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Solid Footing: Reinforcing the Early Care and Education Economy for Infants and Toddlers in DC

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Executive Summary

The District of Columbia (DC) is a vibrant, diverse, financially stable city that has become one of the most expensive places to live in the nation. It also ranks among the five major U.S. cities with the greatest income inequality.[1] Because of this economic divide, the District struggles to create equity among its population, particularly in education where the achievement gap between poor and wealthy stubbornly persists. Research has consistently shown that this achievement gap begins not in kindergarten, but in the cradle, with the differences between the early learning environments of children who live in low-income and upper-income households producing cognitive differences before a child even reaches the public school system. Access to high-quality early learning environments can reduce or even eliminate that gap, which is why District policymakers have invested heavily in quality universal preschool and Pre-Kindergarten. But children from low-income households can already be cognitively behind by preschool, so the District must also invest in the early education needs of its infants and toddlers.

This report attempts to quantify and qualify what investment need to be made. Until now, no one has assessed how much it costs early care and education (ECE) providers to meet the level of quality that the District requires, or how providers are able to maintain quality while serving families who depend on child care subsidy payments from the government. DC Appleseed and the DC Fiscal Policy Institute have collaborated to produce a study to better understand these realities. The work grew from concern that the District's payment rates to ECE providers for the child care subsidy program are not keeping up with the costs, even though the children receiving subsidized services and the nearly 200 providers who serve them are among the District's most vulnerable and precious resources. The underpaid workforce that cares for and educates infants and toddlers is essentially subsidizing the system through low wages.

The District's ECE regulations are among the most rigorous the country, but high standards can mean high costs. Except in the city's lowest income areas, most providers serve families who pay tuition at rates set by the provider. These "private pay" tuition

rates reflect not just the cost of providing the service, but also each provider's assessment of what families in their area are able and willing to pay. Providers also can enter into a contract with the District to accept payments from the government on behalf of low-income families eligible for the child care subsidy program. Payment rates are tiered based on quality ratings – gold, silver and bronze – with the highest rates paid to centers at the gold level. The payment rates in the subsidy program are supposed to allow families receiving the subsidy to access three-quarters of area providers – the target, or "market rate" is equal to the 75th percentile of local private pay tuition rates – a formula last updated in 2012.[2] The District's current payment rates for ECE centers fall below market rate, ranging from 55 to 74 percent of the 2012 market rate for infants, depending on quality tier, and from 58 to 74 percent for toddlers.[3]

By understanding how much it actually costs to provide high-quality child care, and advocating that the District increase the child care subsidy program rates to this level, we hope to improve the ability of ECE providers to serve infants and toddlers in DC while sustaining their businesses for the long-term. This will, in turn, benefit low-income working families who rely on high-quality services to prepare their children for success in kindergarten and beyond.

This work was motivated by three key factors:

1. The science: 85 percent of core brain development occurs by age three. If the District does not invest sufficiently in its infants and toddlers, the achievement gap and the cycle of poverty will persist. The loss of this human potential will continue to be enormous and expensive.
2. The economy: ECE providers who agree to accept child care subsidy payments enable low-income parents of young children to work. However, the financial landscape of the industry is troubling. Estimates from 2015 indicate a significant shortage of available slots with licensed providers; roughly 7,610 slots for 22,000 children under age three in DC. The individuals working in ECE centers and homes in the District are among the lowest paid workers in the region with most earning incomes so low that they would qualify for the District's child care subsidies and other public benefits themselves. Due to the same factors that drive these low wages, ECE business owners cannot always pay themselves. The District's economy rests on this fragile ecosystem, and it must be strengthened.
3. The momentum: following on the success of the universal Pre-K initiative, the District is poised to address the challenge of meeting the needs of its infants and toddlers. As they have before, caring, experienced and able individuals in District government can collaborate with advocates and ECE leaders in the community to bring about the necessary changes.

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Findings

The research team for this project collected information through a process of one-on-one interviews with ECE providers in DC using a detailed worksheet which included quantitative questions about programs (such as financial costs, enrollment counts and in-kind donations), as well as qualitative questions (e.g., the experience

working with children with special needs and trade-offs they made through the program year.) The sample was limited to providers at the District's gold and silver tiers, adopting the criteria for "high-quality" that currently informs payment rates.

This research uncovered several important facts about the costs of delivering quality care and the experiences of ECE providers:

1. Current child care subsidy rates cover only 66 to 70 percent of the median cost-per-infant/toddler for care in an accredited environment. The programs receive valuable government support in several ways in addition to tuition subsidies, but the support is not evenly distributed and does not fully cover the cost of meeting quality requirements.
2. Some providers are located in areas of the District where few families have incomes that allow them to pay private tuition rates. These providers serve some of the District's most vulnerable children, yet the child care subsidy program is designed around the assumption that such providers can supplement with other sources of revenue. However, additional fundraising efforts were not always possible or successful with various constraints on time and resources. Without families paying private tuition rates, centers often do not have adequate resources to provide the highest-quality care and make ends meet at the end of the year, which places the most vulnerable children at risk of falling behind.
3. Many providers, even among a sample of the highest quality programs in the District, lack the business systems necessary to thrive in the fragile child care economy. There is a mix of for-profit and non-profit businesses, some with very sophisticated administrative systems, some struggling to transition to more sophisticated systems, and some relying primarily on paper records without sufficient funds, technology or expertise to upgrade. Some providers have been in the business for decades, but the most recent economic downturn eroded their reserves and they now lack the resources to catch up.
4. There is very little consistency across ECE centers in terms of how resources are allocated and used. The only consistent pattern across business models is low wages for staff and the desire to pay them more.
5. Some ECE providers are missing out on a key contributor of revenue by opting not to participate in government programs, in particular the federal Child and Adult Care Food Program (CACFP). The reasons are mixed, but the result is lost funds for center operations.
6. Most centers serve children with developmental delays and disabilities but, aside from children and staff receiving some government-sponsored support in the classroom, they are not compensated for the additional time and costs associated with providing such care.

These findings have informed seven key recommendations for strategic investment in two core areas: ECE centers and homes and the ECE workforce. In order to adequately serve families equitably and sustainably, the District must invest strategically to support a thriving child care economy of sustainable businesses and qualified workers.

There is very promising work underway in the District, including the Early Learning Quality Improvement Networks (QIN) through which groups of providers share resources and receive training and coaching to improve the level of quality in their programs. More needs to be done to ensure that these services, essential in every way to the future of the District of Columbia, are not subsidized by the underpaid ECE workforce.

This report will provide a review of the methodology behind this research, background on ECE services in the District and research that has influenced the field, data on the current state of ECE in the District, and influences on the cost of care and information about sources of revenue. This is followed by a discussion of qualitative and quantitative findings, and finally, detailed recommendations.

DC Appleseed and DCFPI look forward to working with Office of the State Superintendent of Education (OSSE) and especially the Division of Early Learning, the State Early Childhood Development Coordinating Council, the DC Council, the community of providers and all stakeholders in early care and education to implement the recommendations in this report.

Recommendations

Invest Strategically in ECE Centers and Homes to Build More Sustainable Business and Service Delivery Models

1. **Increase Child Care Subsidy Rates and Other Government Services:** Phase in increased payments and in-kind supports to providers across the board to cover the 30-34 percent gap in revenue for high-quality providers.

2. **Further Differentiate Child Care Subsidy Rates:** Implement differentiated subsidy rates that take account of differences beyond a child's age and program quality. For example, providers receive a base rate plus additional funding for operating programs in census tracts with highest poverty rates, or for providing services during non-traditional hours.

3. **Facilitate Improved Record-Keeping:** Support the ability of licensed centers and homes to digitize and analyze their attendance, costs, revenues, food consumption, and other business matters.

4. **Pilot Shared Service Models:** Seek funding to pilot public-private partnerships for "shared service" arrangements which offer providers access to third-party professionals to execute certain administrative and business tasks for their child development center or home. This allows small businesses to achieve economies of scale and save time on operations, such as payroll and purchasing.

Invest Strategically in the ECE Workforce

5. **Adopt and Incentivize Specialized Professional Development:** Adopt or design specific professional development tracks, such as serving children with special needs, and incentivize providers to pursue these opportunities with bonuses to staff who participate.

6. **Supplement Salaries:** Create a salary supplement program for teachers and directors based on education levels and longevity.

7. **Improve Coordination of the Early Care and Education System with Data:** There is a need for strategic coordination among the city's public and private entities to deliver a more streamlined approach to funding and managing early childhood services, including child care/early learning opportunities, maternal and child health home visiting, social-emotional health interventions, early intervention, and others. A better understanding of the system can start with a resource map of all of DC's ECE supports to better identify the city's gaps and overlaps in services for young children and their families.

The Context for Infant and Toddler Care and Education in DC

Introduction

The well-being and healthy development of young children are foundational to a thriving community. While strides have been made in expanding access to affordable, high-quality early care and education (ECE) for young children in the District of Columbia (DC), with particular focus on preschool for three- and four-year-olds, improving access to and quality of services for infants and toddlers requires focused attention from the community, policymakers, and advocates. The work must start with a careful review of the costs and challenges involved in providing high-quality ECE from the provider side – in particular, center- and home-based child care. The District needs a workable plan to increase and sustain dedicated funding to ensure that ECE providers are well-positioned to provide high-quality services and support a qualified workforce.

DC Appleseed Center for Law and Justice and the DC Fiscal Policy Institute (DCFPI) conducted this study to analyze the costs and decisions involved in providing high-quality infant and toddler care in community-based settings, particularly for providers serving low-income residents. This study seeks to understand the financial choices made by high-quality ECE providers, and how operating expenses compare to revenues. Perhaps most important is the question of how providers manage to maintain quality when revenues do not match these costs.

This section will provide a landscape of the child care industry in DC, summarizing the system for assessing quality in ECE programs; government subsidies that support child care; market and subsidy payment rates for ECE programs; the availability of slots for infants and toddlers in these programs; education, wages and benefits of the ECE workforce; the role of national accreditation; and the local policy reform context for infants and toddlers in light of the universal Pre-K movement in DC.

Importance and Cost of Early Care and Education

Early Development

The period from birth to age three is, as summarized in *Birth to Three in the District of Columbia*: *A Needs Assessment* (2008), "the most vulnerable and most important time in a child's development."[4] In fact, 85 percent of core brain development occurs in these first three years.[5] To successfully develop cognitive, social, linguistic and emotional capabilities, as well as important visual, language and motor skills, infants and toddlers need nurturing relationships with parents and caregivers, and safe and stimulating environments during this stage.[6] In other words, the quality of the early learning environment impacts a child through the rest of his or her life, and has particular implications for children already at risk for entering the school system behind their peers.[7]

Poverty's Effect on Learning

A growing body of research suggests that poverty creates highly stressful environments for children, and this "toxic stress" has long-term effects on their cognitive development.[8] The impacts of toxic stress are serious. One study found that poor children had an average of seven to 10 percent less grey matter in areas of the brain associated with academic test performance than children living above 150 percent of the poverty line. Fifteen to 20 percent of the gap in achievement scores between children from lower and higher-income families can be explained by this lack of grey matter.[9]

Infants and toddlers in low-income families tend to be exposed to more stressors but fewer supports than their more financially secure peers, leading to the likelihood that they will be less prepared to succeed in school.[10] Indeed, research has consistently found that deficits in cognitive development for children from poor families are apparent by age two.[11] "Before entering kindergarten, the average cognitive score of preschool-age children in the highest socioeconomic group is 60 percent above the average score of children in the lowest socioeconomic group. And by age four, children who live below the poverty line are 18 months behind what is normal for their age group; by age ten that gap is still present. The gap is even larger for children living in the poorest families."[12]

High-quality ECE programs can help alleviate these disadvantages for low-income children.[13] "Children from low-income families who have quality early childhood development experiences are more likely to enter school ready to learn and succeed in school having developed socially, emotionally and physically,"[11] according to a 2004 report submitted to the DC government. This means that for the District to truly address the educational disparities that plague the system through high school and beyond, in addition to taking steps to alleviate poverty directly, it must ensure high-quality early care and education experiences at infancy.

