reliance on vouchers may not be

the best way to encourage the development of certain specialized types of care or of providers meeting high program standards.

Most early care and education delivery systems, such as Head Start and prekindergarten, use direct funding of providers to assure that the preferred programs and standards of care are available. Moreover, a number of experts in recent years have urged a rethinking of the financing of early care and education, suggesting a model more like that of higher education. Such a model would include a mix of “portable” subsidies, like vouchers to parents, and “non-portable” direct contracts with providers, and could potentially combine the best aspects of both systems.³

In some ways, the promise of vouchers has been realized in state child care subsidy systems. Because the child care market is made up of a wide variety of providers, vouchers can help users have a range of choices among what is already available in their communities, so long as providers are willing to accept the vouchers and their conditions. Vouchers may help low-income children gain access to a provider who serves mostly higher-income children but is willing to accept a few subsidized children. Vouchers help parents who wish to choose



non-organizational care provided by kith and kin and to choose sectarian child care providers, without pre-existing state-to-provider contracts. This may be particularly helpful for parents with non-traditional hour and varying shift work schedules. Also, because vouchers are usually designed to be linked to the eligibility of the child and not to the use of a particular provider, vouchers can allow parents to change child care arrangements without having to reapply for child care assistance. Finally, states may find it easier to use vouchers to rapidly expand or cut the number of new children served, fol-

lowing the ebb and flow of funding availability in state budgets.

Vouchers work best in a market in which the quality of goods or services being purchased is obvious, it is easy for consumers to access information about that quality, and it is easy to find and switch to new goods or services. However, parental choice may not be achieved using a voucher-only system because the child care market is not optimal in at least three key ways:

- **Parents are not likely to have full information about child care choices.** Only a

few states rate program content and quality of child care programs as part of state licensing requirements. Most states structure their voucher systems so that providers may receive vouchers if they meet the health and safety rules of the state licensing system, without any additional program monitoring from the voucher management agency. Consequently, neither parents nor state child care subsidy agencies have sufficient information to rate the quality or effectiveness of particular programs and how they may impact children's growth and development.

- **There are many barriers that limit the ability of low-income families to find and switch to new child care providers while balancing the demands of work.** Even a well-informed parent may not find it easy to switch providers should his or her first choice not satisfy. Many low-income parents work in the service economy with little control of their working hours and/or work multiple jobs.
- **Child care providers may be hesitant to offer higher-cost forms of child care or to locate in low-income or rural areas without assurances that they will be compensated regularly and**

adequately. To offer specialized child care services, providers must invest extra resources for supplies (e.g., cribs or equipment for children with special needs) and for the wages to attract well-educated staff, which can act as a barrier to their providing such care. In areas that are low-income or have low population density, providers may be particularly concerned about making these investments because they do not believe many in the community could afford to pay the true cost of that care.

In addition, despite the continuing growth in use of child care vouchers since 1990, empirical evidence suggests consistent shortfalls in supply in the child care market. Researchers have documented child care shortages in certain geographic areas and among certain populations, which may disproportionately hurt lower- and median-income families looking to redeem a child care voucher in the marketplace.

This is not to suggest that just the choice of one mechanism or the other—and not the specific policy rules of voucher and contract systems—determines whether families with a child care subsidy can fully exercise parental choice and have equal access to a range of care. Provider decisions to participate

in a subsidy system are also affected by such factors as the rate of payment the state makes for care, whether payments are received up front or on a reimbursement basis, whether differential rates reflect higher costs of providing certain types or quality of care, and the timeliness and efficiency of the payment system.

Findings

CLASP's full report provides a detailed first look at state contracting processes, based on our surveys and interviews with state child care administrators.

Twenty-four state administrators⁴ reported using some contracts as part of a mixed child care subsidy approach, ranging from small pilot projects to fully integrated parts of their overall child care system. States use contracts in their child care subsidy systems in four key ways:

- **To create and stabilize child care slots in certain areas:** Many states with long histories of using contracts began using them to stabilize child care for low-income families in particular communities. Twelve states do so to create or stabilize the availability of regulated child care slots for low-income families in high-need areas, and three states reported using contracts to create a supply of child care for families in rural areas,

where the range of potential child care arrangements is often limited.

