

Compensation Investment in Practice

How Child Care Business Owners Experience State Workforce Investments – and What Systems Leaders Can Learn



Introduction

Early care and education (ECE) ranks among the lowest-paid occupations across the U.S. economy. The ECE workforce also experiences limited access to employee benefits such as insurance, retirement, and paid sick leave.¹ Low compensation in the sector is consistently linked to reduced worker well-being, high turnover, and workforce shortages, while improved compensation is associated with higher quality care and improved retention.^{2,3} Increasing compensation is one of the biggest challenges facing child care systems leaders.

In recent years a handful of states have tackled this issue in earnest with unprecedented investments in their ECE systems. States have varied in their approach to these investments— from highly targeted teacher wage supplements (Illinois), compensation supplements (Minnesota), and more flexible operational grants (Massachusetts). Others have taken a more holistic approach, injecting funding into their ECE system by dramatically increasing subsidy rates and eligibility (Vermont). Each approach involves different trade-offs: more flexible investments may reduce administrative burden and increase access, while directed compensation mandates offer assurance that funding reaches the workforce.

The fragmented nature of the sector—thousands of small businesses operating across diverse settings, funding streams, and models—is often viewed as a barrier to meaningful progress on workforce compensation. Instead, this report argues that any successful workforce investment strategy must recognize child care business owners—both center-based and family child care providers— as critical implementers and partners.

Given the challenging funding environment facing state and tribal systems, it is critical to maximize the impact of any workforce compensation investments. By sharing lessons learned from the perspective of business owners, we hope to help systems leaders determine the type of compensation investment best suited to their goals, from highly restricted to more flexible funds, and implement them in a way that ensures equitable access and avoids unintended consequences. **Drawing from the expertise of 50 child care business owners and nonprofit administrators across four states, First Children's Finance has identified 12 findings that system leaders should know as they explore workforce compensation investments and 9 proposed best practices for states to consider.**

This paper is not an impact evaluation. Instead, it focuses on comparing the design choices and the day-to-day experiences of program participation across our four focus states. These design and implementation decisions are often most within the control of systems leaders, and these details matter profoundly. The scale of investments, and thus their impacts, vary significantly across our selected states. Adjusted for differences in population, Vermont's per-capita investment would be over ten times that of Illinois and three times more than Massachusetts, the next highest.

The child care business owners interviewed for this project were eager to engage with systems leaders as advisors and co-designers. Their insights offered here are intended to build awareness of the diversity of child care business owner experience. Our goal is to encourage and inform thorough and authentic engagement of local owners and administrators in workforce investment development, implementation, and evaluation.

¹McLean, C., Austin, L.J.E., Powell, A., Jaggi, S., Kim, Y., Knight, J., Muñoz, S., & Schlieber, M. (2024). Early Childhood Workforce Index – 2024. Center for the Study of Child Care Employment, University of California, Berkeley. <https://cscce.berkeley.edu/workforce-index-2024/>.

²Morrissey, T. W., & Bowman, K. M. (2023). Early Care and Education Workforce Compensation, Program Quality, and Child Outcomes: A Review of the Research. *Early Education and Development*, 35(5), 984–1013. <https://doi.org/10.1080/10409289.2023.2266340>

³Hall, T., Fares, I, Markowitz, A. J., Miller-Bains, K., & Bassok, D (2024); Compensation and Staffing Challenges in Child Care: Statewide Evidence from Pandemic Relief Applications. *Education Finance and Policy*, 19 (3): 524–537. https://doi.org/10.1162/edfp_a_00410

Workforce Investment Best Practices

Cross-state interviews with child care business owners elevated the following best practices for directed investments in workforce compensation. By considering these strategies states can maximize the impact of their investments on the workforce and ensure equitable participation in their initiatives, while advancing aligned goals related to increasing child care supply and business sustainability:

- ▶ **Understand the Complex Role Child Care Business Owners Play.** Plan for and design compensation investments with the recognition that child care business owners are both members of the ECE workforce and key decision makers shaping pay, benefits, and job quality for the workforce. Many are making hard and strategic resource decisions, informed by their understanding of their staff and community.
- ▶ **Center Sustainability.** When designing new initiatives, identify the most consistent funding mechanisms available and clearly communicate with the field about the long-term plan for sustainability. If, understandably, funding sustainability cannot be assured, communicate this clearly, recognize how it will likely impact participation and implementation, and provide technical support to ensure optimal derisking strategies among participants.
- ▶ **Pay Prospectively and on Time, Every Time.** Use new technology, payment schedules, intermediaries, and other approaches to overcome delays and errors caused by slow-moving bureaucracy, outdated technology systems, and state budget delays.
- ▶ **Codesign Eligibility Requirements and Prioritization Metrics.** Engage business owners –center and family child care– in crafting the details of eligibility and prioritization frameworks. Prioritize approaches that make participation eligibility and funding amounts as consistent as possible from payment to payment. Ask owners whether your requirements might disincentivize or disproportionately impact those providing care in rural communities, providing care for children with disabilities, or providing alternative hour care.
- ▶ **Flexibility for More than a Wage Floor.** Owners know their workforce and their specific recruitment and retention challenges. Provide flexibility to invest in higher salaries for high performing or long-tenured teachers, key program leadership like directors and assistant directors, as well as other important support roles. Paid time off, improved work schedules, lower ratios, and health benefits can play an equally important role in programs' ability to recruit and retain staff.
- ▶ **Cost Model.** Use cost modeling to understand the comprehensive costs child care businesses experience, make informed and regular adjustments for inflation, and balance compensation initiatives with needed investments in physical infrastructure.
- ▶ **Invest in User Experience.** Use online portals designed for grant administration and experienced intermediaries to reduce frustration and time spent on paperwork and maximize transparency.
- ▶ **Provide Independent Technical Assistance.** Use intermediaries to offer comprehensive assistance beginning with outreach and application support all the way to implementation and reporting. Owners need a trusted place to turn to ask for advice and work through challenges.
- ▶ **Elevate Data Collection as a Shared Responsibility.** Collect the data needed to ensure program integrity and measure the impact of the compensation initiative. Engage owners in why you are collecting data and how it will be used. Default to sharing back aggregate reporting data with owners unless there is a specific reason to keep it confidential.

