

ABBIE LIEBERMAN, AARON LOEWENBERG, CARA SKLAR

MAKE CHILD CARE MORE STABLE: PAY BY ENROLLMENT

JUNE 2021

Introduction

President Biden's bold vision for the future of early care and education (ECE) could fundamentally shift how we support and invest in the education and development of young children. In March 2021, Biden signed the American Rescue Plan into law, which includes a total of \$39 billion in child care relief funding. Soon after, the administration released the American Families Plan, which calls for \$225 billion in child care funding to improve affordability and quality and strengthen the child care workforce. And last month, Biden released his budget request, which includes proposed funding increases of \$1.5 billion for the Child Care and Development Block Grant Act (CCDBG).

But, as federal agencies and state administrators strategize how to spend new funds in this area sorely tested by the COVID-19 pandemic, they should not simply restore the system we had before, where subsidies do not meet families' needs or cover the cost of providing high-quality ECE. Fragmentation in delivery, paired with perpetual underfunding, results in uneven quality and access to services, places financial burdens on families, and perpetuates inadequate wages for the ECE workforce. We need better policies to build a system that enables every child to thrive. That starts with investing in the backbone of our ECE system—child care providers.

Providers need predictable, stable, and adequate funding. In most states, many providers serving children eligible for subsidies are paid several weeks after services are rendered and the amount can vary based on individual child attendance and reimbursement rates, even though provider costs are not determined by how many days a child is present. This monthly variation makes it difficult to make informed decisions around budgeting, staffing, and enrollment.

Pay by Enrollment, as During COVID-19

While big changes to the system are needed, there are policy changes states can make now to better support child care providers. CCDBG encourages states to reimburse providers based on child enrollment instead of attendance, yet limited resources often prevent states from adopting this higher cost strategy. But the new, historic increase in federal funding marks an opportunity to try it. As the Biden administration sets priorities and as states develop their Child Care and Development Fund (CCDF) plans, we recommend making this change.

Shifting to paying by enrollment will not solve underfunding, but it provides multiple benefits, as we saw when 19 states opted for this approach during the pandemic. In March 2020, Congress directed \$3.5 billion in additional funding to states for CCDBG through the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The CARES Act offered states a few important flexibilities, like [changing their existing policies](#) to pay providers based on enrollment rather than via reimbursement based on child attendance in order to address closure or decreased enrollment.

Last fall, New America worked with Child Care Aware® of America to analyze how using this flexibility impacted providers in Massachusetts and southern California. An analysis of enrollment and payment data performed by Child Care Aware® of America showed a stabilizing effect for reimbursing providers based on enrollment. Cost modelling reveals that making the change permanent is viable with additional resources.

Massachusetts

Prior to the pandemic, Massachusetts paid child care providers serving children receiving subsidies based on their individual daily attendance rather than by the number of children enrolled.¹ Massachusetts received [\\$45.7 million](#) in supplemental CCDBG funds through the CARES Act, a portion of which was used to provide reopening grants to providers participating in the subsidy system. During the three months of child care program closures necessitated by the pandemic, the Massachusetts Department of Early Education and Care (EEC) reimbursed child care providers based on active placements as of late

¹ With the exception of family child care networks, which are paid on contract rather than attendance.

March. EEC will continue to pay providers based on confirmed enrollment rather than attendance [through the summer months](#).

The decision to move from a payment system based on attendance to one based on enrollment during the pandemic provided much-needed financial support and stability to providers. Had an attendance-based payment system remained in place during the three months of mandated child care closures, providers who rely on subsidy payments would have faced massive financial shortfalls, making it unlikely many would have the capital to reopen once allowed. Even during program closures, providers still needed funds to pay for fixed costs that continued to accumulate, such as rent and utilities.

According to Child Care Aware® of America's data analysis, reimbursing providers based on enrollment had a large stabilizing effect. Subsidy payments to providers generally continued on an upward trend from March 2020 through August 2020. From April to June 2020, centers received subsidy payments under the enrollment-based payment system that were on average 13.52 percent higher than what would have been received under an attendance-based payment system operating under regular, non-COVID-19 conditions.² Child Care Aware® of America found that 82 percent of providers that accepted subsidies in January and February of 2020, before pandemic closures, still remained in business as of July and August 2020.

