Center for Law and Social Policy

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Child Care for Low-Income Families Since 1996

Implications for Federal and State Policy

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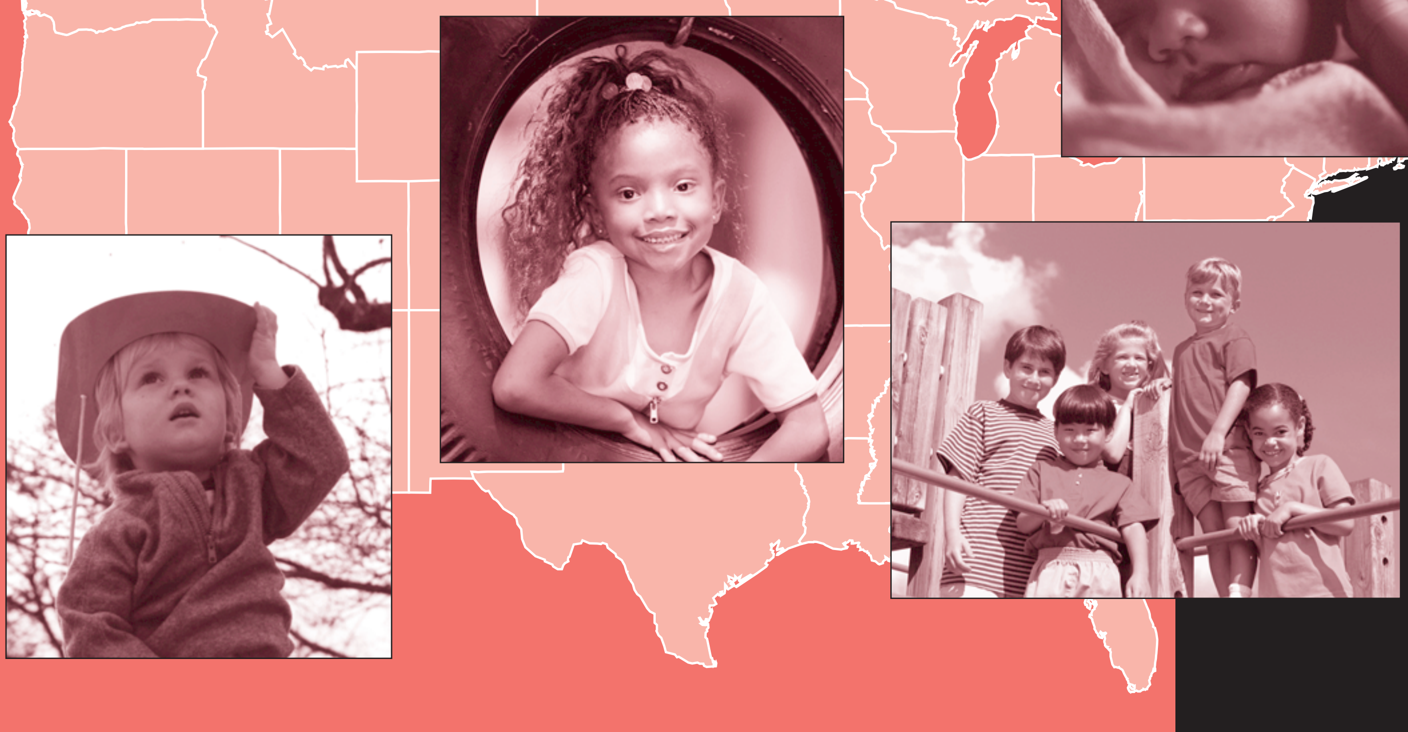

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Center for Law and Social Policy
1015 15th Street, NW, Suite 400
Washington, DC 20005
(202) 906-8000 voice
(202) 842-2885 fax
www.clasp.org

Table of Contents

Executive Summary

Later this year, Congress will reauthorize the Child Care and Development Fund (CCDF) and the Temporary Assistance for Needy Families (TANF) block grants, both of which were created in the sweeping changes brought about by the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). A major focus of PRWORA was increased devolution of policy choices to the states from the federal government in a variety of programs for low-income families, including child care. With few specific requirements leaving them broad room for discretion and flexibility, states have been able to operate their child care programs in a variety of ways.

