Early Educator Central
Pathways to Credentials and Degrees for Infant-Toddler Educators

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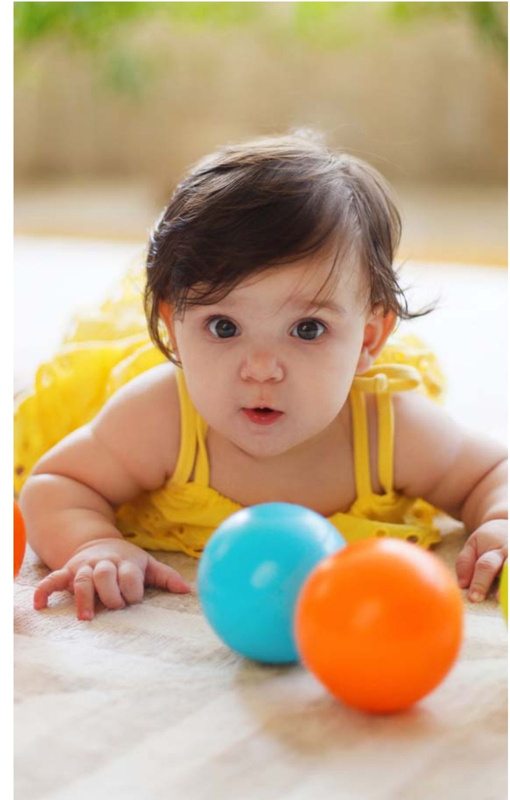

Financing High-Quality Center-Based Infant-Toddler Care:

Options and Opportunities

2015

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Early Educator Central
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Introduction

A growing number of infants and toddlers spend many hours of the day in out-of-home care (Child Trends, 2013). National research has underscored that early experiences shape brain development and provide a foundation for all future learning, behavior and health. A strong foundation and positive outcomes for infants and toddlers is most likely when their early learning settings follow appropriate health and safety practices, have age-appropriate environments, small groups, low staff:child ratios, and employ well-trained staff engaged in responsive, individualized caregiving (Center on the Developing Child at Harvard University, 2007). Best practice is no more than one caregiver for every three or four babies (National Association for the Education of Young Children, 2005). Thus, even when caregivers earn poverty-level wages the cost is often more than most families can afford to pay. According to Child Care Aware of America, market prices for an infant-toddler slot in a child care center range from about $5,496 in Mississippi to $16,549 in Massachusetts (Child Care Aware of America, 2015). It is important to underscore, however, that these are market prices. Efforts to estimate the actual cost of delivering services for infants and toddlers, using methodologically sound cost modeling, reveal that actual costs typically exceed market prices (Mitchell & Stoney, 2010). In most cases, early care and education programs offer infant-toddler care at prices that are below cost by averaging expenses across all ages and supplementing parent fees with funds from a range of public and private third party sources.

A Note About This Paper

This paper explores strategies for financing early care and education services for infants and toddlers that is delivered in market-based child care centers, defined as centers that rely primarily on revenue from tuition and fees paid by families or CCDF subsidies paid by government on behalf of a specific child. While the strategies described in this paper may in some cases have relevance for child care services delivered in family child care homes or in centers directly operated by Early Head Start/Head Start grantees or school districts, the intention is to focus on the unique needs of child care centers that rely primarily on market forces to generate revenue. These small businesses play an important role in state early care and education systems and pose unique challenges for policymakers who see to effectively finance infant and toddler care.

This paper focuses on child care financing options and opportunities in market-based child care centers, which deliver a significant percentage of early care and education (ECE) services in the United States. Clearly, funding streams such as Early Head Start play a growing role. However, in most cases, these dollars are administered in partnership with market-based child care. The

paper is designed to help policy makers, funders, ECE leaders, and providers think strategically about how to finance care for infants and toddlers framed around the following principles:

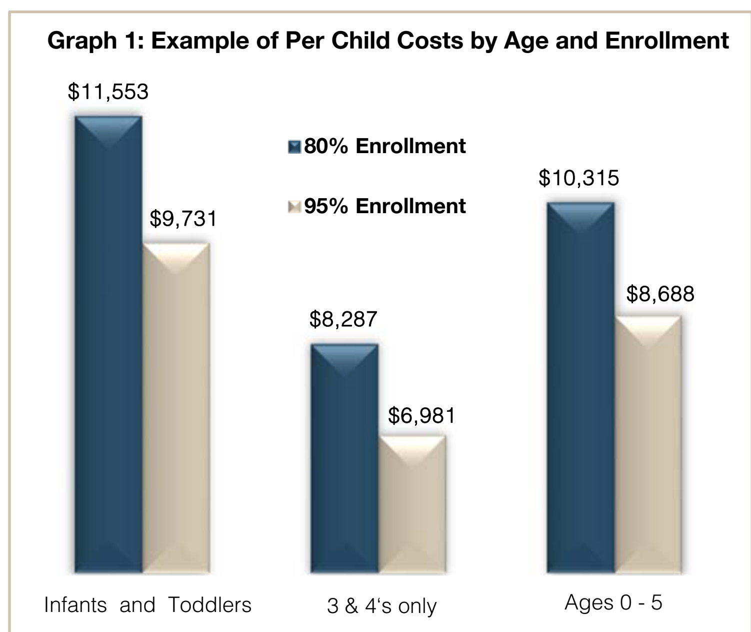
1. Know what high-quality infant-toddler care costs.
2. Explore financing strategies that link public reimbursement to cost rather than price.
3. Ensure that service providers can successfully collect revenue, including private tuition, in full and on time.
4. Understand the unique role of ECE as both a market-based service and a public good.
5. Think outside the box, and explore a range of funding sources and financing strategies.
6. Encourage and support system building at the provider level, so that ECE service providers are able to support both pedagogical[1] and business leadership[2] in all sites.

