

# **CONTRACTING FOR CHILD CARE SERVICES FOR FAMILIES ELIGIBLE FOR SUBSIDY**



Office of Child Care



National Center on Child Care Subsidy  
Innovation and Accountability

These slides are adapted from a presentation made by Sue Wilson of the National Center on Child Care Subsidy Innovation and Accountability to Region IV State Administrators and Regional Office staff on April 24, 2013.

## Objectives

- Understand the fundamentals of subsidy contracts
- Learn about their purposes
- Understand benefits and limitations
- Consider implementation issues and innovations

### **OBJECTIVES FOR DISCUSSION**

These slides present an overview of information about contracts through the child care subsidy program funded by the Child Care and Development Fund. We will be talking about contracts for direct child care service. This is not a discussion about agreements in which a State contracts for administering the subsidy program, for providing child care resource and referral services, for developing a quality improvement system, or for enhancing professional development. Throughout this discussion for simplicity, we will use the term “contracts”. Common language in the subsidy program is “grants and contracts”. The two concepts are not easily distinguished. Both transactions tend to require an agreement with designated parties, responsibilities, a scope of service, a duration, and a transfer of specified funds.

Our objectives for this presentation are to:

- Understand the fundamentals of subsidy contracts -- States mainly use certificates or vouchers to deliver subsidies, but some use contracts with providers and place children in those slots.
- Learn about their purposes – States decide to use contracts to increase access to various types of care, for different populations, for underserved geographic areas, and to improve quality of care. We will talk about those purposes.
- Understand benefits and limitations – Contracting has advantages that accrue to the State, parent, and provider, but also some potential limitations.
- Consider implementation issues and innovations – We offer some considerations for implementing contracts and some innovations that States are using.

## Elements of a Subsidy

- ❑ Eligible family and child
- ❑ Eligible and willing provider
- ❑ Direct child care service
- ❑ State payment and family co-payment

We can start with the four elements that are inherent in every subsidy transaction. These include:

- An eligible family and child – States set their rules for eligibility within the CCDF regulations. States determine whether the family meets the income limits and employment or training requirements, and has a child care need for a child within the State’s age definition.
- Eligible and willing provider – States define the requirements for providers, but providers have the option to decline participation in the subsidy program.
- Direct child care service – States subsidize the cost of care for a child to be directly cared for by a provider.
- State payment and family co-payment – States subsidize the cost of care using a rate schedule determined by the State. States subtract from the rate a family co-payment. The co-payment is based on a sliding fee schedule set by the State.

## Two Types of Subsidies

### □ Certificates

- ✚ Agreement is with the family – child-specific
- ✚ Family selects among providers in the market
- ✚ Payment is usually a reimbursement
- ✚ Standard rates set by Lead Agency

### □ Contracts

- ✚ Agreement is with the provider – not child-specific
- ✚ Family selects among targeted providers
- ✚ Payment can be before or after service
- ✚ Rates and rules may be customized

These four elements exist whether the subsidy is delivered through a certificate or a contract.

Certificates are often called vouchers. The State uses a certificate to authorize payment for a particular child with a selected provider for a certain amount of care. Contracts are agreements with selected providers to serve prospective children that the State determines are eligible. It is an agreement to pay for those eligible children. The differences between certificates and contracts are:

1. Agreement
  - Certificate – with the family and child-specific
  - Contract – with the provider – not child-specific
2. Selection of the provider
  - Certificate – from the full eligible market
  - Contract – from targeted, contracted providers
3. How payment is made
  - Certificate – usually after the service is delivered
  - Contract – can be before or after service is delivered
4. Rates
  - Certificate – standard State rate for the provider type and age of child
  - Contract – standard State rate or customized rate

## Why States Use Contracts

- Specific type of care for a population or geographic area
- Higher quality care
- Comprehensive services
- Underserved families

Information from the State Plans indicate the general reasons why States will choose to use contracting:

- Specific type of care for a population or geographic area – This could be an age group, or children in rural or urban areas where the type of quality provider is difficult for low-income families to find.
- Higher quality care – Sometimes the best programs are hard to get into because of competition with private pay families. Through the sustained relationship with the contracted provider, the State and provider are intentional about quality improvement.
- Comprehensive services – States can use CCDF to extend the day or year or expand Early Head Start, Head Start, and prekindergarten programs that offer health services, family engagement, nutrition etc.
- Underserved families – States can ensure service to migrant families, homeless families, children with special needs, foster children, and others who need help getting access to quality child care.

