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**Recommendations for Infant and Toddler
Contracts in Pennsylvania:**

A Model to Strengthen and Stabilize the Child Care System

Introduction

High-quality infant and toddler child care demonstrates short- and long-term education, health, and economic benefits. Research shows the most rapid period of brain development occurs within the first three years of life. In addition to providing a strong foundation for infants and toddlers, early learning programs serve as a safe, nurturing place for young children when their parents work. Yet child care remains difficult to access and afford for working families due to the financial model of high costs for families and lack of retention because of the low pay for early childhood professionals.

The COVID-19 pandemic destabilized an already fragile early care and education system and shed light on the essential need for child care for working families, their young children, and our economy. While the child care field received federal funds from various stimulus packages throughout the pandemic, this is one-time funding and will not fix the child care system. In Pennsylvania, providers have shared the struggles of empty classrooms due to a lack of qualified staff and families whose children remain on long waiting lists. The lack of public investment and a challenging financial model impact child and family access. However, with the influx of stimulus dollars and various federal proposals for more sustainable, recurring funding, there is potential to transform the financial model for child care.

Contract-based financing has the potential to impact accessibility, availability, and cost of care for families in the subsidy system, in addition to offering pathways to support the workforce and the financial stability of early learning programs. In the context of the early care and education system, a contract is an agreement between a funding entity and an early learning program that involves a commitment of funds or resources for a specific time and lays out conditions that the recipient must meet to access those funds and be in compliance.¹ Contracted slots are an alternative to the traditional and more widely used voucher system in which the Child Care Works (CCW) subsidy follows the child to the program of the parent's choice. With vouchers, providers are paid through the subsidy system only for the days the child attends their program. Contracted slots funding remains with the provider responsible for filling all their slots with subsidy-eligible children.

In 2018, Pennsylvania piloted the Infant Toddler Contracted Slot Program (ITCSP) based on the Pre-K Counts program model by dedicating \$2 million of federal funding to serve CCW-eligible infants and toddlers. The 2019-20 budget used federal funding to expand the pilot program with an additional \$15 million. This fiscal model can provide stability for the workforce and more sustainability for program budgets with the potential to advance workforce goals, address inequities and serve more infants and toddlers across the Commonwealth. The [2020 evaluation report](#) of the program demonstrated evidence of greater financial stability, increased classroom quality, and more stable enrollment for infants and toddlers.²

Infant and toddler care costs more for programs providing high-quality services and for parents to access. In Pennsylvania, private pay costs for infants range from \$8,700–11,560 annually.³ Current subsidy reimbursement rates are only at 60% of the market rate but this is not the cost of providing high-quality care. While this reimbursement rate is an improvement from lower rates prior to the pandemic, there is uncertainty since the increase comes from one-time stimulus funds, and is still below the federally recommended 75% reimbursement rate. Child care center directors shared that the increased reimbursement rate through the contracted slots strengthened their budget and paid closer to the cost of care.⁴

In the summer of 2021, Start Strong PA surveyed 50 ITCSP grantees, and 85% responded that the contracted slot funding helped meet enrollment goals for infants and toddlers in their programs. All survey respondents indicated that they felt the program should continue.

This paper aims to lay out recommendations for infant and toddler contracted slots to expand and improve the program. Pennsylvania is well poised to expand contracts for infants and toddlers based on the ITCSP and can serve as a model nationwide for strengthening and stabilizing the child care system. It also highlights overarching policy goals for adding more contract-based slots for infants and toddlers and offers well-researched financing and monitoring recommendations to ensure accountability for the system and the use of public dollars. Finally, the paper considers strengthening equity in the contracts-based model to ensure the funding reaches all Early Learning Resource Center (ELRC) regions.

Policy Goals

The recommendations of each section have the following policy goals informed by feedback from grantees of the ITCSP.

1. Stabilize the child care system through more infant-toddler contracted slots.

Contracted slots provide funding for a set time and offer more financial stability and reliability for the child care business model. Strengthening the funding and resources to individual programs improves the system and ultimately provides more accessibility to families and their infants and toddlers.

“This pilot program has improved our school. It’s a great program for families and centers as it benefits both. I would whole-heartedly encourage other high-quality centers in my area to apply for ITCS.”

2. Increase the payment per slot to pay closer to the cost of quality.

The ITCSP pays more per slot than providers receive in reimbursement from subsidy rates. Providers reported the increased funding helped their programs meet staff qualifications and ratio requirements. However, many suggested that the payment must still be higher to attract and retain qualified staff.