[1] Pedagogy is the discipline that deals with the theory and practice of education; it concerns the study and practice of how best to teach.
[2] Most ECE in the United States is delivered in small businesses (tax paying and non-profit) that must not only provide effective teaching but also generate enough revenue to attract and retain qualified teachers and cover all overhead costs.

1. Determine What High-Quality Center-Based Infant-Toddler Care Costs

Even if you don't have enough revenue to fully fund high-quality infant and toddler care, it is important to know what it costs so that you think more strategically about financing strategies. To assist state leaders in estimating costs, the Office of Child Care supported development of an online tool called the Provider Cost of Quality Calculator (PCQC).[3] This tool essentially models the cost of providing child care services at various levels of quality, and can be linked to Excel spreadsheets that make it possible to test the fiscal impact of various policy options and administrative strategies. When using the PCQC, or another cost modeling approach, it is important to consider the following key points:

The costs for an ECE center as a whole, including all children, classrooms and funding streams. Determining the cost of delivering services based on a single funding silo (e.g., only Head Start or public preK) or for just one specific classroom (even if that classroom is nested in a larger program/school) or age cohort will produce misleading data. Thus, when you build cost models, do so under the assumption that you are modeling the cost of running a full day, year round child development program. Look at how the number of infants and toddlers served affects the average cost per child. (Graph 1, right, is a hypothetical example based on data from one state.) The quickest way to balance a child care budget is to eliminate the infant classroom, and this is often an unintended consequence of investments focused solely on preschool for 4 year olds. Policy makers need to understand this tension and explore approaches to policy and finance that will mitigate unintended consequences and promote high-quality services for children of all ages.



Early Head Start grantees that enter into partnerships with child care agencies should carefully consider the differences between the ratios mandated for Early Head Start by the Head Start Program Performance Standards and for child care by state licensing when determining costs and establishing per child reimbursement. Since personnel is the largest portion of an ECE program budget, lower ratios mean higher costs. ECE programs located in states with high staff:child ratios that enter into partnerships with Early Head Start grantees are likely to need

[3] For information on how to download and use this tool, go to https://www.ecequalitycalculator.com/Main.aspx.

significantly higher rates of per child reimbursement to successfully meet the Head Start Program Performance Standards. Mitchell developed a tool to help estimate these costs (Mitchell, 2014).

The fiscal impact of market conditions such as high vacancy rates (less than optimum enrollment), sporadic attendance, and inconsistent family fee collection. These factors can significantly affect costs in a voucher-based ECE payment system as well as a Child Care and Development Fund (CCDF) that pays on the basis of each child's enrollment or a blended funding approach. Full enrollment is essential to the bottom line and yet, given the recent recession economy, many early childhood programs have struggled to maintain consistently full enrollment. Additionally, unlike public schools (where every child is funded and payment is based on a single enrollment count date) or Head Start (which pays prospectively and holds programs accountable for average attendance for a classroom or center as a whole), most child care funding is a per child allocation based on the actual time that a specific child is in attendance. Moreover, child care assistance dollars are not only limited to families with very low incomes (about 75% of states cap eligibility for child care assistance at or below 200% of the federal poverty level) but available to only a fraction of eligible children (National Women's Law Center, 2014). As a result, many child care centers cannot count on consistent funding every month—especially if they are located in a low-income community—even when they are serving children who are categorically eligible for assistance. To make ends meet these center administrators must constantly recruit children (to keep every seat full, every day) and collect fees in full and on time from both families and third party funders. When states fail to authorize a full-time child care subsidy, pay for absence days, or re-determine eligibility frequently, child care centers are not paid. Yet the costs of running the program remain, even if every child is not in attendance or every classroom fully enrolled. Cost modeling must take these losses into consideration.

These issues are also relevant for partnering Early Head Start and child care programs. Federal Early Head Start funding is prospective, typically based on enrollment by classroom, and guaranteed for several years even if the child's family becomes categorically ineligible during that year. To extend these positive practices to infant-toddler child care partners, Early Head Start grantees will need to recognize that the child care funds partners bring to the table are not as consistent or stable. Early Head Start partners may need to be prepared to cover the cost of these gaps in service if state CCDF policy is not revised or if funding is unavailable to cover the additional costs of Early Head Start practices.

The impact of program auspice on cost. Per child costs in larger entities with multiple sites are often lower than in a small, stand-alone center. In most cases, multi-site providers, or large non-profit agencies that offer a host of services in addition to child care, are able to offer internal staff supports. Such supports make it possible for child care classrooms to meet and sustain quality standards—such as internal coaches or site directors with administrative supports that free up time to serve as instructional leaders. Additionally, larger-scale programs can spread the higher cost of infant-toddler care across multiple sites, age-groups, and classrooms.

A deeper understanding of unit costs and the benefit of scale make it possible for State Child Care administrators and program leaders of partnering Early Head Start and child care programs to think strategically about rate-setting and alternative staffing patterns. For example, in the past quite a few partnering Early Head Start and child care programs have created a hub agency to house shared staff that support comprehensive services and family supports. This approach was rooted in the notion that small sites simply don't have the scale to hire skilled family support staff, nor do they have the time to perform these tasks themselves. A similar approach could be used to strengthen fiscal and administrative capacity within partnering Early Head Start and child care sites in a cost-effective way. This would help directors at small sites not only focus on quality improvement tasks such as teacher observation and feedback, curriculum support or helping classroom teachers arrange home visits, but also potentially boost revenue collection through stronger, more focused business leadership.

