**Information Memorandum**

**To:** State, Territorial, and Tribal Lead Agencies administering child care programs under the Child Care and Development Block Grant (CCDBG) Act of 2014 and other interested parties.

**Subject:** Building the Supply of High-Quality Child Care

**References:** The Child Care and Development Block Grant Act of 1990, as amended, 42 U.S.C. § 9858 et seq., as further amended by the Child Care and Development Block Grant Act of 2014, Pub. L. No. 113-186.

**Purpose:** This Information Memorandum provides guidance to Lead Agencies implementing provisions of the Child Care and Development Block Grant (CCDBG) Act of 2014 to increase the supply of high-quality child care. States should consider these strategies as they prepare their Child Care and Development Fund (CCDF) State plans.

**Background:** The Child Care and Development Fund (CCDF) provides funds to states, territories, and tribes to support low-income working families through child care assistance for children age birth through 13 and to promote children’s learning by improving the quality of child care and afterschool programs. The reauthorized Child Care and Development Block Grant (CCDBG) Act of 2014 makes expansive changes to CCDF focused on improving the health and safety of children in child care, improving child care subsidy policy for families and providers, promoting consumer education, and improving the overall quality of child care and afterschool programs to support children’s development and learning. When reauthorizing CCDBG, Congress added a new purpose: to increase the number and percentage of low-income children in high-quality child care settings. Additionally, the Act includes several provisions related to building the supply of high-quality care, including:
• Lead Agencies are required to develop and implement strategies to increase the supply and improve the quality of child care services for children in underserved areas, infants and toddlers, children with disabilities, and children who receive care during nontraditional hours. The Act specifies that such strategies may include alternative payment rates to child care providers, the provision of direct contracts or grants to community-based organizations, offering child care certificates to parents, or other means (Section 658E(c)(2)(M)).

• Lead Agencies are required to prioritize investments that increase access to high-quality child care services for children in areas that have significant concentrations of poverty and unemployment and that lack high-quality child care services (Section 658E(c)(2)(Q)).

• Lead Agencies are required to develop and implement strategies to strengthen the business practices of child care providers to expand the supply and improve the quality of child care services (Section 658E(c)(2)(V)).

The Act increased the share of funds Lead Agencies are required to spend on quality activities, increasing from a minimum 4 percent requirement to 9 percent over 5 years and authorizing a minimum 3 percent to improve the quality of care for infants and toddlers. The Act sets forth suggested quality activities including, but not limited to, developing, implementing, or enhancing Quality Rating and Improvement Systems (QRIS); training and professional development of the child care workforce; improving the supply and quality of infant-toddler child care; supporting statewide child care resource and referral; supporting state or local efforts to develop or adopt high-quality program standards relating to health, mental health, nutrition, physical activity, and physical development (Section 658G).

Research has shown the importance of high-quality child care, in particular for low-income children, in improving children’s school readiness and adult outcomes.¹ Children attending high-quality, school-age programs are more likely to succeed in school and have stronger social and inter-personal skills. Research shows that the quality of child care children receive in their preschool years can impact their academic success and behavior into adolescence.² Similarly, when parents have access to affordable, high-quality child care, they are better able to succeed in work and in school and have greater earning potential. Investments in high-quality child care prepare children for success in life while helping parents balance the demands of work and parenting.³ The Act also includes many provisions to increase the stability of CCDF child care assistance.

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³ Council of Economic Advisors, Executive Office of the President of the United States, The Economics of Early Childhood Investments, 2014.
Guidance

The Child Care and Development Fund (CCDF) offers Lead Agencies flexibility to determine the best strategies to build the necessary supply of high-quality child care that meets the needs of children and families in their communities. This information memorandum offers examples of policies and practices that can aid Lead Agencies as they determine the most appropriate strategies. The strategies below offer a mix of approaches to building supply. Some are designed to incent high-quality providers to provide services in areas where the existing supply of child care is low or is low for particular populations. Others are intended to help existing CCDF providers raise the quality of services they provide. And finally, some approaches are intended to address the long-term stability of high-quality providers. In selecting strategies for supply building, it’s important to consider immediate and long-term strategies. Lead Agencies should incorporate strategies that allow for expanding the supply of high-quality care and sustaining quality over time.

