# Child Care After COVID: Equity, efficiency, and effectiveness in the financing and delivery of child care in Baltimore and Maryland

By Martha Holleman

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ABELL FOUNDATION

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## EXECUTIVE SUMMARY

Well before the current pandemic, the economics of child care were unmanageable for both families and providers. COVID-19 has only increased this pressure—costs have risen, programs have closed, and women have dropped out of the labor market at an astonishing rate—heightening awareness about how critical child care is to enabling families to work, to reopening the economy, and to broader community prosperity.

As stressful as the situation currently is, the good news is that broad-based policy change—nationally, in Maryland, and in Baltimore City—is underway. Decades of research demonstrate that children who attend high-quality early care and education programs arrive at school better ready to learn and that these benefits are especially large for low-income children. Since before the pandemic, support for publicly funded early childhood programs, including child care subsidies for working families and universal pre-kindergarten programs, has been growing.

Sizeable federal COVID relief has been directed toward child care, with more on the way. The recently passed $1.9 trillion American Rescue Plan (ARP) includes $39 billion for child care nationwide. Maryland is expected to receive over $500 million from the ARP to stabilize the sector and support subsidies for families, on top of $45.8 million it received for child care from the Coronavirus Aid Relief and Economic Security (CARES) Act last summer and the $128.8 million it received from a follow-up COVID relief package that was passed in December 2020.

The bad news is that up until now, investments in child care have not reached all the children and families who might benefit from them; are absent a strategic framework for reaching scale and providing high quality early learning and education for all children – not just those whose families can afford it; and, given state policy and program implementation, have had unintended consequences that perpetuate rather than ameliorate existing inequities.

With an eye toward making the most of this moment, this brief:

- Examines the availability, affordability, and costs of delivering regulated child care in Baltimore to better understand the pressures facing families and providers and to provide context for policymakers and advocates;
- Takes a deep dive into the current implementation and funding of the Maryland Child Care Scholarship Program, which is of particular importance to families and providers who depend on the program's subsidies to help cover the cost of care;
- Reviews emerging strategies to shore up the business operations of child care by supporting networks of providers

that work together to share costs and improve program quality;

- Discusses what the expansion of pre-kindergarten might mean for child care providers and how systems might work together to address existing gaps and provide high-quality early care and education to all children;
- Looks at the recent history of public funding for early care and education in Maryland along with new investments on the horizon; and
- Suggests immediate opportunities for action.

## The Current Landscape of Child Care in Baltimore and in Maryland

### *Child care availability and affordability*

As COVID-related closures and restrictions have been lifted, the Maryland State Department of Education (MSDE) reports that 87% of programs statewide have reopened. Anecdotal reports put current enrollment at 50% to 70% of the number of children who participated prior to the pandemic. In Baltimore City, the reduction in the number of child care providers remains much more pronounced. Just over 70% of family-care providers and 56% of child care centers were back in operation as of January 2021. Providers are still struggling to reopen and maintain their operations. Families are still scrambling to put the puzzle together every day.

Current uncertainty only magnifies preexisting challenges in accessing affordable care. In Baltimore City in 2019, according to estimates from the Maryland Family Network, child care ranked number one among household expenses, followed by housing, food, and taxes. Even middle-income families struggle to pay child care tuition. For a single working mother with median per capita earnings and a toddler, absent any subsidy, child care expenses can take up over 30% of income. Child care expenditures for a working family with two children in Baltimore—one infant in a family program and one preschooler in a center-based program—approach 38% of family income at the median.

### *Costs of delivering care*

In Baltimore City, child care expenditures can take up more than 30% of income for families with average earnings, yet the median annual income for a child care worker is below a living wage (at $25,060 annually or $12 an hour). Already pushing affordability, introducing wage increases and adding health benefits and paid leave improves the condition of child care workers to survivability standards—but puts costs further out of reach for most families.

## The Maryland Child Care Scholarship Program

Public subsidies for child care through the Maryland Child Care Scholarship Program are the primary existing policy solution for making the economics of child care work for families and providers.

To finance child care subsidies, the federal Child Care Development Fund provides states with funding through the Child Care Development Block Grant. States are required to provide matching funds and may set their own eligibility requirements and subsidy rates within federal guidelines. When combined with state funding, total expenditures in the Maryland Child Care Scholarship Program nearly doubled from 2017 to 2020. The number of children served by the scholarship rose by over 6,000 annually. As substantial as these increases are, at present only an estimated 19% of income-eligible families are receiving child care subsidies in Maryland.

## *Setting the reimbursement rate for child care subsidies*

In Maryland, subsidies are based on a market rate survey conducted semiannually across the state. Rather than reflecting the actual cost of care, however, market rates mirror the relative income and wealth of a jurisdiction. Comparisons between Baltimore City and Montgomery County provide an example of how this plays out. The average family in Montgomery County earns twice what the average family in Baltimore City does. The rate of poverty in Baltimore is three times the rate of poverty in Montgomery County. The Maryland Child Care Scholarship reimbursement rate for an infant in a home-based child care program is 67% higher in Montgomery County than it is in Baltimore City, and 95% greater for a preschool-aged child in a child care center. Almost $4 million more was spent on child care subsidy reimbursements in Montgomery County in 2020 than was spent in Baltimore City, even as the average monthly number of scholarship recipients in Baltimore City was over 1,000 children higher than in Montgomery County. Setting public subsidy based on the private market disadvantages providers located in low-wealth communities and bakes in existing inequities.

## *Cost modeling*

Cost modeling, alternatively, is a federally allowable method for setting child care subsidy rates based on actual costs and/or with the intent of achieving policy goals such as advancing program quality and increasing provider earnings.

Maryland made an initial exploration of an alternative rate setting methodology at the request of the legislature in 2017. The Maryland State Department of Education recommended adopting a hybrid approach using a simplified market rate survey with greater outreach to providers to get a truer picture of actual costs, along with adjustments based on program quality as measured by the state's rating system. It did not address the inequities perpetuated by the use of market rates.

## *Accessing the scholarship*

Even with its baked-in inequities, the Maryland Child Care Scholarship is the most critical source for helping cover child care tuition and is a powerful policy tool for supporting families—though both providers and families report significant difficulty in accessing and retaining the subsidy. By policy, applications are to be reviewed and a determination of eligibility is to be made within 30 days. In practice, this process can take months and often includes multiple re-submissions.

Providers and advocates urge streamlining the application process for the Child Care Scholarship; making eligibility presumptive for those applying for the suite of programs designed to support families with children—including WIC, SNAP, TANF, TCA, and the Maryland Child Care Scholarship—where families would be approved for all programs for which they are eligible, based on their application to any one program; and expanding staffing, outreach, and support to let families know of the benefits for which they are eligible and how to access them.

## *Learning from COVID relief*

With its initial installment from the federal CARES Act, the Maryland State Department of Education Office of Child Care moved quickly to get funds to qualified providers for the care of children of essential workers. It set a flat reimbursement rate across the state, evening out regional differences. It waived co-payments for families and paid providers based on their enrollment, as opposed to the usual practice of paying based on attendance, allowing providers to operate with some level of certainty about their revenues (at least for a time). These innovations provide a model for more equitable delivery of the Child Care Scholarship moving forward.

## Shoring up Child Care Businesses

Alongside increasing subsidy reimbursement rates based on the actual costs of delivering high-quality care (and not just what the market will bear) and paying providers based on their enrollment (not just their daily attendance), Shared Services Networks are another strategy to further support the business operations of child care programs, increase earnings, and improve quality.

The Maryland Family Network is piloting shared services in Baltimore City, and Montgomery and Prince George's counties. Support will include an electronic enrollment management system, business coaching, and technical assistance for networks of providers who agree to work together. Shared services can be an important companion strategy to increased public investments in early care and education, ensuring the most efficient use of available resources.

## Planning for Pre-K Expansion and Filling Gaps in Available Care

With the recent override of the Governor's veto of the Blueprint for Maryland's Future/ Kirwan Commission recommendations, Maryland is moving forward in a big way to scale up public pre-kindergarten programs for all 4-year-olds and low-income 3-year-olds. This is a cause for celebration among many and portends immediate improvements in school readiness and longer-term gains in school performance and completion. It is also a source of concern for child care providers who face losing 3- and 4-year-olds and the tuition payments they bring.

In addition to subsidies for families, direct grants to providers are also an allowable use of the Child Care Development Fund. There is an opportunity here to view the expansion of pre-K not as a zero-sum game for providers, but as a way to fill observed gaps in care for infants and toddlers—as well as for other underserved populations and in areas of concentrated poverty in the city and perhaps elsewhere across the state—by making direct grants to providers to serve a set number of eligible children.

Indeed, other states are building integrated systems for early care and education that center around the expansion of public pre-kindergarten programs, and also include grants to provide high-quality care for infants and toddlers; increases in both the pay scales of child care workers and subsidy reimbursement rates; and training and staff development for the early care and education workforce. Rather than being viewed as a loss for child care providers, pre-K expansion in Maryland could provide new impetus to consider costs, coverage, equity, and access to high-quality early care and education for all young children.

## Public Funding for Early Childhood Care and Education

Federal action has just given the push for equity and innovation new life. Where funding constraints may have impeded innovation in the past, this is simply no longer the case. The question before advocates and policymakers now is whether we continue on autopilot, and just do more of what we've already been doing, or see this as the once-in-a-lifetime opportunity it is to begin building a more equitable, effective, and efficient system that places the needs of families and children at the center and recognizes child care providers for the important contributions they make to our economy and society.