Acknowledgments

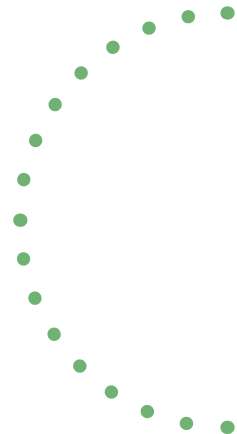
We are grateful to the child care business owners who generously shared their time and insights to inform this report, several of whom were also instrumental in connecting us to provider networks and social media pages to enhance our reach. Their perspectives provide the foundation of this report, and we honor their continued efforts to strengthen and sustain the early childhood education workforce.

We would also like to thank Illinois Action for Children, Minnesota Child Care Association, Minnesota Lead and Care, Neighborhood Villages, Start Early, Strategies for Children, and the Women's Business Development Center for their partnership and willingness to connect us with child care businesses in their communities.

This report was developed as part of Child Care Accessibility Initiative led by Let's Grow Kids and funded by the U.S. Department of Housing and Urban Development.

Authors

- ▶ Jannan Cotto
- ▶ Taijha Harden
- ▶ Robin Harjo
- ▶ Grace Lopez
- ▶ Anne McSweeney
- ▶ Ellen Nikodym
- ▶ Amanda Saillant



About Us

Founded in 1991, First Children's Finance addresses the business and finance needs of child care in three different ways: building the financial sustainability of child care entrepreneurs, partnering with communities to preserve and grow their child care supply, and influencing state and federal systems to provide supports and investments needed to sustain child care businesses. We are unique in working at all three levels: child care businesses, communities, and systems – and where they intersect. Our holistic approach ensures policies, practices, planning, and systems are informed by community and child care business owner needs while leveraging national resources, connections, and expertise.

For more information, visit www.firstchildrensfinance.org, follow FCF on [LinkedIn](#), or email us at info@firstchildrensfinance.org.



Our Approach

As a national provider of child care business technical assistance and capital, First Children's Finance partners with child care businesses owners operating within diverse policy and funding environments. As states have forged their own paths in ECE financing following the pandemic and the end of associated federal relief funding, we identified an opportunity to inform future program design by sharing the practical experiences of child care business owners in states making diverse investments to raise ECE compensation.

Guided by what we knew of businesses experiences with Minnesota's Great Start Compensation Payment Program and Vermont's transformative subsidy expansion, we selected Illinois' highly targeted wage supplements and Massachusetts' operational grants as interesting comparison points on a spectrum of state investment, ranging from approaches highly restricted to increasing wages to more flexible funding. See the Appendix for a detailed comparison of our four focus states.

Interviews with business owners about their experiences applying for, implementing, and reporting on funding programs form the foundation of this exploration. We relied on FCF's relationships with child care business owners in Minnesota and Vermont as well as partner organizations to assist in our outreach efforts. We conducted hour-long interviews with business owners, with the goals of equal representation across license types (center and family child care) and geographic diversity to represent both urban and rural labor markets. We developed interview protocols that reflected state specific questions, aimed at collecting detailed information on the requirements and mechanics of their state's investments and their business impacts.

We conducted a total of 50 interviews with child care business owners across the four states, including 17 in Vermont, 13 in Illinois, 10 in Massachusetts, and 10 in Minnesota. Interviews took place over Zoom. All interviewees were verified as licensed in their state and were compensated for their participation.

We used software to transcribe each interview. We then uploaded transcripts of interviews into qualitative analysis software and coded transcripts for key themes. FCF staff analyzed the codes for each theme to develop findings and recommendations.

Our sample is not representative. Due to limited time, we relied on our own networks and those of our partners to recruit interview participants. We also did not engage programs that chose not to participate in their state's workforce investment.

Grounded in hour long Interviews with 50 child care business leaders

REPRESENTING

25

home-based, family child care providers

25

child care center owners and nonprofit administrators

REPRESENTING

17

Vermont
Businesses

13

Illinois
Businesses

10

Massachusetts
Businesses

10

Minnesota
Businesses

Findings

Our report is comprised of 12 findings based on common owner experiences, behaviors, and attitudes that we believe systems leaders should understand and anticipate when designing compensation initiatives. Some were shared in all states while others are uniquely experienced across states, suggesting the potential impacts of these states' design choices. See the Appendix for a detailed comparison of each state's investment.

For each of the following findings, we have provided considerations for systems leaders designing their own workforce initiatives as well as quotes from business owners sharing their experiences in their own words.

1. In every state, child care business owners reported positive experiences with workforce investments.
2. However, owners see risks in reliance on public dollars for payroll – a large, recurring, and relatively fixed expense.
3. Vermont owners conveyed trust in permanent funding transformation; elsewhere continuity of investment raised questions.
4. Timely and consistent payment matters. Even infrequent payment delays impact how owners view and use funding.
5. Strategies vary for managing funding risks – with some more advantageous for employees.
6. Owners want initiatives that are responsive to their business model and see unintended consequences in enrollment and staffing requirements.
7. Owners report investments incentivize their participation in subsidies but also amplify concerns about cuts and waitlists.
8. Given the flexibility, many owners invest in more staff and lower ratios.
9. Lack of funding for deferred maintenance and rising operating costs frustrates child care owners.
10. Participation can be scary: Fears of unanticipated tax liability common and fear of fraud accusations more localized.
11. Owners request increased transparency, clarity, and support for application and reporting processes.
12. In all states owners view health insurance access as a compensation challenge they cannot solve alone.



In every state, child care business owners reported positive experiences with workforce investments.

Across all states, child care business owners were proud and appreciative participants in investment initiatives. They championed the positive impacts recent investments have on their workforce.

Reduced turnover, increased ability to recruit new staff, and improved financial well-being among staff were commonly mentioned impacts. Many owners also noted improvements in workplace morale and an increase in the number of staff pursuing higher education.

