



A FOUNDATION FOR ACTION

Shared Solutions to
Child Care Challenges in Kentucky

A PARTNERSHIP BETWEEN

CONVERGENCE



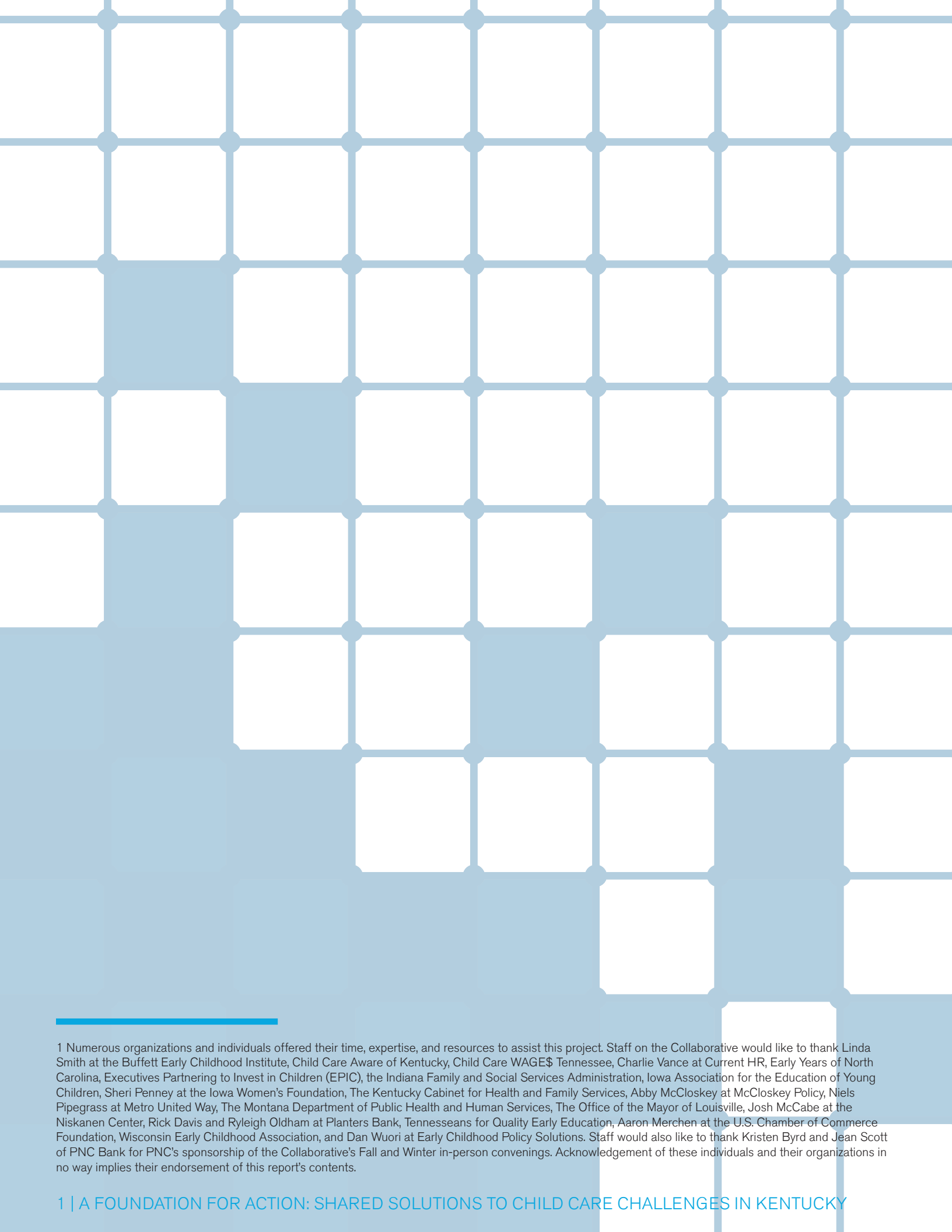
Kentucky Chamber
Foundation



Kentucky Chamber
Center for Policy & Research

Lift a Life
NOVAK FAMILY FOUNDATION

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1 Numerous organizations and individuals offered their time, expertise, and resources to assist this project. Staff on the Collaborative would like to thank Linda Smith at the Buffett Early Childhood Institute, Child Care Aware of Kentucky, Child Care WAGE\$ Tennessee, Charlie Vance at Current HR, Early Years of North Carolina, Executives Partnering to Invest in Children (EPIC), the Indiana Family and Social Services Administration, Iowa Association for the Education of Young Children, Sheri Penney at the Iowa Women's Foundation, The Kentucky Cabinet for Health and Family Services, Abby McCloskey at McCloskey Policy, Niels Pipegrass at Metro United Way, The Montana Department of Public Health and Human Services, The Office of the Mayor of Louisville, Josh McCabe at the Niskanen Center, Rick Davis and Ryleigh Oldham at Planters Bank, Tennesseans for Quality Early Education, Aaron Merchen at the U.S. Chamber of Commerce Foundation, Wisconsin Early Childhood Association, and Dan Wuori at Early Childhood Policy Solutions. Staff would also like to thank Kristen Byrd and Jean Scott of PNC Bank for PNC's sponsorship of the Collaborative's Fall and Winter in-person convenings. Acknowledgement of these individuals and their organizations in no way implies their endorsement of this report's contents.

Executive Summary

Access to child care has emerged as a key discussion topic in Kentucky. Amplified by the COVID-19 pandemic, the issue has increasingly found itself at the center of cross-partisan debates over family stability, cost of living, educational outcomes, and economic development. At the national level, child care concerns even became a point of agreement in the 2024 presidential election, as both vice presidential candidates stressed the importance of increasing access to child care to make raising a family easier and give working parents more options and opportunities. But despite this increased attention—and the important efforts of state and community leaders—durable solutions to child care challenges have struggled to advance.

The root cause of this impasse has not been a shortage of ideas but rather a lack of consensus on how to answer fundamental questions: What are the most effective policies and programs to help working families with child care challenges? What responsibilities should employers assume? What role should government and taxpayers play? Disagreement over how to respond to such questions has resulted in a stuck issue—an identified problem without an obvious solution that can obtain broad-based support.

This project set out to disrupt that status quo. The Kentucky Collaborative on Child Care brings together an ideologically

diverse group of stakeholders to craft shared solutions to child care challenges with the goals of improving quality of life, creating more options and opportunities for Kentucky families, and building stronger local economies.

From August 2024 to April 2025, this 40-member stakeholder group met virtually and in person to learn from each other, study issues, identify root causes, hear from professionals, and collaborate on solutions. Members of the group included business leaders, public policy professionals, workforce and economic development experts, attorneys, child care providers, advocates, nonprofit leaders, faith community leaders, and educators. Conversations were not always comfortable, but they were productive. With a focus on the private regulated child care sector, this cross-sector of Kentuckians reached consensus on more than three dozen public policy and programmatic recommendations with specific actionable items for policymakers, business leaders, nonprofits, and philanthropy. Collectively, this work creates a foundation for sustainable, long-term child care solutions in Kentucky and underscores what can be achieved when Kentuckians from different walks of life work together to solve big problems.

Summary of Recommendations

Fix Data and Knowledge Gaps

This will help better target limited resources, allow us to prioritize areas with the most need, and quantify the return on investment.

1. Require more transparency in how the state budgets, braids, and spends public dollars on child care, including both federal and state dollars.
2. Develop, publicly display, and track more accurate measurements of actual capacity for regulated child care services.
3. Track the number of child care services over time on a statewide and regional basis.
4. Create a non-intrusive and voluntary method for tracking and denoting faith-based and employer-sponsored child care services.
5. Conduct objective third-party studies to determine the ROI of taxpayer investments in child care on an annual basis.
6. Use a more precise and meaningful measure of child care supply and demand gaps than “child care deserts.”

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Ensure A Strong Child Care Assistance Program (CCAP)

This will ensure low-income families with young children can continue participating in Kentucky's workforce and achieve economic mobility.

1. Continue to maximize the federal CCAP eligibility threshold for families.
2. Continue and improve the state's transitional exit program for CCAP to assist families facing a benefits cliff.
3. Incorporate the "cost of care" into how the state determines CCAP reimbursement rates for providers.
4. Study allowing providers to receive the maximum allowable reimbursement rate when the amount is higher than what the provider charges private-pay families.

Streamline Regulations and Licensing and Support Innovation

This will drive a collaborative and safety-focused approach to alleviating regulatory burdens for child care providers and will support innovation.

1. Implement a third-party study to improve oversight and compliance processes and ensure consistent and uniform enforcement of regulations.
2. Create safe and accountable processes for piloting innovation and testing regulatory flexibility in the child care sector.
3. Improve training for child care services to support children with special needs.

Cultivate Local Community Engagement and Problem-Solving

This will empower local communities to play a greater role in addressing child care challenges within their areas.

1. Implement a Certified Child Care Community Designation program to encourage problem-solving and regulatory streamlining at the local level.
2. Create success playbooks to model best practices for community-based solutions to child care challenges.

Reform KY All STARS to Support Quality Care

This will support higher quality child care and strengthen early childhood education opportunities throughout Kentucky.

1. Ensure a robust and transparent dialogue with all stakeholders regarding All STARS modernization.
2. Establish clear and measurable intended outcomes for each different tier of a modernized All STARS system.
3. Study ways to restructure incentives to ensure they are optimally impactful and that they are aligned with the program's intended outcomes.
4. Offer stronger and more accessible training support to providers and their staff.
5. Modernize administrative tools to ensure All STARS is an accessible and effective system.
6. Strengthen partnerships between local nonprofits and CHFS to increase awareness of All STARS among providers and parents.
7. Create more efficient processes for multi-site operators.
8. Ensure flexibility in determining the criteria for different ratings within the system and embrace the notion that quality can come in many different forms.

Strengthen and Improve the Employee Child Care Assistance Partnership (ECCAP)

This will provide support for working Kentucky families who are not eligible for child care subsidies and help address affordability challenges.

1. Outsource all aspects of ECCAP to a third party.
2. Utilize an incentive- and performance-based contract.
3. Prioritize the best possible user experiences for employers, providers, and workers participating in ECCAP.
4. Create more flexibility in how employers may leverage the program.
5. Allow public employers to utilize the program.
6. Launch an awareness campaign for ECCAP focused on benefits to employers.

Summary of Recommendations Cont.

Engage Employers to Solve Child Care Challenges and Drive Economic Development

This will create new incentives and technical assistance programming to support employer-based child care.

1. Create accountable economic development incentives for businesses to create on-site or near-site child care services for their employees and communities.
2. Create new technical assistance, consulting, and community of practice services for employers through the private and nonprofit sectors.

Solve Workforce Challenges in The Child Care Sector

This will help address challenges in the child care sector, which can improve the quality of child care services and create more access.

1. Continue utilizing state funds to allow child care workers to be categorically eligible for CCAP.
2. Continue funding the Early Childhood Development Scholarship and improve it.
3. Increase the child care workforce talent pool through the Kentucky HealthCorps model.
4. Create a Talent Pipeline Management program for the child care sector to solve industry-wide workforce challenges and encourage collaboration.
5. Create a robust and unified marketing program for all child care workforce programs focused on current and future workers.
6. Study child care worker bonus retention programs in other states and work collaboratively to identify a sustainable and agreeable funding stream.

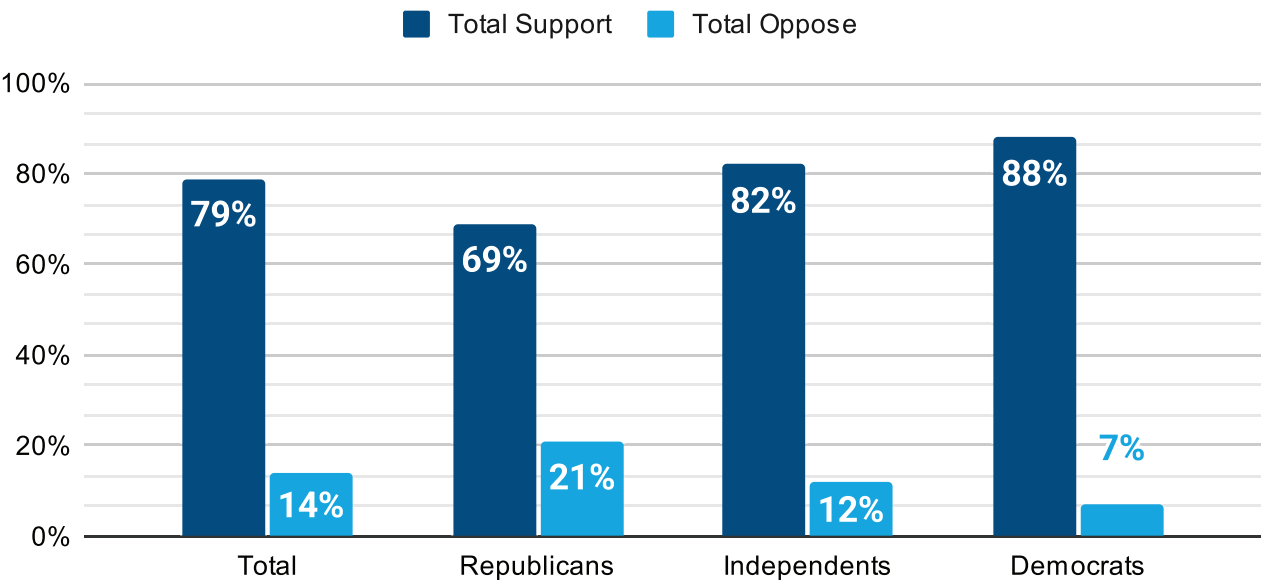
Introduction: A Need for Shared Solutions

Since the COVID-19 pandemic, child care has received heightened attention. Spurred on by the temporary closures of schools and centers during the depths of the pandemic, child care discussions have traversed kitchen tables, factory floors, boardrooms, state capitol buildings, and even Congress and the White House. But despite widespread discussions, efforts to address child care challenges have largely faltered, leaving the issue at an impasse.

Why is that?

The relevance of child care to family stability, the economy, and learning outcomes for children are generally acknowledged across the ideological spectrum. For example, then-U.S. Senator J.D. Vance and Minnesota Governor Tim Walz both prioritized child care issues in their vice-presidential debate on October 1, 2024.² Similarly, a November 2024 survey by Echelon Insights found that 79 percent of voters are supportive of federal policies aimed at providing child care benefits to families with young children.³

Would you support or oppose a federal law that in some way provides childcare benefits to families of young children?



Source: Echelon Insights, November 2024 Survey of Likely U.S. Voters

Disagreement arises when conversations shift to hard questions about how to achieve shared goals. What are the most effective ways to support working families with their child care needs? What is the proper role of government and taxpayers in addressing child care challenges? What is the proper role of employers? How does access to child care affect family formation and family decision-making?