Lead Agencies will likely need to consider multiple strategies to build supply. The following is not meant to be a checklist of required activities, but rather a menu of policy options that the Lead Agency should strongly consider when developing their CCDF State plans. To be most effective, Lead Agencies should 1) identify supply shortages based on data, 2) select the most appropriate strategies to build the supply of high-quality care, and 3) monitor supply building through ongoing evaluation to assess progress towards goals.

Identify Supply Shortages Based on Data: Prior to selecting supply building strategies, Lead Agencies should collect and analyze data on child care and child care quality. Understanding the existing supply of child care can help inform the design of the most appropriate supply building strategies. To assess gaps in the supply of high-quality care, Lead Agencies should assess where low-income families live, where CCDF providers are located, the quality level of existing CCDF providers, as well as where non-CCDF, high-quality providers are located. Lead Agencies may also consider where available jobs may be located, in particular for areas with high unemployment. Lead Agencies should also consider the location of quality child care in relation to education and training opportunities for parents.

Lead Agencies will need to determine a benchmark for child care quality to conduct this analysis. This might be a rating at the upper levels of a QRIS or compliance with state or national standards, such as national accreditation, Head Start or Early Head Start performance standards, or state pre-kindergarten standards.

Lead Agencies can use technology to electronically “map” information about child care at the state or local level. Coupled with information available by localities (such as by county, zip code, or Census tract), Lead Agencies can assess, for example, the supply of infant-toddler care meeting some quality standard in a low-income neighborhood. This also allows for more complex
analysis, such as the proximity of child care to transit areas or other community services. While this kind of analysis requires resources, it can be extremely useful for a richer understanding of low-income families’ access to high-quality child care and early learning.

Lead Agencies can also utilize existing data available from market rate surveys, QRIS, child care resource and referral agencies, licensing agencies, and other sources. Lead Agencies can partner with other agencies and programs that conduct needs assessments, such as the Maternal and Infant Early Childhood Home Visitation program and Head Start, to share data across early childhood programs.

Lead Agencies can also consider collaborating with other partners, including agencies administering workforce development and employment services programs, Temporary Assistance for Needy Families (TANF) agencies, schools, and community colleges. City planners and businesses can also provide input to determine areas to target for building the supply of high-quality child care.

Lead Agencies should consider the availability of high-quality child care in all localities within a state or jurisdiction; across all categories of care (i.e., centers, family child care); for all ages of children; and for special populations of children (i.e., children experiencing homelessness, children with special needs, children in need of non-traditional hour care, dual language learners). States will need to prioritize which of the unmet needs is most acute in a particular area, or for a particular vulnerable subpopulation in an area, and the corresponding supply-building strategy.

Lead Agencies should give special consideration to the needs of underserved communities, including low-income communities of color, language minority communities, and other communities with limited economic resources, and consider how providers in such communities can benefit from quality improvement strategies.

Strategies to Build and Sustain the Supply of High-Quality Care:

Provider Payment Rates That Support High-Quality Care: The reauthorized CCDBG requires Lead Agencies to set provider payment rates using a valid market rate survey or alternative methodology, such as a cost estimation model. It also requires that states consider the cost of providing higher quality child care when setting provider payment rates. Adequate base payment rates are critical to ensure that providers have the means to purchase appropriate materials and supplies, meet quality standards, and attract and retain highly qualified caregivers.

4 The Act requires states to take “into consideration the cost of providing higher quality child care services than were provided under this subchapter before the date of enactment of the Child Care and Development Block Grant Act of 2014.” (Section 658E(c)(4)(B)(iii)(II))
The Act requires that Lead Agencies set provider payment rates sufficient to ensure equal access for eligible children to comparable child care services provided to children who are not eligible for CCDF. The Administration for Children and Families has previously established the 75th percentile of a market rate survey as an appropriate benchmark for provider payment rates that guarantee equal access. Raising base payment rates can help providers improve the quality of care and may allow children receiving CCDF access to more high-quality child care providers.

Financial Incentives. Lead Agencies may use tiered payment rates, or alternative payment rates, to differentiate payment rates for providers based on quality or other criteria and to help CCDF families access high-quality providers. For example, 10 states offer higher payment rates, above the base rate, for providers at higher levels of a QRIS. If higher rates are adequate, they can help support the costs associated with meeting higher quality standards. States may also use higher payment rates to support or incent higher quality care for specific populations. For example, Lead Agencies may pay higher rates for infant-toddler care, care during non-traditional hours, care that meets the linguistic needs of dual language learners, or care for children with disabilities. Pay differentials should be great enough that they support the actual costs of raising the quality of care and to make higher quality care options available to parents. States should consider data from market rate surveys, alternative methodologies, and/or other sources to assess current payment rates to providers and the resources necessary to support high-quality care.