Poverty in DC

National Center for Children in Poverty estimates that roughly 42 percent of children under three years old live in low-income families in DC.[15] According to 2015 data from the Working Poor Families Project, 28.2 percent of all District families with at least one adult working and at least one child are considered low-income (at or below 200 percent of the federal poverty level.) The proportion is higher for families with a minority parent (38.5 percent). Nearly three-quarters of these families spend over a third of their income on housing, and only 13.5 percent own their home. The Project estimates that 31.7 percent of all DC children live in low-income working families.[16]

Poverty hits communities of color in the District and elsewhere especially hard. Children of color are more likely to be poor at some point in their childhoods or persistently poor than are white children.[17] Of DC's population, 44 percent is white and 49 percent is black.[18]

Significant Cost of Child Care to Families

Child care makes up one of the most significant expenses for DC families at any income level.[19] Costs are particularly high for families with infants because of higher teacher-student ratios and other requirements.[20] Unfortunately for District residents, the costs of child care in DC are higher than in any of the 50 states.[21] This distinction is due, in part, to the fact that the District is 100 percent urban, and statewide averages generally mask the costs in other urban settings which are generally higher.[22] And using an annual rate, the findings obscure the fact that most District families can send their child to a public preschool beginning at age three, while most states don't offer free full-day education until at least age five. The fact remains, though, that the price tag is substantial. Tuition for center-based care for infants averages $1,868 per month across DC.[23] For a family with two children, child care runs an average of $2,597 per month or $31,158 per year.[24] That is roughly 47 percent of the median household income for DC.[25]

For low-income families who do not receive government assistance, child care costs are extremely burdensome. For a full-time worker earning the local minimum wage, child care for an infant costs over 50 percent of that worker's annual income in DC and 37 states.[26] Single mothers in DC face an exceptionally difficult challenge; child care tuition for an infant costs an average of 83 percent of their income.[27] DC can be proud that it has set a high bar for licensing early care and education providers in terms of safety and learning standards, but these expectations translate into higher costs of doing business.

Many providers set lower tuition rates that reflect the means of the families in the neighborhoods in which they operate, as well as offer scholarships and other forms of tuition offsets. Subsidized child care programs in the District (see Government Subsidies for Early Care and Education, below) have generous eligibility thresholds and relatively low co-payment requirements. The bottom line is that the cost is quite high to provide child care in the context of the District economy and regulatory system, and at the level of quality parents expect and children deserve.

Early Care and Education Industry Overview

The population of children under three years old in the District is about 22,000.[28] In fiscal year 2015, there were 262 licensed centers and 145 licensed home providers serving infants and toddlers in the eight wards of DC. Geographically, the fewest centers operated in Ward 3 and the areas with the most providers were Wards 4 and 7. The number of centers has remained relatively stable over the last several years, with a marginal increase of eight centers since fiscal year 2013. The number of home-based providers decreased substantially, losing 18 (over 11 percent) over the same two-year period.[29] For over 22,000 children under age three, there were roughly 7,610 slots available with licensed providers in 2015.[30] According to a 2014 survey, there are a total of 2,043 people employed in various roles in licensed child development facilities in the District, with 1,881 in centers and 144 in child development homes. The setting for the remaining 18 people was not provided in the data.[31]

System of Assessing High-quality Early Care and Education in DC

In DC, programs that participate in the federally-funded child care subsidy program are assessed, categorized, and reimbursed based on their level of quality achieved under the District's quality rating and improvement system (QRIS).[32] A QRIS is a systemic approach to assessing, improving, and communicating the level of quality in ECE programs through a set of defined program standards.[33] The first QRIS launched in New York in 1998.[34]

In 2000, DC implemented a QRIS called *Going for the Gold* – a voluntary system that applies only to child care programs serving families who receive child care subsidies. The Office of the State Superintendent of Education (OSSE) Division of Early Learning (DEL) oversees the *Going for the Gold* system. This system has a reimbursement system with three tiers – bronze, silver, and gold – with the gold tier representing the highest

level of quality and receiving the highest reimbursement rate.[35] At the gold tier, programs must be accredited by a nationally recognized accrediting body.[36] Silver-tiered child care providers are those in the process of seeking accreditation, indicated by a date for candidacy.[37] Other licensed providers are automatically entered at the bronze level, which is equivalent to meeting the minimum licensing standards to open and run an ECE facility in the District.[38]

For fiscal year 2015, OSSE lists 96 licensed child development centers rated gold, 48 silver and 74 bronze.[39] In 2012, centers in DC were ranked as follows: 73 gold, 28 silver, and 97 bronze.[40] The increase in gold- and silver-rated programs is the result of a concerted effort by OSSE to increase the number of accredited centers serving low-income children. Of the child development homes participating in *Going for the Gold* in 2012, there were 13 gold, two silver, and 65 bronze homes; updated figures were not available.[41] DC is in the process of revising the *Going for the Gold* system to include a Continuous Quality Improvement incentive (*i.e.,* opportunities to increase quality and reimbursement rates apart from accreditation) with the goal of fully implementing the system in fiscal year 2017.[42]

Government Subsidies for Early Care and Education

The government has a clear stake in helping low-income families access quality ECE programming in the community, not only for the well-being and educational gains of the children, but also for the ultimate economic success of adults. Two-generation anti-poverty strategies aim to meet immediate needs while also supporting the entire family to achieve their economic long-term goals and move out of poverty. For example, young children need appropriate early learning environments for their safety and development, and parents must be able to pursue paid work or educational opportunities that will ultimately create a more stable home environment and financial success for the entire family in the long-term.[43] Such security is not limited to families with working adults climbing a career ladder; in fact, children of low-income parents who are able to earn a secondary or post-secondary credential are more likely to achieve the same.[44] Further, government-sponsored ECE programs are thought to decrease crime, improve health and reduce the need for other public spending, in addition to allowing mothers to earn more later in life.[45]

Investments in ECE appear to yield considerable returns. In fact, the rate of return for such an investment is estimated to be 10 percent each year, or ten cents for every invested dollar, for the entirety of a child's life. With compounding interest over time, an investment of $8,000 at birth will return almost $800,000 – or 100 times the amount – by age 65.[46] Thus, adequately funding child care subsidies and guaranteeing availability in high-quality settings are essential for the short- and long-term educational and financial success of DC families and for the District as a whole.

Child Care Subsidy Program

Low-income families throughout the country may qualify for government support through the Child Care and Development Fund (CCDF) to pay for child care while guardians work or further their education.[47] The U.S. Department of Health and Human Services (HHS) administers the CCDF program through block grants.[48] The Obama administration reauthorized federal funding in 2014 through the Child Care and Development Block Grant Act of 2014 (CCDBG), which also significantly revised the program and expanded quality improvement efforts.[49] For example, one purpose of the Act is "to assist States in delivering high-quality, coordinated early childhood care and education services to maximize parents' options and support parents trying to achieve independence from public assistance."[50] CCDBG requires that states develop and implement plans to increase the supply and improve the quality of services for infants and toddlers.[51] OSSE administers the District's CCDF program.[52] The CCDGB requires that nine percent of federal funds be devoted to quality improvement in the system by 2020, and that an additional three percent is set-aside for infant and toddler programs beginning in 2017.[53]

For fiscal year 2015, $11 million was allocated by the federal government to the District for subsidized child care.[54] Families qualify for assistance if their income is less than 85 percent of the District's median income (or $6,460 per month for a family of two), and if they rely on child care to work and/or pursue education or training at least 20 hours per week.[55] However, not all families who are eligible for subsidies participate, for reasons that are not fully understood but may be associated with education and income levels, family characteristics, or difficulties in the application process.[56] According to OSSE data, there were 5,093 infants and toddlers[57] enrolled through subsidies in 277 licensed sites in fiscal year 2015.[58] There

was no waiting list at OSSE for subsidy program eligibility, though providers may continue to have their own waitlists of varying lengths due to the general shortage of slots for District infants and toddlers. In fiscal year 2015, OSSE paid $79 million on behalf of families for subsidized child care.[59]

Subsidies are a service furnished to families by the District government; child care providers are reimbursed by OSSE based on enrollment of eligible children. Families are responsible for any co-payments to be paid directly to the provider. Co-payments range from $0 to $19.44 per day for one child, depending on income and family size, with reduced rates for additional children.[60] Community-based centers with a Level I designation serve families after they complete the eligibility and intake process through the DC Department of Health Services (DHS), while Level II centers will perform the CCDF eligibility and intake process themselves with the family on behalf of OSSE. DHS sets any co-payments families would pay before referral to a Level I center, while Level II centers determine any co-payment rate themselves. Like Level I centers, child development homes serve families referred after an eligibility determination.[61]

Table 1. Child Care Subsidy Payment Rate to Providers, by Tier and Age

	Reimbursement Rate (Full-Time)	Child Development Centers	Child Development Homes
Gold Tier	Infant	$62.57	$40.25
	Toddler	$58.50	$39.10
	Pre-School	$42.00	$28.00
Silver Tier	Infant	$54.34	$35.73
	Toddler	$53.16	$33.61
	Pre-School	$35.60	$24.53
Bronze Tier	Infant	$46.81	$32.76
	Toddler	$45.80	$31.21
	Pre-School	$29.21	$22.03

Source: FY 2016 Provider Agreement for Subsidized Child Care Services, OSSE

For infants up to 12 months old, gold-rated centers with OSSE contracts receive a total daily rate of $62.57 from OSSE. For toddlers (12-36 months), these same providers are paid a daily rate of $58.50.[62] (See Table 1.) Even at the highest quality tier, providers are reimbursed significantly less than the market rate for their services. HHS recommends setting the market rate at the 75th percentile of local tuition rates to ensure "equal access" to quality child care for low-income families, theoretically providing access to all but the most expensive care in the locality (the top 25th percentile based on tuition rates).[63] States have the option of how much of the tuition to subsidize, how much families are required to contribute as co-payments, and whether providers can charge families for the difference between the child care subsidy program rate and the market rate.[64] Except for co-payments determined by income, DC has wisely chosen not to allow these costs to be passed to families, since that would incentivize use of unlicensed care, and undermine the District's overall goals for the ECE system.