## Immediate Opportunities for Action

To date, financial constraints on families and providers have hindered child care availability and accessibility, and kept the earnings of caregivers low. The current system is unaffordable and inequitable, and leaves considerable gaps in available care. With increased recognition of the significance of child care brought on by COVID-19 and substantial new investments in early care and education, Maryland can:

- Develop a data-driven, equity-focused process for setting child care subsidy rates that identifies the real cost of care; evens out differences across regions; and addresses policy goals such as pay equity, program quality, and staff training and development.
- Make permanent changes to the delivery and use of child care subsidy payments to providers based on enrollment, not just attendance, and eliminate co-pays for families with incomes below the state median.
- Streamline the application process and improve customer service for the Child Care Scholarship and related benefits for families, removing bureaucratic impediments and prioritizing access. Subsidy navigators—available virtually as well as in-person—can help improve customer service for families and serve as liaisons to child care providers.
- Assess the effectiveness of the Shared Services Network pilots that are underway and invest new federal funding from the American Rescue Plan in strategies to strengthen child care businesses.
- Expand the use of direct grants to fill critical gaps in care, especially for infants and toddlers and in areas of concentrated poverty, and help stabilize provider revenue to ensure that child care programs are able to reopen and thrive.
- Support comprehensive, integrated planning alongside the expansion of pre-K and maximize new resources so that all young children have access to high quality early care and education.

## INTRODUCTION

A pre-COVID review of the landscape of early childhood care and education in Baltimore found significant gaps in the availability of regulated child care and highlighted the financial stress paying for such care places on families.[1] Well before the pandemic, the economics of child care were unmanageable for both families and providers. In Baltimore City, child care expenditures can take up more than 30% of income for families with average earnings, yet the median annual income for a child care worker is below a living wage (at $25,060 annually or $12 an hour).[2] The COVID-19 pandemic has only increased pressure on providers and families—costs have risen, programs have closed, and women have dropped out of the labor market at an astonishing rate—heightening awareness about how critical child care is to the ability of families to work, to reopening the economy, and to broader community prosperity.

As stressful as the situation currently is, the good news is that broad-based policy change is underway—nationally, and in Maryland and Baltimore City. Decades of research demonstrate that children who attend high-quality early care and education programs arrive at school better ready to learn.[3] These benefits are especially large for low-income children.[4] Since before the pandemic, support for publicly funded early childhood programs, including child care subsidies for working families and universal pre-kindergarten programs, has been growing.

- In Baltimore City, expansion of pre-kindergarten programs to all 4-year-olds—and to 3-year-olds as space allows—began in 2008. Prior to the pandemic, an estimated 52% of the city's 3- and 4-year-olds were enrolled in public pre-kindergarten programs (with a much larger percentage of 4-year-olds than 3-year-olds taking part).[5]

- At the state-level, further expansion of pre-kindergarten programs at no cost to all 3- and 4-year-olds from families whose earning place them at or below 300% of the federal poverty level (FPL) and to 4-year-olds from families with incomes up to 600% of the FPL is a centerpiece of the Blueprint for Maryland's Future (also known as the Kirwan Commission) recommendations to address equity and improve outcomes for public school children in Maryland.[6] Legislation adopting the Blueprint was vetoed by Governor Hogan during the 2020 session but was overridden by the Maryland State Legislature in February 2021. Further funding and implementation plans are to come.

- Both federal and state funding for subsidies to help pay for the costs of child care have increased. The Maryland Child Care Scholarship Program—with investments from the federal Child Care Development Fund and matching funds from the State of Maryland—has grown substantially over the last decade. Expenditures in Maryland have nearly doubled, and the number of families and children served by the program has risen.

- And, most recently, sizeable federal COVID relief has been directed toward child care, with more on the way. The recently passed $1.9 trillion American Rescue Plan (ARP) includes $39 billion for child care nationwide. Maryland is expected to receive over $500 million to stabilize the sector and support subsidies for families from the ARP, in addition to the $45.8 million it received for child care from the CARES Act last summer and the $128.8 million it received from the COVID relief package passed in December 2020.

The bad news is that up until now, investments in child care have not reached all the children and families who might benefit from them; are absent a strategic framework for reaching scale and providing high-quality early learning and education for all children—not just those whose families can afford it; and, given state policy and program implementation, have had unintended consequences that perpetuate, rather than ameliorate, existing inequities.

To capitalize on the growing recognition of the centrality of quality, affordable child care to meeting the needs of working families while supporting the healthy development of children; to build on the significant policy momentum in Maryland and the considerable progress that has already been made; and to maximize the federal investments that are to come, this paper:

- Examines the availability, affordability, and costs of delivering regulated child care in Baltimore to better understand the pressures facing families and providers, and to provide context for policymakers and advocates;

- Takes a deep dive into the current implementation and funding of Maryland Child Care Scholarship

# How Did We Get Here?

The current "system" of child care is inequitable; it is unaffordable and hard to access for families; and its workforce is underpaid and undervalued.[i] How did it get to be this way?

Like so many of today's inequities, the provision of child care in the United States is shaped by past policies and practices. In the United States, we have historically devalued child care as women's work and undermined the contributions of women of color. As explained by the National Women's Law Center:

> *Women's work. Childcare. For much of our nation's history, the two have been nearly synonymous. Yet the stories diverge along racial lines. Until at least the latter half of the 20th century, few types of work beyond unpaid care for their own children at home were viewed as socially acceptable for white women. Women of color, however, were employed—or enslaved—in domestic work, including childcare for other families' children, for centuries.*[ii]

Within their own homes, the work of white women to care for their children was unseen and unpaid. Outside of their own homes, the work of African American women to care for other people's children was un- or underpaid and intentionally outside the protection of labor laws. Classified as Domestic Workers, African American women caring for other peoples' children were excluded from the National Labor Relations Act enacted in 1935 and from the Fair Labor Standards Act enacted in 1938.[iii] The child care workforce continues to be made up of women (93%) and women of color (African American and Hispanic or Latino women make up 45% of the workforce)[iv] whose contributions remain undercompensated.

Despite recent progress to increase subsidies for working families and expand pre-kindergarten programs, public spending on child care in the U.S. is the lowest among industrialized nations.[v] In its 2020-2021 Policy Guide, the Maryland Family Network reminded us that:

> *The motto of the Worthy Wage Campaign in the 1990s was: "Parents can't afford to pay. Teachers can't afford to stay. There has to be a better way." ... The November 2001 report of the Judith P. Hoyer Blue Ribbon Commission on the Financing of Early Childcare and Education (in Maryland) stated: "In order to keep childcare costs affordable for families, providers do not raise enough revenue to pay staff appropriately." And in 2020 we are still grappling with the same dilemma.*[vi]

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i National Women's Law Center, *Childcare and the Economy*, October 2020.
ii Vogtman, Julie. *Undervalued: A Brief History of Women's Care Work and Childcare Policy in the United States*, The National Women's Law Center, 2017.
iii Ibid, 10.
iv Bureau of Labor Statistics, Employed persons by detailed occupation, sex, race and Hispanic or Latino ethnicity. Accessed at: https://www.bls.gov/cps/cpsaat11.htm
v Vogtman, 2017.
vi *Maryland Family Network Public Policy Handbook 2020 – 2021*, Maryland Family Network, October 2020.

Program[7], which is of particular importance to families and providers in Baltimore—and across the state—who depend on the subsidies available through the scholarship to help cover the cost of care;

- Reviews emerging strategies to shore up the business operations of child care by supporting networks of providers that work together to share costs and improve program quality;
- Discusses what the expansion of pre-kindergarten might mean for child care providers and how systems might work together to address existing gaps and provide high-quality early care and education to all children;
- Looks at the recent history of public funding for early care and education in Maryland along with new investments on the horizon; and
- Suggests immediate opportunities for action.

Financial constraints on families and providers have hindered child care availability and accessibility, and kept the earnings of caregivers low. The current system is unaffordable and inequitable, and leaves considerable gaps in available care. With increased recognition of the significance of child care brought on by COVID-19 and a growing public commitment to and investment in early care and education, how can we rise to meet the moment?

## THE CURRENT LANDSCAPE OF CHILD CARE IN BALTIMORE CITY

Child care in our society has largely been considered a private choice rather than a public good (see sidebar page 8). In Baltimore, child care is provided by private, home and family based providers, who are really small-business owners and entrepreneurs, and by both for-profit and not-for-profit child care centers, including the federally funded Head Start and Early Head Start programs. Throughout this paper, child care programs operated by small-business owners in their homes are referred to as **family-based programs** or **family care**. Larger, for-profit or nonprofit programs are referred to as **group** or **center-based care**.

### Availability

Much has already been written about the struggles of working parents during COVID-19. Facing the pressures of caregiving along with job loss, according to the Bureau of Labor Force Statistics, women have dropped out of the labor force at four times the rate of men.

If the struggles of working families to find and pay for child care are at a boiling point now, they've been at a slow simmer for a long time. In Baltimore City, families balancing raising children and working faced limited supply and high costs long before the pandemic began.

As of November 2019, 493 licensed family-based programs and 289 group centers had capacity to care for 15,467 children under the age of 5.

When measured against the number of existing children, and adding in public pre-kindergarten programs, early care and education was available for approximately 48% of the city's children under the age of 5 but only 12% of infants under the age of 2 (Table 2). Of course, not every family needs or wants such care. According to an estimate from the U.S. Census, 72% of mothers in Baltimore are in the workforce. After adjusting the population of young children by the percentage of working mothers, pre-COVID coverage extended to 66% of all children under 5 and 17% of infants (Table 3).