Cost modeling strategies make it possible to understand the cost of delivering high-quality infant-toddler care in a more sophisticated way. New CCDBG policy enables states to use that knowledge to craft alternative financing strategies.

2. Explore Financing Strategies That Link Public Reimbursement to Cost Rather Than Price

In May 2014, the Administration for Children and Families issued new proposed regulations for CCDF that make significant changes in how states may set rates for child care services. Previously, states were required to conduct a market rate survey every two years and to use this survey to guide rate setting. The new rule refers to the survey as a market *price* survey—a more accurate description, given the data gathered. Importantly, reauthorization allows states to use an alternative methodology, such as cost modeling, to determine payment rates (U.S. Department of Health and Human Services, 2014). In addition, for infant-toddler services, the law allows activities to focus on increasing both supply and quality.

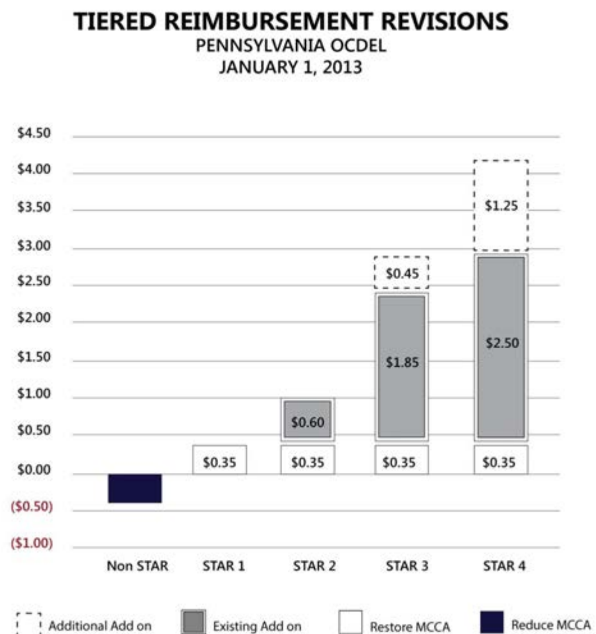
The cost modeling approach makes it possible to establish a reimbursement rate for infant-toddler care as well as other services based on the likely cost of delivering services at a particular level of quality. Standards such as teacher training and education, staff:child ratios and group sizes, required supervision or comprehensive services can be modeled and revised to better reflect the cost of delivering services at each level of a quality rating and improvement system (QRIS) or other program or funding standards.

The PCQC examines costs from the perspective of a service delivery provider and creates a hypothetical budget for the center or home, including estimated costs as well as likely revenue. The tool demonstrates whether there is a gap between the cost of producing services and the revenue sources available. Individuals can use this information to inform rate setting as well as the design of other financing strategies or funding partnerships with Early Head Start/Head

Start, preK and others. The tool also demonstrates the financial implications of factors such as the ages of children served, number of classrooms and family supports as well as the effects of improving efficiency in provider operations (e.g., boosting enrollment and fee collection). Individuals can also use Excel spreadsheets to compare the cost of delivering services at multiple levels of quality and test policy revisions so that rate levels, tiers and incentives are more appropriately linked to costs.

We follow with examples of how a few states have used cost modeling to improve public investment strategies in early childhood, one of which included an infant-toddler strategy.

Pennsylvania. Several years ago, the Pennsylvania Office of Child Development and Early Learning used cost modeling to better understand the differential costs of the state's Keystone STARS program, its QRIS. The analysis revealed that the state was inadvertently incentivizing Star 1 participation and contributing to major budget shortfalls in the highest Star rating because the payment rates and grant award structures were not aligned with the state's quality expectations. A majority of providers were at Star 1 and the aggregate number of providers at each star level had essentially remained flat over time. In short, providers were not moving up the Star ladder. Using this cost modeling data, a new proposal, known as Rising STARS, re-structured rates and financial incentives to more closely align with program costs. A presentation describing the Pennsylvania experience underscores the key point: "An effective financing strategy is not just about additional funds; it is also about redirecting existing funds to meet our policy objectives" (Barrett, Klunk, Mitchell, & Workman, July 2014).



Delaware. Delaware used cost modeling methodology to determine if financial supports and incentives offered as part of the Delaware STARS program, its QRIS, were calibrated correctly. The Delaware analysis revealed significant financing gaps, similar to those in Pennsylvania, with a set of recommendations to address the gaps. The severity of the gap for infant-toddler services was noted. Delaware moved from analysis to action, making a number of reforms within Delaware STARS that included additional infant-toddler as well as other financing and program reforms (Delaware Office of Early Learning, 2014).

Louisiana. Both of the examples cited above adjusted rates and financial incentives for the State's QRIS, including Delaware's specific infant-toddler focus. A similar approach could be used to craft policy aimed at leveling the playing field between school-sponsored and market-based early childhood programs. The Louisiana Department of Education used cost modeling to inform the development of a statewide funding model for ECE that was requested by the Legislature to include services that were provided in public, private and charter schools as well as market-based child care centers. Modeling helped staff to test a range of policy options and costs; the final Funding Model Calculator included the option of increasing access for younger-aged children and in market-based settings by boosting the rate significantly and lowering family co-payments in higher quality settings (Louisiana Department of Education, 2014).