Answers to these questions often elicit a range of conflicting responses, but even among proponents of addressing child care challenges, there is a misalignment of how to respond to a core question: What should be done?

The consequence is a stuck issue—an identified problem without an obvious solution that can obtain broad-based support.

2 "Full VP Debate Transcript: Walz vs. Vance 2024," CBS News, October 7, 2024. <https://www.cbsnews.com/news/full-vp-debate-transcript-walz-vance-2024/>
3 "American Policy Ventures: Post-Election Survey Findings," Echelon Insights, November 25, 2024. <https://echeloninsights.com/in-the-news/apv-survey/>

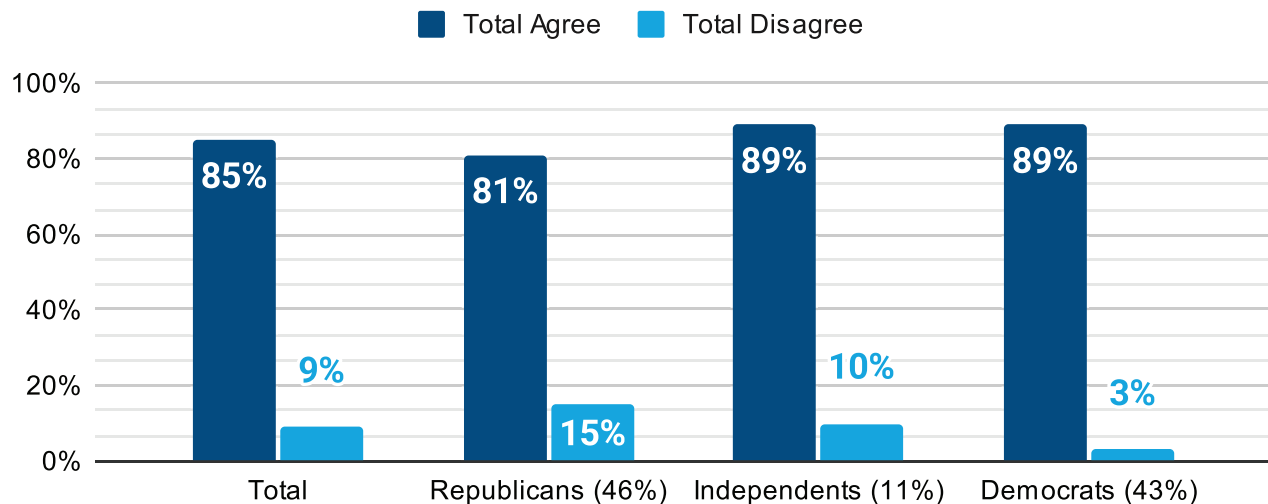
“The relevance of child care to family stability, the economy, and learning outcomes for children are generally acknowledged across the ideological spectrum. ... Disagreement arises when conversations shift to hard questions about how to achieve shared goals.”

This same dynamic has been playing out in Kentucky. Most Kentuckians recognize the issue as important. An UpOne Insights survey commissioned by the Kentucky Chamber in June 2024 found that 85 percent of Kentucky voters agreed that working families having access to affordable child care is important. Nonetheless, comprehensive efforts to ensure Kentucky families have this access have struggled to gain

traction. While policymakers, philanthropy, and individual regions have worked to help stabilize specific challenges in recent years, long-term solutions with broad-based support have yet to materialize.

Shared solutions are needed, and that's what this project has sought to achieve.

Ensuring that working families have access to affordable high-quality child care is important for Kentucky's future



Do you strongly agree, somewhat agree, somewhat disagree, or strongly disagree with the following

Source: UpOne Insights/ Kentucky Chamber, June 2024 Survey of Registered Kentucky Voters

Following the 2024 legislative session in Kentucky—which saw notable progress on child care issues in the state budget—the Kentucky Chamber Board of Directors charged the organization’s leadership with pursuing solutions to the state’s child care challenges. In response, Chamber staff set out to bring consensus to the issue by pulling together an ideologically diverse group of Kentucky stakeholders who agreed to work collaboratively to develop shared, consensus-driven solutions.

To support the discussions of this stakeholder group and equip them with professional support services, the Chamber partnered with the Convergence Center for Policy Resolution and the Lift a Life Novak Family Foundation. Convergence is a 501(c)(3) organization bridging divides to solve critical issues through collaborative problem-solving across ideological, political, and cultural lines. Since 2009, Convergence has brought together leaders, doers, and experts to build trusting relationships, identify breakthrough solutions, and form unlikely

alliances for constructive change on seemingly intractable issues. The Lift a Life Novak Family Foundation is a private family foundation funded by the Novak Family. Established in 1999, the Foundation's mission is to help those in need

achieve their full potential. The organization has a long history of supporting causes related to food insecurity, type 1 diabetes, military families, and early childhood education.



“Access to high-quality child care is critical for working families and improving learning outcomes for kids. But to build an early learning ecosystem that can truly deliver for Kentucky families and children, we need collaboration and consensus among all stakeholders on the best path forward. That’s exactly what this project has aimed to achieve.”

— Ashley Novak Butler, Executive Director,
Lift a Life Novak Family Foundation

Over the past eight months, members of the Kentucky Collaborative on Child Care met virtually and in person to identify and ideate tangible solutions to Kentucky’s child care challenges that could rise above ideological divisions and reflect broad-based consensus.

This *Foundation for Action* report describes the result of their work. Collectively, the group identified more than three dozen shared recommendations for policymakers, business leaders, nonprofits, and philanthropic organizations to consider. This report details all these recommendations and next steps, along with additional information on core issues and the process behind the Collaborative.

In reviewing this document, readers should not only think about their own role in helping bring these recommendations to life but also consider how they were developed. Prior to this project, most of the Collaborative’s stakeholders did not know each other. In many respects, their life experiences and ideological viewpoints could not be more different. But their shared solutions represent what can be achieved when we take the time to learn from each other, build trust, and commit to solving big problems together. Their collaboration will create more options and opportunities for working families and make our Commonwealth stronger in the process.



BACKGROUND: CHILD CARE AS A SHARED CONCERN

In recent years, Kentuckians have increasingly come to benefit from a higher quality of life and new economic opportunities. Poverty rates declined from 18.8 percent in 2013 to 16.4 percent in 2023.⁴ Inflation-adjusted median household incomes in the state rose 7.6 percent over the past decade.⁵ As of 2024, Kentucky had more jobs on record than at any other point in state history, with 2,044,800 recorded positions at the end of the year.⁶

Despite these advances, serious challenges remain. Two significant challenges include the fact that less than half of Kentucky kids meet state standards for kindergarten readiness, and a smaller share of our adult population

participates in the workforce than in 43 other states.⁷⁸ These dynamics are holding back Kentucky's full potential. For example, children who enter kindergarten not socially and behaviorally prepared are more likely to repeat a grade, require remedial services and interventions, and get suspended or expelled by the time they reach the fourth grade.⁹ Low rates of workforce participation, on the other hand, are understood across the ideological spectrum to slow economic growth, resulting in fewer opportunities for Kentuckians, more government dependence, and a narrower tax base.¹⁰

Helping more children and parents access child care won't singlehandedly solve these two problems. But it can help.

4 American Community Survey, 1-Year Estimates, S1701.

5 American Community Survey, 1-Year Estimates, S1901.

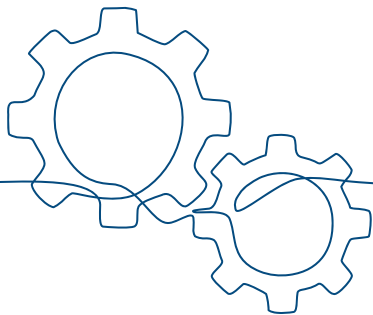
6 "Kentucky Economy at a Glance," Bureau of Labor Statistics, <https://www.bls.gov/eag/eag.ky.htm>.

7 "Kindergarten Readiness," Kids Count Data Center, <https://datacenter.aecf.org/data/tables/8015-kindergarten-readiness>.

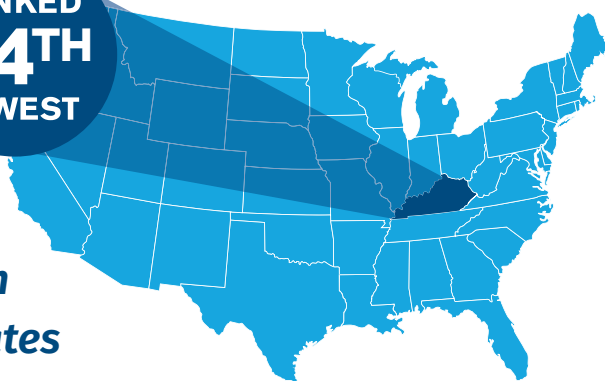
8 "Local Area Unemployment Statistics: Data for States and Local Areas," Bureau of Labor Statistics, <https://www.bls.gov/lau/ex14tables.htm>.

9 Bettencourt, A. et al., "The costly consequences of not being socially and behaviorally ready to learn by kindergarten in Baltimore City," *Journal of Urban Health*, December 2017, <https://pubmed.ncbi.nlm.nih.gov/29204846/>; Burchinal, M. and D. Lowe Vandell, "School entry skills and young adult outcomes," *Early Childhood Research Quarterly*, 2025, <https://pubmed.ncbi.nlm.nih.gov/40027937/>; and Jozsa, K. et al., "School readiness test and intelligence in preschool as predictors of middle school success: results of an eight-year longitudinal study," *Journal of Intelligence*, September 2022, <https://pubmed.ncbi.nlm.nih.gov/36135607/>.

10 Dotsey, M. et al., "Where is everybody? The shrinking labor force participation rate," Federal Reserve Bank of Philadelphia, 2017, https://www.philadelphiafed.org/-/media/frbp/assets/economy/articles/economic-insights/2017/q4/eiq4_where-is-everybody.pdf; Greszler, R., "Decline in labor force participation bad sign for U.S. economy, working Americans," *Heritage Foundation*, 2022, <https://www.heritage.org/press/heritage-expert-decline-labor-force-participation-bad-sign-us-economy-working-americans>; Aaronson, S. et al., "Labor force participation: recent developments and future prospects," *Brookings Institution*, 2014, <https://www.brookings.edu/articles/labor-force-participation-recent-developments-and-future-prospects/>.

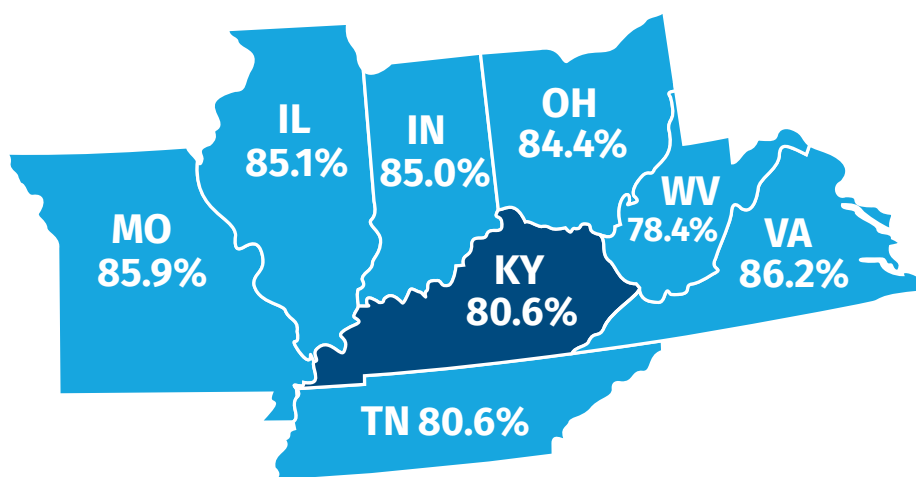


RANKED
44TH
LOWEST



Kentucky's rate of workforce participation continues to trail the nation and other states

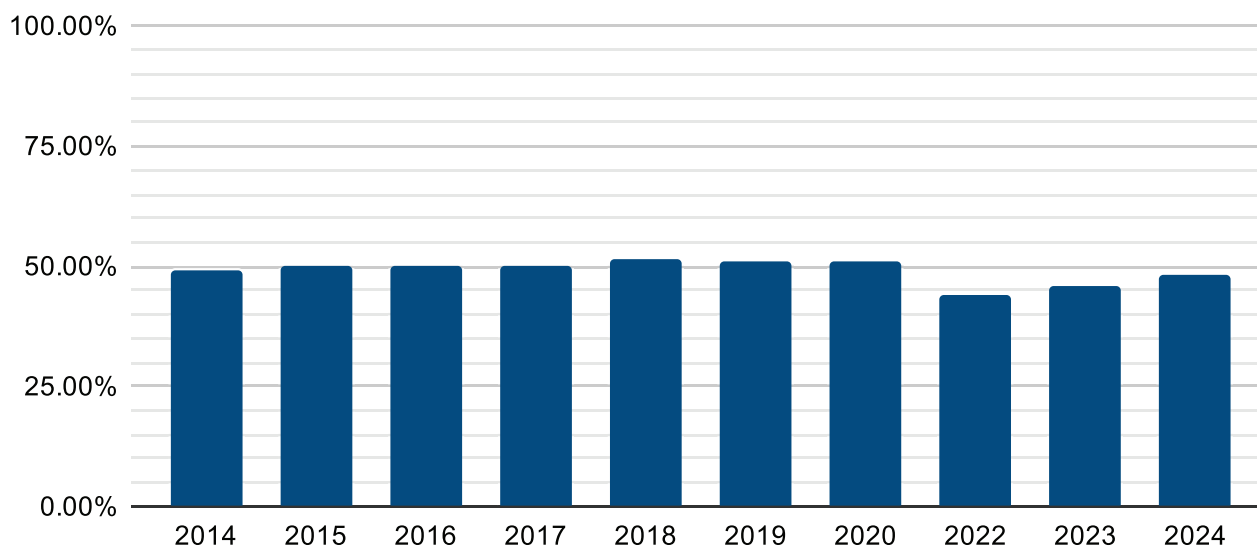
Workforce Participation Rates Among 25-54 Year-old Adults, 2024 Preliminary Estimates



Kentucky	80.6%
<i>(44th lowest in the nation)</i>	
Missouri	85.9%
Indiana	85.0%
Tennessee	80.6%
Ohio	84.4%
West Virginia	78.4%
Illinois	85.1%
Virginia	86.2%

Source: U.S. Bureau of Labor Statistics

Share of Incoming Kentucky Kindergartners Meeting Readiness Standards, 2014-2024



Source: Kentucky Department of Education/Kids Count Data Center

“Helping more children and parents access child care won’t singlehandedly solve these two problems. But it can help.”