During the reauthorization process, policymakers and the public will want to know what has happened to child care since the 1996 policy changes. Although federal child care data and analysis can offer some guidance, one cannot get a true sense of the strengths and weaknesses of the child care subsidy system, the changes that have come about since 1996, and the impact of these changes on low-income families without taking an in-depth look at state experiences. This report represents the results of a project that the Center for Law and Social Policy (CLASP) has conducted with organizations in five states to examine the experiences of low-income parents, child care providers, and state child care systems in Illinois, Iowa, Maine, Texas, and Washington. The five private, state-based, non-profit groups that conducted the research upon which this report is based are:

- Day Care Action Council of Illinois,
- Child and Family Policy Center of Iowa,
- Child Care Services of York County (Maine) (who partnered with University of Southern Maine Child Care and the People's Regional Opportunity Project),
- Center for Public Policy Priorities (Texas), and
- Washington State Child Care Resource and Referral Network.

This full report by CLASP synthesizes findings from the five separately published reports and puts them into a national context (see p. 81 for information about how to obtain copies of the separate reports on the five states).

What Has Happened to State Child Care Programs Since 1996?

In PRWORA, in addition to making dramatic changes in the welfare system, Congress altered the funding and policy structure of the major federal funding sources for child care by consolidating several pre-existing low-income child care subsidy programs into the CCDF and allowing states to use TANF funds for child care. The experiences of these states and the nation in implementing PRWORA's changes indicate that strides have been made in improving the child care system as both a work support and source of access to early educational opportunities. States have dramatically increased their child care spending since 1996, as well as the number of children receiving subsidies. Furthermore, Congress's requirement of a minimum 4 percent set-aside of CCDF funds for efforts to improve child care quality has given states targeted funds, which they have used to improve the quality of their child care systems.

However, despite these improvements, much work needs to be done, and the progress that has been made is threatened by the deteriorated economic conditions in many states. Today, most children who are eligible for child care subsidies under federal law do not receive them. This unmet need is principally due to the limited resources in state child care systems, which force states to adopt eligibility limits, copayments, and provider reimbursement rate policies that constrain parents' access to child care subsidies and to a broad array of child care providers. In addition, even though states have invested in improving child care quality, these investments often only reach a limited share of providers, children, and families. Moreover, the nation's economic downturn and state budget crises are forcing states to make difficult budget decisions. Federal resources and leadership will be necessary if states are going to meet the twin challenges of protecting the child care improvements they have made over the last five years and of building on these accomplishments to increase access to care and improve the quality of that care.

Findings from this Study

Funding for Child Care: Significant Increases But an Uncertain Future. The national funding situation for child care is a story of increasing funding in recent years and of deteriorating economic conditions that could jeopardize programmatic gains. Between FY 1997 and FY 2000, total child care spending doubled. The vast bulk of the increased spending came from federal dollars, with the federal share growing from about two-thirds to three-quarters of total child care spending. Federal TANF dollars have accounted for much of the increase in child care funding, but these funds may be less available as states face faltering economies and increasing caseloads. Furthermore, state economic troubles and budget shortfalls are making it increasingly difficult for states to maintain child care funding and meet CCDF matching requirements. A number of states have already had to make this painful choice and have cut funding for child care and other low-income programs.