In Massachusetts and Vermont, where businesses were not required to invest in workforce compensation, the majority of our sample had significantly increased compensation.⁴ In these states some business owners recommended more guidance and accountability for the use of funds, such as pay scales, minimum investments in the workforce, or reporting requirements.

Considerations

- ▶ An interest in maximizing funding flow to the workforce or minimizing corporate profit seeking is not at odds with deep engagement and co-design efforts with child care business owners. These leaders are the ones deciding whether to participate in workforce investments and making critical decisions in how funding is ultimately directed – even when initiatives are largely intended as pass-through to the workforce.
- ▶ Child care business owners want workforce investments that are effective, fair, and transparent. They can identify requirements that advantage some businesses over others.

“I’m really proud with how I use the funds, and feel really good that it goes to my staff, and that these teachers who are so committed to children are being paid pretty well.”

– Massachusetts child care center owner

*“By having better retention rates among our staff, I think we have better schools. And by having staff that we can hire that are more qualified, that leads to more enrollment. So I think that’s how **it’s helped our business’ financial health, because of more enrollment, happier staff.**”*

– Minnesota multi-site administrator

*“The main reason I participated was to make sure that **my staff got what they deserved.**”*

– Illinois center owner

*“What an assistant teacher makes now is almost what a director used to make like 4-5 years ago. **The pay scale has just dramatically shifted.**”*

– Vermont multi-site center owner

*“We’ve been able to invest in staff, and they’ve invested in their education because of it. Because they know they’re going to be compensated. It’s hard for me to put into words, but **it’s been massive. It’s been incredible. It’s not on a small scale.**”*

– Vermont center owner

⁴ Interviews were conducted in Summer 2025. In Fall 2025, Massachusetts introduced a requirement that C3 grantees allocate 50% of their grant to compensation.

However, owners see risks in reliance on public dollars for payroll – a large, recurring, and relatively fixed expense.

It may seem counterintuitive that increased revenue, such as a new grant, could pose a risk for businesses. However, when the funding is associated with increasing compensation, businesses become highly reliant on timely, consistent and perpetual payment—and quickly butt up against the realities of state bureaucracies.

Payroll typically represents at least 70% of a child care center's operating expenses, meaning that few programs have the reserves or ability to cut other costs to balance a shortfall toward this large expense. Compensation commitments are both practically and ethically difficult to reverse once established. Teachers and staff depend on their paychecks for basic needs, and payroll must be met on time regardless of revenue delays and fluctuations.

As public funding becomes a larger share of program revenue and as it is directly tied to increased wages, payment delays, fluctuations and uncertainties, which programs have long weathered when participating in subsidy systems, become even less tenable.

Considerations

- ▶ **The more focused the investment on increased wages, the more important access and consistency are, and systems must invest in administrative infrastructure accordingly.**
- ▶ **Given the importance of timing for businesses to “make payroll,” providing funding *prospectively* is vital for systems seeking to support base wage increases.**

“In the past, we were like, is it going to continue next month? Is it going to continue next year? Is the amount going to be halved? **If we had put it to build a new playground, then we have the playground, and it's done. It's a one-time expense. But, because we are putting it to salaries, it's a constant stress of, if it goes away, can we cut people's salaries back to \$38,000 from \$50,000? No, because they'll all leave.**”

– Massachusetts child care center

“Yeah, I mean, **it's hard to come up with 20 grand in a week, sometimes, you know?**”

– Minnesota multi-site center owner on experiencing a payment delay with the Great Start Compensation Program

“I hold my breath every 2 weeks to make pay. Traditionally, we've asked for tuition the 1st of the month, parents pay it....[now that families are eligible for subsidy] you've got to wait for it, and we can't do that. We cannot do that. That puts us in the red...**we're left holding the bag.**”

– Vermont nonprofit center administrator on the challenge from shifting from a private pay to subsidy reimbursement schedule

“They're thinking, well, you're servicing less kids. Okay? But I'm not using less teachers...**teachers are at the wage floor, and they still have to be at the wage floor. So why are you giving me less?**”

– Illinois center owner on the challenge of meeting a wage floor requirement and enrollment minimums

Vermont owners conveyed trust in permanent funding transformation; elsewhere continuity of investment raised questions.

Child care business owners interviewed in Vermont were notable for their confidence in the ongoing investment in their state's child care system. The state's approach to expanding a foundational funding source, known in Vermont as the Child Care Financial Assistance Program (CCFAP), as opposed to introducing a new grant program and application process, may be part of this perceived stability.

In general, owners in Massachusetts and Minnesota were cautiously optimistic about stable future funding; while those in Illinois were mostly likely to express uncertainty that funding would continue beyond the current biennium.

Likely reflecting its comparatively larger investment, owners in Massachusetts were particularly likely to emphasize that if C3 were to end, the impact would be catastrophic for their business.

Considerations

- ▶ **Dedicated funding sources, such as Vermont's payroll tax, may inspire confidence that funding will remain consistent year-over-year compared with states negotiating general fund allocations each budget cycle or sources that are spread across a few priorities.**
- ▶ **Expanding an existing and familiar program, like CCDF subsidies also appears to convey a greater sense of permanence than the development of a new grant program – at least in the initial years of implementation.**

“It's never been said to us, oh, you're going to have it for a year, or you're going to have it for, you know, indefinitely, or you're going to have it for just for one more quarter.”

– Illinois Family Child Care Provider

“I think it's the new normal. I really do. I think people—those that have been in this field, and those that have been a part of it prior to Act 76—have seen the positive difference that it's made. So, I don't foresee that changing. I think that if it was to be tabled, to be taken away, I think there would be a lot of politics around that.”

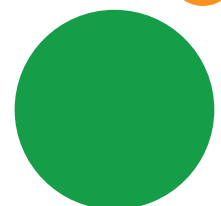
– Vermont family child care provider

“It's just hard because I know that if I lose this C3 money, and I no longer have enough vouchers, that I'll have to sell, unfortunately. People aren't going to go back down to what they were making. They can't. They've bought homes, they've been able to buy new cars. They live a different lifestyle.”

– Massachusetts center owner

“Don't use the word “grant.” Directors are coming from a scarcity mentality, they're scared, they're unbelievably stressed. I don't think people understand how stressed they are.”