OSSE acknowledged the gap between CCDF reimbursement rates and market rates in 2013; "Although the subsidy reimbursement rates are below 75 percent of the market rate, OSSE is committed to increase the market rate [sic] for child care subsidy providers. The District has allocated an additional $11 million to support this effort. The child care subsidy rate increase will move the reimbursement rates closer to […] the market rate."[65] In that year, the daily full-time market rate for infants at centers was $84.48, and the daily full-time market rate for toddlers at centers was $78.98.[66] DC's gold-level subsidy rates thus cover 74 percent of the market rate for infant and toddler care, while bronze and silver cover less.

Head Start and Early Head Start

Additional programs and supports exist for low-income families in the District's landscape of ECE services. Head Start and Early Head Start programs, for example, support the cognitive, social, and emotional development of low-income children from birth to five years old, helping improve their readiness for school.[67] The first grants for Early Head Start programs, devoted to pregnant women and children under three years old, were issued in 1995.[68] Early Head Start "provides early, continuous, intensive, and comprehensive child development and family support services to low-income infants and toddlers and their families, and pregnant women and their families."[69] Head Start and Early Head Start programs are based in schools, centers, and family child care homes, and vary greatly by the needs of the communities in which they operate.[70]

HHS awards grants directly to public agencies, organizations, and schools for operation of local programs.[71] As of fiscal year 2014, there were seven Head Start/Early Head Start grantees in DC, including DC Public Schools (DCPS), public charter schools and

community-based organizations. Among all sites, there was capacity for approximately 5,955 children, primarily three- and four-year-olds.[72] Families meeting means-based eligibility requirements generally apply and enroll directly through programs in their area.[73]

Temporary Assistance for Needy Families (TANF) Program

The Temporary Assistance for Needy Families (TANF) program was formed in 1996 to take the place of the Aid to Families with Dependent Children (AFDC) cash assistance program.[74] TANF provides grants to states for a range of benefits and services, including cash assistance programs for low-income families with children which make up 28 percent of program spending nationwide.[75] The program also funds other activities, including job readiness and child care. In 2013, child care services comprised 30 percent of funds spent in the District while work programs made up about 21 percent, and 23 percent went to basic assistance.[76] DHS operates TANF in the District for eligible DC residents who are either pregnant or responsible for a minor child, and under-employed (working for very low wages), unemployed or about to become unemployed.[77] The District also chose to use $38 million in flexible federal TANF funds for child care. TANF recipients who participate in certain activities may be referred for CCDF program funding, while others may receive Head Start services.[78]

In fiscal year 2015, 10,592 recipients were engaged in TANF, 22 percent of whom eventually exited the program when earnings exceeded program limits.[79] In 2013, over half of all families receiving TANF had at least one child under age three.[80] Less than one percent of the families receiving support through the TANF program had no child recipients, showing what an important support the program is for children living in poverty.[81] Under current DC rules, families' eligibility for full assistance expires after 60 months (or five years.)[82]

Government Supports for Child Care Providers

The programs described above enable eligible low-income families to access ECE programs for their children. OSSE offers support for ECE providers as well. In addition to grant programs to serve specific purposes, OSSE operates professional development programs and the Early Learning Quality Improvement Network (QIN). The QIN model works through grants to community-based centers (serving as hubs) to furnish technical assistance, coaching and ongoing support to clusters of other local child care providers. The goal is to enable providers to meet Early Head Start quality standards. Providers are entitled to other benefits to incentivize participation in the QIN, such as teacher bonuses and assistance with recruitment in order to maintain qualified staff and fill at least 85 percent of their available classroom slots.[83] OSSE's DEL also manages the Early Intervention Program for children with developmental delays and disabilities. Some children receive their assessments and services in the ECE center environment.

Other District agencies provide supports for children and their ECE providers. (See Table 2.) One such agency is the Department of Behavioral Health (DBH), which administers Healthy Futures. Healthy Futures provides behavioral health consultants to providers to "promote social emotional development, prevent escalation of challenging behaviors, and increase appropriate referrals for additional assessments and services."[84] These services augment the quality and capacity of child care providers, though they do not provide any additional revenue.

Availability of Slots for Infants and Toddlers in Early Care Programs

Despite support for families and providers through federal and local programs, access to quality early care for infants and toddlers presents a significant challenge to District families. As stated above, the latest data from OSSE estimates there are only 7,610 slots available with licensed providers for 22,000 children under age three in DC, meaning the slots available cover only 34 percent of infants and toddlers. Of course, not all children need out-of-home care, but the current supply cannot meet the true demand.[I] Having to compete for these limited slots, families may put their names on multiple wait lists, begin the search before they are even pregnant, place their young children in lower quality or unlicensed programs, or even leave the workforce.[85] The scarcity of available spaces for infants and toddlers has economic explanations, such as the high cost of providing low staff-to-child ratios in infant and toddler classrooms,[86] and the need to have

I. The true demand, or the number of slots actually needed, has not been calculated and would be incredibly difficult to do since so many factors influence the decision to seek out-of-home care. However, research from the Urban Institute indicates that approximately 65% of children under three years old with employed mothers are placed in non-parental ECE settings. (Source: Gina Adams, Martha Zaslow, Kathryn Tout, "Early Care and Education for Children in Low-Income Families Patterns of Use, Quality, and Potential Policy Implications," May 2007.) Since 71% of District mothers with infants are in the labor force,* including many single parent families, we estimate that the number of slots needed to adequately serve District infants and toddlers would be approximately 10,150 – an additional 2,540 slots or 25% above the current supply of 7,610. (*Source: Zero to Three, "State Baby Facts: A Look at Infants, Toddlers, and Their Families in 2015: Washington DC," 2015.)

Table 2. Sources of Government Support to Low-Income Families with Infants or Toddlers in DC			
Program	**DC Agency**	**Description**	**Total Program Funding**
Child Care Subsidy Program	Office of the State Superintendent of Education (OSSE)	The subsidy program helps low- and moderate-income families pay for child care in licensed centers or family child care settings. Supported in part by the DC Department of Human Services' (DHS) Temporary Assistance for Needy Families (TANF) program.	$79,172,630 paid to child care providers in FY 2015 Source: Question 21, OSSE's Performance Oversight Responses to DC Council, February 2016.
DC Early Intervention Program (DC EIP)	Office of the State Superintendent of Education (OSSE)	Under Part C of the federal Individuals with Disabilities Education Act (IDEA), this program serves families who are concerned about possible developmental delays of their infants and toddlers.	$2,148,938 in FY 2016 budget Source: Question 84, OSSE's Performance Oversight Responses to DC Council, February 2016.
Early Head Start/Head Start	Not applicable – Federal funding flows directly to individual grantees	Head Start is a federal program that promotes school readiness of pre-school-aged children by offering comprehensive educational, nutritional, health, social and other services. Early Head Start serves low-income infants, toddlers, pregnant women and their families.	$27,977,602 in FY 2014 Source: Early Childhood Learning & Knowledge Center, Head Start Program Facts, Fiscal Year 2014, https://eclkc.ohs.acf.hhs.gov/hslc/data/factsheets/2014-hs-program-fact-sheet.html.
Healthy Futures	Department of Behavioral Health (DBH)	Healthy Futures provides early childhood mental health consultation to build the capacity of ECE staff to promote positive social emotional development and reduce behavioral problems.	$515,000 in FY 2015 Source: DC Department of Behavioral Health, Healthy Futures Year 4 Evaluation of Early Childhood Mental Health Consultation, September 2014.
DC Home Visiting Program	Department of Health (DOH)	Maternal and child health home visiting services identify and reduce behavioral and medical risk factors among pregnant and parenting women, and improve access to health care for parents and young children.	$2.5 million in FY 2016 budget Source: Proposed FY 2016 DC budget, www.cfo.dc.gov.
Note: This chart does not include all programs serving young children in the District of Columbia, but outlines some of the major funding streams and services for infants and toddlers.			

ground-level space for children with mobility challenges. The goal of this study is to help clarify these economic realities for ECE providers, as well as illuminate other barriers, challenges or tradeoffs that may help explain the inadequate supply in the local industry.

The Early Care Education Workforce and Economy

Education

To meet DC's child care licensing requirements, teachers must be at least twenty years old, and have at least a Child Development Associate (CDA) credential or equivalent minimum certificates or education.[87] The DC Commission on Early Childhood Teacher Compensation, which was formed to develop plans for teacher compensation that would enable DC's community-based providers to recruit and retain well-qualified staff, focused on Pre-K but recommended higher degree requirements for teachers of infants and toddlers with commensurate pay.[88] OSSE offers two scholarship programs for the ECE workforce – CDA grants and T.E.A.C.H. Early Childhood scholarships – and provides professional development on both mandatory and elective topics as well as career advising opportunities. CDA grant funds supported more than 200 ECE professionals in pursuit of their credential in 2015. Another 130 ECE workers received scholarships for higher education programs through the T.E.A.C.H. program.[89]

Wages and Benefits

The average annual income for child care workers in DC was $26,470 in 2013.[90] At this salary, an ECE worker with a family of two would earn 165% of the federal poverty level and less than 30 percent of the area's median income, placing them well below the eligibility thresholds for government services such as the CCDF child care subsidies.

As documented in several recent studies, ECE teachers and staff are woefully underpaid, earning just slightly higher wages than fast food cooks, but less than nonfarm animal caretakers and financial services tellers.[91] Child Care Aware found that "despite tremendous responsibilities, the average income for a full-time child care professional in DC in 2014 was only $26,470, making child care one of the lowest paying professional fields and, more importantly, one of the lowest paying occupations in early care and education." [92] According to Bureau of Labor Statistics rankings, child care workers earn in the second or third percentile of occupations by mean annual salary, along with parking lot attendants, bartenders, hotel desk clerks and dry-cleaning workers, despite requiring higher credentials than these other occupations.[93] In fact, ECE workers earn only half of what other full-time workers with similar levels of education earn.[94] A study from University of California, Berkeley concluded that preschool teachers earned around 46 percent more than their counterparts in early care in 2013,[95] while kindergarten teachers made over 68 percent more annually than preschool teachers.[96]

In addition to low wages, ECE professionals often receive limited benefits.[97] In 2012, approximately 45 percent of employees at ECE centers received no employer-supported health insurance benefits, and about 59 percent received no retirement benefits.[98] Employees at most child care centers had to pay a significant portion of the costs for any benefits received, creating an oft-cited barrier to participation.[99] Although the District has developed a fairly robust set of workplace supports, like mandatory paid sick leave and living wage requirements, these requirements do not apply to all providers and enforcement is limited. Because of workers' low earnings, limited benefits and demanding work, ECE providers experience high turnover rates, and providers report difficulty attracting and retaining qualified employees.[100] This undermines the District's goals for increasing high-quality care because staff is one of the key drivers of quality. In particular, stable, educated, experienced providers are necessary to ensure the best early care and education for children at highest risk for toxic stress and educational delays.

Accreditation

Like all states, DC has its own licensing requirements for ECE providers to legally run their programs.[101] Compliance with minimum licensing requirements qualifies programs for the bronze level of DC's *Going for the Gold* system if providers choose to participate in the CCDF subsidy program.[102] National accreditation, on the other hand, requires providers to meet a higher set of standards than licensing.[103] DC currently uses national accreditation as the standard for a gold rating in its QRIS system, the top designation with the highest reimbursement rate.

