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INFORMATION MEMORANDUM

To: State, territory, and tribal lead agencies administering the Child Care and Development Fund (CCDF) program, and other interested parties.

Subject: Using CCDF to Improve Compensation for the Child Care Workforce

References: The Child Care and Development Block Grant (CCDBG) Act (42 U.S.C. 9857 *et seq.)*; The American Rescue Plan (ARP) Act of 2021 (Public Law 117-2)

Purpose: This Information Memorandum (IM) provides an overview of and guidance to lead agencies regarding how CCDF funds and the ARP Act CCDF Discretionary Supplemental Funds can be used to raise child care staff compensation. This IM does not change OCC's interpretation of how CCDF or ARP Act funds can be used but clarifies allowable uses for supporting child care staff compensation.

Background: Affordable, high-quality, reliable child care enables parents to work and supports children's growth and development. Positive interactions between children and educators provide the cornerstone of quality child care experiences. Responsive caregiving and rich interactions support healthy socio-emotional, cognitive, and physical development in children. A skilled child care workforce with adequate compensation and benefits underpins a quality child care system that is accessible and consistent for working parents.

However, low wages and few benefits make recruiting and retaining a qualified child care workforce difficult. Nationally, estimates of staff turnover rates vary from 13 percent of teachers at publicly funded preschools per year[1] to more than twice that rate.[2] Because teacher stability is associated with the quality and reliability of child care settings, and in turn, a wide range of children's outcomes and parents' labor force participation, these staffing changes have cascading consequences for children and their families.[3]

The pandemic devastated the already fragile child care sector, as providers navigated public health concerns, unstable enrollment, and higher expenses, leading to temporary or permanent closures, higher costs, and staff shortages. An estimated two-thirds of child care centers temporarily or permanently closed in April 2020, and one-third remained closed in April 2021.[4] During the first year of the pandemic, prior to major relief funding, nearly 9,000 child care centers and nearly 7,000 family child care homes were permanently closed.[5] Programs that stayed open continue to face challenges recruiting and retaining staff. While COVID-19 relief funds, including the ARP Act, provided financial support to prevent thousands of child care providers from closing their doors, low wages and few benefits relative to other sectors have prevented child care from returning to pre-pandemic employment levels. As of July 2022, employment in the child care industry was only 91.6 percent of what it was prior to the pandemic in February 2020, based on analysis using data from the Bureau of Labor Statistics.

Child Care Funding in the American Rescue Plan Act

The ARP Act, signed into law in March 2021, brought necessary relief to the child care sector in multiple ways. The ARP Act provided almost $39 billion in child care funding, with about $24 billion for stabilization grants to child care providers and $15 billion in supplemental discretionary funds for the CCDF program. The supplemental discretionary funds are flexible and can be used for any allowable uses of CCDF funds. Lead agencies have used these funds to support increased rates and changes in payment practices in the subsidy program, such as paying for children's enrollment rather than attendance and using contracted slots rather than exclusively portable vouchers. These changes in payment practices and increased rates are particularly important for family child care providers, whose self-employed, small business runs from home finances and operate differently from centers.

Because of their flexibility, this guidance focuses on how the ARP CCDF supplemental discretionary funds can be used to support the child care workforce and increase compensation.

Guidance: OCC strongly encourages lead agencies to provide financial incentives and compensation increases to child care staff, including center-based staff and family child care providers, with existing CCDF grant funds to invest in the child care workforce, building a better child care system that supports, recruits, and retains qualified educators and provides high-quality, consistent, and reliable child care. To be most effective, OCC encourages lead agencies to increase compensation and benefits through a strategic process by:

1) identifying the existing wages and benefits available to the child care workforce;

2) identifying goals for child care workforce compensation, including types of staff and target levels;
3) selecting the most appropriate strategy or strategies for increasing workforce compensation; and
4) monitoring child care workforce wages and access to benefits through ongoing data collection and evaluation to assess progress toward goals.