“Pay substantially better per slot if you want to attract and retain better quality staff. The average wage of staff working in my infant and toddler rooms is \$11.88/hour, which is NOT enough to attract and retain high-quality staff. We want to pay them substantially better but cannot afford to do so without financial support!”

3. Ensure contracted slots are available to all provider types and meet the unique needs of home-based providers.

Family Child Care providers should be able to receive slots and benefit from a more stable model that pays closer to the cost of care. Home-based providers are a critical part of the early learning landscape, offering a mixed delivery system of parental choice. Many home-based providers serve Black and Brown children and children living in rural areas. Additionally, only Pre-K Counts providers were included in the pilot, and many more providers and families would benefit from expansion. Expanding the finance model that meets the needs of home-based providers addresses equity and accessibility within the field.

4. Support more families in accessing ITCS in high-quality programs.

Multiple improvements could serve more families with infants and toddlers.

- (a) Consider advertising the ITCSP as it expands to make families more aware, which should help with recruitment.
- (b) Allow more flexibility to move slots within a region to meet provider and family needs. Address the procurement issue and develop a procedure to move slots to a different program within the same ELRC region.
- (c) Many survey respondents commented on the Temporary Assistance for Needy Families (TANF) restrictions and wanted to see changes to family eligibility and qualifications. Currently, TANF and former-TANF families who can access child care subsidies are not eligible to use the ITCS funding. Programs can submit a policy exception request to OCDEL to waive the rule, and in some cases, OCDEL allows former TANF children to be enrolled.

Start Strong PA believes these policy goals will address the two significant challenges of the child care system: contracted slots offer a pathway to higher wages and potential for benefits which help to keep more qualified professionals; and contracted slots expand access to infant and toddler care for families, which is often the hardest to find. The following recommendations demonstrate what Pennsylvania should consider to improve the ITCSP through financing structures, monitoring structures, and embedding equity to achieve the policy goals.

Financing Structures

The financing structure of a contracts-based system refers to the policies that determine how much providers are paid based on different program enrollment parameters. In our survey of infant-toddler contractors, 85% of respondents reported that their contracts helped create greater financial stability within their programs. Since one of the goals of moving a child care system to contracts is to create greater financial stability for providers and thus better serve families, financing structures are the backbone to ensuring that contracts operate in a way that supports providers while maintaining fiscal accountability for the use of public funds. Similarly, the financing structure behind contracts must also be flexible enough to accommodate different types of child care providers, including home-based programs.

Once a child care provider applies for and is awarded a contract, similar to the procurement process for Pre-K Counts or the ITCS program, providers and OCDEL would need to negotiate a rate based on the unique costs of operating that program. Notably, a per-child rate will differ from program to program due to the nature of contract negotiations.

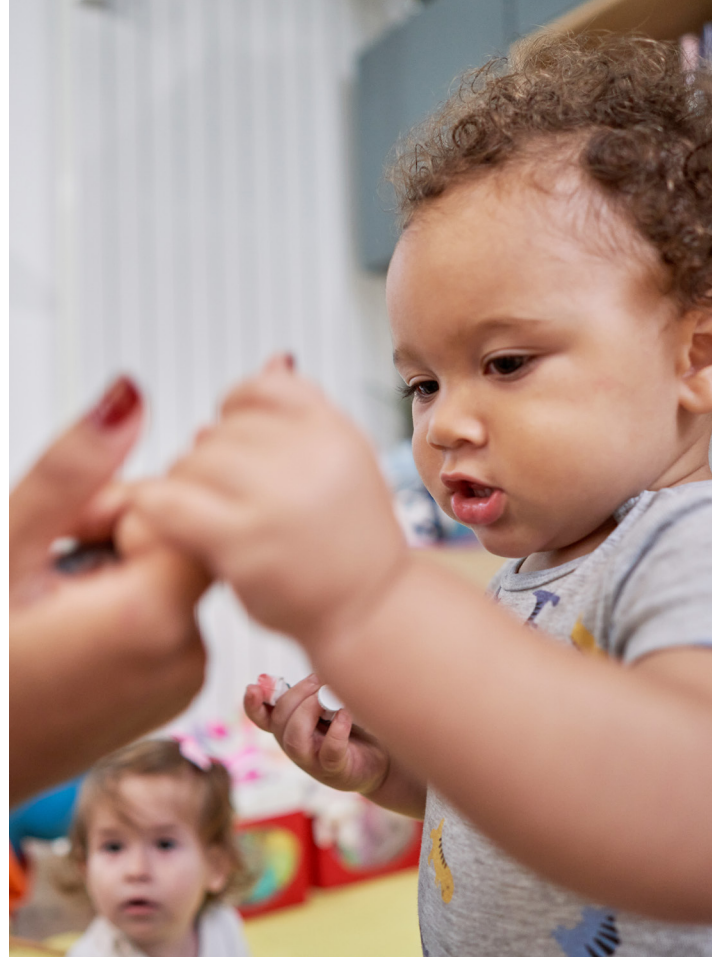
The following are recommendations for how to structure the finances of a contracts-based system:

1. Reserve only a portion of statewide slots for contracts.

To create a contracts-based system that supports all provider types, we recommend contracting only a portion of slots within the state, allowing providers to stay with the existing voucher-based system if they do not want to bid for a contract. For example, 75% of funding could be allocated towards supporting contracted slots and 25% of funding could be reserved to be vouchers which could be offered to providers who are not contracted.

2. Make contracts multi-year to provide financial stability and renewable based on performance.

To stabilize the child care sector, contracts should be renewable after a certain time. For example, contracts could be renewable every three years, creating predictability for providers to make long-term budget forecasts that enable sustainable business models. This will also support continuity of care for children as they can stay within one program as they move through different age groups and classrooms.



3. Pay a portion of the contract upfront to cover start-up costs.

While providers need reliable payments for services, they also have financial obligations that cannot wait on reimbursement. Costs such as mortgage/rent, utilities, classroom supplies and even staff salaries at the beginning of the year cannot wait until providers are reimbursed for attendance and enrollment at a later date. That is why one of our key recommendations is that providers receive some payment upfront to account for start-up costs. Some of the contract should be based on projected enrollment to ensure fiscal responsibility. For example, 30% of payment could be paid upfront based on a projected enrollment of 100 children. Remaining payments could be paid out in monthly installments based on enrollment for the remainder of the fiscal year. If the program is under-enrolled, a system of accountability could be implemented to ensure that funds are not overspent on children who are not enrolled.

4. Guarantee a portion of the contract based on a minimum level of enrollment.

Child care businesses often have a difficult time weathering the storm of unpredictable reimbursement payments. A contracts-based system must acknowledge that enrollment may fluctuate throughout the year and guarantee a certain percentage of contracts—this is why it is necessary to create a flexible funding model that responds to the regular enrollment patterns of child care programs. Enrollment fluctuates for many reasons, several of which are out of the hands of providers, such as family choice. When families leave programs, providers often cannot fill those seats immediately. Funding models that create a tiered system of payment based on enrollment ranges form the flexibility providers need to have the time to recruit new families to fill spots while simultaneously being able to meet operation costs. An example of a funding structure that is flexible enough to enable sustainable business practices is provided below:

Monthly Enrollment Rate	Percent of Monthly Contracted Funding Received
Less than 60%	65%
65% to 93%	Enrollment Rate
Greater than 93%	100%

5. Require that salary scales are included and explicit in the contracts.

Contracted slots give providers the liquidity to recruit staff and the financial stability to retain staff. In our survey of infant-toddler providers, 63% of survey respondents reported they could retain quality staff and 80% said they could pay their staff higher wages. Recruitment and retention of credentialed staff lead to less turnover, greater continuity of care, and subsequently higher program quality. In other words, low turnover of staff is essential to the well-being and positive development of young children. As a result of these findings, we recommend that a portion of the contracted funds be allocated for staff salaries. This could include a salary scale that recognizes education/credentials and experience levels while adapting to the cost of living for a given geographic region.

6. Consider including other benefits within contracts.

Contracts provide the liquidity and stability that enables providers to operate high-quality programs and reliably plan for staffing costs, and they provide a vehicle through which other benefits, such as health care insurance and retirement benefits, could be folded in to support the recruitment and retention of high-quality staff. Since contracts are pre-negotiated and create an individual reimbursement rate for each provider, contracts could allow providers the flexibility to offer unique versions of those benefits with lower overhead costs. For example, some providers may be able to offer stipends to offset the costs of buying their health care insurance on the state’s marketplace. Other providers may be able to contribute to a retirement account for their employees.

While these options may present a more significant change to the existing funding structure of the subsidized child care system, they are investments that build sustainability, equity, and, ultimately, high-quality programs. Without a doubt, with such a significant investment of resources, there must be a system of accountability that ensures that funds are used in a fiscally responsible way.

