

# Untapped Potential?: How States Use Contracts to Shore Up Child Care Choices

Rachel Schumacher, Senior Policy Analyst

Center for Law and Social Policy

1015 15<sup>th</sup> Street, NW Suite 400

Washington, DC 20005

Phone: 202-906-8005

E-mail: [rschumacher@clasp.org](mailto:rschumacher@clasp.org)

Region X State Child Care Administrators Conference

July 9, 2003 (modified for web posting August 13, 2003)

# Presentation Overview

- What do we mean by contracts?
- Why consider contracts?
  - Why the child care market is problematic
- The view from the federal level
  - Are contracts ok under CCDF rules?
  - What is current practice?
- What do states use contracts for?
- Details on how states implement contracts
  - Selection, payment, and monitoring policies
- Recommendations for next steps in your state

# What Do We Mean by Contract?

- 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 slots which will be paid for by the state so long as contracted state program and attendance requirements are met.
- In some states, a family may establish eligibility for child care with the provider directly or through the same process as voucher clients.
- Payment may be made prior to or after service provision, and the rate may be based on negotiation between the state and the provider.
- NOT: contracts made with providers to assure they will accept voucher clients should they choose the program.

# Why Consider Contracts?

- Gaps in child care supply persist despite increased funding for child care vouchers in '90's
  - Infant and toddler care
  - Non-traditional hours
  - Geographic regions, e.g. rural or low-income areas
- Features of child care market impede all-voucher system effectiveness in assuring parental choice
  - Parents not likely to have full information
  - Not easy for low-income parents to switch providers
  - Providers not willing to take risk to open without more guaranteed clientele in rural or low-income areas

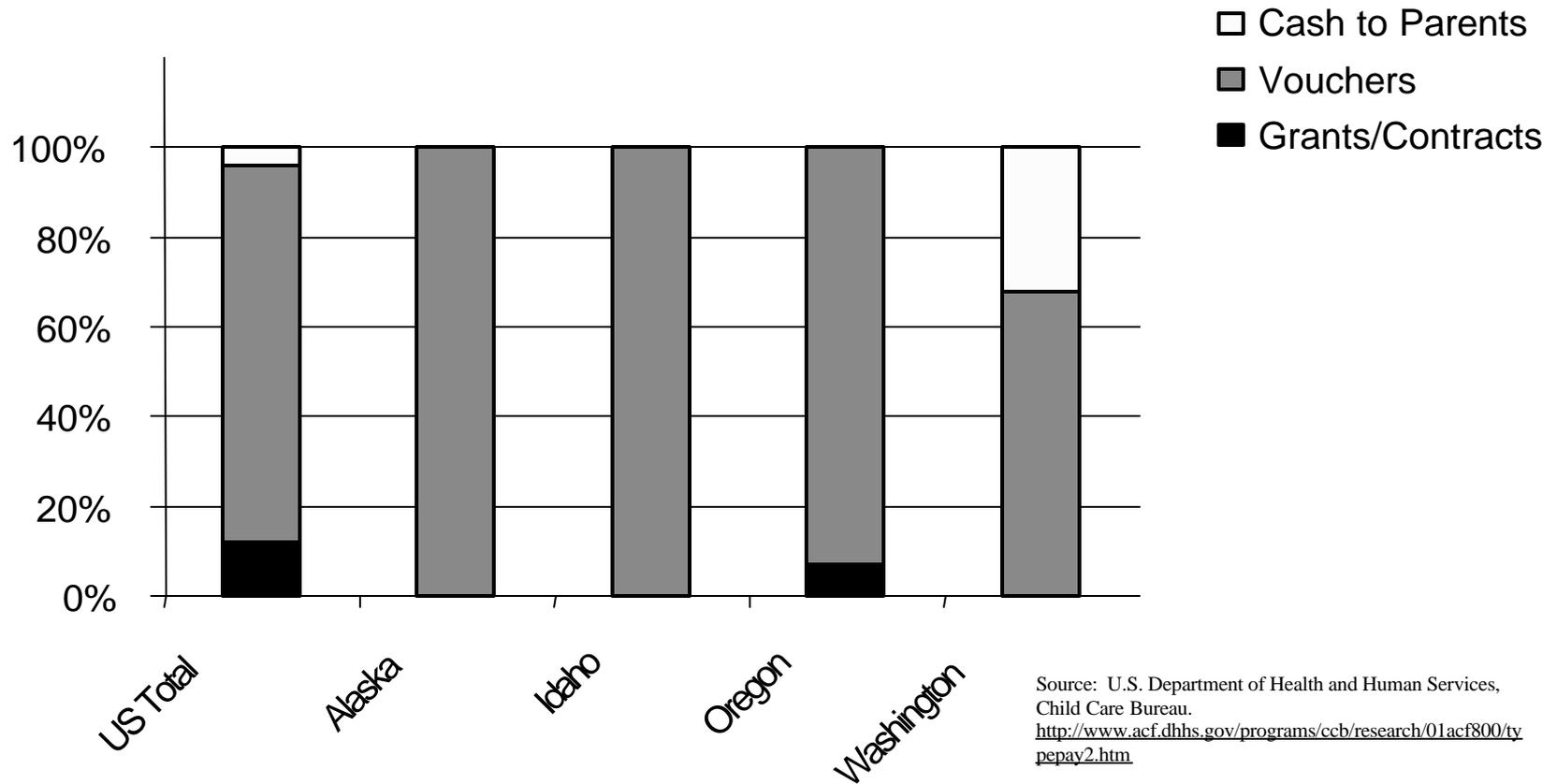
# Why Consider Contracts? (cont'd)