Multiple national organizations offer accreditation. In DC, most child care centers use the National Association for the Education of Young Children (NAEYC), which began offering accreditation in 1985.[104] In DC, approximately 119 child care centers (less than half) are accredited by NAEYC, serving approximately 6,930 children.[105] Most home-based providers look to the National Association for Family Child Care (NAFCC).[106] Approximately 13 family home providers in DC (less than 10 percent) are accredited by NAFCC.[107]

Some providers may choose not to pursue accreditation, or may not successfully achieve it, because of the time, effort and expense required.[108] Initial accreditation fees for NAEYC ranged based on center size from $1,570 for centers with up to 60 children to $2,795 for centers with up to 360 children, and more for even larger centers. After three years, centers must be re-accredited at a cost of $550 to $880 or more. Additional fees may apply in other circumstances, such as a late fee or second review after a denial.[109] Providers also need to pay for supplies, and the extra time and work staff and administration devote to prepare for evaluation, the cost of which often eclipses the accreditation fees.[110]

Accreditation standards put pressure on nearly every aspect of a provider's program, including design of indoor and outdoor space, quality of instruction, and type and layout of materials in a classroom. It is important to note, however, that they do not stipulate wage standards for teachers or other staff. While they require that certain staff have credentials, and credentials typically generate higher pay, credentials and wages have not been as successfully aligned in community-based ECE services as they have in other education and health sectors. By not providing a pay scale or requiring parity with compensation in the public school sector, the national accreditation process may have the unintentional consequence of forcing providers to shift resources away from compensation to attain or maintain accreditation.

Universal Pre-Kindergarten and the Policy Reform Context for Infants and Toddlers

Over the past several decades, advocates and policymakers in DC made great progress in the early education space, creating universal Pre-Kindergarten for three- and four-year-olds and raising standards for all licensed care. In 1972, DC Public Schools became one of the first locations in the country to offer Pre-K programs for four-year-olds in public schools.[111] In 2006, however, large numbers of District eligible children were not enrolled in preschool programs.[112] Furthermore, most of the existing early care and education programs did not meet national quality standards,[113] and only 30 percent were accredited.[114]

To address the enrollment and quality issues, experts and advocates campaigned for legislation for universal Pre-K for three- and four-year-olds with high quality standards. They employed evidence that such an investment would be a boon for the District's economy, including one 2006 cost-benefit study which estimated that an investment of $58.5 million ($13,000 per preschooler per year) would yield benefits of $81.5 million – a return of $23 million – by the time the children reached fourth grade.[115] In 2008, the DC Council unanimously voted The Pre-K Enhancement and Expansion Act into law,[116] and by 2014, over 12,000 three- and four-year olds were enrolled in DCPS and public charter preschool and Pre-K programs.[117] As an interesting historical note, the Act originally provided a five percent set-aside of funds provided for the Pre-K program to "expand and improve the quality of infant and toddler programs."[118] However, this set-aside was ultimately removed with the promise that the matter would be handled separately.[119]

Today three- and four-year-olds can access Pre-K in public school settings or community-based ECE settings. OSSE also offers reimbursement through the child care subsidy program to child development centers and homes with full-time preschool classrooms, in addition to payment for before- and after-care for Pre-K and school-age children. In order to continue increasing access to quality Pre-K for all DC children, OSSE manages the Pre-Kindergarten Enhancement and Expansion Program. These grants offer select gold-level community-based child care providers funding equal to DC's Uniform Per Student Funding Formula (UPSFF) used to set public school funding, allowing them to enhance their program offerings and pay Pre-K teachers higher wages.[120] Providers may also receive the CCDF subsidy rate for before- and after-care for the same students in the Pre-K classrooms. In the absence of similar resources for infants and toddlers, the awards have the side effect of creating a bifurcated system of compensation and administration within centers. Centers that receive the expansion grants pay Pre-K teachers on a scale comparable to public schools, while infant and toddler teachers (or even preschool teachers in non-Pre-K Enhancement-supported classrooms in the same center) can be paid significantly lower wages.

Conclusion

The issues outlined here provide the context for this research: a deeper look into the economics of a much-studied and regulated, yet undervalued and underfunded system. In this context, we set out to determine how providers of early care and education are able to make ends meet, the choices and decisions they have to make, and the realities of serving under-resourced, high-need children and families. The District is often seen as ahead of the curve on early education, with high standards for licensing and learning, universal Pre-K, and near universal preschool. But these successes rest on the shoulders of a fragile economy, in which providers of essential services for the District's most vulnerable infants and toddlers are underfunded and under-supported. It is time now for DC to address these issues in order to ensure access to high-quality programs for infants and toddlers during their critical early stages of development.

Research Methodology

Project Team

The team for this project was comprised of staff members from DC Appleseed and DC Fiscal Policy Institute, plus a team of pro bono attorneys from Squire Patton Boggs, Zuckerman Spaeder, and Smith Gambrell & Russell who provided assistance with the data collection and drafting of this report.

The study was also assisted by an advisory group of child care providers and early childhood advocates. The group met three times to advise the project team – in March 2015 to offer feedback on the research questions and study design, in May 2015 to review the data collection instrument and interview protocol, and in February 2016 to discuss findings and recommendations. Members of the advisory group also provided individual consultation throughout the study period.

Sample Population

The study's sample included only home- and center-based early childhood education providers in DC who a) serve infants and/or toddlers; b) accept OSSE subsidies to serve children from low-income families; and c) have a gold or silver rating in the District's QRIS system. The project team adopted the QRIS rating system's criteria for "quality" on which payment rates are based rather than create a new definition of "high-quality" care that may be more subjective, comprehensive and/or inclusive but would ultimately complicate data collection and comparisons.

Cost data was collected from 22 providers, of which 16 provided sufficiently complete data to include in the cost and revenue calculations. A total of 36 providers participated in the qualitative research, including those who answered qualitative questions as part of the individual interviews (22, including the only home provider interviewed), plus a focus group of an additional 14 providers.

See below for additional breakdown of the sample's demographics:

- 64 percent of sample (n=22) were non-profit (vs. for-profit);
- 95 percent of sample (n=22) were centers (vs. homes);
- Nine percent of sample (n=22) received Early Head Start/Head Start funding.

Participation in the study was entirely voluntary. Providers were sent requests to participate in the study via e-mail, by phone, and in person. The project team shared information widely to generate participation, including targeted outreach with key local stakeholders in the ECE field. Providers willing to be interviewed were sent the interview worksheet in advance to allow them to collect relevant documents. The interviews took place on-site at the provider's preferred location with at least two members of the project team in attendance, and typically took two hours to complete.[II]

Ward	Percentage of Sample
Ward 1	23%
Ward 2	9%
Ward 3	0%
Ward 4	9%
Ward 5	9%
Ward 6	5%
Ward 7	32%
Ward 8	14%

Program Size (in number of children)	Percentage of Sample
0-25	11%
26-50	21%
51-75	42%
76-100	16%
101-150	0%
151-200	5%
201-250	5%

II As an incentive for participation, every provider who completed the interview and data submission process was entered in a drawing for a gift card to Lakeshore Learning, suppliers of early learning materials and child care program necessities. Five $100 gift cards and one $250 gift card were given to providers selected in a random drawing on December 15, 2015.

Data Collection

The interview protocol included a range of questions, covering the following areas:

- Basic program information;
- Program size;
- Program revenues;
- Program expenses;
- In-kind and donated resources;
- Staffing;
- Professional development and accreditation; and
- Qualitative discussion.

All responses were compiled into a data worksheet and sent back to providers to confirm accuracy or complete missing information. Data were based on the most recently completed fiscal year for the provider or the most recent year for which they had a completed financial audit.

The project team took additional steps to ensure confidentiality for all participating providers in the study. All data trends are reported in the aggregate form and no identifying information is shared in this report. Each provider worksheet was assigned a corresponding code to further de-couple the provider's name from the data gathered. All codes were stored in a password-protected electronic file only accessible by DC Appleseed and DCFPI staff working on the project.

In addition to interviews, a focus group was held in November 2015, to collect qualitative data from a group of providers and recruit additional volunteers for the full interview. Information gathered at the focus group was culled for qualitative findings, but did not impact any quantitative or cost analyses. Some of the providers who participated in the focus group followed up with individual interviews and their data were included where possible.

Research Challenges

The project team was able to secure the participation of 22 providers, with detailed cost information resulting from only 16 providers. This sample size did not reach statistical significance based on the number of providers eligible under the study criteria. As a result, the estimates for cost per child and cost per classroom found in this report are not statistically significant, though the findings are a useful guide for analysis.

The project team sought participation from home-based as well as center-based providers. The number of home providers who responded to requests for participation was not large enough to generate specific calculations or recommendations for the sector.

During the interview process, many providers had difficulty accessing clear financial and aligned attendance records to answer revenue and expenditure questions. Specifically, the misalignment between age ranges associated with the child care subsidy reimbursement program and teacher ratio requirements proved problematic in collecting accurate data on the costs of serving children at different ages or by classroom.

Finally, some requested information was not available in time to be included in this research. The original study design included data from the Child and Adult Care Food Program (such as amount of funding received at the center level to help provide healthy food to children in care) as well as the latest Classroom Assessment Scoring System (CLASS) scores. Neither of these data points was available for inclusion in the analysis.

Data Analysis

The project team ran a multiple variable regression to determine whether or not there was correlation between the ages being served at a center and the cost per child and classroom. The analysis included the following variables: average enrollment by age, number of classrooms by age, and total cost of care per child and per classroom (all ages.) These regressions did not yield results of significance within standard confidence intervals. In other words, the analysis did not identify any evidence that one isolated variable accounted for increased or decreased cost across the study sample. Through these tests and other informal methods used to find patterns in the data, the project team could not pinpoint any one factor that accounted for increased costs, likelihood of operating at a loss, or other quantitative outcome. However, the lack of clear pattern could be due to the fact that the sample was small, not randomized, and likely not representative of the entire population of child care centers in DC.

Calculating Value of In-Kind Donations

Providers were asked to list all donated services or resources, including durable donations, legal and non-legal pro-bono services, parent volunteer time, non-parent volunteer time, curriculum support, and other types of donations for which they would otherwise pay. Government services that were utilized at no cost to the provider included Healthy

Futures, Strong Start, Early Stages, and DC Public Library's "Sing, Talk, Read" program. These programs differ from a government grant that providers may receive, which is captured separately as part of provider revenue. (See below for some of the assumptions made to calculate the value of various in-kind or donated services included in this study.)

Healthy Futures

The Healthy Futures program operated by DBH provided in-kind services to ECE centers. The value of these services was estimated based on data provided by DBH staff. The program's budget for fiscal year 2015 was $515,000, which covered four clinicians and a part-time clinical supervisor. Each of the four clinicians is assigned to six or seven centers, and spends one half to one full day at each center each week. Some of the time is spent working with children and staff, some is spent working with children and families. The program served roughly1,366 children last year at about $377 per child. Note that this estimate was applied to all children served by a center, since all children are assumed to benefit from the program directly or indirectly.

Strong Start

The estimate for the value of Strong Start services was derived from the Fiscal Impact Statement developed by the DC Office of the Chief Financial Officer for B20-724, "Enhanced Special Education Services Act of 2014" Draft Committee Print shared with the Office of Revenue Analysis on September 10, 2014. Under the section on expanding early intervention services, the memo includes an estimate of $10,500 per child, per year.