Unmet Need for Child Care Subsidies: Demand Continues to Outstrip Supply. The numbers of families and children receiving subsidy assistance have increased substantially since 1996; at the same time, so have the numbers of families and children in need of such assistance. As a result, even though the number of families receiving child care subsidies has grown, most eligible families still do not receive assistance. Many low-income families currently paying for child care do not receive subsidy assistance; many others rely on informal, unpaid arrangements. While the primary reason for this unmet need is limited state resources for child care assistance, low-income families may not be able to access child care subsidies for a variety of reasons including waiting lists, low eligibility standards, high copayments, priority for TANF recipients and/or leavers, limited outreach, and administrative complexity for families seeking or receiving such assistance.

An Unmet Challenge: Assuring Access to a Broad Range of Child Care. Low-income families with subsidies are more likely to access formal and regulated child care than their peers without a subsidy. However, low payment rates and insufficient supply of necessary and appropriate child care may be limiting the ability of these families to access a broad range of care. Moreover, despite recent state initiatives, the supply of specialized types of care (including care for infants, toddlers, school-aged children, children with special needs and other disabilities, and children whose parents work non-traditional hours) remains limited for families inside and outside the subsidy system.

Enhancing Quality and Promoting Early Learning: Creative State Initiatives, Still Not Enough Quality Child Care. Research confirms the importance of placing children in quality child care settings with nurturing child care providers who are educated in child development and adequately compensated. Although the majority of subsidized children are cared for in licensed settings, there is little data about the quality of these settings, and even less information about the quality of license-exempt and informal child care settings. Recent increases in child care funding may have helped low-income families afford higher quality care than they would otherwise be able to access. States have expanded funding for quality, due to both the required set-aside in the CCDF and freed-up TANF dollars, and have begun many promising initiatives to improve the quality of child care in their states. However, these initiatives are often small in scale, and states would benefit from expanded resources to reach more providers and children. In addition, policymakers would benefit from more resources devoted to research and evaluation tools and technical assistance to study state child care initiatives. All five of the states profiled in this report have taken steps to pay, educate, and train teachers better and to improve basic health and safety in programs, but they are struggling to maintain and expand these efforts in the face of state budget shortfalls.

Recommendations for Reauthorization

This report offers recommendations for federal policymakers in five areas: funding, quality, administrative barriers, access to a broad array of care, and data collection.

Expand Funding

- Increase significantly the Child Care and Development Fund's mandatory funding — with the goal of eventually being able to serve all eligible children.
- Increase the TANF block grant to account for inflation and maintain current state access to TANF funding for child care.
- Eliminate federal rules that restrict use of TANF for child care.

Improve Quality

- Increase the percentage set-aside to improve the quality and availability of child care as total CCDF funding increases.
- Require states to apply the same health and safety requirements to child care providers who serve children with subsidies funded through direct TANF expenditures and those who serve children with subsidies funded through CCDF expenditures.
- Encourage states to undertake compensation and training initiatives for child care providers and to launch other efforts to improve the quality of existing child care settings.
- Provide federal leadership and incentive funding to states to develop strategic plans to promote universal access to early care and education opportunities for all young children from birth to age five.

Provide Access to a Broad Array of Care

- Require states to demonstrate in their State Plans that they are giving parents the choice of a high-quality early education program.
- Require that states base child care payment rates on a current market survey and set rates that are sufficient to purchase a broad range of high quality care in the local market, with enhanced rates or tiered rate structures as needed to ensure access for children with disabilities or other special needs, infants and toddlers, and children whose parents work non-traditional hours.
- Require states to submit their market rate surveys, descriptions of their survey methodology, and payment rates with their State Plans.

Lower Administrative Barriers

- Require states to describe in their State Plans (as well as in annual reporting) their efforts to enhance accessibility, affordability, and continuity of care and to post this submission on their states' web sites.
- Allow states to provide six months of child care assistance to families who are leaving welfare without any additional application or recertification requirements.
- Require states to continue to provide child care subsidies to income-eligible families for a reasonable period of time after job loss and while families are engaged in job searches.