> The only way to keep an infant-toddler classroom open—without a third party funder willing to heavily subsidize costs—is to also serve children of older ages and spread the costs.

Examining the cost of delivering ECE services from the provider perspective underscores that the market price of infant and toddler care rarely covers actual expenses. In short, the only way to keep an infant-toddler classroom open—without a third party funder willing to heavily subsidize costs—is to also serve older children to spread the costs. However, as Graph 1 (see page 2) demonstrates, the average per-child cost for a program that serves children ages 0-5 is still significantly higher than the average per-child cost for a program that serves only 3- and 4-year-olds. States that want to incentivize center-based infant-toddler care might want to consider paying a higher preschool rate for programs that also serve babies. While this might appear counter-intuitive, it is a policy option that is directly linked to cost data. It will help address the market incentive to close infant-toddler classrooms (which lose money) and replace them with classes of preschoolers or school-age children (which could make money or, at the very least, break even).[4]

Layering Funds from Multiple Sources or Braiding. Cost modeling helps inform policy regarding braiding or layering funds from different sources. As noted earlier, the cost of delivering infant-toddler services needs to be considered from the perspective of a center as a whole, rather than a single classroom or child linked to a specific funding stream. Cost modeling can estimate overall program costs, by age of child and required standards, and then take into consideration revenues from multiple sources (such as CCDF child care assistance, quality grants, Early Head Start, etc). Creating a hypothetical budget based on the estimated cost of meeting all applicable standards, and applying dollars from each potential funding stream, can help ensure that the rates and payment policies established by each funder collaboratively support costs in an appropriate way. This approach addresses the concern that ECE providers might be double dipping by enabling all funders to work from a collaborative budget framework

[4] This result could also occur in family child care, where the increased cost of serving children under 2 years of age is typically not covered by the infant/toddler rates, thus creating an incentive to serve older children. However, given that few states allow preK funding to be used in home-based care, the market for preschool aged children might not be strong enough to produce an adverse incentive.

that is rooted in shared costs. Given the high cost of infant-toddler care and the likelihood that programs will need to tap multiple funding streams in order to deliver high-quality care, a collaborative budgeting approach is especially important.

In addition to supporting collaborative budgeting and rate-setting, and providing a deeper understanding of cost gaps and variance, early care and education provider cost modeling makes clear that funding from the Child and Adult Care Food Program (CACFP) can be a significant source of revenue. Given that CACFP is one of the only remaining open-ended federal entitlement programs, boosting use of this funding stream is an important financing strategy. Several states (including Maryland and Minnesota) require and/or give points for CACFP participation in their QRIS. Enabling larger centers to sponsor CACFP participation for other smaller centers (a shared services approach) is another way to boost participation (Tatum, Polk, & Miller, 2013).

3. Ensure That Service Providers Can Successfully Collect Tuition and Fees In Full and On Time

Understanding the cost of delivering high-quality services and establishing public subsidy rates and payment policies that more accurately reflect costs is an essential first step. However, early care and education program income is also profoundly influenced by two other factors: enrollment and fee collection. These three factors form the “iron triangle” of early care and education finance (Stoney & Mitchell, 2010). Paying close attention to the three sides of the iron triangle is key to sound fiscal management. State policy regarding subsidy authorization, absence policies, and parent fees for families that receive public subsidy can support or hinder sound finance and fee collection.

Unlike public education, child care tuition and fees—including public subsidy administered as vouchers to help families pay tuition and fees—is the primary source of revenue for most ECE programs that serve infants and toddlers. Although programs that receive only Early Head Start dollars are not permitted to collect fees, these programs represent a fraction of the providers that offer infant-toddler care in the United States. For most ECE programs, effectively collecting tuition and fees (or third party payment in lieu of tuition) is essential to sustainability. If the children are not enrolled, funding does not flow. This makes full enrollment a cornerstone of ECE finance, regardless of whether the program relies primarily on public subsidy funds or private tuition or a combination.

Unless a program is over-enrolled (a practice that is generally prohibited in licensing regulations because it could result in attendance that exceeds ratio and/or group size limits), it is not possible to operate at 100% enrollment. While some experts suggest that a well-run center can operate at 95% enrollment, many suggest budgeting at a more achievable rate, such as 85% enrollment (Morgan & Emanuel, 2010). Regardless of the target, any time enrollment drops below the budgeted target, an ECE program is losing money. Sadly, the recession economy and subsequent government budget cuts have had a chilling effect on enrollment in many market based ECE programs—including those of high-quality. National data on vacancy rates in

ECE programs are not available; however, a few state and local surveys have underscored the severity of the problem (Child Care Council of Westchester, 2014; Keany & Leventon, 2014; University of Florida Partnership, 2013; Quality Care for Children 2013).

In addition to full enrollment, ECE programs that rely on CCDF child care subsidy must focus on *attendance.* According to the National Center on Child Care Subsidy Innovation and Accountability (NCCSIA) only six states (Connecticut, Idaho, Maine, New Mexico, Pennsylvania and Utah) report that they pay for child care on the basis of enrollment; the remaining states reduce payment if an individual child's attendance exceeds a monthly or annual limit set by the state. But the cost of providing child care services does not decline when a child is absent (a teacher cannot be sent home unpaid because her classroom is not full that day). From the perspective of a child care provider, state absence policy means reduced revenue. It is another reason to limit service to subsidized children who are likely to be absent frequently, such as children of teen moms or child protective services cases—often, the children who most need high-quality ECE.