Providers may also be in need of start-up or one-time funds to make investments in quality. In addition to base payment rates and tiered payment rates, Lead Agencies may make other financial incentives available to providers. Through their QRIS, states may offer quality awards or bonuses, improvement grants, or start-up grants. Lead Agencies can direct bonuses and grants to providers in areas that lack a supply of high-quality care.

Direct Contracts and Grants: Under CCDF, states may provide financial assistance through vouchers or certificates or through grants or contracts. Contracting directly with a child care provider for child care services is one strategy for building the supply of high-quality care. Grants and contracts are paid directly to the provider so long as slots are adequately filled, which offers

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5 The preamble to the 1998 CCDF Final Rule indicated that payments established at least at the 75th percentile of the market would be regarded as providing equal access for eligible children to child care services that are comparable to child care services provided to children whose parents are not eligible to receive CCDF (63 FR 39959).


7 According to Section 658E(c)(2)(A) of the Act, Lead Agencies are required to “provide assurances that (i) the parent or parents of each eligible child within the State who receives or is offered child care service for which assistance is provided under this subchapter, are given the option either- (I) to enroll such child with a child care provider that has a grant or contract for the provision of such services; or (II) to receive a child care certificate…”
providers a more predictable funding source than vouchers or certificates. Stable funding can incent providers to pay the fixed costs associated with providing high-quality child care, such as adequate salaries to attract qualified staff, or to provide higher cost care, such as for infants and toddlers or children with special needs, or to locate in low-income or rural communities. The stability of contracts allows providers to plan for investments in quality that might not be feasible with unpredictable revenue. Contracts and grants enable Lead Agencies to develop relationships with child care providers, which is not always possible with vouchers or certificates, and can help Agencies better understand the client population to inform technical assistance and program design.

To be used as a supply building strategy, it’s important that contracts are linked to quality standards. For example, Lead Agencies may choose to contract with providers at top levels of a QRIS or providers that meet other state-defined quality indicators. Payment rates should be sufficient to enable providers to meet the costs of high-quality standards. A key feature of contracts is the ability to provide a stable revenue source to child care providers. Therefore, it’s important to consider available and future funding for contracts in the planning stages.

Nineteen states/territories report providing child care services through grants or contracts for child care slots to ensure access to an adequate supply of high-quality child care programs. Lead Agencies use contracts to increase the supply of specific types of care, including care for specific age groups (such as infants and toddlers or school-age children) and specific populations (such as children of teen parents or children of migrant farmworkers). Lead Agencies also use direct contracts to extend Head Start and Early Head Start programs or support additional comprehensive services for children in CCDF-funded care.

Lead Agencies are encouraged to contract with multiple types of settings, including child care centers and family child care (FCC) networks or systems, to maximize parental choice. FCC networks or systems are groups of associated FCC providers who pool funds to share some operating costs. Network staff delivers assistance to FCC providers to improve the management of their businesses and enhance quality.

Designing contracts to increase the supply of high-quality child care requires significant planning. As with other supply-building strategies, Lead Agencies should use data to inform the development of contracts, for example to meet the needs of particular populations or to increase the supply of high-quality care in underserved areas. Lead Agencies must make decisions about funding and resource allocation; eligibility, bidding, and renewal criteria; provider payment rates and policies; program standards and services; monitoring and accountability; and other terms of the contract. Some Lead Agencies allow contracted providers...

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8 FY 2014-2015 CCDF State and Territory Plans as approved October 1, 2013.
to enroll children directly by conducting the eligibility determination process, which requires training and oversight of the CCDF providers.

Lead Agencies that use highly targeted contracts, for example, for specific populations, should consider how continuity for families will be maintained when their needs change. For example, Lead Agencies should plan for continuing care for children who age out of contracted infant-toddler slots or ensuring continued assistance for a family whose child care needs or preferences change. This may be done by allowing families to seamlessly transition from a contracted slot to a voucher, if necessary, or other means.

Longer contracts, for example of periods of 3 to 5 years, can provide more stability for providers and greater administrative efficiency for Lead Agencies. In multi-year contracts, states may consider building in provisions that address mid-contract rate increases, modifications of the terms of the contract, or responses to changes in the child care market or CCDF families. This may be especially important in the early stages of contracts as the implementation process may suggest the need for modifications that were not apparent initially.

