Meeting the Early Learning Challenge:
Better Child Care Subsidy Policies

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Meeting the Early Learning Challenge:
Resources and Technical Assistance

CLASP is providing resources and technical assistance to states as they prepare their applications for the Race to the Top Early Learning Challenge (RTT-ELC), a grant competition to increase the quality of early childhood programs and increase the number and percentage of low-income and disadvantaged children, birth to five, in high-quality programs. For all available resources, visit www.clasp.org/childcare.

CLASP staff are available in person, via telephone and virtually to provide technical assistance on any aspect of the Early Learning Challenge application, including data, model policies, and best practices. Our staff can respond to immediate informational needs or provide ongoing support as your plan is developed and implemented. CLASP is available to provide assistance that is responsive to the needs of individual states. For more information, contact Danielle Ewen at dewen@clasp.org.

By Hannah Matthews and Danielle Ewen

For more than two million low-income children at risk of school-failure, the child care subsidy system is key to accessing quality child care and early education settings. Without a subsidy, many low-income families are unable to afford even minimal quality child care—and they surely cannot afford settings that foster healthy development and early learning to close the achievement gap. Yet, access to a subsidy itself does not guarantee access to quality; state child care assistance policies vary and the availability of quality care for low-income children is uneven.

To increase the number and percentage of low-income children, birth to five, enrolled in high-quality early education programs, states will need to undertake a critical assessment of their state child care assistance policies and make revisions that support access to high quality care and promote continuity so that children can stay in quality settings for longer periods. States have the flexibility to adopt child care policies that promote quality and that make it easier for working families to access quality settings. Given the high costs of child care that leave quality care out of reach for many low-income families, any efforts to move more low-income children into higher quality care should be done in tandem with efforts to strengthen child care assistance programs.

States should consider the following policies to improve access to quality in the Race to the Top -Early Learning Challenge (RTT-ELC):

At A Glance: Child Care Subsidy Policies to Improve Access to Quality

Support Continuity of Care

- Allow families to receive assistance for 12 months regardless of changes in family circumstance.
- Extend redetermination periods for some families.
- Limit interim reporting requirements.
- Extend job search.
- Use tiered income eligibility.
- Ensure co-payment policies are not impeding families' ability to stay in the subsidy program.

Support Subsidized Families' Access to Head Start, Pre-kindergarten Settings

- Allow providers to receive a full-day subsidy, including for hours a child spends in Early Head Start, Head Start or pre-kindergarten.
- Prioritize subsidies for eligible children in high-quality programs.

Expand the Supply of Quality Care for High Needs Children

- Provide direct contracts for high quality services.

Increase Provider Payment Rates to Support Quality

- Pay providers an amount sufficient to serve subsidized children in high quality.
- Create a timeline for raising payment rates for providers.
- Prioritize provider payment rate increases.
- Provide pay differentials for higher quality care.

Work Toward a More Integrated Early Childhood System

- Align CCDBG-funded child care and TANF-funded child care.
- Align CCDBG priority populations with RTT-ELC high needs children.
- Review child care policies to better coordinate with Title I and other locally funded early childhood programs.

Support Continuity of Care

State data on subsidy duration is a key indicator of whether the child care assistance program supports continuous access to quality care. States may wish to use the opportunity of the RTT-ELC to analyze several components of participation, including:

- Average length of subsidy use
- Reasons for exiting the subsidy program
- Average income of families entering and exiting the subsidy system
- Processes and policies associated with subsidy reporting and renewal (i.e. availability of online and automated telephone options for change reporting, adequate advance notice of upcoming redeterminations).

States can offer assistance to families in ways that maximize subsidy retention and enable high needs children to remain in early learning settings independent of fluctuations in parental employment or income.

Allow families to receive assistance for 12 months regardless of changes in family circumstance. Current research shows that on average families receive subsidies for only three to seven months.[1] The loss of a subsidy is often related to the complexities and frequency of child care subsidy redetermination, rather than changes in family income or employment. Eligible families lose their subsidies because they do not resubmit their information at the proper time, disrupting their children's care. Available studies show that very high percentages of families who leave the subsidy program remain eligible but lose their subsidy due to incomplete paperwork or other administrative burdens. These short spells and churning in and out of the system make it virtually impossible for low-income children to obtain the maximum benefits of high quality early childhood programs.