Table 1: Estimated Early Care and Education Slots for Children Ages 0 - 4 in Baltimore City (as of November 2019)

| Early Care and Education Setting | Number of Programs | Capacity |
|---|---|---|
| Licensed Family Care | 493 | 3,779 |
| Licensed Group Care (inclusive of Head Start) | 289 | 15,555 |
| **Subtotal** | | **19,334** |
| | | |
| **Estimate for below age 5 (subtotal* 80%) | | 15,467 |
| Pre-K Classrooms (capacity at 20 students each) | 224 | 4,480 |
| **Estimated Total Capacity ECE*** | | **19,947** |

Source: Maryland Family Network, LOCATE: Childcare, November 2019, and Baltimore City Public Schools, Pre-K Classrooms, 2019 -2020. Compilation by author.

* Maryland Family Network's report, *Child Care Demographics of Baltimore City, 2020*, estimates that 80% of available child care seats or slots are used by children under the age of five. See: http://www.marylandfamilynetwork.org/wp-content/uploads/2020/02/Baltimore-City.pdf

Table 2: Estimated Coverage of Early Care and Education by Population (as of November 2019)

| Early Care and Education Setting | Estimate | Early Care and Education Capacity Estimate | Coverage |
|---|---|---|---|
| Children 0 – 4 | 41,663 | 19,947 | 48% |
| Infants (2018 births x2)* | 15,360 | 1,846 | 12% |

Source: Maryland Vital Statistics and LOCATE: Childcare. Estimates by author.

* Because the birth rate has been falling in Baltimore, rather than take an annual average over the five-year period, we take the most current year for which data are available (2018) and multiply by two to get an estimate for the number of children ages zero to 23 months.

Table 3: Child Care Coverage by Estimated Workforce Demand (as of November 2019)

| Population | Estimate | % of Mothers in Workforce (estimate) | Revised Demand | Capacity Estimate | Coverage |
|---|---|---|---|---|---|
| Children 0 - 4 | 41,663 | 72% | 29,997 | 19,947 | 66% |
| Infants (2018 x 2) | 15,360 | | 11,059 | 1,846 | 17% |

There were few regulated care options for the growing Hispanic community in the south and southeast areas of the city and identified gaps in availability in neighborhoods of concentrated poverty.[8] Availability was also limited for children of parents who work nontraditional hours or on the weekends and for children with special needs.

By the summer of 2020, amid COVID-related restrictions on attendance, increased costs for cleaning and personal protective equipment, and drops in enrollment caused by the exit of parents from the workplace alongside concerns about the virus' spread, 50% of licensed child care providers statewide reported that they were facing permanent

Table 4: Operating Child Care Programs in Baltimore City: November 2019, March 2020, and January 2021*

| Early Care and Education Setting | Number of Programs Operating November 2019 | Number of Programs Operating March 2020 | Number of Porgrams Operating January 2021 | January 2021 Programs as a Percentage of March 2020 Operations | January 2021 Programs as a Percentage of November 201 Operations |
|---|---|---|---|---|---|
| Licensed Family Care | 493 | 486 | 354 | 72% | 71% |
| Licensed Group Care (inclusive of Head Start) | 289 | 212 | 163 | 76% | 56% |

* Updated information on program operations: Key Informant interview, Nancy Pelton, Director of the Baltimore City Child Care Resource and Referral Center, January 22, 2020.

Table 5: Estimated Average Annual Tuition for Child Care in Baltimore City for an Infant and a Preschooler (2019)

| Age of Child | Family-based Care | Center-based Care |
|---|---:|---:|
| 0-23 Months | $9,276 | $14,120 |
| 3- and 4-year olds | $7,533 | $9,752 |

Source: Maryland Family Network, Childcare Demographics for Baltimore City, 2020.

closure; two-thirds of programs reported significant financial losses.[9] As restrictions have been lifted, the Maryland State Department of Education (MSDE) reports that 87% of programs statewide have reopened.[10] Anecdotal reports put current enrollment at 50%-70% of the number of children who participated prior to the pandemic.[11] In Baltimore City, the reduction in the number of child care providers remains much more pronounced. Just over 70% of family care providers and a much smaller percentage (56%) of center-based programs were back in operation as of January 2021.

While demand has slowly increased, child care remains in flux and is likely to remain so until the COVID vaccines are broadly available and administered to both parents and their children. The longer-term effects of changes in work patterns and the demand for care remain unknown. Providers are still struggling to reopen and maintain their operations. Families are still scrambling to put the puzzle together every day.

## Affordability

Current uncertainty only magnifies preexisting challenges in accessing affordable care. In Baltimore City in 2019, according to estimates from the Maryland Family Network, child care ranked number one among household expenses followed by housing, food, and taxes.[12] Even middle-income families struggle to pay child care tuition.

The median annual household income, pre-pandemic, for City residents was $50,379. The median annual per capita income was $31,271.[13] As noted in Table 5, the average annual tuition for an infant in a family-based child care program was $9,276; in a center-based program, tuition was $14,120. The average tuition for a family-based program for a preschool-aged child was $7,533 in 2019; for a center-based program, it was $9,752.[14]

For a single working mother with median per capita earnings and a toddler, absent any subsidy, child care expenses take up over 30% of income. Child care expenditures for a working family with two children in Baltimore, one infant in a family-based program and one preschooler in a center-based program, approach 38% of family income at the median.

## Costs of Delivering Child Care

Much of the cost of regulated child care—an estimated 60% to 80%—is driven by salaries, with staffing levels set by regulation to ensure the health and safety of children. The remaining 20% to 40% is derived from rent and utilities, office and administrative costs, classroom materials,

Table 6: Teacher-child Ratios and Group Sizes for Center-based Care in Maryland*

| Age of Child | Minimum Teacher-Child Ratio | Maximum Group Size |
|---|---|---|
| Infants (0-23 months) | 1 to 3 | 6 |
| Toddler (24-35 months) | 1 to 6 | 12 |
| Preschool (3- and 4-year olds) | 1 to 10 | 20 |
| School age (age 5 and older) | 1 to 15 | 30 |

* Center for American Progress/ Methodology for "The Cost of Childcare." Accessed at https:// cdn.americanprogress.org/content/uploads/2020/09/03111756/COVIDchildcare-methodology-update.pdf, and Maryland Child Care Centers, Staff/ Child Ratio Charts. Accessed at: https://earlychildhood.marylandpublicschools.org/system/files/filedepot/3/staff-child_ratio_chart_-_child_care_centers.pdf

and food.[15] Costs for infants are highest as the number of children per caregiver is lowest. Costs decrease as children age and the ratio of children to staff increases as do the number of children who can be supported together in a group. Child care costs are driven by staff salaries, yet child care teachers do not make a living wage.

As part of its Asset Limited + Income Constrained + Employed (ALICE) effort, the United Way of Central Maryland has estimated a household survival budget for Baltimore and Maryland's 23 counties. For a single individual in Baltimore City, United Way estimates that meeting expenses for housing, food, transportation, technology, and taxes requires an annual income of $30,264 for an individual and $85,080 for a family of four with an infant and a preschooler (whose family budget also includes child care). With these estimates in mind, current annual earnings for a child care worker fall well below survivability (Table 7).

Already pushing affordability, introducing wage increases and adding health benefits and paid leave improves the condition of child care workers to survivability standards—but puts costs further out of reach for most families. The estimates in Table 8 use a cost calculator developed by the Center for American Progress to adjust Maryland child care costs: first to estimate costs setting no wage below $15 an hour and adding health care benefits and paid leave, and then setting salaries at the halfway point between current earnings of child care workers and public school teachers.

In 2019, child care already took up more than 30% of the income of Baltimore families with median earnings. Addressing equity in the wages and benefits of child care workers raises child care costs to over 50% of family earnings. In a perverse paradox, increasing wages and adding necessary benefits for caregivers only increases unaffordability for families.

### Table 7: Annual and Hourly Earnings of Child Care Workers in the Baltimore Metropolitan Area

| Position | Annual Mean Income* | Hourly Wages |
|---|---|---|
| Child Care Worker (assistant teacher) | $25,060 | $12.06 |
| | Survivability Income** | Survivability Hourly Wage |
| | $30,264 for an individual | $15.13 |

* Bureau of Labor Statistics, Occupations by Geographic Area, Baltimore/ Towson Metropolitan Statistical Area, extracted October 1, 2020.

** United Way of Central Maryland, *Asset Limited + Income Constrained + Employed (ALICE) Report: A Study of Financial Hardship in Maryland, 2020*. Accessed at: https://unitedforalice.org/County-Profiles/maryland

### Table 8: Estimated Annual Tuition and Costs of Child Care in Baltimore City and Maryland: Adjusted for Higher Salaries and Benefits

| Age of Child | Family-based Care | | | Center-based Care | | |
|---|---|---|---|---|---|---|
| | Current average tuition* | Lowest wage set at $15 an hour with health benefits and paid leave** | Approaching parity with public school teachers | Current average tuition | Lowest wage set at $15 an hour with health benefits and paid leave | Approaching parity with public school teachers |
| 0-23 Months | $9,276 | $9,911 | $12,627 | $14,120 | $21,799 | $26,586 |
| 3- and 4-year olds | $7,533 | $9,911 | $12,627 | $9,752 | $10,281 | $12,497 |

* Current tuition costs are from the Maryland Family Networks, *Baltimore City Childcare Demographics 2020 report*.

** The Center for American Progress child care cost calculator can be found here: https://www.americanprogress.org/issues/early-childhood/news/2020/09/03/489962/cost-child-care-coronavirus-pandemic. Estimates are available at the state level. Users can manipulate categories on wages, benefits, program size, and costs related to the pandemic.