– Administrator of a large nonprofit program in Massachusetts on perceived continuity of the C3 grant program



Timely and consistent payment matters. Even infrequent payment delays impact how owners view and use funding.

Child care business owners noted challenges sustaining their business and making payroll when payments are late or vary significantly from one period to the next.

In Illinois, Minnesota, and Vermont, where payment amounts change based on enrollment, subsidy participation, and FTE employed, many businesses struggled to budget effectively. To address this, Massachusetts earned praise from both center owners and family child care providers for standardizing an annual monthly payment amount based on average subsidy enrollment in the prior year.

Delayed payments add another layer of complexity. In Illinois, where quarterly payments are made prospectively but arrive at an unknown date, child care businesses were hesitant to rely on the funds. Family child care providers in Illinois were particularly likely to describe using the funds for “extras” (e.g. field trips, backpacks for kids) while trying to avoid relying on the grant to pay for regular expenses.

In Minnesota, Massachusetts, and Vermont where payments are more timely, even rare payment delays –typically around state budget cycles– create hardships for business owners and reduce trust.

“Once I get the grant, then I can do some more extra, but I plan not to get the grant, because it’s not dependable.”

– Illinois family child care provider

“It feels like it’s more concrete and more stable, and more known... The amount used to be different every single month [based] on enrollment of that month, and now the amount stays for the whole year, so at least we know for the year: that we can commit to those salaries.”

– Massachusetts child care center owner on annual fixed C3 payments

“It would be nice if the amount per FTE were consistent so that a person could budget or knew right out of the gate what that was going to look like. You know, if I’m budgeting now for 2026, that’s hard to do.”

– Minnesota center owner on the uncertainty of Great Start grant amounts set based on FTE engaged in direct care of children

“You really don’t know when it’s coming. You know it’s coming every quarter, but when?... We all have bills, and everything is on a time schedule. So if you guys could come out with a time schedule: by July 31st, everything should be out.”

– Illinois family child care provider

“They sent an email off saying that it was going to be delayed this month... It’s very discouraging when you’ve got to wait for it. But I get it. You know, I really shouldn’t count on it, but in times like this I was counting on it.”

– Minnesota family child care provider on recent payment delay

Considerations

- ▶ Invest in administrative technology and/or intermediaries to support timely payment processing every time. Provide transparency to grantees on approvals and expected disbursement dates through easy-to-access online portals.
- ▶ Set payment cycles, use reserves, or fund intermediaries to avoid foreseeable payment lags caused by the state budget process. This is most important for wage-restricted funds; more flexible funding can enable programs to develop their own reserves to better weather rare delays.
- ▶ Consider using prior year annual averages, such as for subsidy enrollment or other funding formula inputs, to set consistent payment amounts for a year.
- ▶ To keep payment amounts consistent, anticipate supply-building impacts in your allocation formula.

“ This last month, we received our Great Start Compensation monies on the 8th of the following month. I mean, **they just need to understand cash flow, you know?** I was able to make that work, but when you're talking about the number of centers that I have, I mean, it's a big pool of money, and so there's very little consistency with that. ”

– Minnesota multi-site child care center owner

“ It's gotten better. I don't think we've had a real issue in a while. **The only time you do kind of fret is around budget time.** You know, especially if they can't pass a budget. ”

– Vermont family child care provider



Strategies vary for managing funding risks – with some more advantageous for employees.

Concerns about program longevity shape the decisions of business owners in Massachusetts, Minnesota, and Illinois. A handful of businesses interviewed distributed bonuses to maximize their flexibility to adjust to any future funding reductions. However, most businesses interviewed had raised base wages, with several emphasizing that doing so was necessary to compete for staff in the current labor market.

Some businesses implemented strategies designed to prepare workers for possible future pay cuts. Several businesses in Illinois and Minnesota described implementing pay stubs that delineate the wages that come from the business and from the state to clearly communicate the impact losing state funding would have on workers' salaries. One program described briefing new staff that their wages were provisional on state funding and could be cut as part of their hiring process.

Other strategies focus on businesses' financial operations and controls. Three Massachusetts-based nonprofits described the challenges of briefing and strategizing with their boards on the continuity of C3 funding. One program presented two sets of financials to their board –with and without C3– to demonstrate they could be sustainable without the grant. Another board required the creation of a reserve to support higher salaries for a year if C3 ended.

None of these strategies were reported in Vermont where increased funding is viewed as permanent.

Considerations

- ▶ Understand the realities businesses face and offer clear-eyed technical assistance that encourages positive risk mitigation strategies.
- ▶ Nonprofits may need specialized capacity building to effectively engage their board on the use of public funds and associated uncertainty.

“Because people have to feel safe, the board just keeps saying, ‘**Nope, stick with bonuses.** We don’t know, this could go away.’”

– Massachusetts nonprofit administrator

“If we lose this grant, if the funding goes away, if we don’t have enough CCAP kids that we’re not able to get it, **here’s what your other pay is going to be, and know that it will go back to that... they have to sign off on it as a part of their hiring letter.** So they get to see the direct difference between having it and not having it.”

– Illinois child care center owner

“An employee that was maybe making \$17 an hour, will still receive that \$17 an hour. And then, meeting that wage floor of \$19.25, [their pay stub] will say, “Smart Start \$2.25”...**we’re just trying to ensure that delineation is still there, as, unfortunately, they’re trying to build security around these funds.**”

– Illinois child care center director, one of several centers across Illinois and Minnesota that described delineating state workforce investment on employee pay stubs

“A couple of the board members have been around for a long time, and so they’re hesitant to believe that the C3 funding will be consistent. **They would like to see budgets pitched every year, both with the C3 funding, and what if the C3 funding disappears.** And that we would have to plan cutbacks in the budget in order to make our budget balance if the C3 funding isn’t there.”

– Massachusetts nonprofit administrator

“We created a reserve with the C3 funding so that if it were to end or get cut, that we can keep the teachers for a year...we couldn’t have put it to salaries unless we know that if it ends or gets cut, there’s a backup plan. We can’t just terminate everybody immediately. We needed a year to plan for how we would address that.”