## Examples of How States Use Contracts

- Early Head Start, Head Start, or Pre-K extension
- Age-specific high quality care
- Special populations
- Centers or family child care networks
- Rural or inner-city providers
- TANF temporary care
- Highest quality care

Many States and Territories offer good examples of using contracts for different purposes, populations, and providers:

- Early Head Start, Head Start, or prekindergarten extension – Illinois (EHS,HS, PreK), Kansas (EHS)
- Age-specific high quality care – Washington, DC (infants and toddlers and school-age)
- Special populations -- Massachusetts (homeless, teen parents, protective services), Hawaii (teen parents) Haven't found a State using contracts for children with special needs
- Centers or family child care networks – Massachusetts, California, New York, Puerto Rico
- Rural or inner-city providers – Georgia, Virginia
- TANF temporary care – Wisconsin, Hawaii, South Dakota
- Highest quality care – Indiana, Oregon

An evaluation of grants for child care in Pennsylvania had the following results (Weinraub, et al., 2006):

- Centers that received grants were offering expanded operating hours at the end of the grant period (beyond 7am – 6pm during weekdays), including weekend and evening hours.
- Grants enabled centers to offer services to a wider range of age groups (including infants, toddlers, and school aged children).
- Grants enabled centers to begin or continue providing services to low income families.
- Grants enabled quality improvements that eventually lead some centers to apply for accreditation and participate in quality programs. These improvements include: facility improvements, better furniture and accommodations, and new and higher quality materials for children.
- After grant projects, centers increased teacher and staff salaries, and more centers offered benefits to teachers and staff.

## Discussion

### **What Are the Benefits and Limitations of Contracts...**

- For the State?
- For the provider?
- For the family and child?

Think about the benefits and limitations of contracts for the State, the provider, and the family and child.

## State Interests

### Potential Benefits and Advantages

- ❑ Reduces administrative burden
- ❑ Broadens the scope of services
- ❑ Guarantees services for priority populations
- ❑ Builds the supply of quality providers

### Potential Benefits and Advantages for States

- Reduces administrative burden – Contracting with providers can streamline payment processes with contracted programs.
- Broadens the scope of services – States can require additional services from providers and provide payment for these additions.
- Guarantees services for priority populations – States can establish or improve care for special populations, including teen parents, homeless families, children in protective care, migrant families, infants/toddlers, etc.
- Builds the supply of quality providers – States can target geographic areas where quality providers are needed for low-income families. Contracting demands a level of quality from the provider that is supported by the efforts of the State and the provider.



## State Interests

### **Potential Limitations and Disadvantages**

- ❑ Budget limitations on allocating contract funds
- ❑ Longer-term commitment
- ❑ Response time to changing needs
- ❑ Balancing continuity of care and accountability

### **Potential Limitations and Disadvantages for States**

- Budget limitations on allocating contract funds – States obligate a carve-out from their child care budgets to fund the grants and contracts. To achieve the stability of providers, States will specify a contract period. This results in a commitment over a number of years.
- Response time to changing needs – If there is some change in a State’s policy goals, contracts may be harder to turn quickly because they are issued with the same requirements for an extended period of time. States could fund providers that are unable to keep full enrollment.
- Balancing continuity of care and accountability – If States choose payment based on enrollment rather than attendance, then measures to assure accountability must be in place.

## Provider Interests

### Potential Benefits and Advantages

- Facilitates quality improvement
- Stabilizes and supports care provision
- Reduces accounting and payment preparation burden

### Potential Benefits and Advantages for Providers

- Facilitates quality improvement – States can link contracted providers to quality improvement efforts and require and pay for defined levels of quality or quality improvement measures. Grants can help providers improve their facilities.
- Stabilizes and supports care provision – Providers can predict their revenue and enrollment. States can fund stable care that may not otherwise exist due to the financial instability of the residents in an area. Contracts can increase capacity and/or quality of care in those areas.
- Reduces accounting and payment preparation burden – Providing care under a contract can simplify the payment process to providers.

## Provider Interests

### Potential Limitations and Disadvantages

- ❑ Response time to changing care market and need
- ❑ Maintaining full enrollment
- ❑ Maintaining sufficient funds for scope and quality of services
- ❑ Payment policy justification

### Potential Limitations and Disadvantages for Providers

- Response time to changing care market and need –It may be harder for providers to change their care system and structure in order to respond to changes in the child care service market and changing parent needs
- Maintaining full enrollment – Depending on how a contract is structured, providers may not be able to meet minimum enrollment requirements.
- Maintaining sufficient funds for scope and quality of services – The State may require higher quality services than the rate can support.
- Payment policy justification -- States must be able to justify paying contract providers for enrolled children without considering when children are present for care.