## THE MARYLAND CHILD CARE SCHOLARSHIP PROGRAM AND THE CHILD CARE DEVELOPMENT FUND

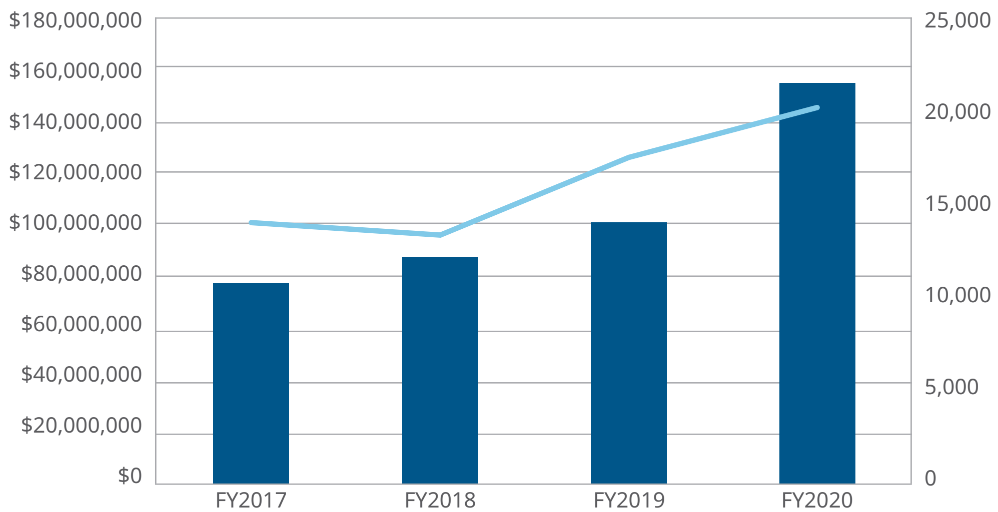
Public subsidies for child care through the Maryland Child Care Scholarship Program are the primary existing policy solution for making the economics of child care work for families and providers.

### Overview

To finance child care subsidies, the federal Child Care Development Fund (CCDF) provides states with funding through the Child Care Development Block Grant (CCDBG). Seventy percent of funds from the federal CCDBG are for providing child care to low-income working families. In 2018, reflecting the growing national consensus on the need for high-quality care, federal funding for the Child Care Development Block Grant increased by $2.37 billion.[16] When combined with state funding, total expenditures on the Child Care Scholarship, Maryland's child care subsidy program, nearly doubled from $76,936,784 in 2017 to $154,763,904 in 2020. The number of children served by the scholarship rose by over 6,000 annually.[17] (Figure 1.)

States are required to provide matching funds and may set their own eligibility requirements

Figure 1: Maryland Child Care Scholarship, Expenditures and Children Served, State Fiscal Years 2017-2020




| | FY2017 | FY2018 | FY2019 | FY2020 |
|---|---|---|---|---|
| Maryland | $76,936,784 | $87,810,175 | $101,068,396 | $154,763,904 |
| Number of Children | 13,945 | 13,381 | 17,471 | 20,125 |

Source: Maryland State Department of Education, Division of Early Childhood, *Child Care Subsidy Program Data, SFY 09-20*.

and subsidy rates within federal guidelines. The subsidy, or scholarship, works as a voucher. Families are eligible for participation based on income levels and family size. Child care providers who meet state regulations and are licensed are then reimbursed for serving children of eligible families based on a subsidy rate set by the state. Additional payments on top of the subsidy are available for providers who receive higher ratings on the state's quality rating system as an incentive for their participation and advancement. Families provide co-payments on a sliding scale relative to their income and family size. Families may also pay additional fees to make up the difference between the subsidy reimbursement rate, their co-payment, and the actual rate charged by a given provider. As a block grant and not an entitlement program, funds run out once the annual amount budgeted has been reached.

Federal guidelines set the maximum eligibility level for families at 85% of State Median Income (SMI). Maryland used the previous increase in federal funding to raise the income eligibility level for families from 35% of SMI in 2017 to 65% today. With this increase, Maryland now ranks among the top 10 states for eligibility in terms of SMI.[18]

Federal guidelines recommend that provider reimbursements be set to at least the 75th percentile of child care program tuition fees, based on a market rate analysis. The intent is to provide eligible families with access to at least 75% of the child care market in a given jurisdiction. States can also request to use an alternative methodology for calculating program reimbursement rates. With approval from the Administration for Children and Families in the U.S. Department of Health and Human Services, states can set

Table 9: Overview of Income and Subsidy Rates in the Children's Child Care Scholarship Program: Federal Guidance and Maryland Implementation

| | Federal Guidance | Maryland 2017 | Maryland 2018 | Maryland 2021 |
|---|---|---|---|---|
| **Income eligibility for families** | Up to 85% of State Median Income | 35% of State Median Income | 65% of State Median Income | 65% of State Median Income |
| **Reimbursement rates for providers** | Recommendation to set at the 75th percentile of the market (or based on cost modeling or a hybrid) | At about the 10th percentile of the market | At the 30th percentile of the market with the intent to move to the 60th percentile and hold there as a floor | At the 60th percentile of the market |
| **Percentage of annual income spent on child care for participating families** | 7% | ? | ? | ? |

reimbursements based on cost modeling or cost at quality analyses, rather than market rates, or choose a hybrid methodology using some combination of the two.

In Maryland, reimbursements are currently based on a market rate survey conducted semiannually across the state. The state is divided into seven market regions that are groupings of counties along with Baltimore City. With the previous increase in the federal grant, reimbursement rates in Maryland moved from the 10th percentile of the market for programs in 2017 (one of the lowest rates in the nation) to the 30th percentile in 2018. Legislation passed during the Maryland General Assembly in 2018 laid out a schedule for increasing the subsidy to the 60th percentile of the market by 2021 (the current fiscal year) and maintaining the 60th percentile as a floor thereafter.[19] As of November 2020, child care subsidies in Maryland have been set at the 60th percentile of the market rate as determined by the most recent market rate survey (which was fielded in 2019).

With these changes, the income eligibility ceiling—the maximum annual earnings a family can make and still be eligible for the child care scholarship—rose from $35,702 to $71,525 for a family of four (Table 10). A waiting list that had been in place since 2011 was lifted.

Federal guidelines also suggest that no more than 7% of a family's annual income should be spent on child care co-pays for families participating in the subsidy program; though as far as we know there's been no analysis of the degree to which implementation of the

Table 10: Maximum Family Income: Maryland Child Care Scholarship Program Eligibility*

| Family Size | Maximum Annual Income |
|---|---|
| Family of 2 | $48,637 |
| Family of 3 | $60,081 |
| Family of 4 | $71,525 |
| Family of 5 | $82,969 |
| Family of 6 | $94,413 |
| Family of 7 | $96,558 |
| Family of 8 | $98,704 |
| Family of 9 | $100,850 |
| Family of 10 | $102,996 |

* Maryland Department of Education, Child Care Scholarship Program, *Families in the following income categories may be eligible for a Childcare Scholarship (Updated August 1, 2018)*. Accessed at: https://earlychildhood.marylandpublicschools.org/child-care-providers/child-care-scholarship-program

Maryland Child Care Scholarship meets this standard.

As expenditures rose, reimbursement rates increased, and as eligibility expanded, the number of children served also grew by 44% from around 14,000 children in state fiscal year 2017 to over 20,000 in state fiscal year 2020 (Figure 1). Yet, as substantial as these increases are, at present only an estimated 19% of income-eligible families are receiving child care subsidies in Maryland (Figure 2).

## Setting the Reimbursement Rate for Subsidies Under the Maryland Child Care Scholarship

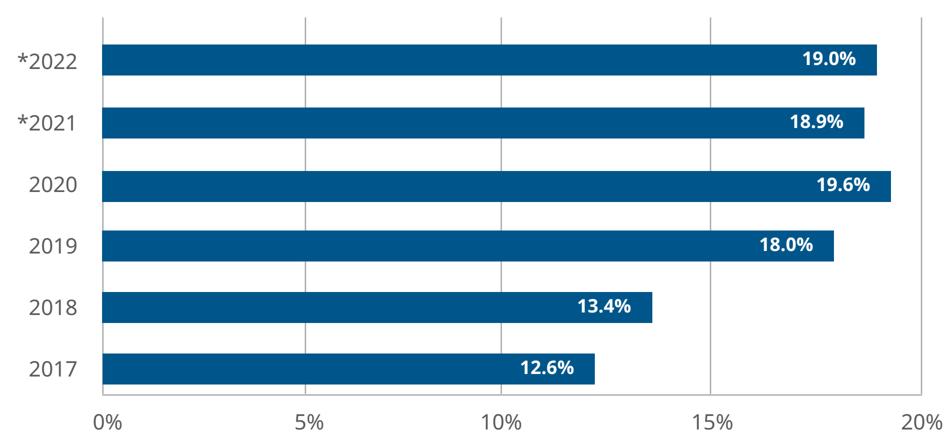
### *Maryland's current use of the market rate*

Using a market-rate methodology to set reimbursement rates means that rates are generally determined by what parents are able to pay, not what it actually costs to provide high-quality child care.

Weekly subsidy reimbursement rates by region in Maryland are included in Table 11. They are based on a market rate survey conducted in 2019. At the 60th percentile of the market, maximum scholarship reimbursement rates for an infant in family care in Baltimore City are currently $180 a week; in Howard and Montgomery Counties (the most expensive of the state's seven regions), reimbursement rates are $300 a week. For a preschooler in center-based care, the reimbursement rate in Montgomery and Howard Counties (at $335) is almost double the reimbursement rate in Baltimore City (at $172). The largest discrepancies are between Region Z (Allegany, Garrett, and Worcester Counties) and Region X (Howard and Montgomery Counties).

Table 12 compares the current maximum subsidy reimbursement rates in Baltimore City and Montgomery County, notes the differences between them, and compares these rates to the state's average. Figure 3 demonstrates what the subsidy and co-payment rates look like for a family with one infant child in family-based care, where the subsidy and the co-payment together equal the maximum reimbursement rate.