– Massachusetts nonprofit administrator

Owners want initiatives that are responsive to their business model and see unintended consequences in enrollment and staffing requirements.

Child care centers and family child care homes operate significantly different business models, and within these license types there is often great variation. This makes designing effective program requirements challenging.

Providers shared mixed perceptions of workforce investments' alignment with the nuances of family child care. Minnesota's funding formula based on FTE spent in direct care of children was appreciated as recognition that FCCs often spend many more hours per week caring for children than classroom teachers. The requirement that three children must be in care to count toward FTE hours was seen as unfairly impacting providers who remain open during times of lower enrollment such as holidays, illness, and storms, and, critically, disincentivizing them to provide alternative hour care when only one or two enrolled children require it.

Center owners in Illinois questioned the requirement to direct funding exclusively to teaching staff, noting the importance of administrative staff to their business model. Minnesota's flexibility to count direct care hours for directors and assistant directors is administratively complex for programs to track.

Center-based programs in Minnesota, Illinois, and Massachusetts with atypical staffing patterns such as infant and toddler only centers, with more than the expected teaching staff, or those using a "co-teacher" rather than lead and assistant model reported some frustration, either having to conform to program standards or receiving additional scrutiny during recertification.

Arguably the most specific requirement explored in this project, the Illinois Smart Start mandated wage floor was generally positively received by child care business owners. However, they noted challenges with wage compression. The most common concern was lack of funding to fairly compensate directors for their additional responsibility, as teachers' wages rise in comparison.

***“ We don't work 8 hours a day...
When it was one FTE, big problem, right?
Because it's not a comparative factor. ”***

– Minnesota family child care provider on the ability to report up to 2 FTEs in direct service time with children depending on their program model and schedule

“ If we had a snowstorm tomorrow in Minnesota I would have, I know, one family that would be here...it happened last year, too, I had one family show up. Everybody else chose not to drive. But you know, it's like that puts me back. It's like you're punishing me for working but not working to your capacity. ”

– Minnesota family child care provider on calculating Great Start Compensation Payments based on the time spent caring for at least 3 children

“ We're a team ...we took away those identifiers of lead teacher and assistant teacher, but DCFS and INCCRRA and Smart Start, they make us do that for grant purposes for identifying...who's eligible for this pot of money, and sometimes I don't like it. I don't like it at all. In a perfect world, I would love for all of my teachers in one room to work together. ”

– Illinois center owner

Alternatively, in Massachusetts and Vermont, several business owners described how they independently determined their approach to compensation increases. Many prioritized tenure and education. Some looked to public school salaries, cost of living data, or local apartment rental costs to inform their approach.

Considerations

- ▶ **Details matter.** Codesign and pressure test eligibility and staffing requirements with child care businesses to understand any unintended consequences.
- ▶ **Consider the broadest feasible definition of the ECE workforce, including administrators, cooks, bus drivers, etc., in grant eligibility.** At minimum, consideration of director and assistant director compensation is seen by owners as critical to maintaining appropriate wage ladders, workplace culture, and professional growth.
- ▶ **Minnesota's funding formula based on hours of direct care received high marks for fairness across family child care and center business models.**
- ▶ **Enrollment minimums, such as those implemented in Illinois and Minnesota, may help maximize the number of children who benefit from state investments, but they pose challenges for some businesses – potentially compounding market dynamics where some programs have long waitlists while others consistently struggle with enrollment. While not all programs will be successful, dedicated technical assistance to programs struggling with enrollment can address equity goals and solve supply challenges for families. Clear waiver processes for programs caring for children with a disability to operate below enrollment minimums was another common request by both home- and center-based owners.**

“Directors are in classrooms all the time. They are going in and out and serving in ratio all the time, whether it's a staffing crisis, or, you know, a classroom needs help, or what have you. So, having to track that really closely, and say, oh, well, my director is an FTE and spent this many hours in classrooms this month, that's nuts.”

– Minnesota multi-site administrator

“If my teachers are making \$19.25 an hour ...Where are these directors going be at? And what is the motivation to be a director or assistant director if you're not going to be making that much more? Because the headaches of a director are tenfold.”

– Illinois multi-site center owner

“We've really focused [new revenue] on staff wages, more than anything else. We've been able to put into effect a pay scale that recognizes education and qualifications, as well as experience. Our licensed teachers got a double-digit per hour raise, you know? I mean, it's been really, really, significant for us.”

– Vermont center owner



Owners report investments incentivize their participation in subsidies but also amplify concerns about cuts and waitlists.

Across all four states, child care businesses serving families participating in subsidy programs receive a larger share of recent state investments. In Vermont, where some family child care providers report that subsidy reimbursements are double their private pay rates, the difference can be dramatic. Several centers went from serving few or no families participating in subsidy up to 70%, 80%, or almost 100% subsidy enrollment. Despite broad eligibility, some Vermont family child care providers, reported struggling to enroll subsidized families, citing stigma and a challenging application process as dampening participation in their communities.

In states that had not expanded subsidy, owners reported struggling to consistently serve participating families. This concern was most prevalent in Illinois, where failure to enroll 15% of licensed capacity through subsidy means programs are no longer eligible for the grant (waivers are available), and Massachusetts where those serving more than 25% families receiving subsidy receive a 3x multiple to their base grant, and those serving any subsidized families receive 2x. In Minnesota where care for at least one family participating results in a 10% grant increase, this issue was less salient.

Considerations

- ▶ Consider other equity-metrics to target funds instead of or in addition to subsidy participation. This can include geographic metrics like the Child Opportunity Index, or alternate metrics of family need, such as being on a subsidy waitlist or participating in other means-tested programs. Consider attestations that businesses are willing to serve families on subsidy even if they are not currently.
- ▶ Using an annual average of subsidy enrollment like Massachusetts or a multi-month look back period like Minnesota, adds consistency to providers' payments and avoids eligibility cliffs.