Early Stages

The estimate for the value of Early Stages services was derived from consultation with leadership at Early Stages, and is based on the assumption that the average number of hours for Early Stages assessment and typical services is aligned with the maximum hours stated in DC Municipal Regulations for special education evaluations.[121] The mean hourly wages for comparable occupations in DC as listed by the Bureau of Labor Statistics was used to value the time spent for this estimate.[122] Based on annual salaries for the following professionals divided by 2040 hours (or 40 hours per week, 51 weeks per year), an evaluation for a child through Early Stages will typically include the following:

- Psychological assessment: 13 hours a year at $39.78 per hour (based on clinical, counseling, and school psychologist mean hourly wage: $39.78/hour);
- Speech assessment: eight hours a year at $41.08 per hour (based on speech-language pathologist mean hourly wage: $41.08/hour);
- Speech therapy: 50 hours a year at $41.08 per hour (based on speech-language pathologist mean hourly wage: $41.08/hour);
- Occupational therapy: 50 hours a year at $41.40 per hour (based on occupational therapy mean hourly wage: $41.40/hour);
- Specialized instruction: five hours a year at $28.49 per hour (based on Special Education Teachers, Kindergarten and Elementary School annual salary, divided by 52 weeks to get hourly wage of $28.49/hour);
- Total estimated cost per child: $5,112.

DC Public Library

The project team consulted with staff members at the DC Public Library, who helped calculate the estimate for the agency's Sing, Talk, Read Program, which covers a range of services, from book donations to parent workshops. The following estimates were applied to each provider that reported receiving these resources.

- Engagement tools: $24 per child excludes staff time;
- Parent/Family engagement: $39.59 per staff, per hour, per engagement;
- Informational materials: $2.76 per child/caregiver;
- Giveaway items: $1.37 per child.

Book and Computer Donations

Based on the valuation methods used by two organizations that regularly estimate the value of donated items, The Salvation Army and Goodwill Industries International,[123] the project team used a conservative estimate of $1 per book and $50 per computer.

Opportunities for Future Research

In addition to the findings detailed below, there were a number of questions that could not be answered using this research design and timeframe which would be worthy of future study. Specifically, answers to the following questions would provide additional guidance to District stakeholders in their efforts to advance the field of early care and education:

- Is higher cost per child associated with better outcomes?
- Is there a correlation between the proportion of staff with higher credentials and a provider operating at a profit or loss?
- What is the actual savings potential for programs in the different shared service models?

Findings: Determining the Cost of Quality Care

The survey administered to the early care and education (ECE) provider sample included both qualitative and quantitative questions. The main research priority was to derive the true costs of providing high-quality child care in the community, both in quantitative terms (dollars) and qualitative terms (decisions, trade-offs, other unquantifiable resources.) Together, these findings paint a more comprehensive picture of the ECE landscape in the District.

This research study set out to establish the following:

1. What is the full cost per slot to operate a "high-quality" program (center and home) in DC?
2. What are the sources of revenue for programs, including in-kind and volunteer resources and additional resources for children with disabilities?
3. How do programs manage when there is a shortfall between revenues and cost of quality?

The findings are important windows into the financial and other challenges that providers face, as well as the wide range of practices and experiences even among those who are accredited by National Association for the Education of Young Children (NAEYC) and rated at the gold level by Office of the State Superintendent of Education (OSSE) Division of Early Learning (DEL). This section summarizes both the qualitative and quantitative findings of this study.

Understanding Costs

Based on the reauthorization of the Child Care and Development Block Grant (CCDBG) in 2014, states now have the option to set provider payment rates using a cost-modeling approach rather than a market rate study.[124] In fact, the District is one of the first localities to take advantage of this new provision.[125] Market rate studies capture what providers charge families who earn enough to be excluded from the child care subsidy program, and are designed on the assumption that subsidy payments will be set at the 75th percentile of market rates. This method and these studies have not been effective at capturing the actual costs to provide high-quality care nor the differences among programs. To better understand actual costs, OSSE completed a new cost-modeling process in 2015, which estimates the cost of providing care and remaining solvent at varying program sizes and levels of quality; results of this process are to be released in 2016.[126]

Cost-modeling is based on identifying the primary drivers of cost to providers, including personnel and occupancy, as well as the specific requirements-based contributors such as the local Quality Rating and Improvement System (QRIS). Cost-modeling develops cost assumptions for average providers defined by certain parameters, such as number of children of different ages and proportion of children who are supported by the subsidy program. It must, by design, make assumptions concerning how providers spend money, and whether they are compliant with licensing, labor, and other laws that govern the provision of early care and education services.

The research by DC Appleseed and DCFPI presented here complements the cost-modeling approach because it captures both the variations among programs and the provider perspective on the assumptions that fuel the cost-modeling approach. This research focused on providers in the Child Care and Development Fund (CCDF) program because they serve a large proportion of children in the District who are at-risk for educational delays by virtue of their family's income, and because they are the most impacted by public financing decisions. The findings confirmed in real terms that the rates paid to providers participating in the child care subsidy program are substantially lower than both the market rates and the true costs of providing high-quality care.[127] This shortfall poses serious challenges for the child care industry in their efforts to offer sustainable care to DC's most vulnerable children.[128]

Sample

Of the 22 providers in the sample:

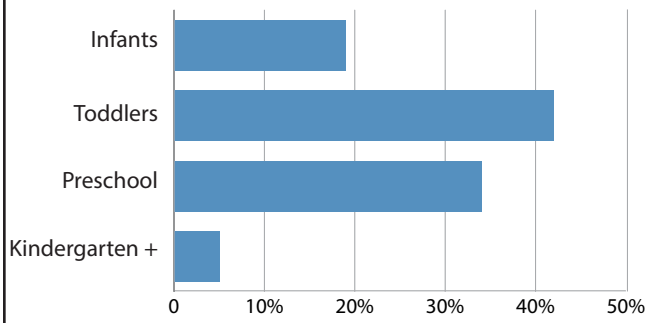
- 64 percent of providers were non-profit;
- 50 percent were located east of the Anacostia River (Wards 7 and 8);
- Providers varied in size with some serving fewer than 15 children and others over 200;
- On average, providers had two infant classrooms, four toddler classrooms, and two preschool classrooms;
- The majority of providers (68 percent) had preschool classrooms; and
- Only a few providers in the sample served school-age children in Kindergarten and before- and after-care arrangements.

Enrollment vs. Capacity

Most providers in the sample were near full capacity across age ranges. There was one outlier at only 31 percent of capacity. (See Figure 1 for a breakdown of enrollment by age group.) Over the base year, the average provider in the sample filled:

- 97 percent of their infant slots (Range: 85-100 percent);
- 89 percent of their toddler slots (Range: 31–100 percent);
- 90 percent of their preschool slots (Range: 76-100 percent).

Figure 1: Age Groups of Enrolled Children Served in Provider Sample, by Percentage



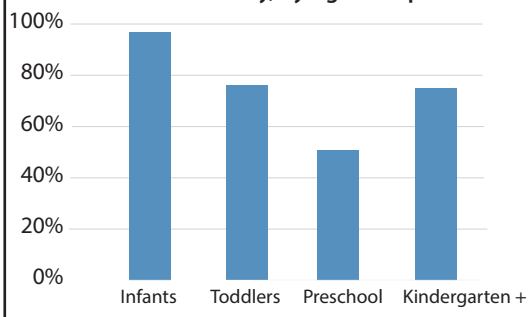
Source: DC Fiscal Policy Institute and DC Appleseed, 2016

Subsidy-Eligible Children

On average, about two-thirds of the children enrolled with providers in the sample were receiving subsidized child care in the base year. (See Figures 2 and 3 for the percentages of children enrolled with providers through child care subsidies by age and by ward.)

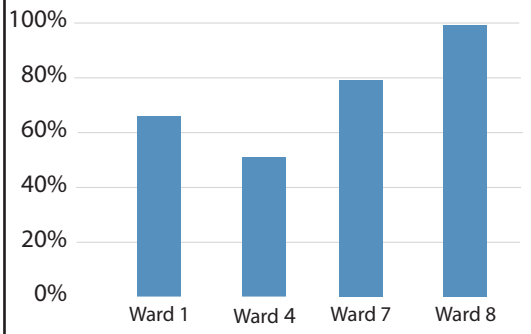
- On average, about 65 percent of children enrolled in the sample in a given month were enrolled through the child care subsidy program;
- The range of enrollment in the subsidy program across providers was 0 to 100 percent;
- The typical provider (median) in the sample reported 71 percent of children across all ages were in the subsidy program.

Figure 2: Percentage of Children Receiving Child Care Subsidy, By Age Group



Source: DC Fiscal Policy Institute and DC Appleseed, 2016

Figure 3: Percentage of Enrolled Children Who Received Child Care Subsidy, By Ward



Source: DC Fiscal Policy Institute and DC Appleseed, 2016
Note: Not all wards are represented in this graphic to protect confidentiality of providers in sample.

Qualities Families Value Most

Providers reported that families prioritize the following qualities in a center (listed in order of most commonly reported to least):

1. Staff (low turnover, highly trained and qualified, nurturing and engaging);
2. Open communication and relationships between families and staff (Some centers noted the importance that staff and clients are "like family." Others reported being a neighborhood institution, serving generations of families);
3. Safety, including background checks for staff;
4. Classroom environment (clean, organized, well-resourced, spacious, playgrounds, children's work displayed);
5. Curriculum;
6. Accreditation (Not all providers thought families appreciated or understood what this meant. Some felt it didn't matter at all to parents);
7. Hours (including after-care) and days closed;
8. Low teacher-student ratios;
9. Meals and nutrition;

10. Location;
11. Bilingual (Spanish-English);
12. Schedule for everyday activities including feeding;
13. Field trips and "extra" activities;
14. Discipline; and
15. Diversity.

Provider Revenue

An examination of provider revenue streams revealed that the child care subsidy program is the dominant source of revenue, at an average of 62 percent across providers, followed by private tuition at 18 percent. (See Figure 4.) Non-subsidy government revenue is the next largest revenue stream, comprising 13 percent of revenue – this category includes funding like grants for Pre-K expansion and professional development from DC government. (Note that non-subsidy government revenue does not include the Child and Adult Care Food program due to inability to secure timely data.)