Figure 2: Percentage of income-eligible families receiving child care subsidies in Maryland, fiscal years 2017-2022




Source: Maryland FY 2022 Proposed Operating Budget, Volume II. Maryland State Department of Education, Management for Results (MFR), Performance Measures. *=estimate.

Table 11: Maximum Child Care Reimbursement Rates, Maryland Child Care Scholarship Program, 2020*

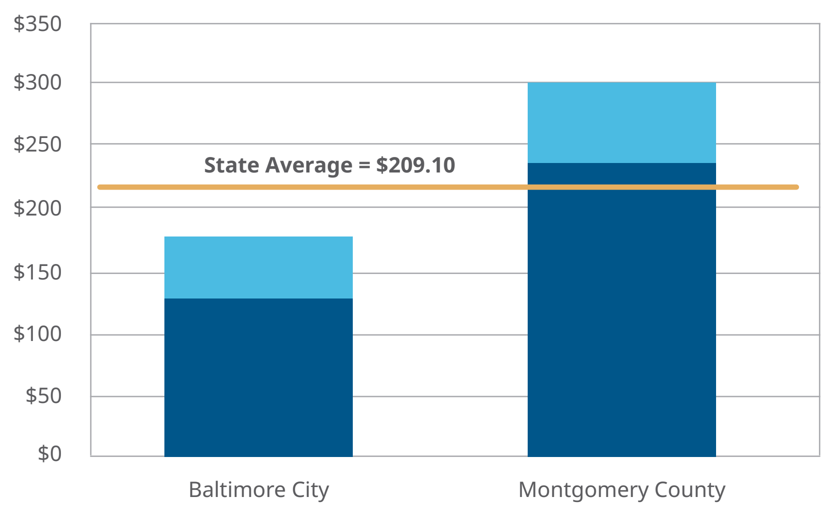
| | Family Child Care | | Child Care Center | |
|---|---|---|---|---|
| | Infants (0-23 months) | Age 2 and over | Infants (0-23 months) | Age 2 and over |
| Region U - Cecil, Queen Anne's, St. Mary's, Talbot, and Washington Counties Region V - Dorchester, Kent, Somerset, and Wicomico Counties | $165 | $143 | $248 | $177 |
| Region V - Dorchester, Kent, Somerset, and Wicomico Counties | $150 | $115 | $208 | $156 |
| Region W - Anne Arundel, Calvert, Carroll, Charles, and Prince George's Counties | $230 | $187 | $300 | $216 |
| Region X - Howard and Montgomery Counties | $300 | $250 | $421 | $335 |
| Region Y -Baltimore, Frederick, and Harford Counties | $210 | $180 | $330 | $226 |
| Region Z - Allegany, Garrett, and Worcester Counties | $132 | $122 | $229 | $160 |
| Region BC – Baltimore City | $180 | $150 | $255 | $172 |

* Maryland State Department of Education, Childcare Division, Average Weekly Regional Childcare Scholarship Rates. Accessed at: https://earlychildhood.marylandpublicschools.org/families/child-care-scholarship-program/child-care-scholarship-rates

Table 12: Maryland Child Care Scholarship, Maximum Reimbursement Rates for Baltimore City and Montgomery County with State Averages

| | Infant Family Child Care | Toddler Family Child Care | Infant Child Care Center | Toddler Child Care Center |
|---|---|---|---|---|
| Baltimore City | $180 | $150 | $255 | $172 |
| Montgomery County | $300 | $250 | $421 | $335 |
| **Difference** | **($120)** | **($100)** | **($166)** | **($163)** |
| Maryland Cost Average | $209.10 | $176.90 | $312.85 | $232.64 |

Figure 3: Maryland Child Care Scholarship Weekly Subsidy and Co-Payment Rates, Baltimore City and Montgomery County




| | | |
|---|---|---|
| **Co-Payment** | $42.46 | $57.92 |
| **Subsidy/60th Percentile** | $138 | $242 |

Source: Subsidy rates are from the Maryland State Department of Education, Early Childhood Division, *Formal Rates by Region, 2020*. The state average comes from The Maryland Family Network, *Final Report, Maryland Child Care Market Rate Survey, 2019*.

Rather than reflecting the actual cost of care, market rates mirror the relative income and wealth of a jurisdiction. Table 13 provides a comparison between Baltimore City and Montgomery County of median household income from the U.S. Census, the percentage of residents in poverty, current reimbursement rates at the 60th percentile of the market for child care for an infant in a family program and a 3- or 4-year-old in a center-based program, and then wage data for Child Care Directors and Workers from the Bureau of Labor Statistics.

The average family in Montgomery County earns twice what the average family in Baltimore City does. The rate of poverty in Baltimore is three times the rate of poverty in Montgomery County. The reimbursement rate for an infant in family-based care is 67% higher in Montgomery County; it is 95% greater for a preschool-aged child in center-based care. Market rates support higher salaries in one jurisdiction and suppress salaries in another. Using market rates to set subsidies yields a publicly supported salary difference of almost $20,000 a year between Baltimore City and Montgomery County for a child care director or administrator, and the difference between approaching a sustainability wage and falling well below it for a child care worker. Perhaps reflecting these challenging economics, pre-COVID, but since 2017, the number of family-

Table 13: Median Income, Poverty, Subsidy Reimbursement Rates, and Child Care Salaries: Baltimore City and Montgomery County

| | Baltimore City | Montgomery County |
|---|---|---|
| Median Household Income* | $50,379 | $108,820 |
| Percent of Population in Poverty | 21% | 7% |
| Weekly Child Care Market Price at the 60th Percentile/ Infant-Family Program** | $180 | $300 |
| Weekly Child Care Market Price at the 60th Percentile/ Preschooler-Center Program | $172 | $335 |
| BLS Annual Mean Wage/ECE Director/Admin*** | $46,350 | $65,730 |
| BLS Annual Mean Wage ECE Teacher | $25,090 | $29,530 |

* Median annual income and poverty rates, five-year estimates 2015 – 2019, American Community Survey.

** As reported in Table 11.

*** Bureau of Labor Statistics, Occupations by Geographic Area, Baltimore/ Towson Metropolitan Statistical Area (MSA) and Washington, DC/ Alexandria, VA MSA, extracted October 1, 2020.

> "Baltimore City has always been shortchanged. Rates have been kept low (here) because that's what families can afford... This is a huge issue in urban and rural areas where families' incomes are low. (Moving to) the 60th percentile helps. It's better than the 10th percentile where we were. (But) if we truly want to raise the quality of child care and we truly want to raise it in all jurisdictions for all families, children, and providers, we have to do it a different way."

**Nancy Pelton**, Director
Baltimore City Childcare Resource Centert

based providers in Baltimore City has declined from 553 to 489; the number of child care centers has gone from 210 to 184.[20]

Of course, there may be real differences between jurisdictions in the cost of doing business—like expenses for rent, services, and supplies—that an equitable rate-setting regime should take into account, much as the Geographic Cost of Education Index (GCEI) has been used to adjust public education spending in Maryland.[21] One can assume that breaking the state into market regions for setting child care subsidy rates was initially a good faith attempt to recognize these differences. And no one can begrudge low- and middle-income families in Montgomery County and other high-wealth areas receiving the child care support for which they are eligible. At this point, however, the differences in subsidy size between jurisdictions resulting from the state's use of market rates seem to have significantly diverged from the actual cost of care as approximated by the state average demonstrated in Table 12 and Figure 3.

As the Center for American Progress explains, "Unfortunately, setting rates based on market prices, in a broken market, does not lead to equal access. Providers set rates based on what their local market can bear, so setting rates based on market price replicates the deficiencies, and inequities, within the current market."[22]

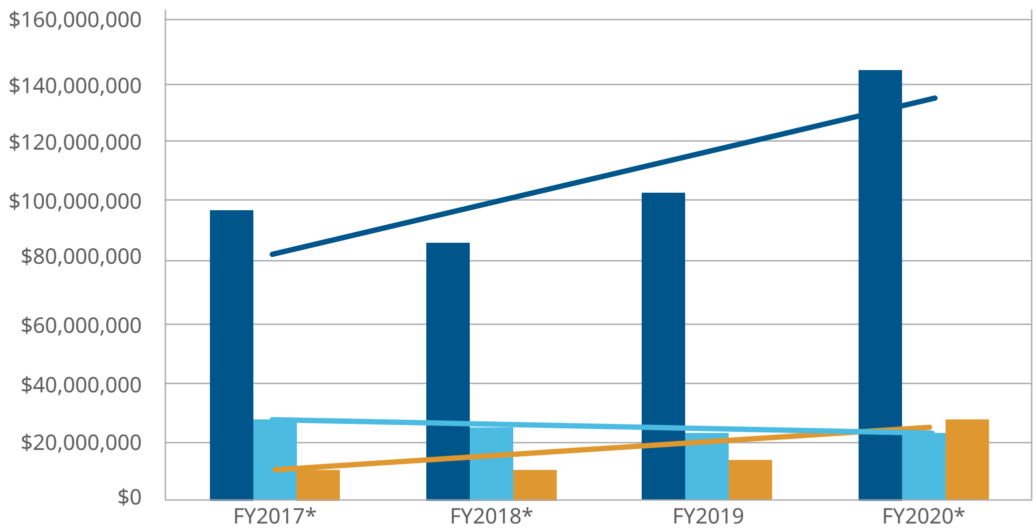
Indeed, as Maryland increased market-rate subsidy reimbursements and expanded eligibility, Child Care Scholarship Program expenditures in Montgomery County rose from just over $9 million in 2017 to almost $27.5 million in 2020, an increase of 200%. They actually declined in Baltimore City from almost $28 million in 2017 to just over $23 million in 2020, a decrease of 17% (Figure 4). Almost $4 million more was spent on child care subsidy reimbursements in Montgomery County in 2020 than was spent in Baltimore City, even as the average monthly number of scholarship recipients in the city was over 1,000 children higher than in Montgomery County (Table 14).