Monitoring Structure

Establishing a fair and consistent accountability system to monitor the distribution of ITCS across ELRC regions is a vital component of establishing a contract-based system that is fiscally responsible while also benefiting both providers and families. It is also essential to ensure eligible slots are utilized and providers have the support they need to execute the program. Through our survey of providers participating in the ITCSP, they are very or somewhat satisfied with the current monitoring and reporting requirements; however, there were some suggestions on how to build upon the current monitoring requirements to allow for more coordination and support.

The following are recommendations to improve the current monitoring procedures for a contract-based system:

1. Allow providers 45- days to fill ITCS.

Currently, if a provider cannot fill an ITCS within 20 days, the ELRC has the right to withhold funding per the contract. While accountability is a key part of a contract-based system, there are often circumstances out of providers' control as to why children are no longer enrolled in care. In cases with no ITCS waitlist for the ELRC region, a minimum of 45 days should be allowed for a provider to advertise and fill the slot before funding is withheld proactively. This will allow sufficient time for the provider and ELRC to determine an action plan to help recruit families to fill the slot.

2. Support providers unable to maintain enrollment with an outreach plan.

It is critical ELRCs, Infant-Toddler Specialists (ITS), and OCDEL support providers, throughout their involvement in a contract-based system, ensure they have the resources and training necessary to provide high-quality infant and toddler care for families. That support should include steps providers can take to fill slots as they become available to ensure the financial stability for the provider is not in jeopardy. For providers unable to fill ITCS, the ELRC and ITS should collaborate with the provider to determine an outreach plan for families to know there is an available ITCS. This should include actions that will be taken by both the provider and ELRC to reach eligible families. As part of the outreach plan, the provider and ELRC should track the outreach methods they are using and the frequency of the occurring outreach. This will allow the ITS to determine if additional

outreach methods should be utilized. OCDEL should evaluate the outreach methods with the most impact in recruiting families and provide those tactics to all providers to support their outreach efforts.

3. Allow ITCS to be distributed across ELRC regions to serve more infants and toddlers.

Presently, if a provider is unable to maintain enrollment for an ITCS after 20 days, ELRCs are eligible to withdraw the awarded ITCS from the provider and distribute the slot to another contracted provider within the same ELRC region. Re-distribution of an ITCS within the same ELRC region should be prioritized; however, if enrollment is unable to be met by contracted providers in the same ELRC region, the ITCS should be reallocated to another ELRC region with enrollment waitlists. This will ensure ELRC regions with eligible children waiting for an ITCS can be enrolled in the program as availability occurs. This would only occur after reasonable efforts were made to enroll an eligible infant or toddler in the same ELRC region.

4. Pilot implementing equity reporting requirements for participating providers.

A contract-based system should be equitable for every eligible infant and toddler. To ensure ITCS providers are better serving their communities and providing equitable access to infants and toddlers, monitoring the diversity of a program is essential. Disaggregated data on the children served through ITCS and the staff of ITCS providers should be collected annually and evaluated by OCDEL to ensure slots are being equitably distributed across ELRCs and providers.

These recommendations expand upon the current [Policies, Guidance, and Clarifications](#) established by OCDEL for the current ITCS program. They will ensure providers are further supported to serve infants and toddlers in high-quality child care. Additionally, there is an opportunity to analyze the current distribution of contracted slots and provider workforce to monitor how the contract-based system addresses inequities in accessing infant and toddler high-quality child care.



Embedding Equity

Contracts can be a mechanism to address inequities in the child care system. Because contracts can limit public resources to individuals and programs with the resources and experience to successfully meet contract conditions, efforts to utilize contracts must be designed for equity.⁴ Our survey results indicate that most applicants who completed the contracting process felt the application process was moderately easy, and 40% considered the process easy. The ITCS Program does build upon the already established infrastructure of the Pre-K Counts model. Therefore participating programs are already Pre-K Counts grantees and have experience with the application process. Nearly all grantees did not receive assistance from someone outside their organization in applying, however, most grantees said they would take advantage of technical assistance if it were offered, despite their experience as a Pre-K Counts grantee. These survey results do not consider those providers who were not selected as grantees nor those who did not apply but had interest in participating as contracted slots grantees.

Therefore, providing technical assistance at all stages of the application, implementation, monitoring and evaluation process to provide support to all can help those programs that lack the

resources but need the investment of contracted slots. OCDEL can improve equitable access to contracted slots by ensuring the application process is accessible and providing sufficient technical assistance to all interested programs. Providing technical assistance can also help to give a more extensive and diverse pool of applicants and mitigate the factor of access to resources. Technical assistance can be particularly beneficial to family child care providers. Providing support to grantees in the form of contract advisors can also help grantees succeed in their contracts.