“ This year I began to prioritize CCFAP families. Not only will it be great for our budget in the school and hiring, but it diversifies our school. ”

– Vermont nonprofit center administrator

“ We felt a significant impact here, whereas a program down the road serving higher-end families didn't feel a thing. My hope from this is that it creates some equity for families, and that programs begin to look at how their hours and their location and whether they run in the summer, how that contributes to equity or inequities, and who they're serving. And I do think that some programs have begun to participate that weren't taking CCFAP before. ”

– Vermont center owner on impacts of Act 76

“ I enroll really specifically to make sure that I have a balance between children who receive subsidy versus private pay families. So that allows me to manipulate and know exactly what kind of funding I have coming in. And the way I do that is that in the onboarding process I ask for a pay range. That way I have an idea if families are going to qualify. ”

– Vermont for profit center owner

“ I just had a subsidy family give me notice, and all of a sudden I have to find two kids to meet that money that was coming in instead of just one kiddo, unless one of them is subsidy, and it's really stressful. ”

– Vermont family child care provider

“ I would take 25% vouchers in a heartbeat, right? There's a lot of benefits to the community, there's a lot of benefits to the families, there's a ton of benefits. Plus, it puts me in the next tier where I get more money from C3. But it is physically impossible for me to find 12 vouchers... because of the limited amount. ”

– Massachusetts center owner

Given the flexibility, many owners invest in more staff and lower ratios.

Across every state, many child care business owners described using increased investment to hire more staff or operate with lower enrollment. This was particularly common in Vermont, likely due to the relative scale of the state's investment and flexibility in use of funds.

Center owners most frequently described hiring more classroom staff to lower ratios as well as support PTO, planning time, and shorter shifts. Several owners mentioned determining that investing in more staff was the most effective retention strategy after testing others. Some mentioned never being able to compete with other industries or public-school systems on health insurance or retirement benefits; job quality was an area they perceived their investments as making a difference. In some cases, offering more PTO or flexible schedules instead of raises may also be a strategy for avoiding benefits cliffs for staff. Lower ratios were also identified by many providers as a critical strategy for serving children with special needs and challenging behaviors.

Similar to centers, family child care providers, especially in Vermont, described improving job quality by enrolling fewer children or employing an assistant (while keeping enrollment to six children).

While programs voluntarily reducing enrollment may provoke concerns about child care supply, several providers mentioned they would not have started or continued in their business with higher ratios, so the true impact of this trend on overall supply is unclear.

Considerations

- ▶ Anticipate investments may result in some cases of lower per-program enrollment. Look at available data on supply-demand, program longevity, workforce, and program quality to understand and communicate the comprehensive impacts of workforce investments.

“ We actually have a plan to have 2 floaters. We have an opener, we have a closer; things like that that I wouldn't be able to do without [Smart Start funding]. ”

– Illinois child care center

“ Where we have more children that are at risk, more children that are in [individual child care program plans], and where we're just having more struggles, we have lowered our ratios. And we're able to do that because our staff are getting subsidies from the Great Start Compensation Grant, but also because child care assistance rates have come back to where they should be. ”

– Minnesota center owner

“ It was a lot of trial and error of like: what keeps staff? What helps reduce the burnout? We've completely changed work schedules. Our staff work a four-and-a-half-day work week. They have an early/late day each week... They can do appointments, they can nap, sleep in. Whatever it might be, and that's definitely been a gift. But in order to do that we had to hire obviously more staff to then fill in those gaps. ”

– Vermont multi-site center owner

“ If we're outside... you can split so that you're not interrupting all the other kiddos' time just to bring two kids or one kid in to use the bathroom. So, I don't know how one provider does it. ”

– Vermont family child care provider caring for six children on subsidy with a full-time assistant

Lack of funding for deferred maintenance and rising operating costs frustrates child care owners.

Owners in Massachusetts and Vermont noted using their state's more flexible investments to keep up with inflation and address facilities maintenance, either simultaneously to or prior to making workforce investments. Several Vermont programs described paying down debt prior to determining compensation increases.

When asked to describe Act 76's impact on their compensation, most Vermont family child care providers identified many deferred needs they addressed before experiencing new revenue as "compensation." These included home safety projects - felling a dangerous tree, replacing an old floor, buying a new generator- as well as upgrading child care equipment and materials.

In Illinois and Minnesota, where operating and facilities costs are not covered by their respective grants, center owners described significant challenges to their overall business sustainability.

Considerations

- ▶ **A staged approach to ECE systems investment that provides foundational, flexible funding, which can be used to address debt and deferred maintenance first, and then transitions to more targeted workforce investments may better address the consequences of decades of underinvestment. New Mexico has taken this approach—subsidy expansion then targeted workforce mandates—as it has built towards its universal child care system.**
- ▶ **Conduct regular cost modeling to understand feasible wage increases in conjunction with other rising operating costs.**
- ▶ **When evaluating the impact of unrestricted investments on wages, such as Vermont's subsidy expansion, anticipate a potential lag in their full impact as businesses address debt and deferred expenses first.**

“It has meant that we can do things like maintaining the buildings in the proper way, getting some new equipment. Nothing outrageous. It's not luxury, it's like clean and safe.”

– Massachusetts nonprofit administrator

“We took that as a time to get high-quality shelving that we should never ever have to replace in our lifetime. We have some drainage issues, so it's given us the chance to have engineers come in...I guess we've been able to think longer term, rather than just in the moment all the time.”

– Vermont center owner

“[Smart Start] is not money we can spend on our electric, on our food. Centers have not had a raise in 5 years in Illinois, an actual rate increase, and our bills went up just as much as everybody else's. So that has made our overall financial security difficult...[Smart Start] is designed to go right to staff, so that helps my staff and their financial situation, but that does not help our center operations.”

– Illinois center owner

“We would never say we don't want to put as much as possible into compensation, but it was nice to have a little bit of flexibility where we could still be supporting compensation, but it also let us move money around a little bit if we needed to pay the rent that month.”

– Minnesota multi-site administrator on the difference between Great Start Compensation and the preceding child care stabilization grants.

Participation can be scary: Fears of unanticipated tax liability common and fear of fraud accusations more localized.

Owners emphasized that change could be scary, especially when processes and outcomes were unclear. Across all states, concerns about increased taxes were common among family child care business owners. Many owners noted the need for training on how taxes work, particularly related to income taxes and employer responsibility for those formally paying assistants for the first time. They also requested one-on-one support to work through their specific tax situation.