In addition to analyzing the temporary impact of the shift in payment policy during the pandemic, the project included cost modelling to estimate the cost of a policy to pay providers based on enrollment. Permanently moving from attendance-based to enrollment-based payments for all licensed providers would require an increase of 4.15 percent over the projected cost of maintaining the current policy.³

² Calculations are based on actual enrollment-based payments compared to median projected non-pandemic attendance-based payments for April, May, and June 2020--the three months before MA required providers to reopen to receive subsidies. It is the best timeframe available to evaluate an enrollment period little affected by the COVID-19 pandemic, an important precedent for evaluating future policy changes.

³ Based on state data and interviews, we assumed normal attendance-based annual costs would rise by 3 percent per year. We created projected attendance costs based on our predictive forecasting model's median estimated totals. When we compared the projected attendance-based payments to the annualized enrollment-based projections, we arrived at a difference of 4.15 percent. Projections are estimates based on actual payments made to all licensed providers from April to June 2020.

California: Los Angeles and San Bernardino Counties

California has a complicated early care and education [landscape](#), with numerous programs that receive a combination of federal, state, and local dollars and thus are subject to oversight from multiple jurisdictions. CalWORKs (California Work Opportunity and Responsibility to Kids) Alternative Payment vouchers Stages 2 and 3 and the California Alternative Payment Program (CAPP) provide child care subsidies to income-eligible families utilizing CCDBG funds. California families receiving subsidies can attend participating center-based programs, Family Child Care (FCC) homes, or use informal care arrangements.

Prior to COVID-19, the state paid participating licensed child care centers and FCC homes based on child enrollment instead of attendance for families with set schedules. Providers that opted to serve families with variable schedules⁴ were reimbursed based on children's attendance. In these instances, the state paid the provider only for the pre-approved hours that the child was scheduled to be cared for. Serving children with variable schedules can make it difficult to plan ahead and budget appropriately. For these and other reasons, some providers, particularly larger child care centers, have chosen not to serve families with variable schedules.

In March 2020, California received [\\$350 million](#) in supplemental CCDBG funds through the CARES Act. The state then passed [Senate Bill 117](#), which waived the “attendance and reporting requirements imposed on childcare and development programs” from April through June 2020. For families with variable schedules, reimbursements were made for children's “[maximum authorized hours of certified need](#)” regardless of the number of hours they attended. Paying providers based on the number of children enrolled, instead of the number of children attending, ensured that they continued to earn revenue and helped many to remain in business.

Child Care Aware® of America analyzed data from the Child Care Resource Center (CCRC), California's largest Child Care Resource and Referral agency that serves north Los Angeles County and San Bernardino County. It compared aggregate-level data of the number of children served and subsidy dollars paid from January 2015 to September 2020.

⁴ Parents whose child care needs change from one week to the next have variable schedules. The state determines the maximum authorized hours of certified need that children are eligible for based on parent work and class schedules.

A look at the providers that were reimbursed by the state for subsidies based on attendance pre-pandemic and then based on enrollment during the pandemic suggests that enrollment-based payments had a stabilizing effect for providers.

Child Care Aware® of America found that providers serving children with variable schedules in CCRC's network did not experience a drop in subsidy payments from March to September 2020 under the enrollment-based reimbursement system, despite a noticeable decrease in the number of children served because of COVID-19. This allowed providers to stay in business, retaining much-needed child care for families with variable schedules for the future.

Child Care Aware® of America's analysis found that the market in Los Angeles and San Bernardino counties maintained over 99 percent of FCC subsidized provider capacity and 88 percent of center-based subsidized provider capacity from pre-pandemic months to August of 2020. This is noteworthy considering that as of July 2020, two out of five respondents in a [national poll](#) indicated that they would close permanently without additional public assistance. Child Care Aware® of America cost models estimate that permanently switching from reimbursing providers based on attendance of children with variable schedules to an enrollment-based payment system using the maximum allowed hours would only cost the state 10.5 percent over the projected cost of maintaining the current policy.⁵

Benefits of Payment Based on Enrollment

The two case studies provide evidence that paying providers by enrollment is one way for states to achieve the goals of predictability, stability, and adequacy. Predictable and stable funding can increase supply by reducing attrition and attracting new providers to enroll children with subsidies. Predictable income can also strengthen providers' applications for