Another state child care policy that can widen the gap between costs and revenues is authorizing child care subsidy for less than full-time hours. States often limit child care assistance to the hours parents are working, which means they do not pay for a full-day/full-year child care slot. To ensure compliance with ratio requirements, child care centers must staff classrooms for full enrollment; costs do not drop significantly just because a child is not in attendance. And the likelihood of finding two part-day children with schedules that mesh well enough to equal a full-time slot is slim. In short, part-day authorization benefits state budgets and lowers the rate paid to providers. Given that centers already lose money on infant-toddler care, this practice just widens the gap.

> Establishing lower parent fees for higher-quality care is an additional financing strategy, and one that might encourage parents to make better choices.

Tuition and fees (or child care subsidy, in lieu of tuition) only becomes revenue when it is collected. Too many early childhood programs have a budget that balances on paper but the cash just doesn't come in the door. This is particularly true for market-based child care programs that serve low-income families and vulnerable children. State policy can exacerbate this situation when family co-payments are too high, payment for absences is very limited or a full-day subsidy is not authorized.

Establishing effective, and affordable, co-payments can be challenging. When crafting policy, it is important to keep in mind that co-payments are typically subtracted from the state's market rate ceiling, and that most states permit providers to charge families a second fee when the rate ceiling falls below the provider's market price (National Women's Law Center, 2014). While this double co-pay scenario is optional, it can result in fees that are so high even subsidized families find care unaffordable. Many states establish a per-child fee that appears affordable when only

one child is in care but can quickly add up when a family has multiple children who need care. Co-payments that are based on a percentage of the state's CCDF reimbursement rate ceiling is another common practice, and one that typically results in higher co-payments for higher-quality care.

The new CCDF rules require states to re-think co-payment policy and to base fees on family income. This offers a new opportunity to re-think policies, address prior inequities and test out new ideas. Some states have begun to explore tiered co-payments that decrease a family's co-payment as the QRIS level of their child care provider increases. Colorado and Oregon recently passed legislation establishing a tiered co-payment structure linked to provider quality (Oregon HB 698 § 417.728; Colorado HB 14 § 1317).

The bottom line is that financing infant-toddler care is not just about establishing a reimbursement rate ceiling that reflects cost. It is also about establishing rate policies that promote authorization of full-time care and pay on the basis of enrollment rather than attendance, as well as co-payments that are truly affordable for families. Head Start and Early Head Start have long recognized the importance of continuity of care and built these policies into their standards (e.g. ensuring that Early Head Start children can remain enrolled until they reach the age of three). A growing number of states are exploring the feasibility of enacting similar policies for care funded by CCDF dollars.

4. Understand the Unique Role of ECE as Both a Market-Based Service and a Public Good. Effective Public Policy and Finance Strategically Responds to Market Conditions.

Leaders focused on increased funding for early childhood services tend to cast a wide net and encourage funding from whatever source is most likely to garner results. Indeed, expanding funding for ECE will require funds from multiple sources. However, there is growing evidence that funding limited to 4-year-old children, even in cases of diverse delivery, can significantly impact the cost and supply of ECE for infants and toddlers. Examples of this unintended consequence include the following.

Encouraging centers to close infant-toddler classrooms and serve more 3 and 4 year olds. The easiest way to balance an ECE budget is to eliminate more expensive infant-toddler classrooms and fill these rooms with preschoolers where staff:child ratios can be higher. State and local governments engaged in universal preK initiatives have begun to experience this phenomenon (Keany & Leventon, 2014). PreK initiatives are not the only culprit, however. State or local governments that base reimbursement on market prices (that tend to average costs across age groups) or set public infant-toddler reimbursement rates far below the cost of care also inadvertently encourage providers to reduce slots for infants and toddlers. A similar phenomenon occurs in family child care when market prices and reimbursement rates for infant-toddler care are too low and home-based providers are able to fully enroll with preschool aged children.

Creating one high-quality classroom in a center that is unable to offer similarly high-quality services to all of the children they serve. Centers may receive the dollars and technical assistance/quality improvement supports needed to improve one classroom but cannot improve the quality of care in all of the center's classrooms. As partnerships between market-based child care settings and Early Head Start/Head Start or preK grow, this could be more likely. It is important to avoid providing centers with one beautifully equipped classroom led by qualified teachers and surrounded by supports, while the remaining classrooms limp along offering whatever services they can afford with the dollars available. What outcomes will be achieved if a child receives excellent care for a year or two in a high-quality classroom only to graduate into a classroom with dangerously high ratios and poorly trained teachers? And what do we tell the mother who is able to enroll one child in a top-quality Early Head Start, Head Start, or preK classroom but must place the other child in a mediocre classroom simply because the child was not the appropriate age? Siloed funding might make sense from an accountability perspective but makes it difficult to achieve quality and integration.

Siphoning children away from high-quality, market-based ECE. Initiatives such as Early Head Start, Head Start, and most public preK initiatives, are designed to offer services free of charge. Publicly-funded child care, however, includes a parent co-payment. As noted earlier, most public ECE funding is based on parent choice and the notion that choice and competition will encourage families to choose a higher quality setting. But this often does not occur because playing field is not level. Parents with limited incomes are likely to choose a program with no fees even if there is a significant difference in program quality. As a result, in some low-income neighborhoods, top-quality, fee-based ECE programs may struggle to remain fully enrolled when preK and Head Start classrooms open nearby. As underscored earlier, full enrollment is essential to the bottom line. Without full enrollment, child care centers must cut corners and quality suffers. The recent Early Head Start-Child Care Partnership initiative is aimed at addressing this inequity. However, without careful planning, cost-modeling, and alignment of state CCDF policy and resources, low-income and working class families with infants and toddlers could be challenged to find affordable and quality services.