Consider Kentucky’s challenges with kindergarten readiness.¹¹ A study from 2016 examined the effects of access to early education opportunities on more than 4,000 children from low-income families. It found that low-income children who attended private child care services had higher math, reading, and language skills at age five than low-income children without access to these services.¹² Another study from 2016 leveraging nationally representative data compiled by the National Center for Education Statistics reconfirmed a decade of previous research showing that children with access to formal child care arrangements scored higher on reading assessments at kindergarten entry than children who received informal care.¹³ A literature review that assessed research from 1995 to 2011 identified “exposure to high-quality child care” as one of seven factors empirically associated with predicting school readiness alongside other factors such as family structure, home environment, and socioeconomic status.¹⁴

Looking further beyond just kindergarten readiness, a 2016 study led by a Nobel laureate economist from the University of Chicago demonstrated that children’s access to high-quality early learning opportunities leads to higher wages as adults, higher rates of employment, more education, less drug use, and fewer run-ins with the justice system. The study tracked groups of low-income children from birth to age 35, some of whom had access to high-quality early childhood education and some of whom did not (the study’s “control group”). Boys with access to high-quality early childhood education, the study found, earned nearly \$20,000 more than boys in the

control group by the age of 30 and had more education. Girls with access to high-quality early childhood education earned \$2,500 more per year than girls in the control group and averaged two more additional years of education. The study estimated a total economic return of \$7.30 for every dollar spent on these early learning programs.¹⁵

When it comes to workforce participation, a December 2019 report from the White House Council of Economic Advisers under the first Trump Administration estimated that there were 3.8 million nondisabled, working-age adults, who “might need to have child care to be able to enter the workforce or increase their work hours.” The report also identified 6.6 million parents of young children working part-time who might increase their hours with improved access to child care services.¹⁶ A 2017 study published in the Review of Economics of the Household found that modestly increasing access to affordable child care could increase the employment of mothers by as much as 11 percent, with the strongest effects on non-working single mothers.¹⁷ A national survey in 2022 by Morning Consult and the Bipartisan Policy Center found that child care responsibilities were a factor in deciding to leave the labor force for one in three surveyed parents with young children.¹⁸

Again, increasing access to child care alone won’t solve all the problems Kentucky families and our economy are facing. But if it can help, then why not explore ways to do it?

11 In addition to the studies referenced herein, see Phillips, D. et al., “Puzzling it out: The current state of scientific knowledge on pre-kindergarten effects – a consensus statement,” Brookings, 2017, https://www.brookings.edu/wp-content/uploads/2017/04/consensus-statement_final.pdf for an overview of research on this topic up to 2017.

12 Coley, R.L., et al. “Comparing public, private, and informal preschool programs in a national sample of low-income children,” Early Childhood Research Quarterly, 2016, <https://www.sciencedirect.com/science/article/abs/pii/S0885200615300156>.

13 Bassok, D. et al., “Within- and between-sector quality differences in early childhood education and care,” Child Development, 2016 <https://pubmed.ncbi.nlm.nih.gov/27246392/> and <https://cepa.stanford.edu/sites/default/files/Sector%20Quality.pdf>

14 Linder, S. et al., “Predictors of school readiness in literacy and mathematics: a selective review of the literature,” Early Childhood Research and Practice, 2013, <https://ecrp.illinois.edu/v15n1/linder.html>.

15 Garcia, J.L., et al. “Quantifying the life-cycle benefits of an influential early childhood program,” Center for the Economics of Human Development, University of Chicago, 2016, https://cehd.uchicago.edu/?page_id=276#abccba

16 “The role of affordable child care in promoting work outside the home,” White House Council of Economic Advisers, 2019, <https://trumpwhitehouse.archives.gov/wp-content/uploads/2019/12/The-Role-of-Affordable-Child-Care-in-Promoting-Work-Outside-the-Home-1.pdf>

17 Morrissey, T., “Child care and parent labor force participation: a review of the research literature,” Review of Household Economics, 2017, <https://link.springer.com/article/10.1007/s11150-016-9331-3>.

18 Smith, L. et al., “When child care burdens harm business, who picks up the pieces,” Bipartisan Policy Center, 2023, <https://bipartisanpolicy.org/blog/child-care-burdens-impact-business/>



DEFINING THE PROBLEM

Problem-solving should start with taking a sober and objective look at the problem.

The Collaborative's members identified private regulated child care services as the focal point of their work. These services are widespread across the state and are offered by roughly 2,000 local small businesses, nonprofits, and faith-based organizations that serve children between the ages of zero and five while their parents are at work or in school. Many also provide after-school programs and serve children with special needs who are older than five.

The Collaborative acknowledged that families' preferences for child care arrangements are complex. Some prefer private regulated services while others prefer public options or informal nonregulated services. Some parents might not

want child care services at all and prefer to be stay-at-home parents.¹⁹ The Collaborative agreed that all families should have the right to make their own choices.

However, choice is only possible if there are options in the first place. If Kentucky can help cultivate a sustainable private child care sector that meets the needs of children and parents, then families will have more options, making choice a reality for them.

As the Collaborative's members learned, we know less about Kentucky's private child care sector than we would wish. But available data shows a struggling sector, characterized by slim or negative margins, low wages, high costs for parents, and unclear levels of quality.

“The Collaborative agreed that all families should have the right to make their own choices. However, choice is only possible if there are options in the first place.”

19 For examples, see “Early Childhood Survey Resource Center,” Bipartisan Policy Center <https://bipartisanpolicy.org/survey-resource-center/> and Brown, P. “Building blocks for childcare reform,” American Compass, 2024 <https://americancompass.org/building-blocks-for-childcare-reform/>

- **Fewer providers than a decade ago.** The number of private regulated child care providers in Kentucky has declined from 3,700 facilities in 2012 to 2,008 at the end of 2024. Since 2021, the number of private regulated child care providers has hovered consistently around 2,000. The number of informal, non-regulated child care services is not knowable.²⁰
- **Difficult business model.** Based on surveys of Kentucky child care providers and cost modeling by the University of Kentucky, expenses tend to surpass revenues for smaller providers by a ratio of negative 12 percent on average (net revenue measured as a percentage of total revenue). Larger providers tend to see revenues surpass expenses by a ratio of 2 percent on average. These margins are tied to low wages. If the sector paid wages closer to other industries, margins would be negative for both small and large providers by a ratio ranging from negative 5 percent to negative 39 percent.²¹
- **Low-wage sector.** As of May 2023, the child care workforce in Kentucky was estimated at 11,360 workers. Median hourly wages for these workers were estimated at \$13.36. For comparison, median hourly wages for all occupations in Kentucky in May 2023 were estimated at \$21.02. As discussed later in the recommendations section, the sector also has higher worker turnover rates than other sectors.²²
- **High costs for parents.** Despite low wages and often slim or negative margins, costs for child care to parents represent a significant share of family incomes. According to the U.S. Department of Labor, median prices for one child in care can range from 7.5 percent of median family income to more than 18 percent in Kentucky, with actual median prices ranging from \$5,500 to more than \$10,000 per year.²³
- **Unclear levels of quality.** Kentucky uses a system called All STARS to track and encourage quality care among private regulated child care providers. Providers can obtain quality ratings from one star to five stars. As of late 2024, 66 percent of providers had less than three stars—with 59 percent at one star—while 33 percent were three stars or higher. Members of the Collaborative raised numerous questions regarding the relevance and meanings of these ratings, calling into question our general knowledge of quality in the state’s private child care sector.²⁴

The Collaborative acknowledged that numerous steps have been taken in recent years to help address these challenges. Policy changes at the state level, for example, have led to new programs aimed at alleviating workforce challenges in the sector, incentives to encourage employers to assist

employees with child care costs, and measures to improve the child care business model. Despite these interventions, members of the Collaborative agreed that broader, fundamental improvements are needed to ensure a more sustainable and functional private child care sector.

20 Data from the Kentucky Cabinet for Health and Family Services.

21 Rojas, J. and B. Davis, “2024 Kentucky Cost Model for Licensed Centers,” Child Care Aware of Kentucky, Human Development Institute, University of Kentucky, <https://www.childcareawareky.org/wp-content/uploads/2024/07/Cost-of-Care-in-Kentucky-Part-2-Cost-Model-2024.pdf>

22 “May 2023 State Occupational Employment and Wage Estimates, Kentucky,” Bureau of Labor Statistics, https://www.bls.gov/oes/current/oes_ky.htm

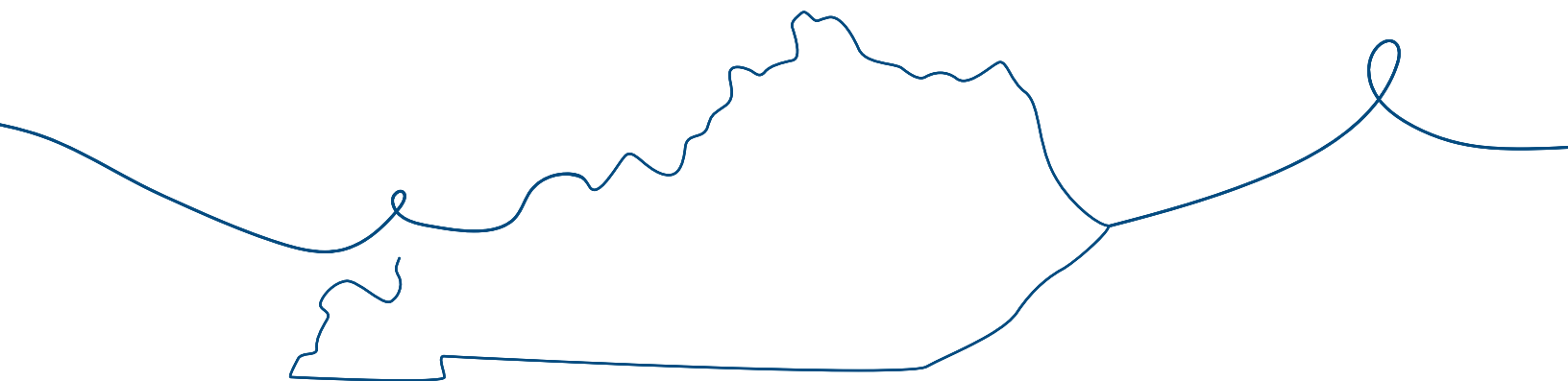
23 “Childcare prices as a share of median family income by age of children and care setting 2022,” Women’s Bureau, U.S. Department of Labor, <https://www.dol.gov/agencies/wb/topics/childcare/median-family-income-by-age-care-setting-2022>

24 “Block Grant Status Report: July 1, 2024 – December 31, 2024,” Cabinet for Health and Family Services, <https://apps.legislature.ky.gov/CommitteeDocuments/362/34869/CCDF%20Status%20Report%20July-Dec%202024%20-%20Final.pdf>.



OUR VISION

"The Collaborative envisions a Kentucky where child care is an accessible and sustainable resource that supports a higher quality of life, more opportunities, and stronger local economies across the state. We believe that a range of options for families to choose the proper setting for child care will fuel economic growth, increase workforce participation, improve educational outcomes, and foster family and community flourishing."



In contrast to the status quo outlined so far, the Collaborative worked together to establish a vision for Kentucky and the private child care sector founded on the following principles:

- **Kindergarten Readiness.** In both urban and rural areas, Kentucky children enter Kindergarten well-prepared and are set up for success later in life.
- **Parental Choice.** Parents are empowered to pursue fulfilling careers, educational goals, and life choices with the help and support of their trusted and preferred local child care provider.
- **Flexibility.** While not every family will need access to child care or choose to use it, families have available to them flexible choices that fit their unique circumstances, match their values, and offer safe, nurturing, and developmentally appropriate learning environments.
- **Valued Workforce.** Working directly with children and families are skilled child care professionals who are valued contributors to Kentucky's broader educational ecosystem and economy.
- **Shared Goal.** The public sector, private employers, philanthropy, nonprofits, and civic organizations all share the goal of a sustainable child care sector that can provide a range of options for families to choose the proper setting to meet their needs.
- **Accountability.** All stakeholders are committed to ensuring an accountable child care ecosystem in which appropriate standards are met and enforced, and outcomes and ROI are transparently measured and quantified.
- **Local Community Engagement.** In recognition of the Commonwealth's diverse regions, individual communities are empowered to make critical decisions and implement solutions with support and buy-in from local organizations, employers, non-profits, and philanthropy.

The Collaborative envisions a Kentucky where child care is an accessible and sustainable resource that supports a higher quality of life, more opportunities, and stronger local economies across the state. We believe that a range of

options for families to choose the proper setting for child care will fuel economic growth, increase workforce participation, improve educational outcomes, and foster family and community flourishing.



OUR PROCESS



"I came into this process primarily focused on the employer side and wasn't expecting to have a group with such broad experience. But this is not just a workforce issue: it's a family issue, it's an education issue, and it's an economic development issue. Being part of this process has helped me realize that we're here to support working families and try to find lasting solutions that work for everyone."

— Kenneth Calloway, Senior Vice President, Human Resources,
Century Aluminum

So how do we get from Point A to Point B? The process behind the Kentucky Collaborative on Child Care formally began in August 2024 with one-on-one interviews conducted by the Convergence team. Through these interviews, stakeholders identified a range of agreed-upon challenges and opportunities. Some of the key challenges included the difficulties of balancing quality care with affordability for parents, determining the proper roles of government and employers, establishing an appropriate regulatory environment for child care providers, and assessing where to target

interventions. Key opportunities included professionalizing the child care workforce, identifying quality standards, ensuring accountability, building partnerships across local communities, nonprofits, and businesses, supporting sustainability and innovation, and prioritizing health and safety. Convergence staff compiled the results of these interviews into a preliminary "Discovery and Design" report that helped shape the group's initial conversations.²⁵



"In our work, this group emphasized choice; and that in order for there to be actual choice, there have to be options. Our discussions and final recommendations acknowledge the spectrum of belief about child care, what's needed, and what's not needed."

*— Lawrence Smith, Communications Director,
Kentucky Baptist Convention*

In October, the Collaborative met in person for a two-day retreat at the Chamber's offices in Frankfort. Stakeholders had opportunities to learn about each other's backgrounds and

perspectives and set the stage for their work. At this retreat, they divided their work into four key topics:

- 1. Sustainable Business Models and Existing Programs**
- 2. The Child Care Workforce**
- 3. The Role of Employers**
- 4. Framing and Definitions**

²⁵ This report can be reviewed on the Convergence website: <https://convergencepolicy.org/our-work/economic-opportunity/ky-collaborative-childcare/>



"The collaborative process utilized to learn from one another, understand the concerns from all viewpoints, and identify solutions led to a far better path forward than any of us could have promoted on our own."

— Cathe Dykstra, President and CEO,
Family Scholar House

Between September and January, small groups focused on key topics, and the full group met multiple times virtually, hearing from a range of experts and professionals and exploring possible solutions to identified problems. In late January 2025, the group reconvened in person for a second

two-day retreat at the Chamber to dive deeper into proposed solutions and shared recommendations. A series of virtual meetings with the full groups and small groups occurred in February and March.