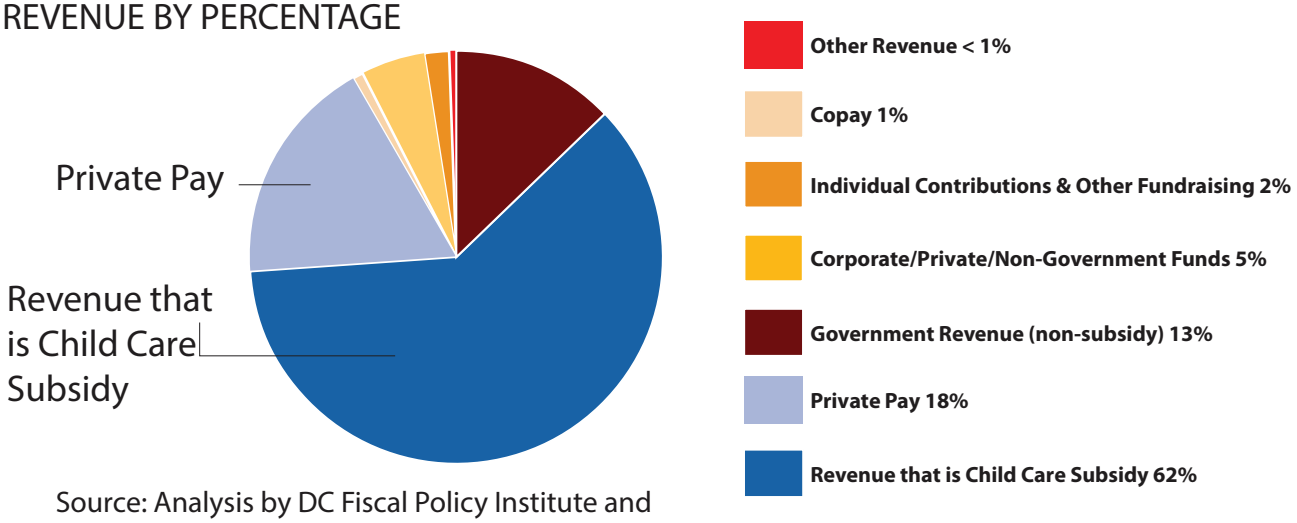
"Trust is the number one quality. Parents know the staff love their kids, and that's important to them. They know we are there to help them, we're on same side."

Most commonly reported donations:

1. Parent time;
2. Strong Start services;
3. Early Stages services;
4. Books;
5. Legal services;
6. Events, entertainment, and music/drama programming;
7. Professional and fundraising services from board members;
8. Healthy Futures services;
9. Landscaping;
10. Staff uncompensated time; and
11. Health screening and medical services.

Figure 4: What Makes Up Provider Revenue?

REVENUE BY PERCENTAGE



Source: Analysis by DC Fiscal Policy Institute and DC Appleseed, 2016

Value of In-Kind Donations

Providers were asked to itemize all sources of donated goods and services, including government programs that offered support providers would otherwise need to pay for out of their budget. The average value of donations in the sample was $66,995 in the base year, with a typical provider receiving $37,235 in in-kind donations annually. The range varied greatly, however, with some providers receiving less than $6,000 and others receiving over $260,000. Data show that of all in-kind donations received, government services (such as Healthy Futures, Strong Start, Early Stages, or DC Public Library) comprised a sizeable 25 percent of the total.

Most commonly reported source of donations:

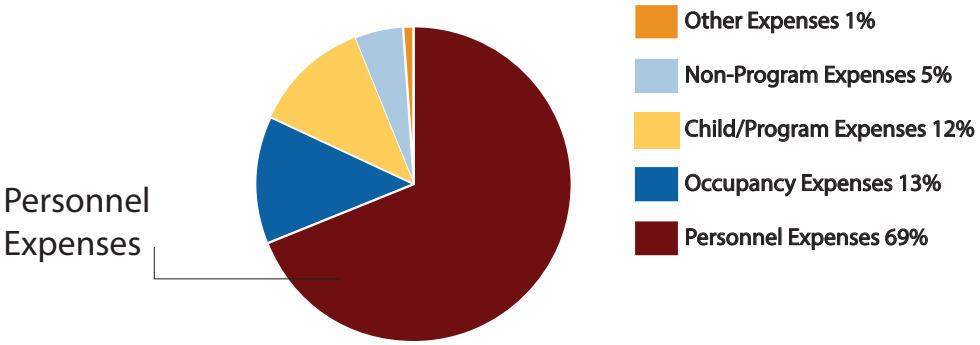
1. Families of past and present students;
2. DC government special needs services;
3. Other DC government programs and grants;
4. Community members;
5. Local professionals;
6. Another non-profit organization;
7. Local colleges' service initiatives and internships;
8. Wolf Trap Foundation; and
9. Board members.

Provider Spending

Data were collected to better understand how providers spent their resources across key categories:

- Personnel: Full-time employees, part-time employees, substitutes/temporary staff, payroll taxes (local and federal), health and other benefits (e.g., Metro passes, paid leave, retirement);
- Occupancy: Rent/lease/mortgage, utilities (electric, gas, telephone, cable, internet, water), building insurance, maintenance (cleaning and repairs), construction, playground equipment, supplies, maintenance;
- Child/Program: Food products and services, kitchen supplies, education supplies, education equipment, office supplies/printing/postage, office equipment (purchase or lease), insurance (e.g., liability/D&O/renters/auto, if not included in transportation), payroll service, credit/debit card processing fees, advertising, IT services and technology, transportation, consultants/training; and
- Non-Program: Parking, security, furniture, telephone and internet, financial audit, legal, accounting, professional services (bookkeeping, auditor), taxes (unemployment, real estate, etc.) assessments/licenses, bank charges, non-mortgage debt service and interest (line of credit, loans), miscellaneous fees/permits.

Figure 5: What Makes Up Provider Spending?
EXPENSES BY PERCENTAGE

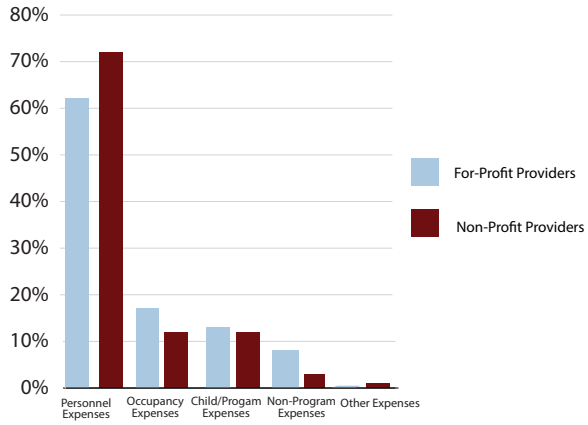


Source: Analysis by DC Fiscal Policy Institute and DC Appleseed, 2016

On average, providers spent most of their resources on personnel (69 percent), followed by occupancy (13 percent) and child/program expenses (12 percent). (See Figure 5.) Note that a higher percentage merely reflects the amount of a provider's budget that is spent on those types of expenses – not necessarily that the spending is adequate.

The project team compared spending trends between for-profit centers and non-profit centers. Data showed that for-profits seem to have fewer resources available for personnel and spend higher percentages on occupancy and non-program expenses than their non-profit counterparts. (See Figure 6 for comparison.)

Figure 6: Comparison of Expenses for Providers in the Sample, by Non-Profit Status



Source: DC Fiscal Policy Institute and DC Appleseed, 2016

If Providers' Revenues Were Increased

Nearly every provider interviewed emphasized the need for increased revenues to uphold quality and serve families. When asked to provide examples of investments that increased revenues would enable them to make, many providers gave a list of two or more examples. They are provided here in order of most cited to least.

1. *Increase Wages* - This is the most common response, given by nearly every provider surveyed. Many providers provide both human and business reasons for wanting to improve staff pay. There were even some perceived geographic and racial elements to some of the answers provided; one center wanted to increase pay in order to compete with centers in Northwest to attract talent; another thought low wages signaled disrespect for people of color in the workforce.
2. *Enhance Programs and Services* - Providers could easily list things they could do to improve the quality and capacity to serve children: materials

and educational supplies, more frequent and interesting field trips, new furniture and equipment, electronics and computers, a center website, increased staffing to improve teacher-to-student ratios, increased counseling and services for children with special needs, and specialized staff such as bilingual teachers, a nurse, literacy coaches, and a family support person.

3. *Capital and Maintenance Improvements* - Many providers envisioned the environmental and capital improvements to their centers that would be possible with increased revenue, from small things like organic cleaning products to moving into new facilities. The most commonly named improvements were kitchen and playground remodels. Other improvements included basic maintenance and building repairs, upgrades to heating and cooling systems, lighting and window treatments, installation of security cameras, new carpeting and expanding classrooms.
4. *Staff Benefits* - This was often but not always bundled with increased pay for staff. Again, providers wanted to offer benefits to improve the quality of life for staff, but also be able to attract and retain qualified applicants. Some centers were providing some benefits, but they were not always comprehensive or high-quality. Many indicated that the staff relied on public benefits such as Medicaid. Desired benefits included health insurance, dental insurance, retirement plans, short- and long-term disability insurance, life insurance, and more paid time off.

> "We want quality for our children, but we also want quality for our staff."

5. *Professional Development & Education* - About one-third of providers provided this answer. A few providers wanted to assist paying for their current staff to obtain higher education, specialized training (such as technology), or even just basic "adequate" professional development. One center thought that education on financial management could be helpful for staff.
6. *Investing in Business* - A handful of centers named some business-related services they could pay for if revenues increased, such as legal counsel and basic savings. Several center directors and owners reported that they were not paying themselves on a regular or predictable basis in order to make ends meet, which they would remedy with more income. One center estimated it needed 20 percent more revenue to break even; another guessed that it needed 25-30 percent more. One center owner reported going into personal debt to sustain the business. Many centers were operating as for-profit, which disadvantaged them in several ways, including making them ineligible for funding opportunities and increasing their tax burden.

In Order to Make Ends Meet

> "Money is such a barrier. You have to charge reasonable rates to families that reflect what people make, but you need funding to maintain a quality program."

It was clear in interviews that providers had to make tough decisions and trade-offs to keep operating at the desired level of quality. These sacrifices became clear throughout the survey, and a qualitative question was included at the end of the survey to specifically address this issue. The most commonly reported sacrifices providers report mirror the listed investment priorities above:

1. Delaying building maintenance and renovations, even safety precautions like installing new security systems, or doing repairs themselves that they should pay professionals to do;
2. Not having a high-quality or sufficient volume of materials on hand (such as diapers and wipes to supplement what parents provide) and buying everything used;
3. Paying staff low wages which leads to low quality of life and low retention;
4. Forgoing capacity improvements such as facility expansion and hiring new staff;
5. Owners forgoing pay and going into debt to float center;
6. Paying taxes late each year, leading to increased late fees;
7. Not being able to provide the quality, nutritious food they desire;
8. Skimping on administrative staff;
9. Skipping field trips;
10. Settling for free professional development when higher quality opportunities are unaffordable; and
11. Providing too little planning time for teachers.

Compensation Patterns

Providers were asked to report the pay range for staff at each credential level. (See Table 3.) Except for Pre-K Lead Teacher, for which a Bachelor's degree is required and the pay scale is mandated by contract, none of the other positions were linked to a particular age group (*i.e.*, teachers in toddler classrooms were paid at the same scale as teachers in infant classrooms). Providers did take into account experience and longevity in their wage determinations. The information gathered reveals that the pay scale for community-based providers who accept subsidies is low, with a teacher with a master's degree earning a high of $45,000, less than a Pre-K lead teacher with a bachelor's degree. Wages are not well-aligned with credentials and are not consistent across the sector. Aides with an Associate's Degree can start at a higher wage in one center ($34,000) than a teacher with a Bachelor's Degree ($25,000) in another center. This variation may be due to a number of factors from the unique financial circumstances of any given provider to a teacher's years of experience or special skills. The general lack of alignment and inconsistency in the field can contribute to high turnover as teachers seek higher compensation elsewhere.