### *Cost modeling*

Cost modeling, alternatively, is a federally allowable method for setting child care subsidy reimbursement rates based on actual costs and/or with the intent of achieving policy goals such as advancing program quality and increasing provider earnings.

Figure 5 is a simple demonstration of what it might look like to use policy objectives, instead of market rates, to set subsidy reimbursement rates in Maryland. The graph compares current market rates and reimbursements at the 60th percentile in Baltimore City from the Maryland Market Rate Survey[23] to weekly rates set at a wage floor of no less than $15 an hour and including benefits, and then weekly rates with wages for instructional personnel set at the halfway point between current salaries and public school teachers and including health care and paid leave. The purple lines demonstrate the current state average. Estimates come from the same Center for American Progress Cost Calculator used earlier in this brief[24] and are shown for an infant and preschooler in a child care center. Subsidizing more of the market (as Maryland has done in moving from the 10th to the 60th percentile of the market rate) does increase provider reimbursements, but it does not address broader concerns about equity, caregiver wages, or program quality.

Figure 4: Maryland Child Care Scholarship, Total Expenditures for the State, Montgomery County, and Baltimore City, Fiscal Years 2017-2020




| | FY2017* | FY2018* | FY2019 | FY2020* |
|---|---|---|---|---|
| Maryland | $97,449,962 | $87,814,108 | $101,029,322 | $147,221,853 |
| Baltimore City | $27,936,704 | $25,634,067 | $23,444,900 | $23,139,483 |
| Montgomery County | $9,184,328 | $9,802,022 | $15,240,908 | $27,426,288 |

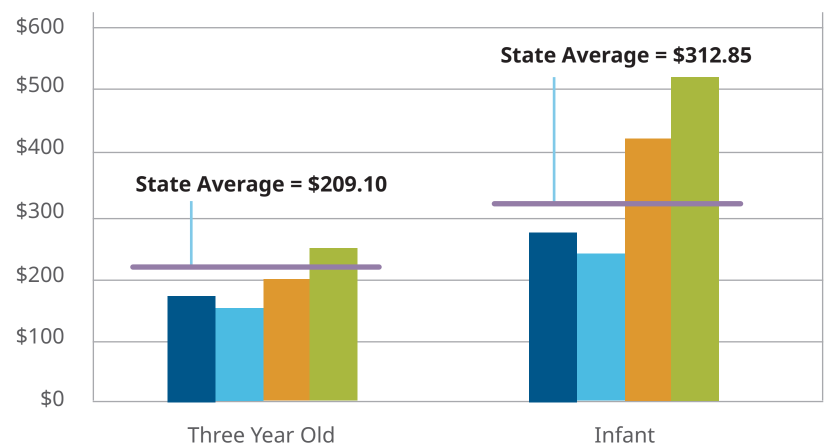
Source: Child Care Program Expenditures by County, Fiscal Year 2013-2020. Maryland Family Network Public Policy Handbook 2020-2021, Maryland Family Network, October 2020, Appendix C.
*=estimated (Please note that differing sources and estimated spending versus actual spending account for the differences in expenditures reported in this figure, and in Table 11 and Figure 1 above.

Table 14: Fiscal Year 2020 Maryland Child Care Scholarship Program Expenditures and Recipients

| | Average Number of Children/Month | Average Number of Families/Month | Total Expenditures |
|---|---|---|---|
| Baltimore City | 3,708 | 2,284 | $24,414,558 |
| Montgomery County | 2,644 | 1,680 | $28,243,441 |
| **Difference** | **1,064** | **604** | **($3,828,883)** |

Source: Maryland State Department of Education, Early Childhood Division, Child Care Subsidy Program Data SFY 09 -20. Difference calculated by author. Please note that the use of different sources and estimated versus actual expenditures account for the differences reported in this table and Figure 4.

Figure 5: Current and Projected Reimbursement Rates for an Infant and Preschooler in a Child Care Center, Baltimore City and Maryland




| | Three Year Old | Infant |
|---|---|---|
| **Market Rate** | $177 | $270 |
| **Maximum Reimbursement (60th Percentile)** | $172 | $255 |
| **$15/hour Min.** | $198 | $419 |
| **With Higher Salaries** | $240 | $511 |

> "The voucher approval process was really rough. I have a full-time job, but no car. I needed the voucher for my son. Was I going to be able to get the voucher?"
>
> **Alayshja Burnett**, Participant
> Mayor's Office of Children and Family Success,
> Town Hall on Early Childhood Development

Washington, D.C. (which acts as a state for administrative purposes) began using a cost-estimation model to set reimbursement rates in 2015, updated its model in 2018, and is preparing an additional update in 2021. Factors in its model include provider type, program size, the age of children served, the income mix of families/ parent's ability to pay, and the quality of the program on the District's rating system.[25] Since adopting the model, reimbursement rates have risen by 57% for center programs and 24% for family programs, stabilizing the child care sector alongside the expansion of public pre-K.[26]

In its newly released 10-year *Master Plan for Early Learning and Care*, California has proposed adopting a similar approach, the intent of which is to address regional cost of care differences and support a high-quality workforce.[27] Factors in California's proposed model include cost of living for providers in geographic regions; higher compensation for early learning and care professionals who increase their competencies and enhance their abilities; and incentives for programs that care for infants and toddlers, children with disabilities, and those who need care during nonstandard hours.[28]

Maryland made an initial exploration of an alternative rate-setting methodology at the request of the legislature in 2017. The Maryland State Department of Education recommended adopting a hybrid approach using a simplified Market Rate Survey with greater outreach to providers to increase response rates and get a truer picture of actual costs, along with adjustments based on program quality as measured by the state's rating system.[29] Raising rates without further investment in subsidies, however, as the alternative methodology report acknowledges, may decrease the number of families that can be served (a fact that may have stalled action on the report's recommendations). The report also did not begin to address the equity issues raised here. Setting public subsidy based on the private market disadvantages providers located in low-wealth communities and bakes in existing inequities.[30]

## Accessing the Scholarship

As critical as the Maryland Child Care Scholarship is to helping cover child care tuition, both providers and families report significant difficulty in accessing and retaining the subsidy.

Maryland has a contract with the private firm Conduent (a former subsidiary of the Xerox Corporation) to administer the Maryland Child Care Scholarship Program. Families must fill out a six-page form to determine their eligibility and attach required documents like pay stubs to verify employment and income. Forms can be mailed, faxed, or uploaded online. Once received, they are reviewed for completeness and to determine eligibility. By policy, applications are to be reviewed and a determination of eligibility made within 30 days. In practice, this process can take months and often includes multiple re-submissions.

Imani-Angela Rose is the co-chair of the Baltimore City Early Childhood Advisory Council and the co-director of Joshua's Place, a child care center in Northwest Baltimore. She explains: "I recently helped three families reapply. Every last one had to resubmit something (because of issues with their applications). Parents have re-faxed their application three or four times. There's no one they can talk to for assistance. Parents do not have access to help. It's ridiculous." The obstacles to timely review and approval of scholarship applications and renewals can mean lost wages for families, lost income for providers, and lost learning and development for children.

Maryland is moving to a new private contractor for administering the program, which may improve practices. Providers and advocates also urge a broader set of practice reforms to include:

- Streamlining the application process for the Child Care Scholarship to prioritize access, emphasize customer service and support, and remove bureaucratic impediments. As one advocate noted, "What would it look like to do the radical thing? To really listen to families about what they need and how to provide it?"[31]
- Using presumptive eligibility among the suite of programs designed to support families with children including WIC, SNAP, TANF, TCA, and the Child Care Scholarship, approving families for all the supports for which they qualify, based on their application to any one program.
- Funding local Child Care Resource Centers to add staff that would serve as subsidy navigators to help both families and providers with subsidy application and access issues.
- Supporting a public information campaign to let families know of the benefits for which they are eligible and how to access them.

## Learning From COVID Relief

The federal government has already made a series of investments to shore up the child care sector during the pandemic and to provide relief to families. It is authorizing more. In the first round of COVID relief, Maryland received an additional $45.8 million through the Child Care Development Fund which it used to cover the costs of care for children of essential workers, and for deep cleaning and protective equipment for providers. With its initial installment from the federal Coronavirus Aid Relief and Economic Security (CARES) Act, the Office of Child Care:

- Set a flat reimbursement rate across the state, evening out regional differences and providing $350 per week, per child, for children ages 6 weeks to 3 years, and $250 per week for children over the age of 3[32];
- Waived co-payments for families; and
- Paid providers based on their enrollment, as opposed to the usual practice of attendance, allowing providers to operate with some level of certainty about their revenues (at least for a time).

In quickly getting funds to qualified providers to care for the children of essential workers, the Maryland State Department of Education Office of Child Care (which administers the CCDF) put in place a number of innovations that could provide a model for more equitable delivery of the Maryland Child Care Scholarship Program moving forward. These innovations ended once the initial infusion of CARES funds ran out last summer. Though they are no longer in place, such practices demonstrate

> "I think one area that needs attention and improvement is the whole Child Care Scholarship. We need to make it more seamless for families to apply and help providers to understand and get the word to families that are eligible and can apply. There have to be better ways to support families. We really need to start with that application. It is complicated and confusing, and submissions are often not complete. There should be a universal application, so that if you're applying for any state assistance, you apply for everything. And we should go back to having people to help. It could be so much simpler."

**Nancy Pelton**, Director
Baltimore City Childcare Resource Centert

that with increased funding and concerted effort, the Maryland Child Care Scholarship Program can be operated in such a way as to reduce regional inequities and shore up the stability of child care program providers.