Most states have six or 12 month maximum eligibility periods for subsidies. However, variations in implementation at the local level, coupled with onerous interim reporting requirements, make annual redeterminations rare. Federal regulations allow for both annual reporting and for minimization of fraud through appropriate monitoring and reporting of status changes by families. States should adopt 12-month annual redetermination and encourage local workers to authorize 12 months of subsidies through guidance and policy directives that provide specifics to local eligibility workers to ensure that families receive maximum benefits.

States have the flexibility to include categorical eligibility requirements, including for education hours and enrollment in two-and four-year colleges, which states may include for families receiving subsidies so that changes in employment status, particularly during the recession, do not result in children losing a subsidy.

Extend redetermination periods for some families. States without 12-month eligibility periods may want to work toward a more integrated system by granting 12-month eligibility to families enrolled in Head Start, Early Head Start and state pre-kindergarten programs. Federal CCDBG guidance makes clear that states may establish different eligibility periods for children enrolled in Head Start or pre-kindergarten collaborations with child care.[2] Guidance also recommends that interim reporting and other requirements be minimized so children may continue to participate in these settings for the entire school year.

States should consider additional unique populations and strategize how to tailor granting longer eligibility periods to meet their needs. For example:

- States can grant parents who are students eligibility periods that correspond with their semesters, rather than requiring them to redetermine after a set number of months. This could be a policy for students with a minimum number of credit courses, or states could work with community colleges and four-year colleges and universities to develop policies allowing schools to do eligibility determination for some students.
- States may do an analysis of their subsidy data and distinguish among families by granting longer eligibility periods to families with more stable work histories. For example, studies have found that employed parents have longer subsidy

spells compared to parents receiving TANF. One study found that parents using subsidies while involved in job readiness or assessment activities have shorter spells and are slightly more likely than employed parents to reenter the subsidy program.[3]

Limit interim reporting requirements. The more changes that families are required to report that could potentially end eligibility for a subsidy, the more a child is likely to experience instability in a care arrangement. All states, regardless of the length of their eligibility period, can simplify their interim reporting requirements and eliminate unnecessary reporting. The following rationale should be followed to limit the burden of reporting on families:

- simplify what needs to be reported;
- make it easier for families to report;
- identify alternative ways of getting information on changes in family circumstances; and
- adjust subsidies only with certain changes that are reported.[4]

States may consider revising policies so that families are only required to report income changes over a certain threshold (i.e., 10 percent or more to their base salary) or states may allow families to retain eligibility during short-term fluctuations in hours worked, income, or child care needed. Oregon, for example, only requires changes to be reported in the following circumstances: household income exceeding the income eligibility threshold, loss of a job, a change in provider, or a parent or spouse of the child's caretaker moving in or out of the home (changing the family household size). States can evaluate their current reporting requirements and review whether each piece of information is necessary to determine continued eligibility.

If states define categories of eligibility for subsidies to include job search, education hours and other categories, and do not require interim reporting on changes, families can retain subsides during times of job loss.
It is important to note that states can authorize subsidies for longer periods and have fewer interim reporting requirements without increasing improper payments.[5] States are responsible for not only ensuring that federal funds are used for eligible families, but also for defining eligibility. Therefore, federal law allows states to design programs so that families retain subsidies with fewer reporting requirements. Improper payments only happen when payments are made for services contradicting state or federal eligibility or payment policies. If the state policy allows a family to be eligible to continue receiving a subsidy without reporting a change, the family is not being paid improperly.

Extend job search. States can extend job search periods for families with children in certain kinds of settings to ensure that children do not lose their child care during a school year or term. States can consider using alternate sources of funding to provide support during job search or periods of ineligibility.

Use tiered income eligibility. In many states, very low income eligibility thresholds for subsidies leave many high needs children without access to child care assistance. States that cannot increase their income eligibility for all families seeking subsidies may consider using tiered income eligibility to allow families to remain eligible for subsidies for a longer period of time. Using a lower income limit when making eligibility determinations for families first seeking child care subsidies and applying a higher income threshold as families are redetermined, allows children to remain in early learning settings that support their development even as their parents experience modest success in the job market.

Ensure co-payment policies are not impeding families' ability to stay in the subsidy program. CCDBG final rules suggest that for co-payments to be affordable, they should be no more than 10 percent of family income. CCDBG also permits states to exempt families below the poverty line from making a co-payment. Nationally, co-payments for families on average are 6 percent of family income.[6] Setting co-payments too high may discourage families from using subsidies and encourage them to use less costly and lower quality care. As families work toward self-sufficiency, co-payments should be affordable so families can retain subsidies and children can remain in care settings.