The following are recommendations to ensure inequities in the child care system are addressed through a contract-based system:

1. Provide technical assistance to programs throughout the contracting process, including pre-application, implementation, monitoring, and reporting.

The ITCS Program provides program support to participating programs. Technical assistance is offered to interested programs through a network of infant toddler specialists from the local ELRC. It is unclear if this technical assistance includes assistance throughout the contracting process. However, any support an interested program requests should be provided when appropriate. If necessary, additional investments should be made to provide technical assistance through all stages of the contracting process.

2. Provide the application, reporting forms, letters, brochures, and other documents and communication in languages other than English.

Providers who may not be proficient in English and are interested in ITCS may not apply due to documents not being provided in languages other than English. Providing all applications, forms, and documents in languages other than English will create more significant equity in access to resources that will benefit their community. This effort could help to close any existing gaps in equitable access.





3. Prioritize providers in child care deserts or areas with an insufficient supply of licensed child care and specific settings, such as family child care providers, and support all aspects of the workforce. Clearly state that a goal of contracted slots is to reduce inequities within the child care system.⁵

To help close any existing gaps in access to ITCS, providers in communities where the need is high and access is low, should be prioritized. In regards to child care deserts, 57% of people in PA live in a child care desert.⁶ Disproportionately, 47% of non-hispanic, Black/African American PA residents live in a child care desert and 56% of PA residents in a child care desert live in the lowest-income neighborhoods.⁷ Prioritizing family child care providers ensures parents have a choice in provider type. OCDEL should develop criteria within the application process that prioritizes providers with fewer resources.

4. Ensure that contracts include rates that cover the cost of care, to allow for adequate compensation and benefits.

Compensation paid to early childhood educators overall is low, additional disparities within the workforce itself causes greater harm to certain populations. Disparities in compensation are linked to funding sources, age of children, and racial discrimination. Black women working in centers are more likely to work with infants and toddlers.⁸ A significant percentage of infants and toddlers are in home-based care, so the difference in wages disproportionately impacts Black, Latina, and immigrant women who work in home-based settings. OCDEL's contracts with providers should benefit all involved: providers, children, families, and the workforce. Rates that cover the cost of care allows providers to be reimbursed for what it costs them to provide the care, compensate the workforce adequately, and provide high-quality care for infants, toddlers and their families.

Conclusion

As it relates to the child care sector and the financing of child care, a contract would be an agreement between OCDEL and the child care provider which involves a commitment of funds or resources for a specified time period, laying out the conditions that the provider must meet to access those funds and be in compliance. Contracts are an essential financing tool to address specific child care policy goals, including policies that support the workforce. This report includes the following recommendations for the Administration and considers the [Infant Toddler Contracted Slots Program Policies, Guidance, and Clarifications](#), updated July 1, 2022:

Overall Policy Goals:

1. Stabilize the child care system through more infant-toddler contracted slots.
2. Increase the payment per slot to pay closer to the cost of quality.
3. Ensure contracted slots are available to all provider types and meet the unique needs of home-based providers.
4. Support more families in accessing ITCS in high-quality programs.

Financing Structure:

1. Reserve only a portion of state-wide slots for contracts.
2. Make contracts multi-year to provide financial stability and renewable based on performance.
3. Pay a portion of the contract upfront to cover startup costs.
4. Guarantee a portion of the contract based on a minimum level of enrollment.
5. Require that salary scales are included and explicit in the contracts.
6. Consider including other benefits within contracts.

Monitoring Structure:

1. Extend withheld funding to 45-days for providers unable to fill ITCS.
2. Support providers unable to maintain enrollment with an outreach plan.
3. Allow ITCS to be distributed across ELRC regions to serve more infants and toddlers.
4. Pilot implementing equity reporting requirements for participating providers.

Embedding Equity:

1. Provide technical assistance to programs throughout the contracting process, including pre-application, implementation, monitoring, and reporting.
2. Provide the application, reporting forms, letters, brochures, and other documents and communication in languages other than English.
3. Prioritize providers in child care deserts and specific settings, such as family child care providers, and support all aspects of the workforce. Clearly state that a goal of contracted slots is to reduce inequities within the child care system.
4. Ensure that contracts include rates that cover the cost of care, to allow for adequate compensation and benefits.

Implementation of these recommendations will require changes to the Commonwealth Procurement Code, therefore, we recognize that action by the General Assembly is a vital part of the implementation.



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