Improve Data Collection and Reporting

- Require that TANF funds used for child care be subject to simplified and improved CCDF data collection requirements.
- Provide funding for the Secretary of the U.S. Department of Health and Human Services to give grants for research to investigate the quality of early learning experiences funded by CCDF and the impact of participating in CCDF-funded child care on child well-being from birth through school age.
- Make funding available to states to survey low-income parents (both those receiving subsidies and those who are not) to determine the barriers they face in accessing the subsidy system and quality child care.
- Make funding available to states to conduct surveys of child care providers (both those who participate in the subsidy system and those who do not) in order to identify means of improving access, provider participation, affordability, and quality of care.

Conclusion

States have used CCDF and TANF funds to invest in improvements to their child care programs' capacity and quality. However, states have had to make difficult policy trade-offs in the areas of the accessibility, affordability, and quality of child care. Many families who could use child care assistance and benefit from such assistance remain unserved. Moreover, much remains to be done to improve the quality of child care and to assure that low-income children are provided with early education opportunities. At the same time, the majority of states are now facing budget shortfalls and TANF caseload increases, which will require a reallocation of TANF funds that have been used for child care over the last five years. Therefore, additional federal funding and strong federal leadership are essential if states are to make continued progress in expanding access to child care for low-income families, improving the quality of child care, and ensuring early education opportunities for all children

Introduction

Later this year, Congress will reauthorize the Child Care and Development Fund (CCDF) and the Temporary Assistance for Needy Families (TANF) block grants, both of which were created in the sweeping changes brought about by the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA). A major focus of PRWORA was increased devolution of policy choices to the states from the federal government in a variety of programs for low-income families, including child care. With few specific requirements leaving them broad room for discretion and flexibility, states have been able to operate their child care programs in a variety of ways.

During the reauthorization process, policymakers and the public will want to know what has happened to child care since the 1996 policy changes. Although federal child care data and analysis can offer some guidance, one cannot get a true sense of the strengths and weaknesses of the child care subsidy system, the changes that have come about since 1996, and the impact of these changes on low-income families without taking an in-depth look at state experiences. This report represents the results of a project that the Center for Law and Social Policy (CLASP) has conducted with organizations in five states to examine the experiences of low-income parents, child care providers, and state child care systems in Illinois, Iowa, Maine, Texas, and Washington. This report synthesizes findings from five separately published reports and puts them into a national context.

What Has Happened to State Child Care Programs Since 1996?

In 1996, Congress recognized that addressing the accessibility, affordability, and quality of child care was a critical piece of any national policy designed to support workforce participation and child well-being. As a result, the 1996 welfare law not only made dramatic changes to the nation's welfare system, it also altered the funding and policy structure of the major federal funding sources for child care. PRWORA consolidated several pre-existing low-income child care subsidy programs into the CCDF[1] and allowed states to use TANF funds for child care.

The experiences of these states and the nation indicate that strides have been made in improving the child care system as both a work support and a source of access to early educational opportunities. Since 1996, states have dramatically increased child care spending and the number of children receiving subsidies. Furthermore, states have used targeted quality funds to improve the quality of their child care systems.

However, despite these improvements, much work needs to be done, and the progress that has been made is threatened by the deteriorated economic conditions in many states. Today, most children who are eligible for child care subsidies under federal law do not receive them. This unmet need is principally due to the limited resources in state child care systems, which force states to adopt eligibility limits, copayments, and provider reimbursement rate policies that constrain parents' access to child care subsidies and to a broad array of child care providers.[2] In addition, even though states have invested in improving child care quality, these investments often only reach a limited share of providers, children, and families. Moreover,

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[1] See page 9 for a history of the consolidation of four child care subsidy programs (AFDC Child Care, Transitional Child Care, At-Risk Child Care, and the Child Care and Development Block Grant) into one unified program. This unified program was named the Child Care and Development Fund (CCDF) in regulations issued by the U.S. Department of Health and Human Services in 1998. 63 Fed. Reg. 39936 (July 24, 1998). This report will refer to this unified program as CCDF.