Fraud concerns were particularly salient in Minnesota, likely as a result of high-profile investigations making the topic common in state news and politics. Many Minnesota owners noted the language on application and reporting forms warning against fraud, with multiple sharing it brought up strong emotions. Coupled with a reporting process viewed as overly complex, many worried any mistake could have severe consequences.

Considerations

- ▶ Consider that well-designed reporting requirements both preserve program integrity and protect child care businesses from allegations of fraud, but they must be appropriate to their business type and clearly communicated in advance.
- ▶ Technical assistance that is distinct from grant administration and monitoring is critical for trust building and addressing mistakes without fear of fraud accusations.
- ▶ Communicate basic tax information early and often throughout the grant outreach and application process while also creating opportunities for owners to access personalized guidance based on their specific business situation.

“When it comes to the Great Start money, it does push people up into another income bracket... They're like, we don't want it, it's going to put us into this new income bracket. We always say, if you had room for another family, would you take another family, or would you say, no, I don't want to be that next income bracket? And I think part of that issue is they don't understand that you pay higher tax only on that section. They think it's the whole thing, and it's not. And, so that's where that business training comes in.”

– Minnesota family child care provider

“It wasn't explained the fact that if you're paying in taxes, it means you're doing well, and you're actually thriving instead of dying. That wasn't explained. So that got a lot of people very vocal saying, you really messed this up because now we have to pay.”

– Vermont family child care provider

“The wording on [the report] is really punitive...“this is this is fraud.” I really don't think that the heavy handedness needs to be with us. But that's what we experience in licensing and so there is an emotional piece that comes over with that.”

– Minnesota family child care provider

“Training was really life-changing, actually. She opened my eyes in a lot of things. The way I was calculating everything was wrong. She told me the way I have to calculate it”

– Minnesota center owner

Owners request increased transparency, clarity, and support for application and reporting processes.

Business owners were quick to clarify that they appreciated the need for data collection. Their concerns were focused on unclear, changing, and time-consuming application and reporting requirements as well as glitchy online processes.

Owners wanted to understand why certain data were requested in application and reporting processes. Several mentioned wanting access to the results, noting that aggregate enrollment and vacancy data would be valuable to better understand their local demand for care, among other considerations.

Owners also wanted clearer applications and easy to contact technical assistance. Owners offered several examples of seemingly simple questions, such on their enrollment, which they shared were complex to answer accurately due to part-time enrollment or children moving in and out of classrooms/programs.

Considerations

- ▶ **Codesign and test application and reporting questions with owners to maximize clarity and inform technical assistance.**
- ▶ **Adopt user-friendly online portals. Commonly requested features include allowing applicants to preview report questions, save their partially completed applications and reports, pre-populating fields based on administrative data or past reporting, and sending submission confirmation emails.**
- ▶ **While it's admirable for states to seek to limit the information they collect from businesses, circling back retrospectively to request more information is a big source of stress. To the greatest extent possible, prioritize fully conceptualized and clearly communicated reporting and evaluation requirements prior to program rollout so that businesses can prepare to document and maintain appropriate records.**

“Now I can log on to the Hub and see where the grant is at in the process... so at least you know, oh, hey, I'm really not going to have my compensation grant by payroll time, so I've got to make some other arrangements here for that cash flow.”

– Minnesota multi-site center owner

“Don't change it every year. It's just when we kind of figure it out and feel like, okay, we can kind of trust this process and how it works, it's redone.”

– Massachusetts center owner

“If I knew what they wanted the numbers for, maybe I could give them the numbers they want, cleaner numbers, but...it's never really been explained to us why they collect that data.”

– Minnesota child care center owner

“It takes you to a survey monkey, which is fine. But I can answer those questions and when I'm done and you close, and it says, Okay, and it'll take 48 hours for your answer to populate. I can never go back in! Even 48 hours later, 72 hours later, I can never see that I actually completed that step. There's no email, there's no anything. So I just make a note. Okay, I did it on this day. And 2 days later I will email and make sure that that person can see my responses, and if they can't see them, then I go back in and I do it again. Just in case, because I don't ever want to not get it, because I didn't do my part.”

– Illinois center owner

In all states owners view health insurance access as a compensation challenge they cannot solve alone.

Even in Vermont, with a per-capita investment that dwarfs the other states in our sample, owners reported challenges providing health insurance to their staff, with many noting it felt very far out of reach. In Vermont, multiple owners reported offering salaries that were competitive with local public schools yet still losing staff to these systems due to their ability to provide health insurance (and retirement benefits).

Some owners across all states noted that staff did not need health insurance or were able to access it more inexpensively through their state's health care exchange.⁵

For family child care providers generating more profit through state investment, health insurance subsidy cliffs were a significant concern, especially in Vermont.

Owners in every state emphasized the need for systems-level solutions to health care affordability, noting the high costs and inefficiencies of procuring this benefit as a small business.

Considerations

- ▶ Owners suggested a variety of ways states could support systems solutions to insurance access ranging from organizing businesses into shared service pools to maximize their buying power to including the child care workforce in the same benefit classes with teachers or state employees.
- ▶ If states scale back Medicaid eligibility following the implementation of H.R. 1, increased attention to sector-specific solutions may be warranted.
- ▶ Family child care providers in Illinois who care for children receiving subsidy have access to health insurance through a union.

⁵ All four states included in this report are Medicaid expansion states.

“ We’re competitive with [teacher] salaries but we cannot compete with the public school because they offer benefits, that whole healthcare package that they offer. ”

– Vermont nonprofit center administrator

“ Early Education is really tricky because we haven’t been able to offer health insurance, which is just so out of the equation right now. ”

– Vermont center owner

“ The insurance is the big thing, and I’ve actually heard from other providers where they didn’t want the CCFAP Act 76 increase because they would lose insurance. ”

– Vermont family child care provider

“ [The staff survey] came back that a large percentage did not want me to offer health insurance...They go through the marketplace, and a lot of them, because of what our industry pays, received financial help on their premiums. So, if I offered it, they would be paying more through me than the marketplace with that financial help. ”

– Minnesota center owner

“ My health insurance is \$2,400 a month. And I make \$2,500 a month in tuition....I do not understand if we are licensed through the state of Minnesota, why we cannot get group health insurance through the state of Minnesota. It just boggles my mind, and we don’t necessarily even need to have the same insurance that the state employees have, but there are 5,000 of us in the state. Why can’t they come up with something like that? ”

– Minnesota family child care provider

Conclusion

Child care business owners express a strong desire to increase compensation for their workforce. Owners in Vermont and Massachusetts demonstrated a willingness to invest in their staff even when not mandated to do so.