- **To provide child care to special populations:** Of the 18 states interviewed, all reported using contracts to target specific populations or types of care. Examples include infant and toddler child care, child care for children with special needs, out-of-school-time care for school-age children, child care for the children of teen parents, migrant child care, care for children in protective services, child care for non-traditional-hour work, and efforts to stabilize and improve the quality of family child care homes.
- **To extend the day and year for children in Head Start:** Fourteen state administrators reported using contracts to collaborate with Head Start programs to provide extended care for children before and after the Head Start day and during summers; eight states explicitly require child care providers to meet federal Head Start performance standards (such as those related to teacher training, parent involvement, and health screenings), leading to an increase in the quality of care provided in the child care setting.

- **To improve the quality of child care program standards and enhance services:** Fourteen states use some of their contracts with providers to require quality standards beyond basic health and safety provisions in state licensing rules, although states may not apply the same quality standards to all the programs with which they contract.⁵ In addition to those states that contract with Head Start agencies and require those federal standards for the contracted care (as described above), 12 states reported additional program standards in their contracts with child care providers. Some of the additional standards include: smaller staff-child ratios, higher staff education/training levels, accreditation with the National Association for the Education of Young Children (NAEYC), and specified contract performance standards. Also through contracts, family child care networks in six states receive funding to offer family home providers administrative support and curricula; materials, supplies, and training; and a pool of substitute teachers when teachers are sick or in training. Two states require contract providers to include more ancillary family and health services along with the child care contract.

Overall, although most of these contracting initiatives only reach a small portion of the children receiving child care assistance in their states, administrators believe that their efforts have led to improvements in meeting low-income families' needs, increasing monitoring and quality control, and promoting professionalism among participating providers. Almost all of the 18 administrators we interviewed would expand contracts if more funding were available.

Administrators said that a mixed system of contracts and vouchers helps ensure both the CCDF goal of parental choice and the availability of specific types of care and quality care. Although state policies and processes with parents are often similar between state contract and voucher systems (e.g., copayments and access to information through resource and referral are usually the same), state administrators also pointed out some differences. Some states allow eligibility for assistance to be determined at the site of the contracted provider, rather than needing to go to the voucher management agency, which may make intake processes easier for parents. On the other hand, if a state links eligibility to the availability of a slot at a provider, rather than to the child, parents may have to

reapply for assistance when they want to make a change.

We had expected to find that contracted providers received all or part of their funding in advance (like a grant), but most of the states currently using contracts reimburse contract and voucher providers on a similar schedule, although eight states provide some portion of the payment prior to services instead of all as a reimbursement. Nevertheless, state administrators said they believe that providers prefer the stability of funding that contracts provide over vouchers—in part, because contracts help providers manage and fill their available child care slots better and allow them to afford outreach efforts. The guarantee of funding enables providers to budget and plan better and to leverage the funds to qualify for loans and other funding opportunities.

CLASP has drawn seven main conclusions regarding state use of contracts as part of a mixed child care subsidy delivery system:

- Contracts have the potential to help states require child care providers to meet higher program and content standards, but not all states set higher standards, and some require them of only a subset of the various contract program types they administer.

- Contracts help states target the needs of special populations.
- Many providers prefer contracts.
- Contracts allow states to conduct closer provider monitoring.
- States want to evaluate the success of contract programs more rigorously but lack the necessary resources.
- Most state administrators using contracts would recommend them to other states.
- States want more technical assistance for developing integrated, automated reporting systems for contract program and voucher data.

Recommendations

As a result of this work, CLASP offers the following recommendations for Congress and the federal Child Care Bureau, for states, and for future research.