"It has been encouraging to see such a wide range of perspectives come together to develop a shared strategy for addressing childcare challenges across the Commonwealth. As both a working parent and an economic development professional, I witness daily how limited access to quality childcare impacts workforce participation, business growth, and overall economic stability. The thoughtful dialogue and broad expertise within this group give me confidence that our final recommendations will support stronger families, a more resilient workforce, and long-term economic development for Kentucky."

***— Amanda Davenport, Executive Director,
Eddyville Riverport and Industrial Development Authority***

Conversations among Collaborative members were not always comfortable, but the dialogue was always respectful. The group established clear ground rules for discussion at the start of the process, including commitments to listening to other points of view, giving others the benefit of the doubt, and allowing each other to speak "in first draft." In addition,

when stakeholders objected to an idea, they committed to offering up an alternative. While the process was not easy, participants highly valued the opportunity to work through their differences in a constructive manner, building a deeper understanding of the issue and more collaborative working relationships with each other along the way.



"Bringing together this broad-based group of stakeholders - child care providers, policy experts, child welfare practitioners, employers, and community leaders from every corner of the state - made this process stronger from the start. The wide range of perspectives, from rural communities and urban centers, helped us craft solutions that can address the unique needs of Kentucky families."

***— Liz McQuillen, Chief Policy Officer,
Metro United Way***



WHAT CONSENSUS MEANS

The result of this process was a set of durable and higher-ground solutions that go beyond splitting the difference to make a difference. The solutions achieved broad-based consensus amongst the group. For the purposes of this project, consensus means all participants agree that this set of solutions is the best path forward at this time. On any one solution, group members' perspectives range from neutral

to enthusiastically supportive. Throughout the report and in the spirit of transparency, we describe the contours of the debates that led to recommendations when appropriate and relevant. None of the recommendations in this document were opposed by any stakeholders in the Collaborative.

OUR COLLABORATIVE

The Kentucky Collaborative on Child Care included a professionally, ideologically, and geographically diverse group of Kentuckians. While a group of this nature could

have included hundreds, the project's staff were intentional in ensuring a range of viewpoints and perspectives.



“The Collaborative gave me a strong voice as a child care owner, empowering me to help shape the future of our industry. Their skillful facilitation ensured that our ideas were heard and turned into actionable solutions, driving meaningful improvements for children and families across Kentucky.”

— Gus LaFontaine, Co-Founder,
LaFontaine Preparatory School, LaFontaine Early Learning Center,
and The Nature Schools



The following individuals generously gave their time and energy to the Collaborative. This report is reflective of their views and not necessarily the views of their respective organizations.

Seth Cutter, CVG Airport

Kenneth Calloway, Century Aluminum

Susan Brewer, Gray Construction

Beth Morton, Baptist Health

Jean Scott, PNC

Todd Griffin, Kentucky Retail Federation

Marli Baumann, Baumann Paper

Candance Castlen Brake, Greater Owensboro Chamber of Commerce

Kate Shanks, Kentucky Chamber of Commerce

LaKisha Miller, Kentucky Chamber Foundation

Candra Bryant, KY SHRM

Rachael Chamberlain, Frost Brown Todd

Daniel London, Lincoln Trail Area Development District

Ashley Novak Butler, Lift a Life Novak Family Foundation

Alison Davis, University of Kentucky

Amanda Davenport, Kentucky Association for Economic Development

Jennifer Washburn, iKids Childhood Enrichment Center

Gus LaFontaine, LaFontaine Preparatory School

Kristin LaFontaine, LaFontaine Preparatory School

Mandy Marler, Community Coordinated Child Care & Child Care Council of Kentucky

Sarah Vanover, Kentucky Youth Advocates

Liz McQuillen, Metro United Way

Rina Gratz, Prichard Committee for Academic Excellence

Emily Beauregard, Kentucky Voices for Health

Mike Hammons, Learning Grove

Leslie Sizemore, KY Council on Postsecondary Education

Dustin Howard, Clark County Public Schools

Andrew McNeil, KY FREE

Sarah Durand, KY FREE

Jonathan Adler, Wonderschool

Kristin Collins, Foundation for Appalachian Kentucky

Cathe Dykstra, Family Scholar House

Colby Hall, Shaping our Appalachian Region (SOAR)

Will Warren, Shaping our Appalachian Region (SOAR)

Scott Porter, KY Catholic Conference

Chris Prichard, Prevent Child Abuse Kentucky

Theresa Zawacki, Russell Place of Promise

Julie Hager Love, Kentucky United Methodist Children's Homes

Lawrence Smith, Kentucky Baptist Convention

Adam Meier, Cicero Institute



OUR SHARED SOLUTIONS

These recommendations do not cover every aspect of child care in Kentucky. For example, the group focused almost entirely on the private regulated child care sector and generated no direct recommendations related to public preschool services. Similarly, the group acknowledges that some will view these recommendations as too little, while others will view them as too much. This project did not set out to solve every challenge facing children and families

in Kentucky—nor did it set out to satisfy any particular constituency or align with a particular point of view. Instead, the Collaborative had the goal of building a set of durable and higher-ground solutions that will address real challenges, have the potential to receive broad-based support, and set the stage for a stronger child care sector in the future. To that end, the project was a success, and the Collaborative’s members are universally proud of what was achieved.





"I'm extremely confident in the recommendations to move the Commonwealth forward and help all Kentuckians in these areas. When Kentuckians have affordable high quality child care choices, our economy and employers win by growing the next generation of a viable workforce while unleashing our current workforce that will continue our upward growth as a Commonwealth."

*— Dustin Howard, Superintendent,
Clark County Public Schools*

| Our solutions are organized into the eight key areas below:

- **Data and Knowledge Gaps**
- **The Child Care Assistance Program**
- **Regulations, Licensing, and Innovation**
- **Local Community Engagement**
- **The KY All STARS Program**
- **The Employee Child Care Assistance Partnership**
- **Employer Engagement and Economic Development**
- **The Child Care Workforce**

Within each area, we describe relevant context and background information. We also highlight key actors to denote the entities we believe will be most involved in implementing and executing recommendations.



DATA & KNOWLEDGE GAPS

1

Key Actors:

Cabinet for Health and Family Services,
Education and Labor Cabinet, Kentucky
General Assembly, Post-secondary Institutions,
Nonprofits, and Philanthropy

Throughout the Collaborative's conversations, several questions and concerns were raised regarding data availability and core information about child care in Kentucky. How many actual child care slots do we have in Kentucky?²⁶ How do we determine how many we need and where? How many faith-based providers are there? How, specifically, are current state and federal dollars being used to support child care in Kentucky, and what is the known ROI for taxpayers?

Questions like these are important, and their answers can help inform public policy decisions and programming in the future. Unfortunately, they are harder to answer than they should be.

The Collaborative recommends prioritizing steps to close knowledge gaps related to child care in Kentucky. This should include establishing informed data-gathering practices on the front end, connecting programs to intended and trackable outcomes, and ensuring data is easily accessible to researchers and the general public. If determined necessary, the Collaborative agrees that appropriating additional public funds to support these efforts may be appropriate, though we think nonprofits, philanthropy, and the private sector should be leveraged to help establish proof of concepts. As an example, the Kentucky Chamber, Metro United Way, and the Buffet Early Childhood Institute created a partnership to study child care supply and demand gaps to demonstrate a new methodology that could be scaled with state partners. This is described in more detail below. The Collaborative would like to see more initiatives like this one but also future partnerships between government, the private sector, and the nonprofit sector to ensure public policy and programming are grounded in foundational data and research.

²⁶ This refers to real capacity as opposed to licensed total capacity.

Recommendations to improve our child care data and knowledge base include the following:

- **Require more transparency in how the state budgets, braids, and spends public dollars on child care, including both federal and state dollars.** Like most states, child care in Kentucky is funded through a myriad of resources, including the federal Child Care and Development Block Grant and Child Care Entitlement to States (collectively called the Child Care and Development Fund, or CCDF), the federal Temporary Assistance for Needy Families program, state General Fund dollars, Tobacco Settlement dollars, and more. In addition, these dollars flow through different programs and state agencies. It is not always easy for researchers, the general public, and policymakers to understand what funds taxpayer dollars are coming from and where they are going. We would like to see centralized and publicly available reporting to help stakeholders fully understand how taxpayer dollars are being spent on child care in Kentucky.

- **Develop, publicly display, and track more accurate measurements of actual capacity for regulated child care services.** Information is publicly available regarding the “total licensed capacity” of licensed and certified child care services in Kentucky. However, this number reflects the square footage-based capacity of child care providers—not real capacity. Because providers operate at numbers below licensed capacity—often far below—this number exaggerates real child care capacity in Kentucky. This has the effect of showing us that we have more child care than we actually do. We encourage the state to continue making efforts to track and display more accurate measurements of licensed child care capacity, such as current maximum enrollment, so that parents, policymakers, and researchers can better understand child care supply in the state.

- **Track the number of child care services over time on both a statewide and regional basis.** Current public-facing systems only allow for snapshots of the number of licensed child care services in the state. This makes it difficult for researchers and the general public to track the availability of child care services over time. We would like to see a system where changes in the availability of services can be more easily tracked over time on both a statewide and regional level.

- **Create a non-intrusive and non-burdensome method for tracking and denoting faith-based and employer-sponsored child care services for parents and communities to be aware of.** Stakeholders were interested

in learning more about the availability of faith-based and employer-sponsored child care services in the state. Several stakeholders felt parents and communities would benefit from understanding the availability of these types of services in their areas. To help with this, we recommend creating processes to indicate these services in public-facing systems such as the database mentioned above. These classifications should be fully voluntary for these providers.

- **Conduct objective third-party studies to determine the ROI of taxpayer investments in child care on an annual basis.** Questions related to ROI were frequent from members of the Collaborative. While generalized research was often used to estimate ROI for child care investments, we would like to see original research illustrate the specific returns to Kentucky taxpayers for programs such as CCAP, All STARS, and others. This research would, ideally, highlight economic, educational, and socio-economic returns. We believe this is an ideal area for philanthropy to intervene with funding resources, but we stress the importance of close partnerships with state agencies and ensuring that research is objective and rigorous. Many studies of the ROI of child care and early childhood education have been conducted in the past at the national level and for individual states, demonstrating a range \$4 to \$12 in return for every \$1 invested. The Center for High Impact Philanthropy at the University of Pennsylvania has produced guidance on how to decipher and conduct cost-benefit analyses of early childhood investments.²⁷

- **Use a more precise and meaningful measure of child care supply and demand gaps than “child care deserts.”** The Collaborative held several discussions on the concept of child care deserts, a supply and demand measure used by stakeholders and featured in some state and federal public policy structures. The Collaborative found the metric to have several shortcomings and lacked a strong basis in objective analysis. Based on the concepts below, we recommended replacing it with a more precise measure of child care supply and demand gaps.

- The Collaborative agreed that developing an accurate supply and demand gap model should be foundational to future public policy and programming decisions. It will help us identify how much child care is needed throughout the state and where need is the greatest. In addition, it will help avoid the oversaturation of services.

27 “High return on investment (ROI),” The Center for High Impact Philanthropy, University of Pennsylvania, accessed March 23, 2025 <https://www.impact.upenn.edu/early-childhood-toolkit/why-invest/what-is-the-return-on-investment/>

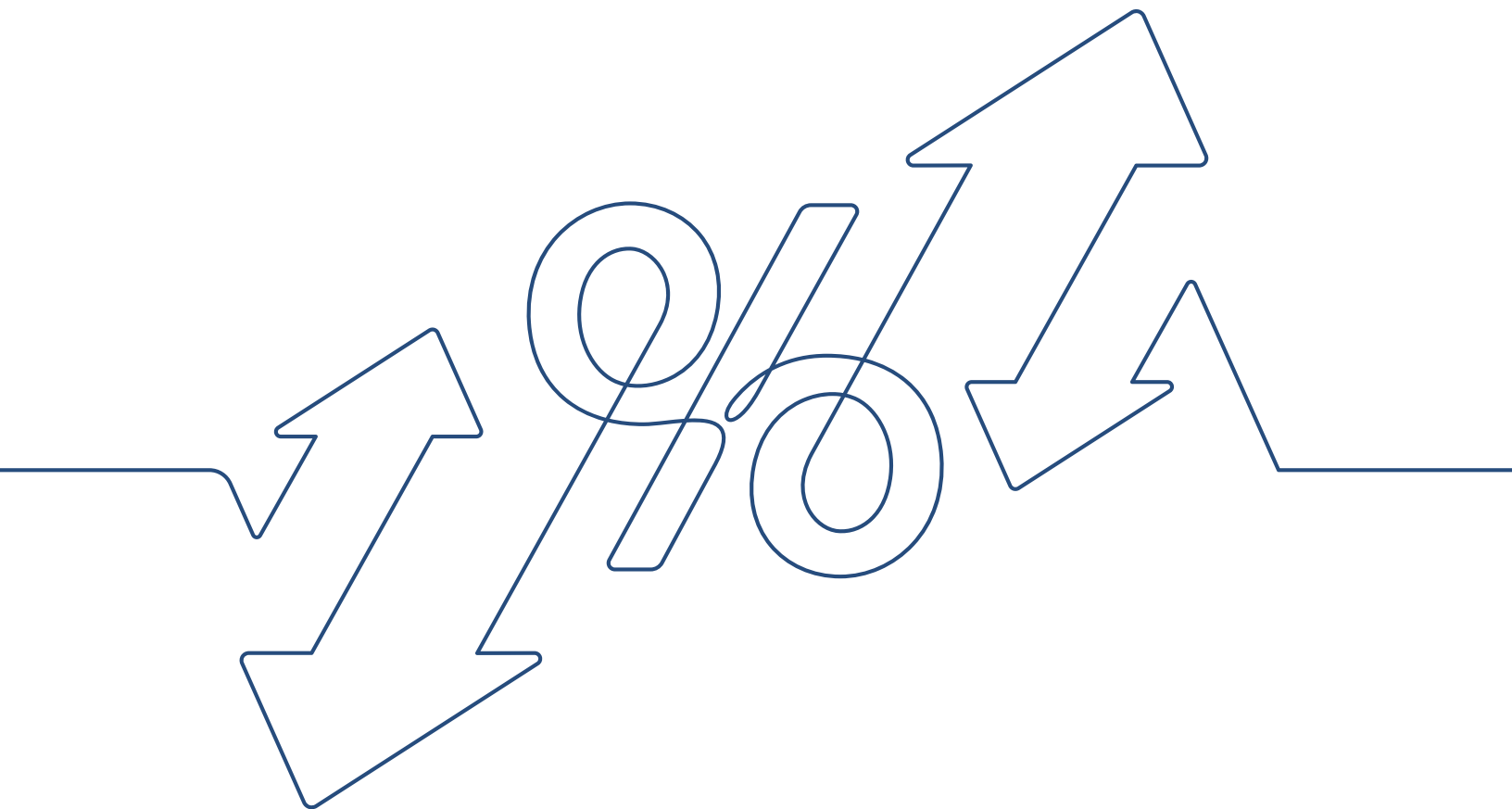
- To assess child care supply, we should aim to capture with as much precision as possible the actual capacity of regulated child care providers in the state. Current listings of child care capacity reflect potential licensed capacity and the maximum number of children that a center or home could have at one time. Child care providers, however, operate at levels far below their potential capacity due to staffing challenges, safety and health concerns, and quality goals. As noted above, the state needs to implement processes to better track and display actual child care capacity in regulated services. Once implemented, this data could serve as the foundation for estimating supply in regulated child care services in the state. In the meantime, one way to gauge actual capacity is to consider leveraging attendance data gathered during monitoring and inspection visits by state regulators. This data could be used to create estimates for actual capacity in regulated child care settings and could be aggregated at the county, regional, and statewide levels.