[2] Karen Schulman, Helen Blank, and Danielle Ewen, *A Fragile Foundation: State Child Care Assistance Policies* (Washington, DC: Children's Defense Fund, November, 2001) [hereinafter CDF, *Fragile Foundation*].

the nation's economic downturn and state budget crises are forcing states to make difficult budget decisions. Federal resources and leadership will be necessary if states are going to meet the twin challenges of protecting the child care improvements they have made over the last five years and of building on these accomplishments to increase access to care and improve the quality of that care.

The CLASP State Child Care Experience Project

CLASP worked with five state-based, private, nonprofit groups to help develop the findings for this report. These groups, which include policy analysts, advocates, and providers of child care resource and referral services to families and providers, are:

- Day Care Action Council of Illinois,
- Child and Family Policy Center of Iowa,
- Child Care Services of York County (Maine) (who partnered with University of Southern Maine Child Care and the People's Regional Opportunity Project),
- Center for Public Policy Priorities (Texas), and
- Washington State Child Care Resource and Referral Network.

The five states were chosen for diversity of geography, size, and type of child care system. Representatives from the state groups attended a June 2001 meeting in Washington, DC, to discuss their state child care systems and identify common issues for investigation and analysis. Then, over the next seven months, the state organizations engaged in the following activities:

- Analyzed quantitative data;
- Conducted focus groups and interviews with state child care stakeholders (parents, providers, state and local child care and welfare agencies, resource and referral organizations, and other social service advocates and providers) about their perspectives of the workings of the state child care system; and
- Wrote individual reports based on this quantitative and qualitative data gathering (the full state reports are available from the state organizations — see p. 81 for more information).

CLASP staff also visited each state, meeting with the state-based groups and speaking with stakeholders. The results of these efforts are five reports documenting the child care experiences of these states and this overall piece written by CLASP, which draws from the state reports to identify lessons and recommendations. The executive summaries from the five state reports can be found in the Appendix (p. 65).

This report is organized into seven chapters. Chapter One offers a primer on federal child care policy, providing background on the creation of CCDF from prior child care subsidy programs, an overview of the funding and legal requirements of CCDF, and definitions of key terms and concepts. Chapter Two summarizes the child care experiences since 1996 of the five states profiled in this report. Chapter Three, "Funding for Child Care: Significant Increases But an Uncertain Future," discusses the current child care funding situation in the nation and in the five profiled states. Chapter Four, "Unmet Need for Child Care Subsidies: Demand Continues to Outstrip Supply," examines the number of children who are being served with child care funding and documents the extent of unmet need for child care subsidies — that is, it describes how many eligible children are not receiving child care subsidies and the consequences of this unmet need. Chapter Five, "An Unmet Challenge: Assuring Access to a Broad Range of Child Care," discusses the effectiveness of child care subsidies by examining whether low-income families who receive subsidies have access to a broad array of child care arrangements. Chapter Six, "Enhancing Quality and Promoting Early Learning: Creative State Initiatives, Still Not Enough Quality Child Care," examines issues relating to the quality of the child care arrangements that parents can access. This report concludes with a series of recommendations for TANF and CCDF reauthorization. While we have drawn from the experiences and insights of our state partners, CLASP is solely responsible for the recommendations contained in this report.

I. A Primer on Federal Child Care Policy

In order to understand this study's findings, some familiarity with the outlines of federal child care policy is necessary. This chapter offers a brief overview of the structure and recent history of the federal subsidy program, an explanation of how federal and state child care funds are organized, and discussions of how federal child care policy addresses key concepts in child care: eligibility, affordability, accessibility, and quality.