For Congress and the federal Child Care Bureau:

- Increase child care funding to states, as state capacity to develop new initiatives and focus resources on expanding quality, access, and supply is substantially dependent on having additional funding.
- Provide technical assistance to state policymakers to (1) help think through the potential

uses of contracts in their systems and (2) bolster existing state models of contracting, including providing access to replication tools, such as sample RFPs, contracts, policy and program standards guidelines, and evaluation tools.

- Assist states to develop data systems that can include both voucher and contract program information, as required on current federal reporting forms, and reconsider whether certain data are necessary to collect for some contract programs (e.g., for children who spend a brief time in drop-in centers).
- Gather data on any use of contracting to enhance supply and quality through Child Care and Development Fund (CCDF) biennial state plans.

For states considering use of contracts:

- Identify state-specific key populations, need for certain types of child care, concerns about program quality and promoting school readiness, and areas where a lack of range of child care choices for parents could be addressed through a contract approach.
- Work with state administrators in other states who have experience with contracting to learn about their policies, procedures, and lessons learned.

- Implement pilot or limited-scale contract projects to test implementation procedures and provider and parent response. Include means to evaluate the program for ongoing program improvement.
- Consider requiring higher program and content standards for programs receiving contracts, above the basic health and safety rules of state licensing requirements.

For future research:

- Examine state contract programs more comprehensively to determine whether they are achieving their stated policy goals (to build supply, stabilize care in certain areas, meet parents' needs, improve program standards, etc.). Identify the key policy components that are linked to success.
- Compare supply and parental choice patterns in states and localities with voucher-only systems vs. mixed voucher and contract systems to determine the role of subsidy distribution policy in supply trends, especially in rural areas and highly concentrated low-income communities.
- Study what components of contract policy (program requirements, payment rates, etc.) successfully improve child care quality, how these components compare with those stipulated in state early education initiatives, and whether there are lessons that are relevant for the voucher system as well.
- Learn the perspectives of parents and providers regarding their experiences with child care provided through contract policies and through voucher-only subsidy systems.

Endnotes

- 1 In response to a CLASP survey in November 2001, Arkansas, California, Colorado, Connecticut, the District of Columbia, Florida, Georgia, Hawaii, Illinois, Indiana, Iowa, Kentucky, Maine, Massachusetts, Mississippi, Missouri, Montana, Nevada, New Jersey, Oklahoma, Oregon, South Carolina, Vermont, and Wisconsin responded that their state uses contracts for child care. CLASP was unable to interview state officials in Arkansas, Florida, Hawaii, Indiana, Iowa, and Nevada. Although New York City has a large contract program, we did not include it in the study because it did not fall within the original scope of the paper, which was to examine state-level contract programs.
- 2 Our study specifically focused on how contracts were or were not incorporated into state child care subsidy systems and,

therefore, did not include contracts administered from state education departments or other agencies for the provision of prekindergarten and early education initiatives or after-school programs.

- 3 See Vast, T. (2001). *Learning Between Systems: Adapting Higher Education Financing Methods to Early Care and Education*. Indianapolis, IN: Lumina Foundation for Education; Stoney, L. (1998). *Looking Into New Mirrors: Lessons for Early Childhood Finance and System-Building*. Dorchester, MA: Horizons Initiative.
- 4 For simplicity's sake, we refer to the District of Columbia as a state throughout this report.
- 5 Federal CCDF law does not require any specific program standards for participating child care providers, although states must assure that providers are meeting basic state-established health and safety licensing rules (unless they are legally exempt).

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The Center for Law and Social Policy (CLASP), a national nonprofit organization founded in 1968, conducts research, legal and policy analysis, technical assistance, and advocacy on issues related to economic security for low-income families with children.

CLASP's child care and early education work focuses on

promoting policies that support both child development and the needs of low-income working parents and on expanding the availability of resources for child care and early education initiatives. CLASP examines the impact of welfare reform on child care needs; studies the relationships between child care subsidy systems, the Head Start

Program, pre-kindergarten efforts, and other early education initiatives; and explores how these systems can be responsive to the developmental needs of all children, including children with disabilities.

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