**Investing in Community Hubs:** Local community or neighborhood-based hubs can provide services and supports to children, families, and child care providers in a community. A community hub may be a high-quality child care, early education or Head Start provider, resource and referral agency, Community Action Program agency, or other community-based organization with technical expertise to provide services and supports. A hub can serve as a central entity for coordinating many aspects of high-quality child care, including training and professional development across early childhood programs, the provision of comprehensive health and mental health services for vulnerable children, family engagement, and coaching or other supports for child care providers. They can also staff FCC networks or otherwise contract with Lead Agencies to provide slots or services.

**Expanding High-Quality Family Child Care:** FCC is an important part of the child care system. While infants and toddlers are more likely to be cared for in home-based settings, compared to older children, FCC providers care for children of all ages. FCC is also an important child care option for children whose parents work non-standard work hours or schedules. Support for FCC providers is particularly important as providers may be isolated and have limited access to information, training, and resources on quality child care. Staffed FCC networks can play an important role in delivering supports to providers. Lead Agencies can support FCC networks through direct funding, including by contracting directly with networks for high-quality slots. Lead Agencies may also direct quality improvement strategies to license-exempt FCC providers, including technical assistance and resources to support home-based providers in meeting licensing and higher quality standards. Lead Agencies should also be aware of challenges to expanding the supply of high-quality FCC, such as local or community
ordinances or restrictions, in order to work with communities and providers to find solutions.

**Expanding the Supply of Highly Qualified Teachers and Caregivers:** To support young children’s development, teachers need a set of knowledge and demonstrated competencies in child development.\(^{10}\) Many states have made investments in professional development systems and competencies to support children’s learning and development and the ability of the early childhood workforce to attain higher credentials in this specialized field. The CCDBG Act requires Lead Agencies to establish professional development and training requirements from pre-service or orientation through ongoing annual professional development that reflects current research and best practices to meet the developmental needs of children. Ongoing professional development is an important strategy for increasing the quality of CCDF child care providers.

- **Scholarships and financial supports:** Many states invest in scholarship programs allowing child care providers to access higher education degrees in early childhood education to improve their knowledge and skills. In many states, the scholarship is coupled with wage rewards or bonuses, during and at degree attainment, as incentives to encourage child care providers to remain in the field after getting a credential or degree. These initiatives, often in partnership with the child care program in which the educator works, may cover the costs of tuition, books, and other expenses, as well as provide substitutes for the participating child care programs. State-funded initiatives work directly with child care providers and programs to ensure providers are supported during their educational studies and that the program benefits by retaining the provider after they completion of the course of study.

- **Ongoing Technical Assistance and Support:** States can develop, strengthen, or expand networks of specialists to provide ongoing opportunities for teachers to improve their caregiving, including early childhood mental health consultants, infant-toddler specialists, and other technical assistance.\(^{11}\) Lead Agencies can use CCDF funds to ensure that specialists and consultants can be available as part of an ongoing quality improvement strategy for programs. These networks can be instrumental in providing technical assistance to programs on issues related to social-emotional and behavioral development.\(^{12}\)

\(^{10}\) Institute of Medicine (IOM) and National Research Council (NRC), *Transforming the workforce for children birth through age 8: A unifying foundation*, The National Academies Press, 2015.


**Early Head Start – Child Care Partnerships.** Early Head Start – Child Care Partnership (EHS-CCP) funds support full-day, full-year, high-quality child care services meeting Early Head Start Program Performance Standards and providing comprehensive support for enrolled infants and toddlers and their families. Integrating Early Head Start comprehensive services and resources into traditional child care and FCC settings offers new opportunities to improve the quality of care for infants, toddlers, and their families. EHS-CCP grantees will utilize EHS-CCP funds as well as CCDF and other child care funding. CCDF can help support and sustain EHS-CCP programs by aligning policies and streamlining administrative procedures. Lead Agencies could consider convening EHS-CCP grantees and/or soliciting input from grantees on the best ways to support the success of partnerships.

**Public-Private Partnerships.** States participate in many forms of public-private partnerships to expand early learning and school-age care opportunities. To achieve large-scale impact in states and communities, it’s important to bring together as many stakeholders as possible from the public and private sectors. These may include federal, state, local, and tribal agencies; businesses; chambers of commerce; philanthropists; civic groups; and service providers. Partnerships offer flexibility to address locally identified needs. Partners may be able to provide one-time funding to support supply building efforts.