- To assess child care demand, we recommend starting with a methodology used by states like Montana and organizations like the Bipartisan Policy Center.²⁸ This methodology uses “children under the age of 6 living in a household with all available parents in the workforce” as a proxy for child care demand. This is a narrower demand metric than child

care deserts, which uses “all children under the age of 5,” and emphasizes the importance of parental choice. This metric could be made more precise by modeling how many working parents might prefer informal care over regulated care and also considering children whose parents might join the workforce if more child care was available in their area. Considerations should also be given to factors such as commuter patterns and the proximity of child care to residential areas and areas of employment.

- Using these metrics, the state should conduct a child care supply and demand gap analysis on a county-by-county and/or regional basis at least annually to assess the needs of the state and individual communities. We also recommend displaying this information objectively and avoiding subjective terminology such as “child care deserts.”

- In early 2025, staff at the Kentucky Chamber, Metro United Way, and Buffett Early Childhood Institute began working together to create an example of how Kentucky might design a new child care supply and demand analysis. These partners will release their findings later in 2025 but stress that developing an accurate supply and gap analysis should be an iterative process and improved through additional stakeholder feedback and scrutiny.



28 See Watson, A. et al., “Child care deserts: An analysis of child care supply and demand gaps in Montana,” Montana Department of Labor and Industry, January 2024, https://lmi.mt.gov/_docs/Publications/LMI-Pubs/Special-Reports-and-Studies/ChildCareDesertsWhitePaper-FINAL.pdf; “Watson, A., “Childcare in Montana: Exploring the causes and impacts of a lack of childcare on the Montana economy,” Montana Department of Labor and Industry, March 2024, https://lmi.mt.gov/_docs/Publications/EAG-Articles/EAG-0324_Final.pdf; “Child care gaps assessment,” Bipartisan Policy Center, 2019, <https://childcaregap.org/>



THE CHILD CARE ASSISTANCE PROGRAM

2

Key Actors:

Cabinet for Health and Family Services, Kentucky
General Assembly, Nonprofits, Providers

The Child Care Assistance Program, or CCAP, is Kentucky's child care subsidy program for low-income working families. The program is mostly funded by the federal Child Care and Development Fund, or CCDF, though Kentucky supplements its program with state General Fund dollars.²⁹ CCAP subsidizes the cost of child care for working families with incomes at or below 85 percent of State Median Income. For context, this would include a family of three making up to \$69,500 per year. Program recipients can use these subsidies to select the child care provider of their choice, but the provider must be licensed with the state and agree to accept subsidy payments. Eligible families must have working parents with a need for child care or be enrolled in school or

work training programs.³⁰ CCAP is also used to subsidize care for children in prevention or protection services and children of teen parents. The Collaborative agreed that ensuring a strong CCAP program was important for supporting employment, strengthening family stability, and increasing workforce participation among low-income Kentucky families.³¹

Between July 2024 and December 2024, an average of 39,590 children benefited from CCAP programming each month.³² Approximately 77 percent of regulated private child care providers serve CCAP families in Kentucky.³³ Providers are reimbursed for serving these families at the 80th percentile of the market rate based on a study of child care tuition costs across the state by Child Care Aware of Kentucky and the University of Kentucky.³⁴ In some instances, if the provider's tuition is higher than the reimbursement rate, the family may owe overage (the difference between tuition and the reimbursed amount).

29 For a detailed analysis of CCDBG, see "The Child Care and Development Block Grant: In Brief," Congressional Research Service, December 2024. <https://crsreports.congress.gov/product/pdf/R/R47312> CCDF also funds other child care services that are ancillary to CCAP. CCDF funds for Kentucky in Fiscal Year 2025 included \$114 million. See <https://apps.legislature.ky.gov/CommitteeDocuments/362/34869/CCDF%20Status%20Report%20July-Dec%202024%20-%20Final.pdf>

30 For additional details of CCAP requirements, see here: <https://www.chfs.ky.gov/agencies/dccbs/dcc/Pages/ccap.aspx>

The Collaborative developed the following recommendations regarding CCAP:

- **Continue to maximize the state's CCAP income eligibility threshold for families, as allowed under federal law.**

Kentucky currently sets its initial household income eligibility and renewal threshold for CCAP at 85 percent of SMI. We recommend that Kentucky maintain this threshold, even if it requires continued utilization of state General Funds. Since 2016, the Kentucky General Assembly has appropriated \$10.6 million in each fiscal year to supplement federal funding for CCAP eligibility.³⁵ If federal law changes to allow for a higher maximum income threshold, we recommend that Kentucky, after studying the potential labor market effects and return on investment, pursue that higher threshold to the greatest extent possible.

- **Continue and improve the state's transitional exit program for CCAP to assist families facing a benefits cliff.**

When a family receiving CCAP subsidies experiences an increase in household income that disqualifies them from CCAP eligibility when they go to reapply, they face a "benefits cliff." In many instances, this can result in a net loss of income and discourage economic mobility for impacted families.³⁶ Since 2022, the state has been operating a transitional exit program for CCAP where such families can continue receiving 50 percent of their subsidy amount for up to six months after they lose program eligibility as a result of rising incomes. In 2024, the state budgeted \$1.5 million per year to support the program.³⁷ From July 1, 2024, to December 31, 2024,

1,067 children—representing 696 families—benefited from this program.³⁸ We recommend continuing the program and pairing it with objective analysis to ensure it is helping families overcome benefits cliff challenges. In addition, if warranted based on data and if funding is available, we suggest adding an additional six months in which families could receive 25 percent of their subsidy amount or by implementing a comparable step-down process.

- **Incorporate the "cost of care" into how the state determines CCAP reimbursement rates for providers.**

Child care providers serving CCAP families and children are reimbursed for their services by the Cabinet for Health and Family Services. To set reimbursement rates, the Cabinet uses a study required by federal rules called the "Market Rate Study."³⁹ This study examines child care tuition rates across the state to help the Cabinet understand market rates for child care. Under state policy, the Cabinet reimburses providers at the 80th percentile of the market rate for their services to CCAP families and children. This reimbursement rate aligns with federal standards. In 2024, the General Assembly appropriated \$21 million in Fiscal Year 2025 and \$28 million in Fiscal Year 2026 to ensure providers are reimbursed at this level.⁴⁰

31 For examples of research analyzing the connection between state-federal child care subsidies and employment and workforce participation, see Davis, E. et al., "Do child care subsidies increase employment among low-income parents," *Journal of Family and Economic Issues*, August 2018 <https://link.springer.com/article/10.1007/s10834-018-9582-7>; Enacheutegui, M. et al., "Effects of CCDF subsidy program on the employment outcomes of low income mothers," U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, December 2016 https://aspe.hhs.gov/sites/default/files/migrated_legacy_files//171046/EffectsCCSubsidiesMaternalLFPTechnical.pdf; and Burgess, K. et al., "The effects of child care subsidies on maternal labor force participation in the United States," U.S. Department of Health and Human Services, December 2016 https://aspe.hhs.gov/sites/default/files/migrated_legacy_files//171051/EffectsCCSubsidiesMaternalLFPBrief.pdf;

32 "Block Grant Status Report: July 1, 2024 – December 31, 2024," Cabinet for Health and Family Services, <https://apps.legislature.ky.gov/CommitteeDocuments/362/34869/CCDF%20Status%20Report%20July-Dec%202024%20-%20Final.pdf>

33 Based on analysis of data from the Cabinet for Health and Family Services via the child care search tool on the Kynect website https://kynect.ky.gov/benefits/s/child-care-provider?language=en_US.

34 Rojas, J. and B. Davis, "2024 Kentucky Child Care Market Rate Survey," Child Care Aware of Kentucky and University of Kentucky, March 2024 <https://www.childcareawareky.org/wp-content/uploads/2024/06/2024-Market-Rate-Study-1.pdf>

35 Information available via the Kentucky Office of State Budget Director, <https://osbd.ky.gov/Pages/default.aspx>

36 For analysis of the intersection of CCAP and benefits cliff challenges specific to Kentucky, see "Families Impacted by Benefit Cliffs in Kentucky: Updated Findings," National Center for Children and Poverty and Kentucky Workforce Innovation Board, August 2023 <https://kwib.ky.gov/Documents/Workforce%20Participation%20091823%20Post%20Meeting%20Packet.pdf>

37 "House Bill 6 RS 2024," Kentucky General Assembly, <https://apps.legislature.ky.gov/law/acts/24RS/documents/0175.pdf>

38 "Block Grant Status Report: July 1, 2024 – December 31, 2024," Cabinet for Health and Family Services, <https://apps.legislature.ky.gov/CommitteeDocuments/362/34869/CCDF%20Status%20Report%20July-Dec%202024%20-%20Final.pdf>

39 Rojas, J. and B. Davis, "2024 Kentucky Child Care Market Rate Survey," Child Care Aware of Kentucky and University of Kentucky, March 2024 <https://www.childcareawareky.org/wp-content/uploads/2024/06/2024-Market-Rate-Study-1.pdf>

40 "House Bill 6 RS 2024," Kentucky General Assembly, <https://apps.legislature.ky.gov/law/acts/24RS/documents/0175.pdf>

- CCAP reimbursement rates affect access to services for low-income families. Child care providers are not required to accept CCAP families. Therefore, if rates are too low, providers are disincentivized to accept these low-income families. This, in turn, affects these families' ability to access services and participate in the workforce.

- Additionally, CCAP reimbursement rates have impacts on providers' tuition rates. CCAP-serving providers may set tuition rates at levels higher than what they receive through reimbursements, but they require CCAP families to pay the difference—this is called overage. But if the overage amount is too great, the family may not be able to afford it. Consequently, low reimbursement rates can suppress the ability of CCAP-serving providers to charge overall tuition rates that come closer to aligning with their expenses.

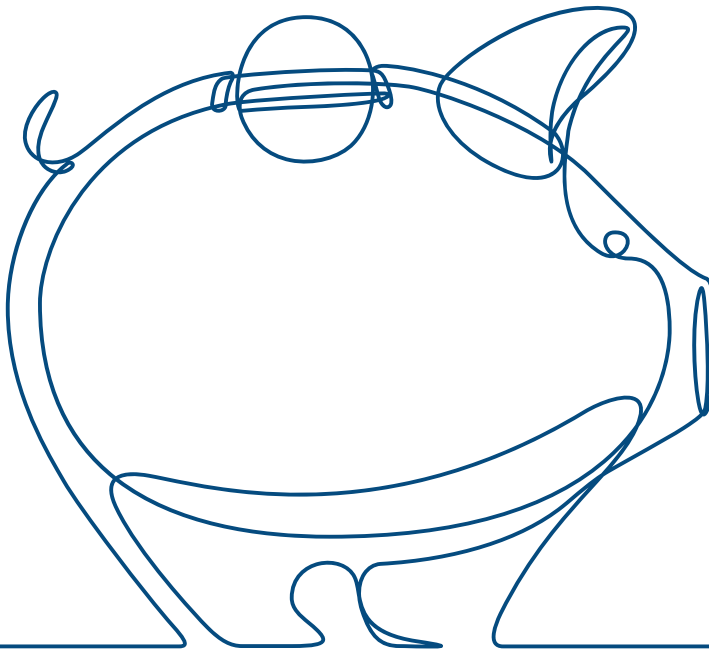
- Stakeholders noted that the market rate study is an inappropriate measure for setting reimbursement rates because market rates are already depressed and do not reflect the actual cost of providing these services. Further, they felt that setting rates at the 80th percentile of the market rate creates a false impression of progress toward covering the full cost of caring for CCAP children.

- Instead, stakeholders felt that reimbursement rates should more fully incorporate the results of another federally-mandated study called the “Cost Model,” which looks at the components that shape costs to child care providers for providing their services.⁴¹ We recommend an approach that blends the market rate analysis with the cost of care

analysis.⁴² Federal rules afford states a degree of flexibility to design methodologies for setting reimbursement rates, including methodologies discussed here. The Collaborative recommends that the Cabinet and its partners at Child Care Aware of Kentucky be charged with developing a new methodology and incorporating feedback from key stakeholders.

- Doing more to connect reimbursement rates to the “Cost Model” study would not have the effect of immediately increasing reimbursement rate amounts. In creating a new process for setting reimbursement rates that more fully accounts for the cost of care, we recommend that the immediate effect be revenue-neutral for the state and providers. The true intent of this reform is to set a more realistic and productive baseline from which to build in the future. Once in place, the state should study the costs, feasibility, and ROI of possible increases to CCAP reimbursement rates and make the results of this analysis available to the public.

- **In instances where the CCAP reimbursement amount for a child is higher than what the provider charges private-pay families, we recommend studying possible ways to allow the provider to still receive the full reimbursement rate for that child.** This challenge may be largely confined to smaller rural communities, but allowing these providers to receive the full reimbursement rate could support the stabilization of child care services in rural Kentucky. The study of this concept should include mechanisms to ensure strict oversight and reporting to prevent the possibility of fraud.



41 Rojas, J. and B. Davis, “2024 Kentucky Cost Model for Licensed Centers,” Child Care Aware of Kentucky and University of Kentucky, June 2024 <https://www.childcareawareky.org/wp-content/uploads/2024/07/Cost-of-Care-in-Kentucky-Part-2-Cost-Model-2024.pdf>

42 For a more detailed discussion of this issue, see “The limitations of using market rates for setting child care subsidy rates,” Bipartisan Policy Center, May 2020 https://bipartisanpolicy.org/download/?file=/wp-content/uploads/2020/06/Limitations_of_Market_Rate_Surveys_for_Child_Care_Brief_FINAL1.pdf



REGULATIONS, LICENSING, & INNOVATION

3

Key Actors:

Cabinet for Health and Family Services, Office of Attorney General, Kentucky General Assembly, Providers

The child care sector is subject to a labyrinth of federal, state, and local regulations and rules that affect both new and existing child care providers. As cumbersome and often burdensome as these regulations can be, Collaborative members determined that Kentucky's regulatory landscape is generally appropriate to ensure safety and instill public

confidence in the sector. For example, the group reviewed and discussed Kentucky's minimum teacher-to-child ratios regulations, which are a frequent topic of debate when child care regulations come up. While stakeholders acknowledged that these ratios can create challenges for providers and workers, the consensus among the group was that Kentucky's current minimum ratios were appropriate and should not be expanded further. Collaborative members noted that Kentucky's current ratios are more expansive than those recommended by the federal government. For example, the federal government recommends that child care centers allow one adult to care for no more than three infants, while Kentucky permits one adult to care for up to five infants.⁴³

⁴³ "Supervision: ratios and group sizes," ChildCare.gov, accessed on March 10, 2025 <https://childcare.gov/consumer-education/ratios-and-group-sizes> and KAR 922.02.120 <https://apps.legislature.ky.gov/law/kar/titles/922/002/120/>

Despite the group's consensus that the state's current regulatory framework is generally appropriate, the Collaborative identified several areas for improvement and opportunities for innovation.