Support Subsidized Families' Access to Head Start, Pre-kindergarten Settings

Child care subsidy policies can create a more seamless system of early education for both providers and families. Subsidies make it easier for providers to offer high quality full-day and full-year programs often by extending the day or year for children served through Head Start, Early Head Start and state pre-kindergarten programs. The majority of parents with young children work, including low-income parents, and must arrange care for their children. Without full-day and full-year options, working families may not be able to access high quality programs for their children.

Allow providers to receive a full-day subsidy, including for hours a child spends in Early Head Start, Head Start or pre-kindergarten.

Layering child care subsidies on top of pre-kindergarten or Head Start dollars allows providers to provide a high-quality program for the full time that low-income children of working parents are in their care. In other words, rather than seeing the day as part learning and part custodial care, child care subsidies can provide funding to support meeting the highest program standards the entire time children are present. This issue is important for community- based providers since they most often lack the infrastructure resources available to public school based pre-kindergarten and need additional funding to meet high standards.

When states allow providers to receive a full-day child care subsidy, including for the hours that a child spends in Head Start or pre-kindergarten, they encourage providers to provide high-quality services for a longer period of time and build a more integrated and aligned early childhood system that allows providers to utilize resources more effectively.

Prioritize subsidies for eligible children in high-quality programs. As states consider how to create more integrated systems, they should consider prioritizing children served through pre-kindergarten, Head Start and Early Head Start or other high quality programs in underserved communities or age groups, or with other high needs for child care assistance. Prioritizing these children will help families benefit from access to full-day and full-year high quality programs.

Expand the Supply of Quality Care for High Needs Children

States can use child care subsidies to make high quality programs available for low-income children.

Provide direct contracts for high quality services. Direct contracts with child care providers through the subsidy system may be a strategy to work toward addressing multiple criteria in the Early Learning Challenge, including increasing the number and percent of low-income children in high quality settings and supporting working families. Contracts guarantee a number of child care spaces with a particular provider and, importantly, may require and support higher quality standards beyond basic state licensing regulations, thereby increasing the supply of quality care.[7] States can use contacts:

- To create child care slots meeting high quality standards, including Head Start standards, NAEYC or NAFCC accreditation, or top tiers of a QRIS;
- To extend the day for children enrolled in Head Start or pre-kindergarten programs to meet the needs of working families; and
- To support networks of family child care providers as a means of raising quality for children in home-based settings.

States may also consider establishing contracts for priority populations of high needs children, such as infants and toddlers, children with special needs, children in foster care, or English Language Learners. Through those contracts states may be able to provide enhanced rates for the services needed to effectively serve children with high needs (e.g. transportation and comprehensive services).

Increase Provider Payment

Rates to Support Quality

Only six states pay providers at the 75th percentile of market rates, the federally recommended level.[8] Raising provider payment rates may be an important strategy to expand access to high quality early learning settings for children with high needs. States may consider multiple approaches to raising rates, particularly to incentivize specific types of care.

Pay providers an amount sufficient to serve subsidized children in high quality. Providing high-quality early learning is costly. Providers must have sufficient resources to purchase and maintain materials and supplies and pay an adequate wage to teachers and staff. Children with high needs may require additional elements of quality, such as comprehensive services. For providers in low-income communities who serve children with subsidies, the payment rate determines the amount of resources available for quality improvements. With sufficient resources, providers in low-income communities may be able to make investments in better qualified teachers, supplies, materials, and other program elements they may not otherwise be able to afford. The provider payment rate also influences whether it is financially feasible for a provider to accept children who receive subsidies into their programs. This can make the difference between a child being in a licensed or license-exempt care setting. When rates are set too low, children in the subsidy system have more limited access to early learning settings.

Create a timeline for raising payment rates for providers. States can create an incremental plan, such as increases of 10 percent annually, to raise rates to at least the 75th percentile of a current market rate survey by an established date.

Prioritize provider payment rate increases. States can raise payment rates for providers by prioritizing rate increases that support the state's goal of increasing the supply of quality care. States can pay higher rates for providers meeting quality benchmarks (such as those in QRIS) or providers who conduct screenings and provide referrals for comprehensive services.