⁵ We interviewed CCRC staff and analyzed state data from 2015 to 2019 to develop models for payments, attendance, and enrollment projections. We created projected attendance costs based on our predictive forecasting model's median estimated totals. To develop the predictive forecasting model, we used the Autoregressive Integrated Moving Average (ARIMA) algorithm. We obtained the median estimates using the algorithm's implementation in Amazon Forecast with a 6-months back test window for prediction evaluation. Comparing projected attendance-based payments to annualized enrollment-based projections, we arrived at a difference of 10.5 percent.

loans or grants to expand their business and enhance their facilities.

In addition to creating stability, predictable payments also may improve quality. Financial stability would make it possible to increase compensation for staff, improving employee retention and well-being. Increased revenue could also enable hiring coaches, nutritionists, case managers, or mental health providers. Providers could hire substitutes for days when staff members receive professional development or attend courses to obtain a credential. Providers and the state benefit from efficiencies and administrative cost-savings of paying based on enrollment.

The benefits of a better payment system would be felt by families, too, with increases in access to care by better trained and consistent caregivers. Finding child care can be especially challenging for the thousands of low-wage workers who are subject to unpredictable and unstable schedules. Provider payments based on attendance can result in providers choosing to drop or decline to serve families that might have inconsistent attendance. An enrollment-based payment system avoids the financial disincentive for serving families experiencing the most hardship.

Use of Contracts and Grants

One existing vehicle for paying providers based on enrollment is via a contract or grant. Child care subsidies are usually paid in the form of vouchers which are portable and for an individual child. In contrast, a contract or grant lets state lead agencies contract with a provider to serve a designated number of children. This is not a new idea in child care, but one used only occasionally for certain provider types. Only [7 percent](#) of the children served by CCDBG are funded by contract or grant. As reported in the 2016–2018 CCDF state plans, 30 states and territories use [grants or contracts](#) for some providers. Implementation of [Early Head Start-Child Care Partnerships](#) in 2014 increased use of contracts.

Grants or contracts [enable states](#) to provide financial incentives for providing care in underserved areas, offering care for special populations, meeting higher quality standards, and broadening the scope of services. They can also create stability in child care supply by requiring a provider to maintain a certain number of spots for children receiving subsidies over the entire grant period. In return, providers benefit from payments in regular

installments paid prospectively rather than on a reimbursement basis and contract terms that cover several years with built-in rate increases. Contracts create an opportunity to negotiate terms, including educator salaries. Some states use contracts to assist providers in layering funds from several sources. CCDF administrators can look to Head Start as an example of how to pay providers through grants. [Head Start](#) has successfully used grants for decades and currently uses grants with five-year project periods to fund services for a negotiated number of children.

Enrollment-Based Payments Are A First Step for Broader Reform

The COVID-19 pandemic has not only exposed the serious shortcomings in the country's current child care policies, but also highlighted the essential role child care providers play in keeping our economy going. Parents cannot successfully work without safe, reliable care for their children, and children cannot thrive without high-quality care and education. The evidence from the two case studies is clear—paying by enrollment has the potential to provide stability and predictability.

While paying providers in advance based on enrollment would be a substantial improvement over the current system, it is important to acknowledge the fact that reimbursement rates are too low. Increasing reimbursement rates so that they adequately cover the full cost of providing quality care, including raising teacher compensation, is crucial. Ideas like funding child care as an entitlement or increasing opportunities for the workforce to engage in collective bargaining are also worth considering as part of a robust strategy to improve our ECE system. Bold proposals to reimagine the ECE system may take years to implement. Enacting enrollment-based payment policies is a significant step states can take today to immediately improve the financial stability of providers and increase ECE access and quality for families.

Acknowledgements

Thank you to Sabrina Detlef and Laura Bornfreund for their suggestions and editorial insight; and Julie Brosnan, Fabio Murgia, and Riker Pasterkiewicz for their help in the production of this brief. Thanks also to the insights provided by individuals from Child Care Aware® of America, Strategies for Children, the Massachusetts Department of Early Education and Care, the Guild of St. Agnes, Child Care Resources Seven Hills Foundation, Child Care Resource Center, and Charles Family Child Care.