Table 3. Staffing Compensation Trends in Sample

	CDA Credential	Associate's Degree	Bachelor's Degree	Master's Degree
Director	**$30K – $52K** ($14.70-25.49/hr)	**$35K -- $74K** ($17.15-$36.27/hr)	**$30K – $70K** ($14.70-$34.31/hr)	**$48K -- 90K** ($23.53-$44.11/hr)
Administrator	**$37K – $75K** ($18.14-36.76/hr)	**$27K – $53K** ($13.23-$25.98/hr)	**$32K** ($15.69/hr)	
Teacher	**$21K -- $41K** ($10.29-20.10/hr)	**$24K -- $30K** ($11.76-$14.70/hr)	**$25K – $38K** ($12.25-$18.63/hr)	**$32K – $45K** ($15.69-$22.06/hr)
Lead Teacher (Pre-K Only)			**$50K – $59K** ($24.50-$28.92/hr)	
Case Manager		**$25K – $55K** ($12.25-$26.96/hr)		
Assistant/Aide	**$21K--$30K** ($10.29-$14.70/hr)	**$34K -- $40K** ($16.67-$19.60/hr)		

Serving Children with Special Needs

Most providers in the sample served some children with developmental delays or disabilities, with 81 percent reporting they had at least one child with either an Individual Family Service Plan (IFSP) or an Individual Education Plan (IEP) in the base year. In addition, 82 percent of providers reported serving children *suspected* of having a disability or delay that may not be receiving intervention services, based on both general observation and the use of the Ages and Stages Questionnaire, a standardized screening tool for developmental delays in young children that can be used in ECE settings.

From the sample:

- 68 percent of providers served children with an IFSP (under age three);
- 50 percent served children with an IEP (age three and up);
- Six percent of all children served had an IFSP;
- Three percent of all children served had an IEP; and
- 14 percent of all children served had a suspected disability or delay, but no IFSP or IEP.

The process of identifying and serving children with disabilities or delays presents additional costs to many, but not all, providers. Nearly universally, providers reported that staff expended a lot of additional time managing the needs of students with disabilities and managing behavior issues. Many centers served children with chronic health issues like asthma and allergies. All ECE centers have staff who have been trained to administer assessments, especially the Ages and Stages Questionnaire (ASQ), used to identify possible delays. However, the identification of a delay is only the beginning of the work; most challenges manifest in serving the child's special need, ranging from time working with families to secure special services to potential classroom disruption. Most centers reported

positive relationships with intervention and assessment services provided by DC government programs such as Healthy Futures. It is notable that while most centers served at least one child with a disability, only four received the enhanced payment rate for children with disabilities created by OSSE; many were unaware of the enhanced rate or its requirements.

The most common costs for providers serving children with disabilities and delays included:

1. Additional staff time and reorganization of classrooms;
2. Time to provide support to families (including efforts to encourage assessment and service provision);
3. Special equipment or special foods;
4. Specialists and consultants, including mental health specialists and nurses;
5. Losing enrolled children whose families are upset with behavior of another child; and
6. Special training and coaching for staff.

Specifically, providers experienced challenges including (most commonly reported to least):

1. Difficulty working with parents or parents not understanding options/knowing their rights;
2. Long lag time between assessment and provision of services;
3. Losing students (and revenues) to public schools where students have to go in order to receive services;
4. Disproportionate staff time dedicated to serving children with delays or behavioral issues;
5. Limited tools available for dealing with behavioral challenges;
6. Limited language proficiency (of child's family) that impedes identification of delay; and
7. Not having people on staff specially trained to serve all special needs.

Cost Analysis

Although the sample size was too small to achieve statistically significant results, there are a few noteworthy trends. Most providers in the sample spent either close to $10,000 per child or between $20,000 to $30,000 per child, indicating that there is significant variation among programs, but also some common ground. When providers were ranked from high to low spending per child, those with a higher percent of revenue coming from the child care subsidy program were associated with lower spending per child, with a few outliers in the data. This suggests that providers relying on subsidy payments have less money available to provide quality care. Those providers that operate at a loss are clustered in the middle of the results, suggesting that providers with higher and lower end costs have figured out a way to manage the financial challenges, while many are still struggling.

Data also indicated that providers operating at a profit with the lowest costs per child had the lowest percentage of personnel spending as part of their total expenses. This correlation suggests that providers are only able to maintain sustainable margins by paying low wages to workers. Other spending patterns, as measured by percentage of spending in a given category, varied widely across the board, with no discernable trends.

Cost per Child

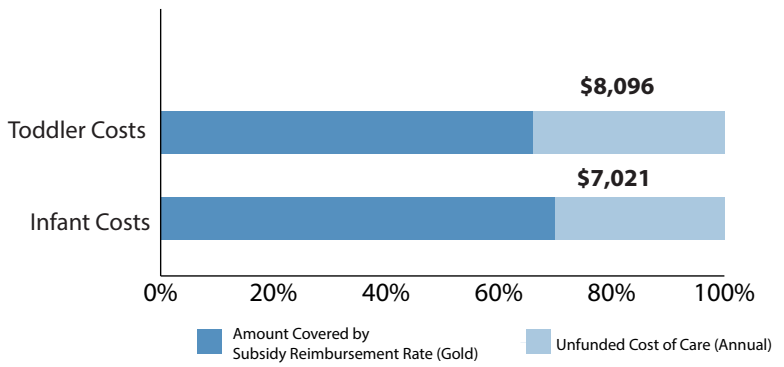
- Estimated cost per child ranged from $9,029 to $48,246;
- Average cost per child: $23,068;
- Median cost per child: $23,540.

Cost per Classroom

- Estimated cost per classroom ranged from $77,149 to $350,745;
- Average cost per classroom: $176,538;
- Median cost per classroom: $156,385.

This analysis shows that child care subsidy reimbursement rates cover only 66-70 percent of the median cost-per-child for quality infant/toddler care. (See Figure 7.)

Figure 7: Gap Between Child Care Subsidy Program Reimbursement Rate & Annual Median Cost of CarePer Child



Source: DC Fiscal Policy Institute and DC Appleseed, 2016

Child Care: A Fragile Economy

Nearly half of the providers in the sample – 44 percent – operated at a loss in the base year, with losses ranging from four percent to 63 percent of their total revenue. Slightly more for-profit providers fell into this category, with 42 percent of non-profit providers and 50 percent of for-profit providers operating at a loss. Examination of the costs of centers that were part of a larger organization found it had no real effect on whether or not providers operated at a loss.

Operating at a loss impacted how providers made their financial decisions:

- A few providers reported going into personal debt to float their center;
- A small number reported having to delay paying taxes each year, leading to late fees; and
- 14 percent of providers would use increased revenues to invest in their businesses, such as savings, professional services, and paying themselves more regularly.

Private Pay as Share of Revenue

Providers were asked to report the number of families that paid private tuition for their child's slot at their center, and 69 percent of the sample reported receiving some private pay, ranging from two percent to 88 percent of their site's total revenue. The amount of private pay revenue generated did not seem to make much of a difference in how much providers spent on a per-child basis.

- Of those providers with less than five percent private pay revenue, the average per child cost was slightly higher than average, at $24,094;
- Of those providers with private revenue comprising 20 percent or more of their total revenue, average per child cost was $21,359.

Families enrolled with providers through the child care subsidy program may pay additional co-payments directly to the provider, as described in The Context for Infant and Toddler Care and Education in DC, above. What families pay is determined by either DHS or Level II providers themselves, and may be based on ability to pay. Half of the providers in the sample reported collecting some co-payments during the base year, with the average provider receiving $26,102 in co-pays. Overall, co-pays comprised less than one percent of provider revenue.

District Policies and Programs

Providers were asked for feedback on District policies and programs, both what was working well and what was not. Providers gave some positive feedback about services (especially services for children with delays/disabilities), but most named opportunities for improvement.

OSSE Administration

The most commonly reported area for improvement among providers was in the operation and administration of OSSE programs. Some providers noted improvements in their relationship with OSSE in recent years and many noted the improvements in the early intervention program in particular. Others still experienced conflict, mistrust and/or miscommunication. Many providers commented that systems are not organized, user-friendly or easy to navigate. The most commonly cited problem was poor communication within OSSE and between OSSE and providers, which impedes problem-solving or businesses processes. Many providers expressed frustration with the processes of submitting paperwork, such as error reports, through unclear chains of command, with limited responsiveness and long time-lags. Several centers commented about long waiting periods for payment. One provider commented that high staff turnover at OSSE led to little institutional memory and poor customer service. One provider proposed that technical assistance would be helpful for centers to manage and navigate administrative issues as well as improve their own business practices.

> "Centers need technical assistance to bring all centers up to a high level of quality. Centers don't necessarily have the business ability to make it work without support."

CCDF Subsidy Program

Most centers believed OSSE's subsidy program reimbursement rates were too low, especially for the requirements placed on providers to participate. Some providers said that recent reimbursement rate increases were appreciated, but nearly all providers noted that the rates were not sufficient. Level II centers, which administer the eligibility and application process for families' subsidies on behalf of OSSE, felt burdened having to process documents for relatively little compensation; many providers did not receive co-payments from families that would make the Level II designation worth the time. Taking on the case management role also changed their relationships with their families. Two providers believed that the challenging eligibility process leads some families to leave centers they were otherwise satisfied with to attend public school, which leaves centers without the needed revenues. Many centers commented that the process for reporting attendance and waiting for payment disadvantages providers who have to go into arrears until payments are received.

Accreditation and Licensing

Generally, centers found accreditation important but often burdensome and costly. Other issues centers reported were difficulty keeping up with licensing changes, inconsistent enforcement of standards for licensing and accreditation across centers, and unhelpful structuring in the QRIS system.

Professional Development

Providers who commented on professional development generally wanted more comprehensive government—sponsored opportunities, including more emphasis on kinesthetic learning, cultural competence, serving children with special needs, "teaching the whole child" and meaningful student engagement. A couple of providers wished instructors had more experience. There were also issues with how professional development was delivered that created staffing challenges for centers - field trips or off-site training takes staff out of the classroom and centers have difficulty staffing qualified replacements. One center suggested that weekend trainings or web-based learning modules would be helpful.

Child and Adult Care Food Program

The federal Child and Adult Care Food Program (CACFP), which reimburses providers for money spent on food, as long as menus meet specified guidelines and proper accounts are kept of whether students receive each meal, was widely used and also broadly criticized. Providers reported that the reimbursement rates were too low to adequately cover the cost of nutritious snacks and meals. They commented that the operations were not transparent or well-managed, and that there was an antagonistic relationship between the program administration and providers. Smaller providers work through a sponsor for administrative reasons, but the manner in which records are often kept does not allow them to easily track the financials and ensure they are being reimbursed accurately. Some providers wanted to participate in the program, but the reputation and paperwork kept them from applying. Some providers stopped participating because the problems they encountered with accounting and administration were too much of a hassle to justify the low reimbursement rates. The project team hoped to include CACFP revenues in cost calculations, but was not able to obtain center-level data in time.