## SHORING UP CHILD CARE BUSINESSES

Alongside increasing subsidy reimbursement rates based on the actual costs of delivering high-quality care (and not just what the market will bear) and paying providers based on their enrollment (not just their daily attendance), Shared Services Networks are another strategy to further support the business operations of child care programs, increase earnings, and improve quality.

Though they can take many forms, most Shared Services Networks seek to increase earnings for child care providers, who operate with very thin margins, by maximizing program enrollment and reducing costs. They seek to improve program quality by offering higher wages (that come from increased earnings); freeing up staff time via business efficiencies; and using that time to support additional education, training, and development. Typical features of such networks include:

- The use of common program management software across a network to maximize child enrollment and tuition payments and monitor expenses;
- Joint purchasing agreements to achieve economies of scale and reduce costs for materials and supplies;
- Business leadership supports, including tracking and benchmarking against tuition collection and enrollment metrics, accounting and tax preparation, business coaching, and more;
- Pedagogical leadership supports, including assistance with licensing and quality rating systems, teacher training, and staff development; and

- Collaborative staffing for services such as human resources, facilities management, and purchasing.

Start-up funding for Shared Services Networks is typically provided by philanthropy and/or local government. Funds for ongoing operations come from fees paid by participating providers alongside public and private investments.

- In Colorado, Early Learning Ventures (ELV) was founded by the David and Laura Merage Foundation to improve "the quality of child care programming of center and family child care homes across Colorado – 85% of which are small, independent businesses that lack the infrastructure and resources to invest in quality improvements."[33] ELV developed and makes available an online Child Care Management System and Shared Resource Platform.[34]

- The Nebraska Early Childhood Collaborative was seeded by the Buffet Early Childhood Fund in 2014 and focuses on fiscal and program management, teacher and staff development, and business coaching and training resources.[35]

- The Oregon Community Foundation funded a co-design team to create a plan for shared services, and is now investing in start-up and scaling a statewide strategy. The work builds on an alliance, spearheaded by the Ford Family Foundation, in the Coos-Curry region of the state.[36]

- In Washington, D.C., the Office of the State Superintendent of Education funds D.C. Shared Services, which is an alliance of home-based child care providers who share administrative and business support functions, and benefit from common marketing, outreach, and recruitment.[37]

Here in Maryland, with funds from local philanthropy and an anonymous donor, the Maryland Family Network is piloting shared services in Baltimore City, and Montgomery and Prince George's Counties. Plans are underway to support a network of up to 40 family- and center-based providers in each jurisdiction for a total of 120 programs over three years. Support will include an electronic enrollment management system, business coaching, and technical assistance.

Louise Stoney, the co-founder of the national not-for-profit Opportunities Exchange, initiated the shared services model in 2002. As she explains: "At its core, Shared Services is a simple idea: Organizations can reduce costs and improve the strength of management and the quality of services by sharing administrative functions with other organizations that provide the same types of services."[38]

By improving operations, increasing provider earnings, and improving program quality, Shared Services Networks can be an important companion strategy to increased public investments in early care and education, ensuring the most efficient use of available resources.

## PLANNING FOR PRE-K EXPANSION AND FILLING GAPS IN AVAILABLE CARE

With the recent override of the Governor's veto of the Maryland Blueprint/Kirwan Commission recommendations, Maryland is moving forward in a big way to scale up public pre-kindergarten programs for all 4-year-olds and low-income 3-year-olds. This is a cause for celebration among many and portends immediate improvements in school readiness and longer-term gains in school performance and completion. It is also a source of concern for child care providers who face losing 3- and 4-year-olds and the tuition payments they bring. Maryland has proposed a blended

## “We just can’t compete with free.”

**Imani-Angela Rose**, Co-Director
Joshua’s Place

system for pre-K, where child care providers who meet certain quality standards and have qualified early childhood educators on staff can apply to operate publicly funded programs, yet few providers in the city actually meet these criteria.

Given what we know of the early childhood landscape, there is, with leadership, an opportunity here to view the expansion of pre-K not as a zero-sum game for providers, but as a way to fill observed gaps in care for infants and toddlers—as well as for other underserved populations and in areas of concentrated poverty in the city and perhaps elsewhere across the state—by making direct grants to providers to serve a set number of eligible children.

In 2019 and pre-pandemic, regulated early care and education—including pre-kindergarten classrooms, Head Start, and Early Head Start—was available for 48% of Baltimore City’s children under the age of 4, but for only 12% of infants and toddlers (up to 23 months). This discrepancy comes, in part, from the higher costs from the required staffing ratios for infants and toddlers. And while there may be family preferences for keeping very young children close to home, the Director of the Child Care Resource Center in Baltimore notes that the highest demand is actually for 2-year-olds.[39]

Much of this paper has focused on the use of the Child Care Development Fund to provide subsidies to families through the Maryland Child Care Scholarship Program. Direct grants to programs are also an allowable use of these funds, particularly to address underserved populations. Grants, or contracts, can be made between the subsidy program and child care providers to cover the cost of care for eligible children.[40] With grant agreements, the managing agency for the subsidy program can negotiate an annual rate and contract with providers for a set number of children. The Center for American Progress notes:

> In just the past few years, this strategy has gained significant momentum: In 2012, just nine states used contracts to pay a share of their providers, yet a review of the 2016–2018 Child Care and Development Fund (CCDF) plans found that 30 states and territories were using grants and contracts with providers.
>
> Grants and contracts represent agreements between the subsidy program and child care providers to designate slots for subsidy-eligible children. In contrast to portable vouchers, where providers receive parental copayments and subsidy payments for services provided to individual eligible children when tuition is collected, grants and contracts allow the subsidy program to pay providers directly, either before or after services are provided. Importantly, because grants and contracts can be designated for specific populations or geographic areas, they can be used to help increase child care access for underserved families.[41]

Currently, grants from the CCDF/Maryland Child Care Scholarship support two Early Head Start child care partnerships in Baltimore, where federal and state funds are combined to provide no-cost, year-round care to infants and toddlers. PACT (Parents and Children Together) and Dayspring, a program for families facing substance use, participate in supporting a total of 32 very young children. Faith Miller, the Program Coordinator for Early

Head Start, notes that there is little turnover among the families participating in these programs, which are funded up until children reach 36 months of age. Early Head Start and Maryland Child Care Scholarship funds are used in combination. Early Head Start funds cover 6.5 hours, and the Maryland Child Care Scholarship covers 3. 5 hours, providing high-quality child care for 10 hours a day. The providers are contracted for a set number of “slots” and then identify eligible children. “The turnover among families in that grant is so low,” Ms. Miller adds. “There is no co-pay and children stay in until they age out.”[42]

Maryland could use such programs as a model and expand the use of grants to fill service gaps for infants and toddlers, children in poverty, children in underserved areas, and children with special needs, while shoring up the child care sector alongside the expansion of pre-K.

Indeed, other states are building integrated systems for early care and education that not only center around the expansion of public pre-kindergarten programs, but also include grants to provide high-quality care for infants and toddlers, increases in the pay scales of child care workers and subsidy reimbursement rates, and training and staff development for the early care and education workforce. Shared Services Networks, which support improved business practices, joint purchasing agreements, and staffing, are an emerging and complementary strategy to expanded pre-kindergarten programs as well.

- In Multnomah County, Oregon (the home of Portland), voters recently approved a 2.3% tax increase that would provide pre-kindergarten to all children, not just low-income children; raise teacher pay to the equivalent of other public school teachers; and provide grants to child care providers to expand and improve the quality of care for infants and toddlers.[43]
- In California, the newly released 10-year Master Plan for Early Learning and Care: California for All Kids, improves access to paid family leave; provides universal preschool to all 4-year-olds and income-eligible 3-year-olds; implements funding reform to address regional cost of care differences in the child care subsidy; invests in Shared Services Networks to support child care providers and help their small businesses grow; and improves data sharing to advance equity, efficiency, and continuous improvement.[44]
- Washington, D.C. has made considerable investments in child care by increasing subsidy reimbursement rates (discussed elsewhere in this paper). It is also directly funding new slots for infants and toddlers, and using public funds to support a shared services network.

Rather than being viewed as a loss for child care providers, pre-K expansion in Maryland could provide new impetus to consider costs, coverage, equity, and access to high-quality early care and education for all young children, much as the Kirwan Commission inspired analysis, discussion, debate, and eventual legislation to establish a vision and funding for a 21st century education for all children, K-12.

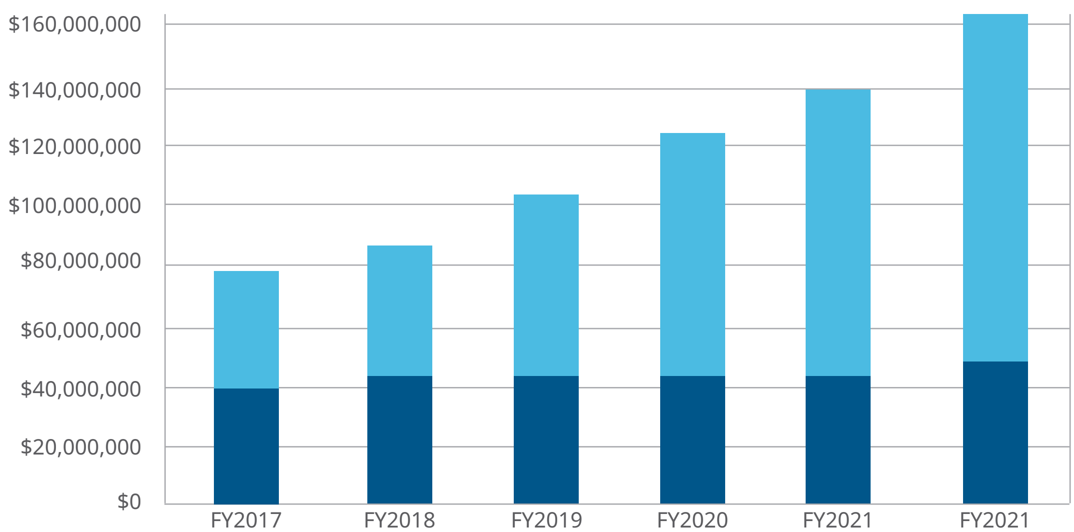
## PUBLIC FUNDING FOR EARLY CHILDHOOD CARE AND EDUCATION

Of course, additional investments are required to establish a coordinated system of early care and education that includes revising subsidy rates to increase equity and expand access; paying providers based on enrollment (rather than attendance) and eliminating parent co-pays; shoring up the business operations of providers; and using direct grants to increase the supply of high-quality child care, especially for infants and toddlers as well as other underserved populations, alongside the expansion of pre-K.