## Parent Interests

### **Potential Benefits and Advantages**

- ❑ Ensures more access for low-income families
- ❑ Ensures higher quality services
- ❑ Promotes continuity of care
- ❑ Supports additional services

### **Potential Benefits and Advantages for Parents**

- Ensures more access for low-income families – Contracts guarantee the availability of a specified number of slots, and stabilize the care in an area. Contracts can increase care capacity in underserved areas. Ensuring child care in an underserved area can help parents reduce transportation costs associated with bringing children to care locations.
- Ensures higher quality services – Parents can take advantage of contract requirements regarding quality standards.
- Promotes continuity of care – Contracts can fund providers to extend enrollment and help providers work with families.
- Supports additional services – Contracts can require comprehensive services such as health and dental care, developmental screening, parental education, etc.

## Parent Interests

### **Potential Limitations and Disadvantages**

- Finding a contracted slot in the parent's area
- Lack of diversity

### **Potential Limitations and Disadvantages for Parents**

- Finding a contracted slot that is in the parent's area may be a challenge – Parents outside of the neighborhoods where contracted programs are sited may find it difficult to use them. The contracted program may not be able to accommodate the demand.
- Lack of diversity – Parents may object to the lack of diversity in the program that results from concentrating children from low-income families with contracted providers.

## Implementation Considerations

### Contract Planning

- Funding/budget
- Specific target group
- Scope of services and standards
- Contracting process

States have many considerations in implementing a contracting system. In contract planning they must address:

- Funding/budget – States work out the financing and budgeting of contracts they use. States can maximize funding by layering CCDF with other funding.
- Specific target group – States determine which demographic groups and geographic areas they want to target with contracts.
- Scope of services and standards– States determine the scope of services and standards of quality that contract programs will have to meet.
- Contracting process – States develop the contract application, proposal review, and award procedures.

## Implementation Considerations

### Contract Operations and Monitoring

- Rate and payment provisions
- Outreach to families and placement of children
- Eligibility determination
- Monitoring and reporting

There are implementation decisions to be made for contract operations and monitoring.

- Rate and payment provisions – States determine the rates and payment provisions of the contract. Some set rates before the request for proposals or application is posted and others negotiate the rates with each contractor. The terms also include the attendance or enrollment basis for payment.
- Outreach to families and placement of children – The contract specifies the contractor’s and State’s responsibility for informing families about new services, helping place their children with the contractor where appropriate.
- Eligibility determination – Some States allow contract providers to determine family eligibility in conjunction with their outreach efforts.
- Monitoring and Reporting – States establish monitoring and reporting procedures to ensure providers meet the terms of the contract and their state and federal reporting requirements.

## Innovations

- Setting rates – standard, tiered, or negotiated
- Attendance and guaranteeing payment
- Linking to quality improvement

States have developed a variety of innovations in their contracting, including:

- Setting rates – States may use their standard rates for their contracts, but many add a quality or target group bonus to these rates. Others negotiate rates with their contractors.
- Attendance and guaranteeing payment – Some States carry their strict attendance payment policy into their contracts. Others guarantee payments for a certain number of full-time children. Some guarantee payments for any slot where a child is enrolled during a month, regardless of attendance.
- Linking to quality improvement – States' quality rating and improvement systems and other improvement efforts give them a tool for determining differential rates that they agree to pay. These systems also measure the quality that the State requires in the contract.



## Innovations

- Contracting for 3-5 years with rate increases
- Reassessing need, supply, and provider cost
- Layering funding in contracts

Other innovations include:

- Contracting for 3-5 years with rate increases – States and providers achieve their goal of stability when the contract has a period of 3 to 5 years with provisions for rate increases. Single year contracts are more burdensome for States and do not assure providers that they will continue to the agreement.
- Reassessing need, supply, and provider cost – Some States continually reassess the needs of families, the supply of child care, and the cost of providing care. Contracts can have provisions to modify the terms annually based on such an assessment. This allows the State and the provider to respond to changes in the market and the eligible families.
- Layering funding in contracts – Some States effectively leverage funding by assisting the provider to layer funds from several sources. The contract provisions can explicitly promote that practice.

## Conclusions

- Potential to serve underserved areas
- Quality improvement through contract requirements
- Advantages and disadvantages of a contract system of care for State administration, providers, and parents
- Capacity needed for implementing contract systems for child care

Though there is a need to rigorously research the impact of contracts on parents, providers and States, we find that:

- Contracts to expand child care slots have the potential to serve previously underserved areas;
- Contracts can help States improve quality through contract requirements;
- States consider the advantages and disadvantages of a contract system of care for State administration, providers, and parents when choosing between certificates or contracts;
- States consider their capacity for implementing contract systems for child care.

## Contact

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The National Center for Child Care Subsidy Innovation and Accountability is happy to explore this topic further with States through remote consultation, peer-to-peer discussions, and written resources. Please contact your Technical Assistance Representative or Sue Wilson for further information.