- **Improve oversight and compliance processes and ensure consistent and uniform enforcement of regulations.** Testimony from child care providers and other partners in the field pointed to challenges in navigating compliance processes and receiving consistent guidance and regulatory interpretations from regulators. In some instances, it was reported that interpretations of regulations could vary from inspector to inspector.

- To explore improvements in these areas, the Collaborative recommends replicating the approach of the Montana Child Care Licensing Project. This project involved Montana's state agency utilizing one-time funding to contract with a third party to gather broad stakeholder feedback and produce consensus-driven recommendations. The project gathered input from both licensed and unlicensed providers, administrators, inspectors, parents, and employers to gain a comprehensive perspective on challenges and solutions. Since the project's initial findings were released in 2022, interviews with state agency officials demonstrated that Montana has been gradually implementing shared, consensus-driven solutions. Kentucky should utilize this same roadmap for addressing challenges with oversight and compliance processes and the inconsistent enforcement of child care regulations.

- **Create safe and accountable processes for piloting innovation and testing regulatory flexibility in the child care sector.** To support innovation and regulatory reforms, state law should create safe and accountable processes through which child care providers may deviate from state regulations under certain circumstances. Safety and quality must remain top priorities, but providers should have more flexibility to innovate and test new business models. The Collaborative recommends implementation of the two policy concepts below.

- o Kentucky should make greater use of the state's General Regulatory Sandbox Program operated by the Office of Regulatory Relief under the Attorney General to safely

test innovation and regulatory flexibility in the delivery of child care services. This already-existing program allows businesses in all industries to apply for temporary waivers from administrative regulations to safely and accountably pilot innovations and regulatory flexibility under the supervision of the Attorney General's office. The Collaborative recommends the development of a partnership between the Attorney General's office and the Cabinet for Health and Family Services in which CHFS provides guidance and offers input on requests for variances through the program related to child care. With this partnership in place, CHFS, the Attorney General, and nonprofit partners should coordinate efforts to make current and prospective child care providers and employers more aware of the program and how it can be most appropriately utilized to safely support innovation and regulatory flexibility.⁴⁵

- o Kentucky should also create a new category of licensure based on Indiana's Micro Facility Pilot Program. This program allows currently licensed or registered child care providers to open new facilities in non-residential settings to serve between 3 and 30 children under a regulatory framework that includes variances from the state's standard child care regulations. In 2025, Indiana will license at least six new micro facility programs with existing providers.⁴⁶ The Collaborative recommends establishing a similar pilot program in Kentucky and carefully studying Indiana's program's results throughout 2025. A Kentucky program should prioritize services in high-need areas, drop-in care, and non-traditional shifts.

- **Improve training for regulated child care services to support children with special needs.** Stakeholders identified a lack of training on supporting children with special needs as a weak point in Kentucky's regulations for licensed and certified child care services. Informal surveying of regulated child care services in the state suggests that more providers would be able to serve children with special needs if their staff had more training and their programs had access to more support.⁴⁷

⁴⁵ See "Office of Regulatory Relief," Office of the Attorney General, accessed on March 10, 2025 <https://www.ag.ky.gov/Resources/Pages/Office-of-Regulatory-Relief.aspx>

⁴⁶ "Grow your child care business with the Indiana micro-facility pilot program," Wonderschool, accessed on March 10, 2025 <https://www.wonderschool.com/corp/indiana-micro-facility> and "Micro facility pilot program," Indiana Family and Social Services Administration, <https://www.in.gov/fssa/carefinder/oecosl-micro-facility-pilot-program/>

⁴⁷ "The state of child care from the perspective of Kentucky providers and parents," Kentucky Youth Advocates, December 5, 2024, <https://kyyouth.org/state-of-childcare-perspective-of-providers-parents/>

- As a step in this direction, we recommend requiring in statute that a portion of a child care provider's annual training include a focus on children with special needs. We also recommend incentivizing more providers to serve children with special needs and encouraging partnerships between child care programs and community-based pediatric therapists through the Kentucky All STARS program.

- In addition, if a child in a regulated child care program is offered support services through an Individual Family Service Plan or an Individualized Education Plan, we recommend clarifying that the provider must allow the diagnostician, therapist, or interventionist to enter the child care center or family child care home to provide support services to the child for which parent or caregiver consent has been given.





LOCAL COMMUNITY ENGAGEMENT

4

Key Actors:

Cabinet for Economic Development, Kentucky General Assembly, Local Communities, Local Governments, Area Development Districts, Nonprofits, Philanthropy, Employers

The Collaborative discussed examples of local-based solutions to child care challenges. In many instances, these initiatives involved partnerships between local employers, economic developers, philanthropy, child care providers, and government. The group agreed local community engagement was important to solving child care challenges and should be supported and encouraged through targeted public policy interventions and private-sector programming.

- **Implement the Certified Child Care Community Designation program from House Bill 561 (2024) to encourage problem-solving and regulatory streamlining at the local level.** To encourage more local problem solving, the Collaborative recommends providing the Cabinet for

Economic Development with the necessary resources to implement House Bill 561 from the 2024 legislative session. This legislation created a new Certified Child Care Community Designation program to be operated jointly by the Council of Area Development Districts and Cabinet for Economic Development. The intent of the program was to promote local engagement in solving child care challenges. This included initiatives such as creating local child care councils and adopting best practices for local regulations related to child care, including appropriate local land use and zoning rules and local permitting fees for child care providers. The legislation took inspiration from Kentucky's Recovery Ready Communities Program, local initiatives in areas like Hardin County and Owensboro, and child care zoning reform efforts in Jefferson County.⁴⁸

- Though House Bill 561 was signed into law, it was not implemented due to insufficient administrative funding.⁴⁹ Collaborative members discussed challenges for both new and existing providers caused by local zoning and land-use rules. Members recommend ensuring that this program receives the resources it needs to operate, including funding for program administration as determined necessary.

48 Munoz, J. "City aims to expand access to child care facilities by loosening zoning restrictions," Louisville Public Media, April 13, 2022 <https://www.lpm.org/news/2022-04-13/city-aims-to-expand-access-to-child-care-facilities-by-loosening-zoning-restrictions>

49 Goodman, S. "Beshear says he doesn't have enough funds to implement at least 20 Kentucky laws passed this year," Louisville Public Media, July 15, 2024 <https://www.lpm.org/news/2024-07-15/beshear-says-he-doesnt-have-enough-funds-to-implement-at-least-20-kentucky-laws-passed-this-year>

- To encourage participation by local communities in the program, the state should consider targeted and accountable incentives such as access to one-time matching grants for participating communities. A small, time-limited matching grant program could allow participating local communities to raise public and private dollars to pull down one-time state funding to increase child care capacity in their areas, such as repurposing property for child care services or providing seed funding for new local child care services. The program should incorporate strict accountability standards and require projects to demonstrate ROI.

- As an additional incentive, the state could give participating communities more favorable treatment under the state's new GRANT program (Government Resources Accelerating Needed Transformation) if they are pursuing a project related to child care. The GRANT program was created by the General Assembly in 2023 to provide financial assistance to local communities seeking federal grant funding opportunities that require a local match. Eligible uses include a broad range of categories, but child care access is a designated eligible use.⁵⁰ Communities seeking state support to pursue federal grants are required to have a local match based on their

county population size. While federal grants related to child care may be limited, the Collaborative recommends allowing the GRANT program's required local match to be reduced if the project is related to child care and if the community has achieved the Certified Child Care Community Designation.

- **Create success playbooks to model best practices for community-based solutions to child care challenges.**

To raise awareness of successful initiatives already being pursued in Kentucky, we recommend creating playbooks to model best practices for employers and communities. Clark County Public Schools, for example, leveraged existing facilities in the district to offer new child care services for district employees, including its teaching staff. Jefferson County has worked collaboratively to create the new Thrive by Five initiative. Other communities, such as Hardin County and Owensboro, have pursued public-private partnerships to implement local solutions to child care challenges. The Collaborative intends to capture these success stories in a series of "playbooks" that will detail how these initiatives came to be and how other employers and communities can replicate them.



⁵⁰ "Just the facts: Government Resources Accelerating Needed Transformation (GRANT) Program of 2024," Cabinet for Economic Development, June 2024 https://cedky.com/cdn/11869_GRANT_Program_Fact_Sheet_FINAL.pdf?aa



KY ALL STARS

5

Key Actors:

Cabinet for Health and Family Services, Kentucky General Assembly, Nonprofits, Providers

The rules of the Child Care and Development Fund require states to spend a portion of their federal child care dollars to support quality initiatives, including the implementation and operation of a Quality Rating and Improvement System, or a QRIS.⁵¹ These systems are intended to help educate parents about the services they use for child care and encourage licensed providers to increase the quality levels of the services they provide and pursue continuous improvements.

Kentucky's QRIS is called All STARS. It consists of five ratings, one star through five stars. The system sets benchmarks for achieving higher ratings. Participation in All STARS by providers is voluntary. All providers with a regular or preliminary license are enrolled in the program with one star. 59 percent of licensed providers in Kentucky had one star, as of December 2024. 6.6 percent were two stars. 17.8

percent were three stars. 9.2 percent were four stars. 6.4 percent were five stars. In general, the state considers a three-star provider to meet standards for "high quality."⁵² A key feature distinguishing a three-star provider from a two-star provider is that the former allows for environmental observations by state regulators.⁵³

Providers may receive monetary awards funded through state Tobacco Settlement dollars to incentivize pursuing higher STARS ratings. These awards include "Initial Achievement Awards" ranging from \$250 to \$5000, "annual quality awards" ranging from \$150 to \$3000, and monthly "subsidy enrollment awards" ranging from an additional \$18 per month for each enrolled CCAP child to \$45 per month for each enrolled CCAP child.⁵⁴ The state includes STARS ratings on the child care provider finder tool on the Kynect website for parents to view.

The Collaborative held several discussions about All STARS in full group and small group settings. Members agreed that an effective QRIS that leads to meaningful outcomes for children in Kentucky is important but felt that All STARS needed significant modernization.

51 See "The Child Care and Development Block Grant: In Brief," Congressional Research Service, December 2024. <https://crsreports.congress.gov/product/pdf/R/R47312>

52 "Block Grant Status Report: July 1, 2024 – December 31, 2024," Cabinet for Health and Family Services, <https://apps.legislature.ky.gov/CommitteeDocuments/362/34869/CCDF%20Status%20Report%20July-Dec%202024%20-%20Final.pdf>

53 "Kentucky All STARS Family Information," Cabinet for Health and Family Services, accessed on March 11, 2025 <https://www.chfs.ky.gov/agencies/dccs/dcc/Pages/kyallstars.aspx>

54 "KY All STARS Regulated Incentives," Cabinet for Health and Family Services, accessed on March 11, 2025 <https://www.chfs.ky.gov/agencies/dccs/dcc/Documents/KYAllSTARSRegulatedIncentives.pdf>

For example, it is not clear that the program is successfully educating parents on their choices regarding quality.

Providers do not appear incentivized to seek out higher star ratings. Most importantly, while the design of All STARS is

based on research, it is unclear if there is objective empirical evidence to show that the system is leading to improved outcomes for children. To that end, the Collaborative supports a broader conversation focused on reforming and modernizing All STARS.

To help inform this conversation, the Collaborative produced the following guiding principles:

- **State leaders should engage in a robust and transparent dialogue with all stakeholders regarding All STARS modernization.**

The Collaborative recommends a statewide conversation regarding All STARS modernization and potential reforms to the program. We would like to see multiple pathways provided for stakeholders to submit feedback and review proposed changes.

- **Clear and measurable intended outcomes should be associated with each different tier of a modernized All STARS system.** For example, there should be some degree of intended outcomes for a child who attended a five-star center, such as a statistically higher chance of being Kindergarten-ready than a child who attended a two-star center. These intended outcomes should be based on empirical objective research, and it is critical that these outcomes are measurable. The Collaborative recommends leveraging the state's Longitudinal Data System to the greatest extent possible to facilitate this work. Connecting All STARS to clear and measurable outcomes is critical for quantifying the program's ROI.

- **With measurable intended outcomes in place that are based on objective empirical research, the Collaborative recommends a discussion of restructuring incentives to ensure they are optimally impactful and that they are aligned with the program's intended outcomes.** In some instances, Collaborative members noted that the costs to a provider to achieve a higher rating could outweigh the value of incentives. This may serve to discourage participation in the program. One of the concepts discussed by members included repurposing the Initial Achievement Award as a forgivable loan that providers could access to help cover the upfront cost of improving quality. Another idea was to repurpose the Annual Quality Award to enhance the

monthly subsidy enrollment awards. In general, members of the Collaborative identified these awards as the strongest incentive for increasing All STARS ratings. Broadly, the group would support appropriating additional public dollars to these incentives if there is an objectively clear and quantifiable return on investment and the program has proven effectiveness.

- **In addition to more effective incentives, the Collaborative would like to see stronger and more accessible training supports made available to providers and their staffs.**

This should include opportunities for asynchronous and digital training opportunities to accommodate hectic schedules and to avoid taking time away from day-to-day operations.

- **The administrative tools supporting All STARS must be modernized for it to be an accessible and effective system.** The Kentucky Online Gateway portal, which serves as the primary interface for providers engaging with the system, has been widely reported as outdated and difficult to use. We recommend a thorough evaluation and update of the portal to enhance user experiences, streamline workflows, and ensure that documentation, applications, and reporting can be submitted efficiently. An updated digital infrastructure will reduce administrative burdens and encourage broader participation in the program.