Developing effective policy to bridge funding silos and support an overall system of ECE services for children of all ages is not easy. But alternative strategies are possible and deserve to be explored.

5. Think Outside the Box and Explore a Range of Funding Sources and Financing Strategies

While the primary source of public funding for infant/toddler care is the federal Child Care and Development Block Grant and Early Head Start dollars, there are other ways to tap state and local general fund dollars. Several of these are described below.

Tax Credits. Tax credits—which are direct, dollar-for-dollar, reductions in taxes owed – can be used as a financing strategy as well as a reward for different kinds of behaviors. When the credits are made refundable they can also be an effective way to reach vulnerable children and families as well as low-wage practitioners. Several states have used this approach to help finance high-quality care that can include infant-toddler services (Blank & Stoney, 2011). Louisiana, for example, established a package of refundable School Readiness Tax Credits directed to families who purchase higher-quality child care, providers who operate higher-quality child care businesses as well as the teachers who work in them, and businesses and individuals who donate money to support early care and education services and/or quality improvements. The National Women's Law Center recently analyzed the impact of these credits and found that:

> To each of these stakeholders, the credits provide meaningful assistance to improve quality. With the exception of the portion of the Parent Credit for families with income above $25,000, the credits can be worth thousands of dollars for claimants—including as a tax refund for claimants with little or no tax liability. The credits also complement each other—often providing overlapping and mutually reinforcing benefits—and are integrated with the Louisiana Quality Start Child Care Rating System (Quality Start), the state's voluntary system for rating child care centers; with Louisiana Pathways Child Care Career Development System (Pathways), the state's child care career development system; and with the state's Child Care Assistance Program (CCAP) Campbell, Entmacher, Blank, & Matsui, 2015).

States such as Oregon and Colorado have also used tax policy to help finance early care and education. These states have crafted contributions credits aimed at supporting family child care networks (Oregon) and child care centers (Colorado) (Blank & Stoney, 2011). While none of the tax credit strategies used by states to date are focused specifically on high-quality infant-toddler care, it is entirely possible to craft a tax credit strategy focused on this goal. For example, contribution credits like those described above could be focused on programs that serve infants and toddlers. Or a higher School Readiness Tax Credit could help programs or practitioners that serve infants and toddlers.

Taxing Districts. Nearly thirty years ago Florida passed legislation that enables counties to create a special taxing district, led by a local governing board, known as a Children's Services Council (CSC). CSCs approved by voters not only have taxing authority but also become a local government body that oversees funding for programs and services for children and their families. To date, eight Florida counties have established CSCs, representing the most populous counties in the State, two of which—Miami-Dade and Broward Counties—are among the most populous counties in the nation. More than 45 percent of Florida's children live in a county with a CSC. The approach has been very successful. For an approximate average annual cost to the taxpayer of $50 to $60 per year, CSCs are able to fund programs for children and families that meet the specific needs of the people living in their communities. Total dollars

raised by the taxing district varies by county, ranging from about $7.8 million in St Lucie County (population 285 thousand) to over $87 million in Miami-Dade (population 2.6 million.)

California used a somewhat similar strategy to create a state-level Children and Families Commission and 58 county Children and Families Commissions, collectively known as First Five California. Unlike Florida, the Commissions do not have taxing authority. Instead, they are funded by a tobacco tax, authorized by the Children and Families Act of 1998, which is commonly referred to as Proposition 10. Approximately $700 million each year is collected from the tobacco tax, 80% of which goes to the County Commissions to fund local programs for children birth to age 5. County Commissions determine how dollars are spent and some, such as Fresno and Los Angeles, have prioritized funding for infant and toddler services.

Social Impact Bonds. A Social Impact Bond (SIB), also known as Pay for Success financing, is a contract with the public sector in which a commitment is made to pay for improved outcomes that result in public sector savings. Social Impact Bonds operate over a fixed period of time but do not offer a fixed rate of return. Repayment to investors is contingent upon specified social outcomes being achieved. SIBS for early childhood interventions have thus far focused on preK and home visiting, due to a research base which shows that effective early childhood programs not only produce long-term benefits for children but can also demonstrate some returns (such as savings in special education/early intervention) fairly quickly, so investors can expect to be repaid within a 5 year window (Gustafsson-Wright, Gardiner, & Putcha, 2015; J. Dubno, personal communication, June, 2015).

Financing services for infants and toddlers with SIBS is challenging for several reasons, including: 1) it is hard to isolate a single research-based intervention for infants and toddlers because the services tend to be funded by multiple public entities with different rules and requirements; 2) it is difficult to show that a particular intervention caused specific outcomes; 3) establishing a control group is not easy; and 4) there is a longer time lapse between the intervention and measurable outcomes. Additionally, the per-child costs of high-quality infant-toddler services are very high, and investors could potentially wait many years before they see a return on investment.

A recent paper prepared by Gruendel and Golden (2014, p.8) from the Institute for Child Success concluded that while SIBs could possibly be used for services to children younger than age three, the financing strategy “should be a fallback plan. It would be better if government adequately funded high-quality infant and toddler care.” Gruendel and Golden suggest that a few “promising” infant-toddler initiatives, such as the Early Head-Start funded All our Kin in New Haven Connecticut, might be candidates for SIBs “if they build their evidence base or secure philanthropic partners” (2014, p.11).