Structure and History of the Federal Subsidy Program

PRWORA made dramatic changes to the federal laws governing both welfare cash assistance and child care subsidies. Prior to the passage of PRWORA, there were four major sources of funding for child care subsidies for low-income families. The Family Support Act of 1988 created two individual entitlements for families — Aid to Families with Dependent Children (AFDC) Child Care for welfare recipients who were working or participating in education or training and Transitional Child Care (TCC), a year of guaranteed child care assistance, for families transitioning from welfare to work.[3] In 1990, Congress added funding for the At-Risk Child Care Program, which provided $300 million per year in mandatory funding for states to provide child care assistance to families who were "at risk" of receiving welfare — that is, low-income working families who were not receiving AFDC or TCC. AFDC Child Care, TCC, and At-Risk Child Care all required a state match to draw down federal funding.

In 1990, Congress also created the Child Care and Development Block Grant (CCDBG), which provided unmatched discretionary funding (subject to annual Congressional appropriations) to states to provide child care assistance to children ages 0-12 with family income under 75 percent of State Median Income (SMI) and whose parents were working or participating in education and training. States were required to spend 25 percent of their CCDBG funds on activities designed to improve the quality of child care and expand the availability of before and after school programs and early child development services.[4]

In PRWORA's TANF provisions, Congress eliminated the entitlement to cash assistance, placed a five-year maximum time limit on receipt of federally-funded assistance, and imposed stringent work and child support cooperation requirements. Congress also consolidated the four major low-income child care subsidy programs described above and applied CCDBG rules to subsidies funded under this program. This unified program was later named the Child Care and Development Fund (CCDF) by the U.S. Department of Health and Human Services (DHHS) in regulations. In addition to this consolidation, Congress increased funding for CCDF and eliminated the individual entitlements to child care for welfare recipients and individuals leaving welfare due to employment. Congress reduced the set-aside requirement from 25 percent to 4 percent. However, the 4 percent set-aside applies to funds from the entire consolidated block grant as opposed to just the CCDBG funds. Congress also adopted an explicit federal protection from sanctions for single parents with children under age six who were receiving TANF assistance and could not meet work requirements because of a demonstrated inability to obtained needed care.

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[3] P.L. 100-485, 100th Congress, October 13, 1988.

[4] Helen Blank, *The Child Care and Development Block Grant and Child Care Grants to the States Under Title IV-A of the Social Security Act: A Description of Major Provisions and Issues to Consider in Implementation* (Washington, DC: Children's Defense Fund, 1991), at p. iii.

Funding

The major sources of funding for child care subsidies are CCDF and TANF.

CCDF Funding

The CCDF funding structure has its roots in the funding structure of the three AFDC-related child care programs and CCDBG. CCDF funding is divided into three streams of federal funds and two state streams described below.[5]

Child Care and Development Fund Block Grant Funding Structure

- **Federal mandatory funds that *do not* require a state match.** These funds are automatically available each year and are not subject to the annual Congressional appropriations process. The amount of unmatched mandatory funding each state receives was calculated to represent the highest of the amount the state received in FY 1994, FY 1995, or the average of FYs 1992-1994 under the AFDC Child Care, TCC, and At-Risk Child Care programs. These funds were authorized at $1.24 billion in FY 2002.
- **Federal mandatory funds that *do* require a state match, sometimes referred to as "federal matching funds."** These funds are automatically available each year and are not subject to the annual Congressional appropriations process. These funds were authorized at $1.48 billion in FY 2002.
- **Federal discretionary funds that do not require a state match.** These funds must be appropriated each year by the Congressional appropriations committees. These funds were authorized at $2.1 billion in FY 2002.
- **State maintenance-of-effort (MOE) funds.** In order to receiver federal matching funds, a state must spend state dollars on child care equal to the amount it spent on AFDC Child Care, TCC, and At-Risk Child Care in either FY 1994 or FY 1995, whichever level was higher. The FY 2002 MOE requirement is $887.6 million.
- **State matching funds.** Once a state meets its MOE requirement, the state can put up state funds that will draw down the federal matching funds described above. States would have had to put up a maximum of $1.15 billion in FY 2002 to draw down the entire amount of federal matching funds.