To date, spending growth on the Maryland Child Care Scholarship Program has come largely from an increase in the federal Child Care Development Block Grant. After an initial bump to coincide with the first increment of federal increases, Maryland General Fund investments in the Child Care Scholarship Program have remained flat until the current budget process for upcoming State Fiscal Year 2022, during which Governor Hogan has proposed a $5 million increase to cover the expanded eligibility and increased reimbursement rates put into place over the last five years (Figure 6).

Maryland's direct spending on the Child Care Scholarship Program has not kept pace with federal increases, and it is considerably below our neighbor to the south. In Washington, D.C., General Funds make up 84% of child care subsidy; the remaining 16% is covered by the federal CCDF and TANF.[45] Maryland's investment of General Funds, in contrast, makes up just 34%-35% of total state spending on child care subsidies. In State Fiscal Year 2022, 66% is budgeted to come from the

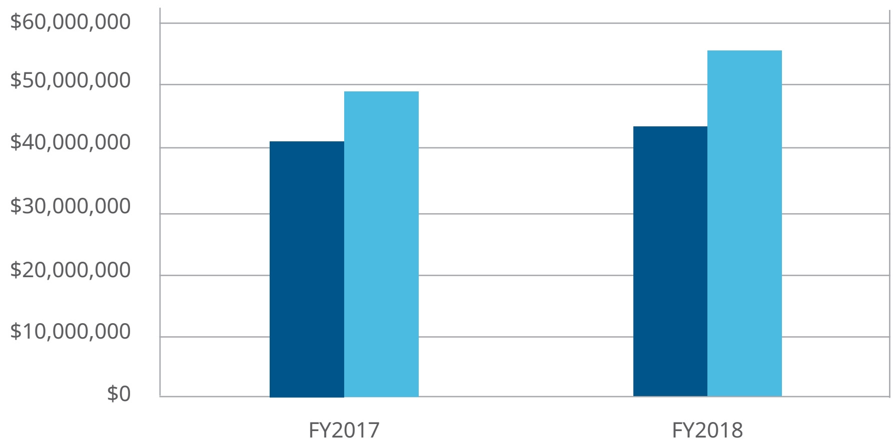
Figure 6: Maryland Child Care Scholarship Program, Annual Appropriations, State Fiscal Years 2017-2022




| | | | | | | |
|---|---|---|---|---|---|---|
| **Federal CCDF** | $36,100,000 | $44,300,000 | $57,600,000 | $81,300,000 | $96,300,000 | $93,300,000 |
| **Maryland General Funds** | $40,800,000 | $43,500,000 | $43,500,000 | $43,547,835 | $43,547,835 | $48,547,885 |

Source: Maryland Department of Legislative Services, Analysis of FY2022 Budget Documents, Operating, *Maryland State Department of Education, Early Childhood*. Accessed at: http://mgaleg.maryland.gov/Pubs/BudgetFiscal/2022fy-budget-docs-operating-R00A99-MSDE-Early-Childhood-Development.pdf

Figure 7: General Fund Expenditures on Child Care Subsidies, Maryland and the District of Columbia, 2017 and 2018




| | FY2017 | FY2018 |
|---|---|---|
| **Maryland General Funds** | $40,800,000 | $43,500,000 |
| **District of Columbia General Funds** | $49,190,629 | $55,849,629 |

Source: Analysis of the Maryland Operating Budget and *Modeling the Cost of Childcare in the District of Columbia*, 2018 Office of the State Superintendent of Schools Report.

CCDF, and 34% from State General Funds.[46] To emphasize the scale of the difference, Figure 7 displays General Fund investments in child care in Maryland and in D.C. for fiscal years 2017 and 2018. The population of Maryland is nearly 10 times the population of Washington, D.C.[47]; however, the District's investments have been outpacing the state's for years.

Among the 50 states and the District of Columbia, Washington D.C. and Maryland rank numbers one and two, respectively, in per capita income according to the U.S. Census,[48] suggesting that increasing investments has been a matter of priorities, not fiscal capacity.

Maryland has, encouragingly, begun to budget for the expansion of pre-kindergarten programs to implement the recommendations of the Blueprint for Maryland's Future/ Kirwan Commission. Along with a $5 million General Fund increase in the Maryland Child Care Scholarship Program, the Fiscal Year 2022 budget includes $108 million to expand supplemental grants to school systems for pre-kindergarten expansion.

And federal action has just given the push for equity and innovation new life. The American Rescue Plan, signed into law by President Biden on March 11, 2021, includes significant

Table 15: Federal and State Funds for Child Care in Maryland

| | FY 2020 | FY 2021 | FY 2022 |
|---|---|---|---|
| Maryland General Funds | $43,547,835 | $43,547,835* | $48,547,885** |
| Federal CCDF | $81,300,000 | $96,300,000 | $93,300,000 |
| **Initial Total** | **$124,847,835** | **$139,847,835** | **$141,847,885** |
| Additional Federal Funds for Child Care/ COVID Relief | $45,800,000 (allocated to the CCDF, already spent) | $128,800,000 (allocated to the CCDF, Maryland has budgeted $60 million for stabilization grants, plans for the remainder in development) | $502,000,000*** (allocated to the CCDF and Child Care Stabilization, can be spent over multiple years) |
| **New Total** | **$170,647,835** | **$268,647,835** | **$643,847,885** |

* Fiscal 2021 Working Appropriation
** Fiscal 2022 Allowance
*** State Estimates from The Center for Law and Social Policy, *Child Care Relief Funding in American Rescue Plan: State-by-State Estimates*. Accessed at https://www.clasp.org/publications/fact-sheet/child-care-estimates-american-rescue-plan
Annotations by author.

new resources in the amount of $39 billion nationwide to be made available to states to stabilize child care and to provide direct subsidy support to families. Maryland's share of this investment is projected to be over $500 million split between the CCDF for subsidies for families and a new Child Care Stabilization Fund.[49] Table 15 looks at the developing picture of resources available for child care in Maryland.

Where funding constraints may have impeded innovation in the past, this is simply no longer the case. The question before advocates and policymakers now is whether we continue on autopilot, and just do more of what we've already been doing, or whether we see this as the once-in-a-lifetime opportunity it is to begin building a more equitable, effective, and efficient system that places the needs of families and children at the center and recognizes child care providers for the important contributions they make to our economy and society.

## IMMEDIATE OPPORTUNITIES FOR ACTION

The costs to children, families, and caregivers of the current inadequately funded, broken system are high. The broader economy suffers too. Analysis conducted for the Maryland Family Network by economists from Johns Hopkins in 2018 found $2.41 billion in costs to Maryland employers from employee absence and turnover due to the child care issues of working parents of children age 5 and under, and $1.28 billion in lost Maryland tax revenue.[50] This was pre-pandemic.

“Many of the things we need can wait. The child cannot. Right now is the time his bones are being formed, his blood is being made, and his senses are being developed. To him we cannot answer ‘Tomorrow,’ his name is today.”

**Gabriela Mistral**, Chilean poet-diplomat, educator and humanist
Winner of the Nobel Prize in Literature

Concerns about access, affordability, and equity in child care are pressing. The sector remains under severe stress. Opportunities for action are immediate. In addition to sizable new federal investments and the scale up of pre-K, Maryland is also in the process of completing its plan and application for the Child Care Development Fund. On a three-year cycle, submission and acceptance of this plan are requirements for drawing down federal funds. It is due July 1st and serves as the guiding policy document for administration of this important resource.

So, how can Maryland make the most of this moment to address the issues raised in this brief? It can:

- Develop a data-driven, equity-focused process for setting child care subsidy rates that identifies the real cost of care; evens out differences across regions; and addresses policy goals such as pay equity, program quality, and staff training and development.
- Make permanent changes to the delivery and use of child care subsidy payments to providers based on enrollment, not just attendance, and eliminate co-pays for families with incomes below the state median.
- Streamline the application process and improve customer service for the Child Care Scholarship Program and related benefits for families, removing bureaucratic impediments and prioritizing access. Subsidy navigators, available virtually as well as in-person, can help improve customer service for families and child care providers.
- Assess the effectiveness of the Shared Services Network pilots that are underway and invest new federal funding from the American Rescue Plan in strategies to strengthen child care businesses.
- Expand the use of direct grants to fill critical gaps in care, especially for infants and toddlers and areas of concentrated poverty and ensure that child care programs are able to reopen and thrive.
- Support comprehensive, integrated planning alongside the expansion of pre-K and maximize new resources so that all young children have access to high quality early care and education.

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**by Martha Holleman**

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The Abell Foundation is dedicated to the enhancement of the quality of life in Maryland, with a particular focus on Baltimore. The Foundation places a strong emphasis on opening the doors of opportunity to the disenfranchised, believing that no community can thrive if those who live on the margins of it are not included.

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