Earmarks. One way to ensure that services for infants and toddlers receive priority attention is to establish an earmark or set aside within a broader early childhood funding stream. The federal government initially took this approach when establishing Early Head Start within the

broader Head Start funding stream. In 1997, Illinois followed suit and, when state general funds were used to establish the Illinois Early Childhood Block Grant, the legislation included a special set-aside to ensure that at least 11% of these dollars were earmarked for infants and toddlers. Block Grant dollars support the Pre-Kindergarten Program for Children At Risk of Academic Failure, a program that serves 3- and 4-year olds (and five year olds not eligible for kindergarten entry) who have more than one risk factor for academic failure (Illinois Administrative Code 235 § 23).

Contracts and Grants. In most states, all public child care subsidies funded by the federal CCDF are awarded as portable vouchers that follow the child to whatever program is selected by the family. While this approach enables parent choice, available funds may be spread across so many different settings that the capacity to actually strengthen and preserve infant-toddler care is lost. Without focused effort to preserve (and improve the quality of) infant-toddler slots, the supply of care is likely to diminish. Indeed, as stable funding for preK and Head Start increases across the country, early care and education programs are choosing to convert infant-toddler classrooms into more financially solvent preschool classrooms.

One way to address this concern is to intentionally focus funding on high-quality services for infants and toddlers through contracts with selected centers. For example, Vermont contracts with 15 Parent Child Centers to provide a range of supports in addition to on-site early childhood services, that include home visiting, early intervention services or referrals, supportive case management, health/mental health, parent education, playgroups and more. The Centers focus on children with high risk factors in targeted neighborhoods. Some states contract for services to infants and toddlers in partnership with Early Head Start or another, broader child care contracting effort. States that have taken this approach include Illinois, Massachusetts, New York, California, Connecticut, the District of Columbia, Kansas (Early Head Start), and others (National Center on Child Care Subsidy Innovation and Accountability, 2013).

Paid Family Leave. Other industrialized nations have chosen to help families with infant and toddler care via paid family leave. While this strategy is not widely used in the United States, several states have begun to explore this approach. California leads the country with paid parental leave policy and law. This state provides partial income replacement for up to 6 weeks per year to care for a new baby. New York, Rhode Island, Hawaii, and New Jersey have short-term disability insurance funds that can be used to fund maternity leave. In these states, pregnancy and childbirth are considered disabilities; mothers who give birth can take time off with income replacement of usually 6–8 weeks. However, fathers, adoptive parents, or foster care parents are not eligible to receive paid family leave under a short-term disability insurance plan.

6. Encourage and Support System Building at the Provider Level So That ECE Service Providers Are Able to Support Both Pedagogical and Business Leadership In All Sites

Good outcomes for children participating in early care and education are rooted in their relationships with strong, effective adults with a focus on teaching and learning. To be effective, teachers need good supervision and opportunities for reflective practice as well as pre-service and in-service training, supportive working conditions, and competitive salaries and benefits.

For many years state leaders have focused on building systems designed to provide essential ECE supports—including professional development systems, technical assistance, coaching linked to QRIS and much more. These structures are vitally important but more work needs to be done to build stronger leadership structures and systems at the center level. Without strong, site-based leadership, ECE programs flounder and quality investments in direct services do not attain intended results. External coaching can help focus and strengthen existing leadership, but it can't replace it. All too often ECE programs fail—either because they don't have the size and resources needed to build effective management or they do not have sufficient knowledge and skills to do so. The federal government recognized this need among Head Start and Early Head Start grantees and has long supported the development of provider-based management systems within these organizations. The challenge is to extend this work into market-based child care settings.

Effective teaching also requires a stable workforce, with professional working conditions as well as decent pay that includes benefits. For years the ECE field has struggled with poverty-level wages and despite significant investments in quality improvement and state-level system building, the wages of classroom teachers have not risen significantly (Whitebook, Phillips & Howes, 2014). A key challenge is that the field is dominated by small, independent child care centers (and family-based child care homes), led by a single director with multiple responsibilities, that are simply too small to garner the resources needed to pay decent wages or support effective teaching. Market-based ECE is stuck in a treadmill of low reimbursement (based on market prices that are artificially depressed), low wages, high staff turnover and weak management. It is not uncommon for programs to struggle for many years, offering marginal services on a shoestring, before they ultimately close their doors. Cost modeling underscores that high-quality ECE centers must serve at least 100 children of mixed ages (with no more than one infant-toddler classroom in the mix), be 95% enrolled (every seat, every day), and collect all fees (in full and on time) just to break even (Mitchell and Stoney, 2010). This is an almost impossible feat, given that the average US child care center has the capacity to serve only 75 children and maintaining enrollment and fee collection levels this high requires dedicated staff focused on these tasks.

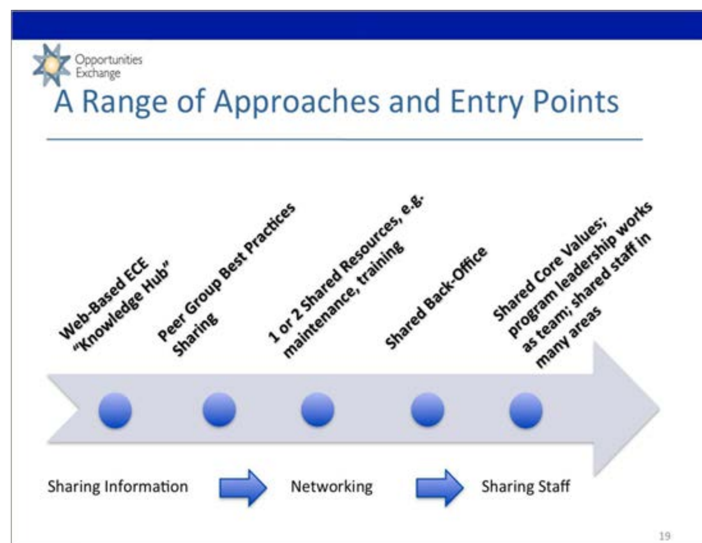
The bottom line is clear: taking quality to scale, especially for infants and toddlers, will require that ECE service providers think strategically about industry consolidation—crafting strategies to attain some economies of scale as well as a skilled management team. Several key leaders in