We encourage lead agencies to use direct services and quality funds from both annually appropriated CCDF funds and ARP Act CCDF supplemental discretionary funds, or a combination of funding streams, to support these strategies, in accordance with funding-specific requirements. CCDF direct services funds must be used to provide direct child care services to eligible children, using child care certificates, grants, or contracts, and follow several parameters, including ensuring that children and child care providers meet CCDF eligibility criteria. CCDF quality funds must be used on activities that increase quality of child care services, and these activities may improve the quality of child care provided to all children and providers, not only those eligible for CCDF[1]. As a reminder, ARP Act CCDF supplemental funds are exempt from the quality improvement set aside (9 percent for states and territories, 8 percent for tribes, and an additional 3 percent targeting infants and toddlers (section 658G, 42 U.S.C. 9858e, 45 CFR 98.83(g)) and the requirement to use at least 70 percent of the remaining funds after quality and administration for direct services (section 658E(c)(3)(E), 42 U.S.C. 9858c(c)(3)(E)). Preschool Development Grants Birth-to-5 funds may also be used to support child care compensation activities if it is part of the state's scope of work. Given finite funding, these investments may require trade-offs, for example between investments in the workforce to promote quality and serving more children and families in the short term. However, these investments in the workforce are important for sustaining a qualified child care workforce and building the supply of child care into the future, while also ensuring that children receiving subsidy are in high-quality settings in which the workforce is receiving adequate compensation.

Using Data to Support Child Care Workforce Compensation: OCC recommends lead agencies review any available data on the child care workforce to inform the approach to increasing compensation and benefits. This step is not intended to be lengthy or cause delays in selecting strategies to promote the workforce. Importantly, a data-driven approach can be used to

[1] Additional information about defining and reporting on CCDF Direct Services and CCDF Quality Improvement Activities is available in the instructions to the ACF-696 Financial Reporting Form for the CCDF State and Territory Lead Agencies at https://www.acf.hhs.gov/sites/default/files/documents/occ/instructions_for_completion_of_form_acf-696_financial_reporting_form-for_ccdf_state_territory_lead-agencies.pdf and the ACF-696T Financial Reporting Form for the CCDF Tribal Lead Agencies at https://www.acf.hhs.gov/sites/default/files/documents/occ/CCDF-ACF-PI-2022-02_Instructions_for_Completion_of_Form_ACF-696T_Financial_Reporting_Form_for_the_CCDF_Tribal_Lead_Agencies.pdf

support equity in implementation, including how and where strategies are implemented. Lead agencies should take into account existing wages and access to employer-provided benefits (e.g., health insurance, paid sick leave) and disparities in the existing compensation (by geography, role, child care setting, race, ethnicity, gender, or age of children). Lead agencies may utilize existing data sources available from the quality rating and improvement system, child care resource and referral agencies, state-level public data from the Bureau of Labor Statistics and universities and research organizations (e.g., Early Childhood Workforce Index[6]), and workforce registries. Lead agencies may choose to collect their own data using local or state-based surveys or focus groups. Lead agencies can access targeted technical assistance to help them collect and analyze compensation data through their OCC regional office.

Identify Goals for Child Care Workforce Compensation: In partnership with stakeholders and informed by the data on existing compensation, OCC recommends that lead agencies develop targets or levels for child care staff compensation and develop a wage ladder. For example, a potential goal is providing equivalent compensation for early childhood staff as to elementary school staff with similar credentials and experience, with a wage ladder that provides progressively higher wages as early educators gain more experience and credentials. Other example goals include setting a minimum or living wage as a floor for all staff, such as $15 per hour. Lead agencies should consider that developing compensation goals may be difficult. For example, some staff roles or team-teaching systems common in early care and education, but not in K-12 schools, may present challenges when creating a compensation ladder for early care and education staff that provides parity with K-12 educators. Lead agencies should also specify what types of funding sources or child care settings and staff roles are included in goals, such as educators at licensed centers and family child care homes. Lead agencies should develop benchmarks and a timeline for attaining their goals. Lead agencies should consider racial, ethnic, and gender disparities in compensation as well as those between staff working in low-income and higher-income communities and what impact policies will have on the diversity of the child care workforce.

Strategies to Improve Child Care Workforce Compensation: Lead agencies may consider multiple strategies to support child care workforce compensation. The following list of strategies is not a checklist of activities, but rather a menu of policy options that lead agencies should consider for promoting equity and quality in child care, organized by wages, benefits, and furthering education.