Evaluation and Special Services

The most positively reviewed services were government assessment programs for children with special needs (*e.g.*, Early Stages and Healthy Futures, which are described in Research Methodology). Centers noted productive and smooth relationships with these programs and the specialized professionals placed in their classrooms. Providers found the expertise and support were critical assets to their students and families, as well as their own staff. Specifically, these programs communicated well, offered instruction and support to teachers to increase their ability to work with individual students, worked well with families, and provided valuable specialized services providers themselves may not be equipped to deliver.

Pre-K Expansion and Other Grant Programs

A handful of centers noted that the Pre-K Expansion Grant was working very well for them. However, they noted that it created a divide in their center's operations, with Pre-K staff being paid more than other staff. Another wanted to see a similar grant for infants and toddlers. Other grants were also appreciated, including several DC-based programs that enabled providers to renovate their facilities.

Other

Interviewees offered several ways OSSE and other government agencies could better support their work to serve the community. For example, providing business operation support and business education, helping to pay for random drug testing or background checks, finding ways costs could be shared across providers and how funding could be managed to be more effective, helping with high costs of transportation for staff and student field trips; assisting teachers to afford these next steps in education and/or offer the ability for providers to be "grandfathered" into a degree based on their experience. Providers wanted ways to make their operations sustainable and better support families. It should be noted that some of these services, such as scholarships for teachers, are already provided, which suggests that the existing opportunities may not align well with the needs of some teachers and/or communication about these resources may need to be improved.

A variety of other miscellaneous but germane issues were raised in interviews. Three centers commented about the burden of keeping up with students' immunization records. Providers are responsible for keeping up with the immunization schedule for each enrolled child, but this is outside their area of expertise. They noted that immunization registry operated by the DC Department of Health's Immunization Program Services was not up to date or conflicted with information provided by children's parents or pediatricians. Another center was having difficulty coordinating with the Metropolitan Police Department regarding safety and drug issues in the neighborhood. Another center thought that the District pushed children to go to public school too soon.

Recommendations

The following recommendations to District government policymakers and education leadership are based on the findings from this study and promising practices in other jurisdictions. If implemented, these actions would reinforce the ECE economy, addressing vulnerabilities and challenges that currently threaten the sustainability of ECE businesses. These recommendations are based on current costs and shortfalls, and aim to maintain the supply of available slots in high-quality programs and improve the financial security of the ECE workforce. These recommendations also contemplate actions that could go further – to not just eliminate shortfalls but enhance the capacity of ECE providers to serve all District children and improve the earning potential of the ECE workforce.

Invest Strategically in ECE Centers and Homes to Build More Sustainable Business and Service Delivery Models

1. **Increase Child Care Subsidy Rates and Other Government Services:** Phase-in increased payment rates and support to providers across the board to cover the 30-34 percent gap between current child care subsidy program payment rates for providers and the median cost-of-care.

Based on the median cost per child among the provider sample, the District should consider increasing the child care subsidy payment rates for infants and toddlers in gold-rated centers by 43 percent or, in 2016 dollars, $38 million, so that tuition payments cover the cost of quality programming. The research presented here confirmed that many providers serve primarily students in the child care subsidy program, which suggests that reimbursement rates per child should roughly match the costs of high-quality care. It should be noted that this is a minimum because the calculation is based on the current pay scale for teachers, which is very low. This figure is based on the number of infants, toddlers, and preschool-age children currently served in the District's early care and education centers.[129]

Because this is such a large investment, and because there are changes being made in the regulations and the Quality Rating and Improvement System (QRIS) that may affect the cost of care, the increase should be phased in over a four-year period with adjustments as necessary. It is important to note that the gap described above is based only on current costs – it does not account for additional investments in quality improvement or significant increases to worker salaries beyond current provider budgets. Accordingly, automatic increases should be contemplated to reduce the chance that another gap would emerge between cost and revenues in the future.

The findings presented in this report underscore the need to invest not only in the District's gold-rated ECE providers and the child care subsidy reimbursement system, but across all tiers and inclusive of quality improvement strategies for ECE programs. An increase of 43 percent to all center-based providers who accept child care subsidies would amount to an additional investment of $70 million.[130] Because the sample for this study was limited to gold- and silver-tiered providers, more research is necessary to determine whether the gap in cost relative to subsidy payment rates is comparable for bronze-rated providers. To ensure high quality across the ECE system, the system should support basic operations across all tiers, as well as incentivize quality improvements. The District should make targeted investments – both in the child care subsidy program and other services and to providers –to cover 100 percent of the cost of care.

2. **Further Differentiate Child Care Subsidy Rates:** Implement differentiated payment rates in the child care subsidy program that take account of differences beyond child's age and program quality rating.

Currently, there is a tiered reimbursement rate system that compensates providers based on QRIS rating (gold, silver or bronze) and the child's age (0-12 months, 12-36 months, etc.). At minimum, rates should be further differentiated for providers located in and serving high need areas of the city, based on census tract. These providers lack access to a substantial private pay population, and in many neighborhoods, even families earning wages above the thresholds for CCDF eligibility are unable to pay the market rate tuition for child care. Centers in low-income neighborhoods that cannot access a mix of revenue from private pay families and child care subsidy are the centers serving the children most in need of the highest-quality programs. These centers are the hardest hit by inadequate reimbursements. The District may also consider increased rates for providers serving children during non-traditional hours to increase the options for families in need of evening and weekend care.

The pay differential for children with disabilities, currently applied to a very limited number of centers, should be available to all ECE providers. Even providers that are not providing specialized therapies are spending additional time and money to ensure that families have access to early intervention resources and that children with disabilities have additional staff support. Providers who meet specific, standardized criteria and who can provide some level of therapeutic intervention should be additionally compensated, as they are now (see Incentivize Professional Development below).

3. **Facilitate Improved Record-Keeping:** Support the ability of licensed centers and homes to digitize and analyze their attendance, costs, revenues, food consumption, and other business matters.

Many providers in the sample had difficulty producing the requested data. Part of the challenge is that the receipts they receive from OSSE documenting payment for children enrolled in the subsidy program are delivered in a format that does not lend itself to analysis (*i.e.*, a fixed-format list of children by name). Another difficulty is the absence of computerized business systems throughout their operations. In order to support better business practices that would enable providers to better track their attendance and expenses, OSSE should provide payment receipts electronically in a format, like Excel, that can be manipulated, and facilitate access to hardware and professional software that could help businesses become more efficient. This is hardly a panacea for the many challenges that providers face in managing their businesses in this under-resourced environment, but rather a small change that could lead to larger ones.

4. **Pilot Shared Service Models:** Seek funding to pilot public-private partnerships for "shared service" arrangements which offer providers access to third-party professionals or organizations to execute certain administrative and business tasks for their child development center or home. This allows small businesses to achieve economies of scale and save time on operations, such as payroll and purchasing.

The District has begun to develop a set of "hubs" where ECE providers access the services of coaches and specialized service providers in order to increase the capacity of programs to provide higher quality services. This model does not currently encompass shared business services, but it demonstrates how economies of scale for these other kinds of supports can be beneficial. Building collaborative models for sharing administrative and business support would accomplish economies of scale across a group of providers, potentially making each of them stronger.

This study suggests that some providers in the District struggle to manage the business and administrative side of ECE and could benefit from outsourcing aspects of the business that are not central to developing children's cognitive and social-emotional development. All of the District's providers could benefit from reduced costs and the increased revenues that could come from staying full to capacity and accessing all potential revenues like co-payments and the CACFP. But rather than simply paying a third party to provide a service, the third party in these shared service models becomes an integral part of a network of programs, and actually shares in creating and supporting successful businesses.

We recommend that the District seek private funds to help pilot a shared service model based on examples from other jurisdictions to reinforce the District's ECE economy. There are several promising models across the country, from Seattle to New Hampshire, on which to base such an arrangement. Centralized administration saves providers money and time to focus on quality programming.[131]

Invest Strategically in the ECE Workforce

5. **Adopt and Incentivize Specialized Professional Development:** Adopt or design specific professional development tracks, such as serving children with special needs, and incentivize providers to pursue these opportunities with bonuses to staff who participate.

The District should develop a set of professional development sequences aligned with specific needs (*e.g.*, improving supports for children with disabilities; running a 24-hour center), and provide bonuses to individual staff that complete them and/or to programs that commit a percentage of their staff to the training. This recommendation is informed by provider requests for diverse course offerings and their desire to increase capacity in certain areas. Financial incentives reward providers and staff who choose such specializations and better equip themselves to serve children and families. Ideally, the tracks would align with industry credentials and/or higher education credits, but even if specific to the District (or region) and the needs of its early care

and education system, it will be essential in this under-resourced industry to begin to invest financially in the people and programs willing to take on the greatest needs.

6. **Supplement Salaries:** Create a salary supplement program for teachers and directors based on education levels and longevity.

The District has invested substantially in scholarships for early childhood staff to seek credentialing and degrees in child development, including the TEACH Early Childhood program which is designed to promote increased earnings. Yet these programs have had limited impact on wages overall. Increases in reimbursement rates, while a necessary part of supporting increased participation in the TEACH program and higher compensation generally, are not sufficient by themselves to ensure that the pay scale will change. The District could invest directly in increasing compensation for early childhood teachers and directors by paying annual supplements based on both education levels and longevity in the local industry and/or their current program. The Child Care WAGE$ model from North Carolina is one such evidence-based initiative. WAGE$ has documented success using supplemental funding for ECE teachers to improve retention in and recruit new talent to the ECE workforce, encourage pursuit of higher education, and improve outcomes for children ranging from positive emotional experience to increased academic performance.[132] This model provides a solid starting point for developing a program specific to the needs and challenges of the District's early childhood workforce.

7. **Improve coordination of the early care and education system with data:** A more systemic approach to funding and managing early childhood supports is needed to properly coordinate the full landscape of services offered to young children and their families. As a first step, a resource map of the ECE system could help identify gaps and overlaps across the city's programs, including child care/early learning services, maternal and child health home visiting, social-emotional health interventions, early intervention, and other supports.

Multiple agencies, funding sources and programs support early childhood development in the District. Some pieces are knit together more securely than others, and it is easier to track funds through some services than others. A step towards improving coordination can start with the development of a system map that makes visible the disparate pieces of the District's ECE system. Use of such a map could help facilitate better coordination among agencies and programs to eliminate gaps in services, more strategic funding approaches, and better career development opportunities.

Conclusion

The District is well on its way toward developing an early care and education system that is the best in the nation. One of the lessons learned from this progress is that change requires concentrated attention and strategic investment. If the District wants to accomplish for infants and toddlers what is has accomplished for three- and four-year olds through universal Pre-K, it must take seriously the financial needs of the service providers who create early care and education environments. Supporting ECE providers as businesses and investing in the ECE workforce are essential steps in moving toward the high-quality early care and education system that families need and children deserve. The achievement gap begins in the cradle, but if the District invests appropriately and sufficiently in high quality ECE for infants and toddlers, this disparity can be reduced or eliminated.

Endnotes

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Project Team

Washington Area Women's Foundation is a DC-based public foundation dedicated to mobilizing our community to ensure that economically vulnerable women and girls in the Washington region have the resources they need to thrive. Washington Area Women's Foundation established the Early Care and Education Funders Collaborative in 2008, as a multi-year, multi-million dollar collective funding effort with a mission is to increase the quality and capacity of, and access to, early care and education in the Washington region.

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