the for-profit ECE sector—such as Knowledge Universe and Acelero Early Learning—have focused on consolidation and centralization of management functions as a strategy to improve program quality and efficiency. However, the ECE industry as a whole is still dominated by small non-profit and tax-paying businesses. Thinking strategically about how to help these small businesses gain the benefits of scale is a key next step.

Shared services. Across the US a small group of dedicated leaders are experimenting with new approaches to ECE management rooted in the concept of shared services. These leaders are also serving a common purpose with multi-site ECE centers and other umbrella organizations that are focused on improving quality, accountability and efficiency. They are learning that effective management includes both pedagogical leadership (focused on the teaching and learning in classrooms) and business leadership (focused on finances, human resources, reporting and administration). A few examples of this are described below:

- **The Chambliss Center, Chattanooga Tennessee.** This large center (serving 300 children) also provides management services to five independent, off-site centers and 13 single-classroom infant-toddler child care programs in public schools. Management is centralized for all sites, including: financial (payroll, benefits, billing), human resources/staff recruitment, food program administration, fund development, professional development, child assessment, maintenance, volunteers, and more. Teachers in off-site centers now have better wages, health and retirement benefits and a career ladder. Families have access to comprehensive services and agency-wide scholarship support. Most importantly, child outcomes are strong (Opportunities Exchange, 2014).

- **Early Connections Learning Centers, Colorado Springs, Colorado.** This is a multi-site non-profit child development program that used a shared services framework to manage seven sites as well as a network of family child care homes. All administrative/business functions are centralized so that site directors can serve as instructional leaders and focus on staff (classroom observations and reflective supervision) as well as children and families. Central staff also provide pedagogical leadership. Classroom teachers receive the time and support they need to plan, reflect, conduct home visits, and work intentionally with each child and family. Early Connections serves a



significant number of infants and toddlers via partnerships with Early Head Start and other public and private funders (Opportunities Exchange, 2014).

- **Sound Child Care Solutions, Seattle, Washington.** This is a non-profit consortium of seven center licenses with centralized administration. The consortium includes 29 classrooms in diverse neighborhoods throughout the city, nine of which offer dual-language services (Vietnamese, Somali, and Spanish). All sites share core values focused on reflective practice and undoing racism. A shared services framework enables all business functions to be centralized and supports very intentional pedagogical leadership. Site directors focus on teacher supervision, family relationships, and quality early learning. Multiple public and private funding streams are layered to make services more affordable and to enable low-income families to enroll their children in very high-quality settings (Opportunities Exchange, 2014).

- **Infant-Toddler Family Day Care of Northern Virginia, Inc.** This is an alliance of 125 family child care providers that serve children six weeks of age and older. Participating providers receive a wide range of supports and services from a hub agency, including all administrative functions (billing and collection of child care fees, marketing, start-up and on-going business supports, liability insurance, substitutes, etc.) as well as pedagogical support (training and professional development, monthly support visits, field trips, and other group activities). The hub agency also offers support groups, parenting education and other assistance to families who enroll their children in participating homes. Participating home-based providers not only offer higher quality care but tend to stay in the field 2.5 times longer than the average family child care home (Opportunities Exchange, 2014).

By re-structuring current roles and responsibilities and working together to form new legally structured alliances, center- and home-based providers can share the cost of the staff they need to effectively provide the pedagogical and business leadership needed to produce good outcomes for children. These networks can be especially helpful in supporting high-quality infant-toddler care because these services and classrooms are nested in a stronger network of classrooms for children of all ages, in a range of locations, tapping and blending multiple funding streams, and led by a team of managers skilled in both pedagogical and business leadership.

The shared services movement has also looked closely at ways to use the internet to help attain scale, and spawned a website called the ECE Knowledge Hub (www.ecesharedresources.org) that is now shared by ECE providers in more than 23 states.[5] Several statewide alliances have developed a menu of services that can be packaged and delivered along with the ECE Knowledge Hub. The Seacoast Alliance in New Hampshire is one example. In addition to bringing the ECE Knowledge Hub to their state, this Alliance contracts with a property

[5] These include: CA, CO, CT, FL, GA, KY, LA, ME, MI, MS, NE, NH, NJ, NM, NY, NC, OH, OR, PA, TN, VT, VA and WV. For a list of state contacts, go to http://opportunities-exchange.org/approach/current-alliances.

management company to offer reduced-price insurance; coordinate regional purchasing of heating fuel, sand/mulch, waste removal, cleaning services, financial audits; support facilities project bidding and project oversight; and risk mitigation, human resources and marketing support. Alliance members also collaborate on grant writing, training and communities of practice.

The examples above are designed to demonstrate how ECE service providers are beginning to challenge the traditional business model and establish new management and leadership structures aimed at supporting sustainable, high-quality services. It is important to underscore however that shared services is a framework for management, and one size does not fit all. The structure, services and members of a shared services Alliance vary based on local needs and resources. For more information on ECE Shared Services, go to www.opportunities-exchange.org.

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