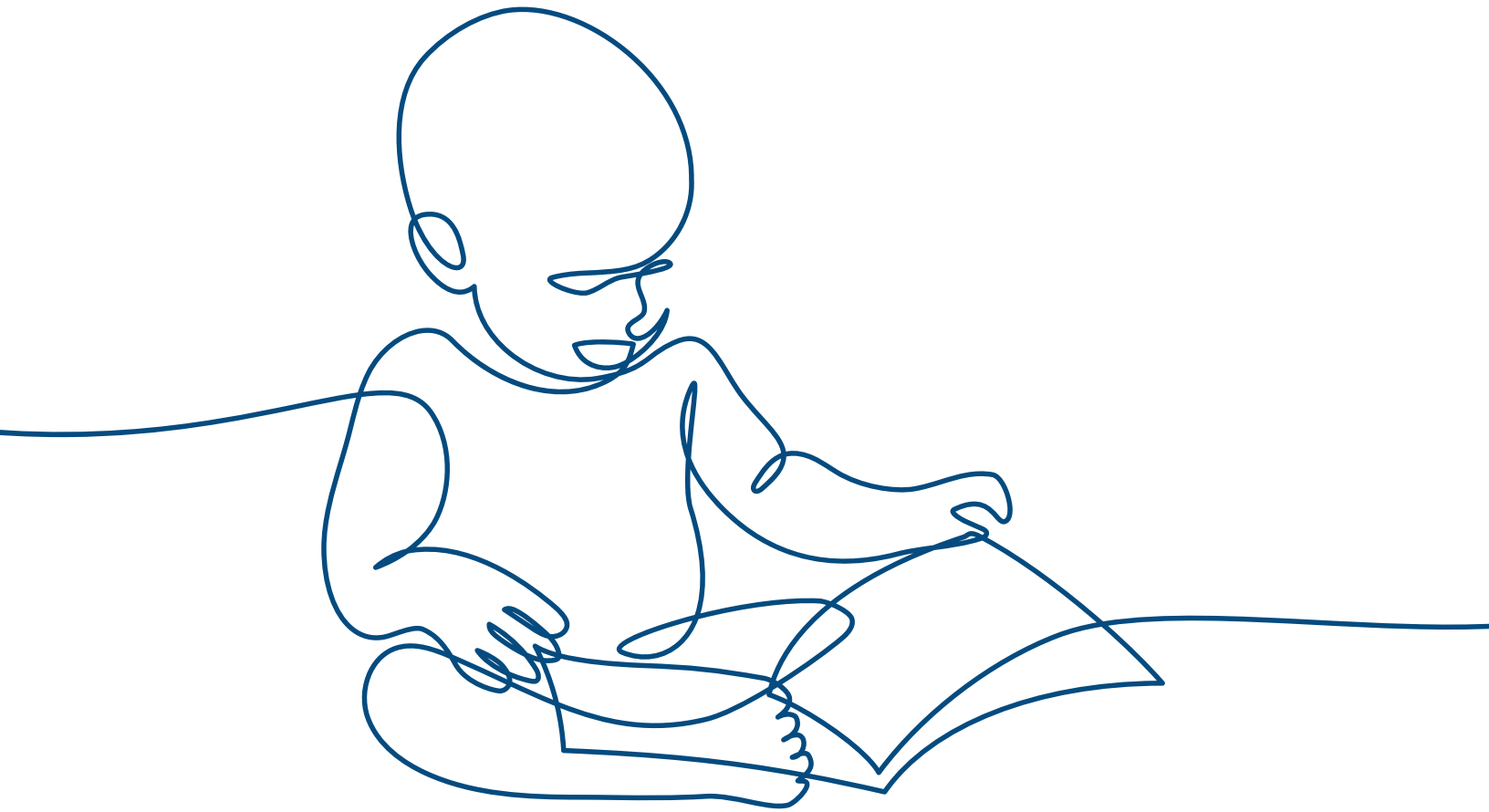
- **Increase awareness of All STARS through local partnerships.** The Collaborative recommends stronger partnerships between local nonprofits and the Division of Child Care to increase awareness of All STARS among providers and parents. Marketing should focus heavily on the program's incentives and new training opportunities available to providers.



▪ **The Collaborative recognizes the need for a more efficient process for multi-site operators.** Currently, providers with multiple locations must submit redundant paperwork for each site, even when key operational elements remain consistent across locations. To reduce administrative burden and improve efficiency, we recommend establishing a streamlined process that allows shared documentation—such as curriculum models, staff training, and compliance records—to be submitted once and applied to all related locations. This approach would uphold quality standards while ensuring that administrative requirements do not disproportionately impact multi-site providers.

▪ **When it comes to determining the criteria for different ratings within the system, the Collaborative recommends**

maximum flexibility and embracing the notion that quality can come in many different forms. While the current system offers a degree of flexibility for three-, four-, and five-star providers, the Collaborative would like to see a broader array of options that reflects different ways that providers might offer quality services and achieve higher ratings. Additionally, in instances where a provider's transition from one rating to another is initially unsuccessful, the Collaborative recommends creating a process that allows providers to present additional evidence to a secondary evaluator when they believe their unique approach to quality has not been adequately considered. This process would ensure fairness and maintain high standards while accommodating the diversity of early childhood education models.





EMPLOYEE CHILD CARE ASSISTANCE PARTNERSHIP



Key Actors:

Cabinet for Health and Family Services,
Employers, Nonprofits

The Employee Child Care Assistance Partnership (ECCAP) was established by the General Assembly in 2022 to assist working families who are not eligible for CCAP subsidies and to encourage employer engagement in addressing child care affordability challenges.⁵⁵ As noted above, the income eligibility threshold for CCAP is set at 85 percent of state median income. This means that families with incomes above this amount are ineligible. The legislature created the Employee Child Care Assistance Partnership to assist these families and support their participation in the workforce by leveraging employer engagement.

The program works through a public-private partnership model, in which the Cabinet for Health and Family Services

matches contributions from employers to help cover employees' child care costs.

For example, if an employer agrees to contribute \$100 per month to an employee's child care costs, the state will match that contribution with another \$100, giving that employee a \$200 benefit. Participation in the program is tied to individual contracts between the state, the employer, the employee, and the child care provider. All parties must agree to participate. A participating child care provider must be enrolled in the state's All STARS program. The amount of the state match is tied to the employee's household income, with lower-income employees receiving a higher state match and higher-income employees receiving a lower state match. Similar programs operate in states like Michigan, Indiana, and North Carolina and are being explored in Texas, Nebraska, and Arizona. Kentucky has attracted national attention for its efforts in this space.⁵⁶

The program has been slow to take off and has struggled with low levels of utilization, administrative challenges, uncertainty

⁵⁵ "House Bill 499 RS 22," Kentucky General Assembly, <https://apps.legislature.ky.gov/record/22rs/hb499.html>

⁵⁶ "Parents look to policymakers for affordable child care solutions," National Conference of State Legislatures, September 24, 2024 <https://www.ncsl.org/state-legislatures-news/details/parents-look-to-policymakers-for-affordable-child-care-solutions>

regarding its future, and a lack of awareness. Nonetheless, based on conversations with employers and a close review of the program, the Collaborative identified it as a promising and cost-effective approach to help non-subsidy eligible families afford child care and identified several opportunities for

improvement. These opportunities are listed below. However, the Collaborative recommends gathering more feedback from employers, working parents, and child care providers to identify additional improvements and further fine-tune these recommendations.

To accomplish this, the Collaborative commits to conducting a series of focus group interviews over the summer of 2025 and sharing any additional future findings.

- **All aspects of ECCAP should be outsourced to a third party.** Third-party administration of ECCAP would alleviate administrative burdens on the Cabinet and create opportunities to utilize more sophisticated technologies, improve customer service for program users, and allow for more dedicated outreach efforts. We recommend changes to state law to require third-party administration that would cover all aspects of the program: creating and administering applications, overseeing contracts and compliance, gathering data, generating reports, implementing user-friendly technologies, providing technical assistance to users, and recruiting participants. The Cabinet would be charged with overseeing this contract and holding third-party administrators accountable to performance expectations.

- **The Cabinet should use an incentive- and performance-based contract.** To encourage private sector entities to seek out this contract and carry out the General Assembly's intentions, we recommend a competitive bidding process tied to performance and incentives. State law should set out performance expectations that would guide the Cabinet's accountability efforts and vetting process for potential third-party administrators. For example, a third party could be expected to target participation by employees within specific income ranges, recruit employers from both rural and urban areas, and prioritize engagement with small businesses. State law should set out key focus areas, while the Cabinet should determine specific parameters.

- **At the same time, a third party should be incentivized to operate the program successfully and recruit participating employers.** To accomplish this, we recommend leveraging the administrative set-aside already established in state law to provide a third party with necessary start-up costs. This set-aside is currently set at 2 percent of total funding each fiscal year. We recommend increasing this amount to as much as 10 percent to fully cover the Cabinet's administrative functions and to give them the resources necessary to attract competitive bids. We also recommend allowing the third party to recoup a percentage of the value of each new contract

created through the program based on the number of new employers recruited. This recoupment percentage should be capped, and the dollars could be pulled from the employer contribution, the state match, or both. It would NOT require additional or new state dollars. This would incentivize the third party to meet performance expectations.

- **Prioritize the best possible user experiences for employers, providers, and workers participating in ECCAP.** In evaluating bids from third parties, the Cabinet should prioritize proposals to create systems and processes that are objectively user-friendly, simple, and customer-service focused.

- o There should be clear and accountable processes for routinely reviewing feedback from program applicants and implementing improvements.

- o The third party should ensure customer-service oriented and timely responses to all inquiries from employers, child care providers, and workers with a goal of no response taking longer than 48 hours.

- o There should be efficient pre-approval processes that are optional for employers, child care providers, and workers so that parties will know if they qualify before going through the full application process.

- o The window to approve ECCAP applications should be no longer than 10 business days.

- o Employers should have the option to make payments directly to child care providers OR to prepay their contributions to the third party for redistribution to child care providers. Employers, for example, could prepay an annual or bi-annual lump-sum amount directly to the third party for all their participating employees to be redistributed in accordance with individual employee-provider contracts. This would alleviate burdens on both employers and providers.

- o A streamlined annual re-application process should be established for employers and workers already participating in the program.

▪ **Create more awareness of ECCAP.** Stakeholders identified a lack of awareness of ECCAP among key constituencies as a major challenge. Once the system improvements recommended above are in place, we recommend a robust outreach effort, featuring the following elements:

- o Pilot partnerships with nonprofits whereby the state could award *limited matching grants* from ECCAP to nonprofits seeking to create programming in their areas to raise awareness of ECCAP and provide technical assistance to employers, workers, and child care providers in their area, under the supervision of the state agency. All recruitment efforts should be aligned and coordinated with strategies of the third-party administrative entity discussed above.
- o Partners in the nonprofit and private sectors should coordinate a marketing campaign focused on the ROI of child care benefits to employers. This should involve partnerships between child care resource and referral agencies, the Kentucky Chamber of Commerce, local chambers, the Kentucky Society of Human Resource Management, and benefits brokers who work directly with employers on employee benefits packages.

▪ **Create more flexibility in how employers may leverage the program to support their employees.** The current iteration of ECCAP supports a stipend or tri-share model of assistance for working Kentuckians. This functionality is

critical for providing support to working families who are not eligible for child care subsidies through the state's Child Care Assistance Partnership. Through the process improvements listed above, this aspect of ECCAP should be continued.

However, the tri-share model does not adequately address the many child care challenges facing employers and working families. Employers should be allowed to use ECCAP in different ways based on the needs of their workforce and community. Specifically, state law should be changed to allow the state to match qualifying expenditures by employers related to:

- o partnering with local child care providers to reserve slots for employees, offer a discounted rate to employees, or create new slots;
- o contracting with a third party to help their employees find child care; and
- o providing start-up funding for local family child care home-based services to serve the children of their employees.

▪ **Allow public employers to utilize the program.** State law should be changed to allow local public sector employers to utilize ECCAP, especially local government agencies such as police departments and first responders, school districts, and quasi-governmental entities.





EMPLOYER ENGAGEMENT & ECONOMIC DEVELOPMENT



Key Actors:

Cabinet for Economic Development, Employers, Nonprofits, Philanthropy

The Collaborative noted that increased employer engagement in solving child care challenges for workers and communities would be a positive development for the Commonwealth. While ECCAP presents a demand-side intervention designed to help working families afford child care, the group agreed there is a need to engage employers in supply-side interventions to increase the availability of child care. This includes measures such as creating new employer-sponsored on-site or near-site child care services.

Stakeholders found that encouraging new employer-sponsored on-site or near-site child care services can be an effective strategy to increase child care availability in a community and help working families. When an employer opens a new child care service for their employees, this benefits the employer by improving employee attraction and retention, the employee by improving access to child care, and the community by freeing up slots at other local child care services. These initiatives can also create new business opportunities for existing providers through partnerships with employers seeking third-party operators for on-site or near-site services. The group also determined that it was important that employers help address the child care challenges of local communities when creating jobs in areas where services are already limited.

Informal survey evidence shows that employer-based child care services are rare. For example, a survey of more than 200 Kentucky employers conducted by the Siena College Research Institute in the summer of 2024 found that only 7 percent of employers offered on-site or near-site child care

services.⁵⁷ The group discussed several causes of employers' reluctance to create these new services, including costs, unclear ROI, complex regulations, long-term sustainability, and unfamiliarity with the details of offering such services.

The group recommends developing targeted and accountable economic development incentives to encourage the creation of more employer-based child care services. We also suggest piloting initiatives through the non-profit sector to offer employers access to technical assistance, consulting, and community of practice services.

▪ **Create accountable economic development incentives to encourage businesses to create on-site or near-site child care services for their employees and communities.** The

Collaborative reviewed several approaches to encouraging employer-sponsored child care services, including grant-based programs and income tax credits in other states intended to support employer-sponsored child care services. Some stakeholders, however, voiced concerns about the ability of the state to ensure accountability and ROI for such programs. Instead, we recommend giving the Cabinet for Economic Development new tools to incentivize employer-sponsored child care services in Kentucky.

▪ Incentives should be directly tied to investments by participating employers, projected job creation or job retention, projected wages, and a demonstrable need for new child care services. Employers requesting incentives must be required to demonstrate that they have conducted analysis to determine the necessity of new child care services. For assessing the existing child care infrastructure of an area, employers should leverage the supply-demand gap methodology discussed elsewhere in this report. Employer-based child care services should not be incentivized in areas where there is not a demonstrable need.

▪ To limit risks for taxpayers, incentives should take the form of sales and use tax rebates, incremental property tax refunds, and low-interest loans. There should be an annual cap on total incentives that can be awarded in a given time period. The group was open to utilizing income tax credits, wage assessments, and forgivable loans in limited instances, such as when new high-paying jobs are being created in areas with high unemployment rates and new child care services are being created in high-need areas.

▪ We believe these incentives should be available to all industries.

▪ We think an emphasis should be placed on innovative approaches to employer-sponsored child care, such as small business consortiums or partnerships between businesses and existing child care providers in the community. Incentives should support not only the creation of new services but also ongoing operations.

▪ The Cabinet should be required to submit annual reports to the legislature to update lawmakers on the utilization of these incentives.

▪ We recommend that the General Assembly, the Cabinet, and stakeholders involved with economic development and child care work collaboratively to develop a statutory framework and parameters for negotiating incentive packages related to employer-sponsored child care services in Kentucky. If the Cabinet determines resources are needed to develop this framework or to administer new incentives, the Collaborative supports making those resources available.