Business owner feedback indicates that directed investments in compensation can be business-friendly when designed with flexibility, allowing program leaders to tailor wage increases and benefit provision to their unique recruitment and retention priorities. At the same time, owners emphasized the importance of maintaining the ability to address other urgent needs, such as facilities improvements and rising operating costs. Thoughtful data collection and evaluation, in partnership with business owners, can help capture the many direct and indirect benefits of state compensation initiatives, making the case for sustained investment. Using the best practices described in this report, systems leaders can pursue strategies that prioritize workforce compensation, avoid unintended consequences, and increase child care supply.



Appendix: Investment Comparison

Comparing four different state approaches highlights the wide variation in targeting and disseminating funds that can increase ECE workforce compensation.

WAGE SUPPLEMENT	COMPENSATION SUPPLEMENT
Program: Smart Start Workforce Grant	Program: Great Start Compensation Support Payment Program
State: Illinois	State: Minnesota
Funding Source: State general funds	Funding Source: State general funds
Investment Amount: \$200 million in FY25	Investment Amount: Approximately \$158 million in FY25 (\$316 million for the FY24/25 biennium)
Program Requirements and Eligibility: <ul style="list-style-type: none"> • Full-day, full year licensed child care centers and family child care • At least 15% of centers' licensed capacity must be enrolled and funded through subsidy, as well as one enrolled child for family child care and two for group child care • Eligible classrooms & home-based programs must be funded only through subsidy or private pay (i.e., they cannot also be funded by Preschool for All or Head Start) • Eligible classrooms & home-based programs must maintain enrollment minimums 	Program Requirements and Eligibility: <p>State and Tribally licensed family child care and centers and certified centers</p>
Allowable Uses: Increase wages to meet a wage floor for teachers and assistants, any leftover funds must be used to increase employee wages	Allowable Uses: Compensation, benefits, premium pay, and taxes associated with increased compensation; more flexibility for family child care
Award Determination: Fixed per-classroom or per-home amounts, reduced if under enrolled	Award Determination: <ul style="list-style-type: none"> • Calculated based on the total number of staff hours worked directly with children • Programs receive a 10% increase if they are located in a Child Care Access Equity Area or received a payment from subsidy programs (child care assistance program or early learning scholarships) during a 3-month look back period
Payment Cycle: Quarterly and prospective	Payment Cycle: Monthly and retrospective
Unique features: <ul style="list-style-type: none"> • Only program to include specific wage guidelines • Grantees are prohibited from using funding on staff bonuses or benefits 	Unique features: <ul style="list-style-type: none"> • Broad eligibility, and comparatively less targeted to programs serving families receiving subsidy • Awards are based on hours worked directly with children, (i.e., excluding time spent on planning, cleaning, or PTO), which facilitates recognition of the long hours typical in family child care • Recognizes the contributions of adult household members and providers' children, who meet licensing requirements, as part of the family child care staffing model even when their work is not formally paid

OPERATIONAL GRANT	SUBSIDY EXPANSION
<p>Program: Commonwealth Cares for Children (C3) Grant</p>	<p>Program: Child Care Financial Assistance Program, expanded through Act 76</p>
<p>State: Massachusetts</p>	<p>State: Vermont</p>
<p>Funding Source: In FY25 funding sources included Fair Share tax revenue (high earners tax), online lottery revenue, and drawdown from the High-Quality Early Education and Care Affordability Fund, a trust fund created in FY23 with federal COVID relief dollars</p>	<p>Funding Source: State general funds and new revenue from a 0.44% payroll tax</p>
<p>Investment Amount: \$475 million in FY25</p>	<p>Investment Amount: Approximately \$125 million annually.</p>
<p>Program Requirements and Eligibility:</p> <ul style="list-style-type: none"> • All state licensed programs are eligible • Must attest they are willing to serve families receiving subsidy or offer equivalent services 	<p>Program Requirements and Eligibility:</p> <p>Licensed and registered programs serving families participating in the Child Care Financial Assistance Program (CCFAP)</p>
<p>Allowable Uses: wages, benefits, stipends, and other supports for recruitment and retention; professional development, program quality investments (e.g. supplies, curriculum), rent or mortgage payments, utilities, facilities maintenance and improvements, and insurance. As of Fall 2025, new rules require 50% of funding to be dedicated to workforce investments. This requirement was not in place at the time of our interviews</p>	<p>Allowable Uses: not applicable</p>
<p>Award Determination: Based on licensed capacity adjusted for enrollment and weighted by the youngest age group served. This rate is then multiplied based on an equity adjustment. Tier 1 programs serving 25%+ children receiving subsidy, Head Start programs, and those in very low child opportunity index communities receive three times the base rate. Tier 2 programs with 1-24% of children receiving subsidy receive twice the base rate</p>	<p>Award Determination: Programs receive payments on behalf of eligible children. Families earning up to 575% of the federal poverty level are eligible for subsidy; by September 2025 subsidy enrollment had increased by 63% since Act 76's passage</p>
<p>Payment Cycle: Monthly and prospective</p>	<p>Payment Cycle: Monthly and retrospective</p>
<p>Unique features:</p> <ul style="list-style-type: none"> • If CEO compensation exceeds a 30:1 ratio (more than 30 times higher than the median employee) programs are limited to a Tier 3 (no equity adjustment to the base rate) 	<p>Unique features:</p> <ul style="list-style-type: none"> • In addition to subsidy expansion, Act 76 also supports a portfolio of quality investments, facilities expansion grants, professional development, and business technical assistance