- Policy trends and expectations for early care and education programs:
  - Good Start, Grow Smart: increased opportunity to promote child outcomes and early learning in child care
  - Need for more coordination and collaboration with Head Start and prekindergarten programs
- Increased ability to monitor program quality and ensure accountability

# CCDF Federal Law: What is Allowed?

- Before 1990 passage of CCDBG, states were not required to use vouchers
- Current CCDF law says parents should have a choice of child care through a voucher or a contracted slot
  - Regulations further clarified that parents offered a contract slot must also be offered a voucher
  - Parents offered a contract must be able to choose a provider “to the maximum extent practicable”
- States have authority to set payment rates for providers based on market rate surveys and additional facts
  - States must submit in CCDF biennial plans a summary of facts relied on to determine payment rates are sufficient to ensure equal access provisions are met
- Contract rates may be set separately from vouchers

# Percent of Children Served by Payment Method For U.S. and Region X States FY 2001



Source: U.S. Department of Health and Human Services,  
Child Care Bureau.  
[http://www.acf.dhhs.gov/programs/ccb/research/01acf800/ty  
pepay2.htm](http://www.acf.dhhs.gov/programs/ccb/research/01acf800/typepay2.htm)

# What are State Practices?

- According to national data, 12% of CCDF subsidized children served through contracts in FY 2002
- CLASP study found 24 states reporting use of contracts in 2002
- States vary in the extent to which they rely on contracts
  - Ranged from 1% to 52% of subsidized children
- States contract with a variety of providers
  - Centers, family child care networks, Head Start, schools, and community based service agencies

# Why Do States Use Contracts?

- To create and stabilize slots in certain areas
- To provide child care to meet needs of special populations
- To extend the day and year of care for children in Head Start
- To improve the quality of program standards and to enhance the services provided by child care providers to low-income children

# To Create and Stabilize Slots

- In low-income areas (12 states)
  - Communities that might otherwise be unlikely to support stable regulated child care
- In rural areas (3 states)
  - Communities in which the range of child care choices are often limited

# To Provide Care for Special Populations

- Infant and toddler care (10 states)
- Care for children with special needs (7 states)
- Out-of-school-time care (8 states)
- Care for children of teen parents (4 states)
- Migrant child care (3 states)
- Children in protective services (3 states)
- Non-traditional hours (3 states)

# To Extend Head Start Day & Year

- 14 states use contracts for this purpose
- Usually explicitly require programs to follow federal Head Start Program Performance Standards in the contract, including:
  - Requirements for provision of health, social, nutrition, parental involvement and other services
- Often waive fees for these families, since Head Start services are provided free of charge

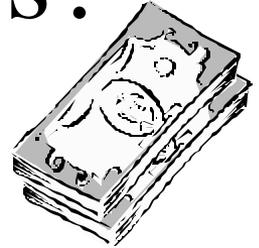
# To Enhance Program Standards and Services

- Require higher standards of child care providers (12 states), including:
  - Higher staff to child ratios
  - Higher education levels
  - NAEYC accreditation
  - Specific performance standards, e.g. Head Start's
- Support family child care networks (6 states)
- Require and support comprehensive services, including health and social services (2 states)

# How Do States Choose Providers?

- Put out Request for Proposals (RFP's), 2 methods
  - Automatic renewal, unless fail to meet conditions
  - Limited time period contracts that are open for competitive bid once completed
- Review proposals based on pre-established criteria including:
  - Need in area, history of compliance with licensing, quality of teaching staff, past contract performance
- Or: Make contracts with needed providers without RFP
  - Head Start programs, migrant service providers, community colleges

# How Do States Pay Providers?



## ■ Prospective payment

- Funding level determined in advance, and payment prior to delivery (3 states)

## ■ Combination

- A portion of funding paid up front, the rest paid on a reimbursement basis (5 states)

## ■ Reimbursement

- Child care services delivered prior to payment (10 states)

# How Do States Pay (cont'd)

- Most states include a minimum days attendance requirement in contract
  - Per child or aggregate for all children served in program
- State methods in setting payment levels vary:
  - Same as under voucher system
  - Negotiated with each provider based on their costs and quality of services
  - Set base level, with annual COLA's
  - Allow provide to keep parent copayments as added incentive
  - Waive copayment entirely in some cases, e.g. Head Start programs

# How Do States Monitor Providers?

- Nearly all states say additional monitoring beyond licensing is a required condition of contracts
  - A few conduct in-depth evaluation using environmental rating scales (e.g. ITERS, ECERS)
- Nearly all states conduct on-site visits annually
  - 11 do in-depth visits to review financial, attendance, eligibility, and programmatic information
- State administrators report closer relationships with providers, better knowledge of program strengths and weaknesses that can inform state training and technical assistance priorities
- *Example: California has implemented an child and family outcomes based monitoring system requiring programs to self-assess and collect relevant data annually*

# How Do Contracts Effect Parents and Providers?

- Parents find out about contracted slots from the same sources as vouchers
- Slot is tied to provider, not child, so parents seeking to switch providers may need to re-apply unless policy allows transition into voucher once established eligible
- Providers are more likely to conduct outreach to keep slots full
- Some states allow contract providers to conduct eligibility on site, which may ease access for parents
  - States must develop reporting systems and oversight policies
- Providers prefer and compete for contracts

# Next Steps for States



- Identify unmet needs in your state for types of care, supply, improved program standards to meet outcome goals, etc.
- Learn from state administrators with experience using contracts for same purposes
- Tell federal and regional staff what technical assistance needs you have
- Implement pilot or limited scale contract projects
  - Evaluate whether contracts help you meet your goals, and provider and client response
- Consider building in higher program standards for contract providers above state licensing standards
  - Potential tool to encourage collaboration with Head Start and pre-k