Provide pay differentials for higher quality care. As states select strategies for increasing the quality of early learning programs, they may consider using pay differentials to increase the standard payment rate for providers who meet a higher set of quality standards. Many states do this by using tiered reimbursement in their Quality Rating and Improvement System (QRIS). Providers at higher tiers of QRIS receive a higher payment for children receiving subsidies.[9] Although there has not been research specifically on tiered rates for QRIS and the amount of differential required to encourage centers to seek a higher rating, a study of rates for accredited centers found the rates had to be set at least 15 percent higher than base rates in order to encourage centers to seek accreditation.[10] Across QRIS nationally, differential rates range from 3 to 5 percent above the standard rate at the lowest levels of the QRIS and from 15 to 25 percent above the standard rate at the highest levels of the QRIS.[11]

States can also consider pay differentials, or bonus payments, for providers that meet certain standards. States should consider paying higher rates in the short-term to centers and family child care providers who can support high-quality care. For example, states can pay higher rates to:

- Providers who serve a high percentage of children defined as "high needs" in the RTT-ELC plan.
- Providers who complete coursework or training on cultural competence or have a bilingual endorsement.
- Providers caring for low-income infants and toddlers so these providers can sustain the staff salaries needed to implement recommended ratio and group sizes for infants and toddlers.
- Providers who demonstrate they have learned about core competencies by completing approved state training or reaching the highest level of a quality rating and improvement system (QRIS).
- Providers who deliver comprehensive services to high needs children or link vulnerable children to community resources.

- Providers who serve children who have been identified with developmental delays or other special needs.
- Providers who conduct screenings and referrals for comprehensive services to low-income children.

Work Toward a More Integrated Early Childhood System

As states plan for the RTT-ELC they should think across programs to create a more integrated early childhood system.

Align CCDBG-funded child care and TANF-funded child care. In some states, the door you enter to receive a subsidy and the associated funding source impacts the duration of your subsidy, the amount of your subsidy, and other important policies. Regardless of whether TANF-funded child care is administered in a separate agency, states can review TANF child care policies for differences and adopt common policies, such as eligibility processing, application and renewal, and provider payment policies) to create a more seamless early childhood system.

Align CCDBG priority populations with RTT-ELC high needs children. States must prioritize child care assistance for families with very low incomes and children with special needs as defined by the state. States should review their definitions for these categories and ensure that they align with high needs children identified through the RTT-ELC plan. States may also choose to provide subsidies, and prioritize for services, children who are in need of protective services regardless of parental employment.

Review child care policies to better coordinate with Title I and other locally funded early childhood programs. States can align guidance and policies to be sure that children are eligible for multiple early childhood funding sources and to encourage full-day and full-year programming for children receiving subsidies.

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[1] Roberta B. Weber and Elizabeth E. Davis, *Continuity and Stability Dynamics of Child Care Subsidy Use in Oregon*, 2002, http://www.nccp.org/publications/pub_478.html.

[2] U.S. Department of Health and Human Services, Administration for Children and Families, *Eligibility Determination for Head Start Collaboration*, http://www.acf.hhs.gov/programs/ccb/law/guidance/current/pq9902/pq9902.htm.

[3] Weber and Davis, 2002.

[4] Gina Adams, Kathleen Snyder, Patti Banghart, *Designing Subsidy Systems to Meet the Needs of Families: An Overview of Policy Research Findings*, Urban Institute, 2008, http://www.urban.org/UploadedPDF/411611_subsidy_system.pdf.

[5] U.S. Department of Health and Human Services, Administration for Children and Families, *Program Instruction CCDF-ACF-PI-2010-06—Program Integrity, Financial Accountability, Access to Child Care*, 2010, http://www.acf.hhs.gov/programs/ccb/law/guidance/current/pi2010-06/pi2010-06.htm.

[6] Office of Child Care, *FFY 2009 CCDF Data Tables (Preliminary Estimates)*, http://www.acf.hhs.gov/programs/ccb/data/ccdf_data/09acf800_preliminary/list.htm.

[7] See Hannah Matthews and Rachel Schumacher, *Ensuring Quality Care for Low-Income Babies: Contracting Directly with Providers to Expand and Improve Infant and Toddler Care*, CLASP, http://www.clasp.org/admin/site/publications/files/0422.pdf.

[8] Karen Schulman and Helen Blank, *State Child Care Assistance Policies 2010: New Federal Funds Help States Weather the Storm*, National Women's Law Center, 2010.

[9] For this strategy to be successful in supporting higher quality care, differentials should be built on adequate base rates and provide increases sufficient to support the costs of high-quality.

[10] Gormley, William T. Jr. and Jessica K. Lucas: "Money, Accreditation, and Child Care Center Quality," Georgetown University Public Policy Institute, August 2000.

[11] Child Trends and Mathematica Policy Research, *Compendium of Quality Rating Systems and Evaluations*, Prepared for U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning Research, and Evaluation, 2010, http://www.acf.hhs.gov/programs/opre/cc/childcare_quality/.