▪ **Create new technical assistance, consulting, and community of practice services for employers through the private and nonprofit sectors.** The Collaborative agreed that public financial incentives to support employer-based solutions to child care challenges are important. However, the group identified other employer needs, such as technical assistance, accessible consulting services, and communities of practice, as equally important. We recommend developing these resources through the nonprofit and private sectors.

⁵⁷ "Kentucky business leaders optimistic on economy, struggling with workforce, national survey shows," The Bottom Line News, October 16, 2024 <https://kychamberbottomline.com/2024/10/16/kentucky-business-leaders-optimistic-on-economy-struggling-with-workforce-national-survey-shows/>

- As an example of what the group envisions, stakeholders had opportunities to learn from an initiative in Colorado called EPIC (Executives Partnering to Invest in Children). EPIC is a nonprofit entity in Colorado that specializes in supporting employers seeking to solve child care challenges for their employees. Through programs such as their Design Lab, they work hands-on with employers on financial modeling, cost-benefit analyses, complying with government regulations, conducting needs assessments, facility construction and design, and contracting with third-party operators for child care services, including existing program operators in the employer's local area. EPIC also offers cohort training models and toolkits for employers to utilize in evaluating options for employer-sponsored child care services.⁵⁸

- We would like to see similar initiatives developed in Kentucky as well as opportunities to create communities of practice through which like-minded employers can learn best practices from each other. Developing these services could involve creating a new non-profit entity in Kentucky modeled on EPIC or expanding the programming of the Kentucky

Chamber of Commerce Foundation or a combination of the two. The group recommends that these services be rooted in the business community but involve close partnerships and coordination with child care organizations, such as child care resource and referral agencies. We also suggest exploring ways to align or combine these efforts with our recommendations for a third-party administrator of ECCAP described above.

- To better understand how these services might be received and utilized by employers in Kentucky, we recommend that the business community first hold a convening with interested employers and entities involved with offering technical assistance services for employer-based child solutions, including EPIC. This could take the form a full-day workshop or a small conference to capture different perspectives and employer needs. Such a convening would create opportunities to assess utilization of these services and test run concepts before moving forward with creating new programming or a new nonprofit initiative.



⁵⁸ "Design Labs," EPIC, accessed on March 13, 2025 <https://www.coloradoepic.org/design-lab/>



THE CHILD CARE WORKFORCE

8

Key Actors:

Nonprofits, Philanthropy, Post-secondary Institutions, Kentucky General Assembly, Providers

The Collaborative dedicated special attention to the child care workforce. Through numerous conversations among the full group and the Child Care Workforce Work Group, stakeholders identified the child care workforce as a stress point within the private regulated child care sector. Many members of the group viewed high rates of worker turnover as a major problem that leads to disruption and instability within the sector.

A study by the Federal Reserve Bank of Cleveland found that turnover rates for child care workers in 2022 were 65 percent higher than turnover rates in typical occupations.⁵⁹ Low compensation is generally identified as a key reason for this

instability. Bureau of Labor Statistics data shows that median hourly wages for child care workers were \$13.36 per hour in 2023.⁶⁰ In general, wages in the sector are kept low to keep tuition rates low for families. Because the sector is labor-intensive, child care businesses balance increased compensation with tuition rates for families. Based on the state's 2024 Cost of Care study, if a provider increases compensation, then they will likely have to increase tuition rates or operate with higher net losses.⁶¹ According to the U.S. Department of Labor, median child care tuition rates are as high as 18 percent of median family income in some Kentucky counties.⁶² This dynamic creates unique labor challenges within the sector that are unlikely to be solved by the industry alone or standard market forces.

The consequences of instability within the child care workforce include lower quality services for children, reduced overall child care capacity, a less stable child care business model, disincentives to open new child care services, and frequent disruptions for working families, their children, and employers.

59 Fee, K. "Using worker flows to assess the stability of the early childcare and education workforce, 2010-2022," Federal Reserve Bank of Cleveland, January 19, 2024 <https://www.clevelandfed.org/publications/cd-reports/2024/20240119-childcare-and-education-workforce>

60 "May 2023 state occupational employment and wage statistics, Kentucky," U.S. Bureau of Labor Statistics, OEWS, https://www.bls.gov/oes/current/oes_ky.htm

61 Rojas, J. and B. Davis, "2024 Kentucky Cost Model for Licensed Centers," Child Care Aware of Kentucky and University of Kentucky, June 2024 <https://www.childcareawareky.org/wp-content/uploads/2024/07/Cost-of-Care-in-Kentucky-Part-2-Cost-Model-2024.pdf>

62 "Childcare prices as a share of median family income by age of children and care setting 2022," U.S. Department of Labor Women's Bureau, accessed March 16, 2025, <https://www.dol.gov/agencies/wb/topics/childcare/median-family-income-by-age-care-setting-2022>

Among the Collaborative's members, perspectives on the significance of these challenges varied. Some identified this issue as a core problem that is central to the sector's broader instability and felt that it warranted action by policymakers. Others argued that it did not rise to the level of

meriting major interventions with taxpayer dollars. In addition, some stakeholders expressed concerns about unintended consequences of government interventions and the precedent it could set for other low-wage sectors.

Despite these differences, stakeholders identified several areas of consensus.

▪ Continue utilizing state funds to allow child care workers to be categorically eligible for the Child Care Assistance Program.

A key solution already implemented in Kentucky is allowing child care workers to be categorically eligible for the Child Care Assistance Program.⁶³ This policy allows child care workers to qualify for CCAP regardless of household income, thereby creating a unique benefit program to attract and retain child care workers. From July 1, 2024, to December 31, 2024, this program benefited 7,681 children and 4,380 families.⁶⁴ In the 2024 budget session, the General Assembly appropriated \$15 million in Fiscal Year 2025 and Fiscal Year 2026 to continue this program.⁶⁵ In future budget sessions, the state should continue funding this program and also provide the necessary resources to conduct objective, third-party studies to ensure it is achieving its goals of attracting and retaining child care workers. While direct feedback from child care providers indicates satisfaction with the program's effectiveness, objective study is needed to confirm the anecdotal evidence. Kentucky has received national media attention for this program, and several states have since implemented it.⁶⁶

▪ **Continue funding and expand the Early Childhood Development Scholarship and improve it.** The Early Childhood Development Scholarship is a state-funded scholarship program specifically for early childhood teachers to seek out higher education opportunities. The program requires the recipient to be actively working at a regulated child care provider and utilizes a cost-sharing model in which the worker's provider contributes toward their textbook costs and other expenses. In addition to education funding, recipients receive financial awards for degree or certification

attainment and also agree to remain with their employer for at least six months following program completion.⁶⁷ 580 Kentuckians benefited from this program in 2024, up from 370 in 2023 and 2022.⁶⁸ The General Assembly increased funding for the program in the 2024 budget to \$2.5 million per year.⁶⁹ The state should track the outcomes of this program, continue to provide funding, and consider increasing the financial rewards for higher degree completion. If the state were to develop a bonus retention program like the programs in other states discussed above, we encourage close alignment with this scholarship program so that the two benefits work together and are complimentary.

▪ **Increase the Child Care Workforce Talent Pool through the Kentucky HealthCorps Model.** To encourage more Kentuckians to consider working in the child care sector, the Collaborative recommends a proactive recruitment program modeled after the Kentucky HealthCorps program. Kentucky HealthCorps is a public-private partnership program focused on recruiting Kentuckians to join the health care workforce. HealthCorps recruits are offered temporary positions in participating health care facilities and receive stipends and career coaching through the program at no cost to the health care company. Health care companies choose to voluntarily participate. Leveraging philanthropic dollars, a similar nonprofit initiative should be developed specifically for the child care sector to create opportunities for individuals to explore possible careers in child care and create new talent pipelines for participating child care providers. A program like this could be designed to roll into other opportunities like the state's Early Childhood Apprenticeship program or the Early Childhood Development Scholarship.

63 For a full overview, see Vanover, S. et al., "Supporting child care workers as parents: How the Kentucky subsidy income exclusion for child care employees helps increase access to child care," Buffett Early Childhood Institute, 2024, https://buffettinstitute.nebraska.edu/-/media/projects/buffett-nucleus/resources/policy-briefs/ky-subsidy-overview-brief-2024_digital.pdf

64 "Block Grant Status Report: July 1, 2024 – December 31, 2024," Cabinet for Health and Family Services, <https://apps.legislature.ky.gov/CommitteeDocuments/362/34869/CCDF%20Status%20Report%20July-Dec%202024%20-%20Final.pdf>

65 "House Bill 6 RS 2024," Kentucky General Assembly, <https://apps.legislature.ky.gov/law/acts/24RS/documents/0175.pdf>

66 Hsu, A., "Kentucky had an outside-the-box idea to fix child care worker shortages. It's working," NPR, October 6, 2023, <https://www.npr.org/2023/10/06/1203182131/kentucky-free-child-care-day-care-workers>

67 "KHEAA Early Childhood Development Scholarship Fact Sheet," Child Care Aware of Kentucky, accessed on March 16, 2025, <https://www.childcareawareky.org/wp-content/uploads/2023/11/PD-KHEAA-Application-Fact-Sheet.pdf>

68 "Annual reports," KHEAA, accessed March 16, 2025, <https://www.kheaa.com/web/reports.faces#agency>

69 "House Bill 6 RS 2024," Kentucky General Assembly, <https://apps.legislature.ky.gov/law/acts/24RS/documents/0175.pdf>

▪ **Create a Talent Pipeline Management program for the child care sector to solve industry-wide workforce challenges and encourage collaboration.** Talent Pipeline Management®, or TPM®, is a workforce program created by the U.S. Chamber of Commerce Foundation and is currently operated in Kentucky by the Kentucky Chamber Foundation. Through this program, individual industries or regions form collaboratives to work together to solve workforce challenges. The intent is to encourage industry representatives to work together to identify major challenges and implement solutions with the help of professional support staff and access to best practices. TPM collaboratives already exist in Kentucky for industries like construction, manufacturing, distilling, and equine. Drawing from these experiences, the Kentucky Chamber Foundation should develop and operate a collaborative specifically for the child care sector in partnership with other organizations specializing in child care workforce and industry issues. This would create opportunities for industry-wide conversations around solutions to the sector's unique workforce challenges with assistance from professional support staff and experiences from other sectors and industry leaders.

▪ **Study child care worker bonus retention programs in other states and work collaboratively to identify a sustainable and agreeable funding stream.** The wages of child care workers were a key discussion topic among the Collaborative's members. It was generally agreed that low wages in the sector are a source of instability, but finding consensus on a viable solution proved elusive. Stakeholders agreed that any sort of broad-based, taxpayer-funded wage supplement would be prohibitively expensive to taxpayers. Similarly, a mandated wage increase on child care providers would result in higher child care tuition prices that would burden working parents.

▪ The group did find consensus in recommending further study of bonus retention programs in other states and identifying sustainable ways to fund such a program in Kentucky. States such as Tennessee, North Carolina, Florida, Iowa, Georgia, and Wisconsin operate programs through which child care workers may apply for lump-sum bonus payments every six

months tied to their education levels and their tenure at a child care program.⁷⁰ Internal studies by North Carolina and Iowa show that such incentive programs have the effect of reducing turnover rates, which helps create more stability in the sector.⁷¹ A third-party study of a pilot program in Virginia found similar results.⁷² The Collaborative would like to see additional analysis done to understand how a program like this might be structured in Kentucky, what results we might expect to see, and how other stakeholders might view such a program.

▪ In addition, we recommend further analysis of possible ways to fund a potential bonus retention program. Identifying a specific mechanism to fund such a program was important to several stakeholders in the Collaborative; the group agreed that a recommended pay-for should accompany any recommendation to create a bonus retention program. This would set a precedent for other sectors that may request similar interventions and would limit the burden on Kentucky taxpayers as a whole.

▪ The group discussed several pay-for concepts. Opposition was voiced against utilizing new state General Fund dollars. Similarly, there was opposition against utilizing new federal dollars, even if they were designated for child care purposes. The group came closer to finding consensus in recommending that the state's Child and Dependent Care Tax Credit program be repurposed or restructured as a potential pay-for. This credit has been law since 1990 and provides working parents with a state tax credit worth 20 percent of what they receive from the federal tax credit of the same name.⁷³ While the Kentucky program's total annual cost is estimated at \$7 million to \$7.5 million, it provides an estimated average annual benefit of between \$100 and \$120 per tax filer in the state.⁷⁴ This aid is in addition to what filers receive from the federal tax credit program.⁷⁵ Several stakeholders argued that a better use of these dollars would be to fund a bonus retention program, while others raised concerns about the impacts on families. To that end, the Collaborative recommends additional analysis of the state Child and Dependent Care Tax Credit, including analysis of the families who benefit from the program as well as ways to potentially restructure it so that some of its funding could be repurposed.

⁷⁰ State programs can be viewed via the following websites:

▪ Tennessee: <https://www.tn.gov/humanservices/for-families/child-care-services/child-care-resources-for-providers/wages--mini-grants-and-more.html>
 ▪ North Carolina: <https://www.earlyyearsnc.org/programs/wages/>
 ▪ Florida: <https://www.elcmdm.org/newsroom/news-updates/the-child-care-wage-florida-program>
 ▪ Iowa: <https://iowaaeec.org/programs/wages/>
 ▪ Georgia: https://www.dec.ga.gov/documents/attachments/release_POWER-ED%204-25-2023.pdf
 ▪ Wisconsin: <https://wisconsinearlychildhood.org/programs/reward/>

⁷¹ "Results," Early Years, accessed on March 16, 2025, <https://www.earlyyearsnc.org/programs/wages/results/> and "Annual reports," Iowa Association for the Education of Young Children, accessed on March 16, 2025, <https://iowaaeec.org/programs/teach/updates-forms/#reports>

⁷² Bassok, D. et al., "The effects of financial incentives on teacher turnover in early childhood settings: experimental evidence from Virginia," The Study of Early Education through Partnerships, EdPolicyWorks at the University of Virginia, December 2021, <https://files.elfsightcdn.com/022b8cb9-839c-4bc2-992e-cefc8e877e/6de6fd54-e921-4c88-a452-ad7cabccc362.pdf>

⁷³ See KRS 141.067 and IRC Section 21.

⁷⁴ "Tax expenditure analysis: Fiscal Years 2025 – 2027," Office of State Budget Director, accessed on March 16, 2025, <https://osbd.ky.gov/Publications/Documents/Special%20Reports/Tax%20Expenditure%20Analysis%20Fiscal%20Years%202025-2027.pdf>

⁷⁵ See Boyle, C. et al., "Child and Dependent Care Tax Benefits: How they work and who receives them," Congressional Research Service, February 1, 2021, <https://www.congress.gov/crs-product/R44993>



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