[5] Mark Greenberg, Joan Lombardi, and Rachel Schumacher, *The Child Care and Development Fund: An Overview* (Washington, DC: Center for Law and Social Policy, 2000). FY 2002 allocation levels from U.S. Department of Health and Human Services, Administration for Children and Families, Child Care Bureau, *Child Care and Development Fund State FY 2002 CCDF Final Allocations and Earmarks,* ACYF-IM-CC-02-01 (issued January 25, 2002).

TANF Funds[6]

Congress also gave states the flexibility to use federal TANF funds for child care. States receive $16.5 billion a year in basic TANF funding. States can use these funds for child care in two ways, through transfers or direct spending. First, states may transfer as much as 30 percent of their current year TANF funds to CCDF, and as much as 10 percent to the Social Services Block Grant (SSBG), provided that the total amount transferred does not exceed 30 percent.[7]

> Example: *State A transfers 9 percent of its TANF funds to SSBG. State A can transfer as much as 21 percent of its TANF funds to CCDF. State B transfers no funds to SSBG. State B can transfer 30 percent of its TANF funds to CCDF.*

When states transfer funds to CCDF or SSBG, those dollars become subject to the rules and data-reporting requirements of those block grants. Funds that are transferred to CCDF are considered discretionary funds for spending and reporting purposes.

Second, states may also directly spend TANF funds on child care. If such funds are spent directly on subsidies for individuals who are not employed, such funds count as "TANF assistance" and trigger time limits and work and child support requirements, unless they can be classified as "nonrecurrent short-term benefits." TANF dollars spent directly on child care are not subject to CCDF rules or data-reporting requirements.

Finally, Congress provided that states may count certain state spending on child care toward their MOE requirements for TANF. Every state must meet an annual TANF MOE requirement, generally set to reflect 75-80 percent of the amount that the state had been spending under a set of programs for low-income families that were repealed when TANF was enacted (i.e., AFDC, the JOBS Program, Emergency Assistance, and the former IV-A child care programs — AFDC Child Care, Transitional Child Care, and At-Risk Child Care). Nationally the aggregate TANF MOE amount is about $10.4 billion (at the 75 percent level) to $11.2 billion (at the 80 percent level) each year. A state can satisfy MOE obligations through non-federal spending that meets a TANF purpose[8] for members of "needy" (i.e., low-income) families with children; child care spending for needy families would therefore satisfy MOE requirements. States can count the same dollars they spend for CCDF MOE towards TANF MOE because the TANF MOE level was set to reflect prior IV-A child care spending. A state may also count other state child care expenditures (but not the state match used to draw down federal CCDF matching funds) above its CCDF MOE requirement towards TANF MOE.

> Example: *State C spends $20 million in state funds on child care. Its CCDF MOE requirement is $5 million, it puts up $10 million in state funds to draw down its full federal matching allotment of CCDF matching funds, and it devotes an additional $5 million in non-matching state spending on child care. State C may count the $5 million in CCDF MOE funds and the $5 million of non-matching funds towards its TANF MOE requirement. The $10 million in state matching funds cannot be counted towards meeting the TANF MOE requirement.*

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[6] For more information on use of TANF funds for child care, see Rachel Schumacher, Mark Greenberg, and Janellen Duffy, *The Impact of TANF Funding on State Child Care Subsidy Programs* (Washington, DC: Center for Law and Social Policy, September, 2001) [hereinafter CLASP, *The Impact of TANF Funding on State Child Care Programs*].
[7] SSBG funds can also be spent on child care.
[8] The TANF purposes are: provide assistance to needy families so that children may be cared for in their homes or in the homes of relatives; end the dependence of needy parents on government benefits by promoting job preparation, work, and marriage; prevent and reduce the incidence of out-of-wedlock pregnancies and establish annual numerical goals for preventing and reducing the incidence of these pregnancies; and encourage the formation and maintenance of two-parent families. 42 U.S.C. § 601(a) (2001).