Wages:

Provider payment rates that support high-quality care, including adequate levels of workforce compensation: Increasing provider payment or reimbursement rates based on a cost estimation model that incorporates the goal level of workforce compensation is an important strategy to improve compensation. The CCDBG Act requires lead agencies to set payment rates using valid market rate surveys or alternative methodology, such as a cost estimation model. Adequate payment rates based on adequate wages are critical to ensure that providers have the resources to purchase appropriate materials and supplies, meet quality standards, and attract and retain qualified educators. As described in the preamble to the 2016 CCDF final rule, lead agencies may reimburse child care providers at payment rates higher than those charged for private fees to support the cost of providing high-quality services (81 FR 67514). However, increases in subsidy payment rates, while vital for quality, may not result in increases in child care staff wages or benefits. The lack of increased compensation may partially stem from rate increases being relatively small and that subsidies may pay for only a small proportion of children at a program or in a specific classroom. For example, a center may only have 5 percent of enrolled children receiving subsidies; thus, while adequate payment rates for those children are important, staff at the center may only receive a minimal increase in salary because child care subsidies remain a small percentage of the program's revenue. Subsidies administered by certificates or portable vouchers that follow the child may also provide less consistent or predictable revenue for providers because subsidy participants exit the subsidy program or leave or age out of a specific child care program. Payment rate increases may increase staff compensation if a substantial proportion of children enrolled are receiving subsidies and the lead agency-provider subsidy agreement contains requirements for staff compensation levels, such as a specific minimum wage or wages based on a compensation scale. Lead agencies should be aware of and consider taking steps to avoid within-program disparities or inequities in staff compensation based on classroom funding streams, as well as the impact of differential rates for home-based and center-based providers on wages and income.

Contracted slots or classrooms that pay rates that support high-quality care, including adequate levels of workforce compensation: OCC encourages lead agencies to use contracts or grants to purchase a large number of slots or full classrooms using CCDF subsidy funds to serve CCDF-eligible families, support family child care providers with stable funding that meet the needs of families such as those working non-standard hours, and include specific staff compensation requirements in these contracts (e.g., minimum levels or a compensation scale). Contracts or grants provide a more predictable and stable revenue source for providers, which may help increase and sustain increases in child care staff compensation. Again, lead agencies should consider taking steps to avoid within-program disparities or inequities in staff compensation based on classroom funding streams and create equity across child care centers and family child care homes.

Provider-level grants to support workforce compensation: Most CCDF funds are child-based, providing certificates or portable vouchers to eligible children, or funding contracted slots for children in eligible families. However, compensation levels or goals are program-level expenses, such that educators working with children supported by different funding streams, particularly working within a single child care program, should be compensated comparably and equitably. Program-level funds, such as those provided through the ARP Act stabilization grants, provide a different mechanism for funding that could be used to support increased compensation for family child care providers and their employees and all staff or all child-facing staff in a child care center, rather than only those working with children receiving subsidies. Program-level compensation grants could provide predictable, sustainable funding and require programs base salary and benefits on a specific scale or pay a minimum level. For example, a lead agency may choose to provide formula grants to all child care programs that enroll 15 percent or more children receiving subsidy, with grant amounts based on factors like total enrollment, subsidized enrollment, and the total number of staff. Programs would still receive the child-level certificate or voucher for children receiving subsidy, but also these program-level grants that permit program-level investments in staff compensation.

Direct to child care workforce bonuses or wage supplements: Lead agencies may choose to administer bonuses or stipends directly to workers at specific child care programs (e.g., licensed or regulated centers and family child care homes). Bonuses or stipends may be used as retention bonuses or as sign-on bonuses to promote the hiring and retention of staff and to provide financial stability to family child care providers who are often the lowest paid within the child care sector. This strategy requires a means for identifying, reaching, and directly paying child care staff and family child care providers. States or localities may consider using and updating workforce registries and using third party or contractors.

Benefits:

Connecting family child care providers and center-based child care staff to health insurance or supporting premiums in the Marketplace: For family child care providers and their employees and center-based child care staff at programs that lack affordable, employer-supported health insurance, lead agencies may choose to work with community organizations who can connect them to programs for which they may be eligible, including Medicaid and tax credits to subsidize private insurance premiums purchased in the Marketplace. Lead agencies could also use funds to further subsidize premium or out-of-pocket health care expenses by providing grants to encourage center-based child care programs to create, administer, and contribute to employer-provided health care flexible spending accounts where employees can set aside pre-tax funds and be reimbursed for allowable out-of-pocket medical expenses. Lead agencies could make similar grants to family child care providers that would allow them to contribute to a flexible spending account where they, or their employees, can set aside pre-tax funds and be reimbursed for allowable out-of-pocket medical expenses.

Subsidizing family child care provider and center-based child care staff retirement benefits: For child care staff at child care centers that lack employer-provided retirement benefits, lead agencies may choose to offer child care program-level grants for providers to create and contribute to employer-administered retirement accounts where employees can set aside pre-tax funds for allowable retirement uses. Similarly, lead agencies could provide grants to family child care providers that allow them to contribute to retirement accounts where they, or their employees, could set aside pre-tax funds for allowable retirement uses.