**Child Care Facilities.** The physical environment plays a crucial role in the quality of a child care setting. The environment must be appropriate for the ages of children on-site. Yet in many cases, in particular in low-income communities, a lack of suitable physical infrastructure may prevent the provision of child care services. Moreover, affordable capital to make facilities improvements may be out of reach of child care providers. In some areas, child care providers may be in need of resources to expand or improve their facilities in order to meet higher standards. CCDF funds may not be used for the purchase or improvement of land or for the purchase, construction, or permanent improvement of any building or facility (except for tribal CCDF programs, which may apply to use a portion of their grant for construction or major renovation). CCDF funds may be expended for minor remodeling and for upgrading child care facilities to ensure that providers meet state and local child care standards, including applicable health and safety requirements. In the event that CCDF funds are not allowable, for

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example to support major renovations, Lead Agencies may consider using other funding sources or partnering with other entities who may be able to provide financial assistance. Low-interest loans and startup or equipment grants could be important tools for helping providers meeting higher quality standards.

**Technical Assistance on Business Practices.** The reauthorized CCDBG requires Lead Agencies to implement strategies to strengthen the business practices of child care providers to expand the supply and improve the quality of child care services. Poor fiscal management is a primary reason that child care businesses fail.\(^\text{17}\) To maximize investments in quality and help sustain high-quality providers, Lead Agencies should provide technical assistance and training on business practices to CCDF providers. Lead Agencies can partner with child care resource and referral, FCC networks, and others to provide assistance in this area.

**Rural Child Care:** About 1.3 million poor children live in rural areas of the country.\(^\text{18}\) Expanding the supply of high-quality care in rural areas can be especially challenging, due to the lack of child care facilities and large distances families may be required to travel between home, work, and child care. FCC is particularly important in many rural areas where there are few child care centers. FCC networks can be an important supply building strategy, as can initiatives to help home-based providers meet licensing and higher quality standards. Partnerships with Early Head Start and Head Start may also be an important strategy in rural areas that lack other early childhood programs. States can use CCDF funds to extend Early Head Start and Head Start services for more children and for additional hours and days to meet the needs of working parents.

**Ongoing Evaluation and Assessment:** The Act requires states to report annually on their quality spending activities as well as the measures the state uses to evaluate progress in improving the quality of child care programs and services in the state (Section 658G(d)). Ongoing evaluation of any quality improvement strategy is important in order to assess whether the strategy is achieving or moving towards its desired results. In the early stages of a supply building strategy, it’s important to assess data from multiple sources (including stakeholder input) to determine whether any aspects of implementation of the new strategy need to be redesigned.

When evaluating the impact of strategies on building the supply of high-quality care, states should consider the amount of time and resources necessary for providers to increase their quality, such as the average length of time that


providers take to move up a level in a QRIS.\textsuperscript{19} It’s also important to consider other factors that may be contributing to an initiative’s successes or challenges, including those related to access. In some cases, CCDF subsidy policies may impact the ability of targeted families to utilize high-quality child care. For example, in an area of high unemployment, subsidy policies should support parent’s education, job training, and/or job search needs. A thorough evaluation process should consider multiple variables.

The process of evaluation and assessment should be ongoing and used not only to evaluate specific strategies and movement toward goals but also to provide feedback for ongoing monitoring of shortages of high-quality care. States should consider how the needs of communities change over time, ensuring that quality improvement strategies are reaching vulnerable populations of children and are redesigned as necessary as the needs of communities change.

\textit{/s/}

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Resources on Building the Supply of High-Quality Child Care

Office of Child Care's CCDF Reauthorization Resources
http://www.acf.hhs.gov/programs/occ/ccdf-reauthorization

National Center on Early Head Start - Child Care Partnerships (NCEHS-CCP)
https://eclkc.ohs.acf.hhs.gov/hslc/tta-system/ehs-ccp/partnerships.htm

Office of Child Care Technical Assistance Network Resources
https://childcareta.acf.hhs.gov/ccdf-reauthorization

QRIS National Learning Network
http://qrisnetwork.org/

QRIS Resource Guide
https://qrisguide.acf.hhs.gov/

Local Initiatives Support Corporation (LISC)
http://www.lisc.org

Provider Cost of Quality Calculator
https://www.ecequalitycalculator.com/

Early Educator Central
https://childcareta.acf.hhs.gov/early-educator-central

Contracts and Grants