Paid sick, family, or vacation leave and paid planning time for family child care providers and center-based child care staff: For family child providers and their employees or staff at child care centers located in jurisdictions that lack laws regarding paid or family leave laws, lead agencies may choose to provide child care program-level grants to support substitutes while staff take leave or to form substitute pools at the community level for both centers and family child care homes. For staff at child care centers located in jurisdictions with paid sick or family leave laws, lead agencies may choose to promote awareness of benefits and work with community organizations who can connect staff to benefits or resources. Lead agencies may also award program-level grants to child care centers that offer a minimum number of hours of paid planning time for curriculum and classroom lessons per child-serving staff member.

Family child care providers and center-based child care staff eligibility for child care benefits: Lead agencies may choose to offer child care subsidies to family child care homes or center-based child care programs, or directly to staff working in specific roles or at child care settings, such as licensed centers and family child care homes. Child care subsidies can defray a major out-of-pocket cost for child care workers with young children.

Supporting Post-Secondary Education:

Student loan debt relief or loan repayment for family child care providers and center-based child care staff: Some family child care providers and their employees, or center-based child care staff, particularly those working at public or non-profit programs, may be eligible for public service loan forgiveness. Current time-limited changes to the program are helping more borrowers get forgiveness or get closer to forgiveness. The changes expire October 31, 2022. Individuals who want to take advantage of this opportunity are strongly encouraged to begin the process now so that paperwork can be completed by the deadline. Lead agencies may choose to publicize this and the deadline for applications through workforce registries or other means or to fund individuals or community organizations to assist in applications for loan forgiveness or income-based repayment systems. Lead agencies could also use funds to directly provide funds to assist in loan repayment or student debt relief to family child care providers and their employees or center-based child care staff.

Scholarships or tuition support for center-based child care staff and family child care providers: These efforts may indirectly increase family child care providers and their employees and center-based child care staff compensation by increasing their qualifications and earning power. However, family child care homes and center-based child care programs need to have the financial resources to be able to adequately compensate themselves (in the case of family child care providers) or their staff for their credentials, which is limited given the structural problems in the child care sector. OCC encourages these scholarships or tuition supports to be paired with increased compensation.

Considerations: In choosing and implementing these strategies, lead agencies should take into account several potential considerations. First, enforcing benchmarks or requirements for specific compensation levels require timely and regularly updated information. Family child care homes operate differently from centers and defining compensation may be less clear. Second, although most states have data systems or workforce registries, many are not universal, and most data systems or registries do not contain information on staff wages or benefits. One strategy for this is to require staff at any center or family child care home participating in a compensation program or grant, or for workers receiving direct bonuses or benefits programs, to participate in the state workforce registry. Third, regardless of the strategy or mechanism used, ensuring equity in applications and awards may be challenging. Small centers, family child care homes, providers with fewer resources or who speak a language other than English may face more obstacles in applying for funds to increase child care staff compensation such as a lack of access to the internet, time constraints, or language barriers. Supporting community partners in publicizing programs and assisting applicants, and streamlining administrative and application processes, may be resource-intensive but important for promoting participation across a diverse range of providers. Finally, the increased compensation for staff may have tax and program eligibility implications for child care staff. Increased compensation may affect staff eligibility for or amount of public benefits such as Medicaid or the Supplemental Nutrition Assistance Program.

Monitor Child Care Compensation through Ongoing Data Collection and Evaluation to Assess Progress toward Goals: Lead agencies should regularly collect or analyze data on child care workforce compensation and assess progress toward the compensation benchmarks, goals, and timeline established in partnership with stakeholders. Longitudinal, comprehensive, and regularly updated workforce registries would aid the evaluation process.

Resources:

- Frequently Asked Questions and other resources are available on the OCC website at https://www.acf.hhs.gov/occ/resource/occcovid-19-resources.
- The Office of Early Childhood Development shares resources on supporting the child care workforce, including increasing compensation, at https://www.acf.hhs.gov/ecd/initiatives/strategy-resources-address-early-care-and-education-ece-workforce-shortage.

Questions: Direct inquiries to the Child Care Program Manager in the appropriate Office of Child Care Regional Office. Contact information for regional offices can be found at https://www.acf.hhs.gov/occ/resource/regional-child-care-program-managers.

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