Accordingly, when looking at state child care spending under the TANF and CCDF structures, one cannot simply add the CCDF and TANF MOE figures together. It is important to adjust for the fact that a state may be counting the same dollars in both structures up to the limit of the lower CCDF MOE level.

> Example*: State D spends $5 million in state funds in CCDF MOE and $7 million in TANF MOE on child care. One cannot add the two figures together and say that State C spent $12 million in MOE funds on child care. It is likely that much or all of the $5 million counted toward CCDF MOE is also counted in the TANF MOE total. So therefore it is more accurate to say that the state probably spent a total of $7 million on child care through MOE funds because the TANF MOE requirement is the higher of the two programs.*

CCDF Eligibility Requirements for Families

Under federal law, in order to qualify for CCDF subsidies, a child must:

(1) be age 12 or under (or, at the option of the state, be under age 19 and physically or mentally incapable of caring for himself or herself, or under court supervision);

(2) be in a family with income under 85 percent of SMI (which can be waived for children in protective services or, in some cases, foster care); and

(3) reside with a parent who is working or participating in education or training or a parent who is not working or participating in education or training if the child is receiving or in need of receiving protective services.[9]

States have discretion in how they define many of the above requirements (i.e., "working," "residing," "protective services"). They also can, and generally do, set their income limits below 85 percent of SMI.

Affordability

States must charge families receiving child care subsidies a copayment on a sliding fee basis, which must account for income and family size and can consider other factors as well. This fee can be waived for families with income below the federal poverty level and on a case-by-case basis for children in protective services. The CCDF regulations require that copayments must be affordable so that parents who receive subsidies have "equal access to as broad an array of child care providers as parents who do not receive subsidies because their incomes exceed 85 percent of SMI.[10] DHHS has recommended that copayments should not exceed 10 percent of a family's income.[11]

Accessibility

In addition to the copayment requirement of "equal access," states are required to certify that they are setting their payment rates to child care providers at a level that will ensure "equal access" for subsidized families. States may choose to pay providers: (1) through certificates or vouchers issued to families that are used to obtain care and for which the providers then receive payment from the state; or (2) through a direct contract payment to providers for the provision of a certain number of slots for subsidized children.

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[9] 45 C.F.R. § 98.20(a)(1) (2001).
[10] 45 C.F.R. § 98.43(b)(1).
[11] 63 Fed. Reg. at 39960.

CCDF regulations require that all parents be given a choice of a voucher.[12] Current CCDF regulations require states to report to DHHS that their provider payment rates are adequate to ensure equal access. They also must provide a summary of the facts they relied upon to make this determination, including facts that show that payment rates are adequate based on a market rate survey conducted no earlier than two years prior to the effective date of the CCDF state plan.[13] Also, DHHS guidance instructs states that market rates set at least at the 75th percentile of the regional or state provider market will be considered adequate to meet the equal access provisions of the CCDF statute.[14] Payment rates at the 75th percentile would mean that 74 percent of the child care providers in the relevant child care market charge at or below the payment rate and 25 percent charge more.

Quality

States are required to spend a minimum of 4 percent of CCDF mandatory, federal and state matching, and discretionary funds (including transferred TANF funds) on activities designed to improve the quality and availability of child care in the state. States have broad discretion in defining those activities. States can spend these funds on the following activities:

- Ensuring that families have access to resource and referral services;
- Helping child care providers meet state or local child care standards, including health and safety standards;
- Improving the monitoring and enforcement of provider compliance with state or local requirements;
- Providing training and technical assistance to child care providers in such areas as health and safety, nutrition, first aid, recognizing communicable diseases, detecting and preventing child abuse, and caring for children with special needs;
- Improving compensation (salaries and/or fringe benefits) for child care providers;
- Providing health consultations for child care providers; and
- Any other activities designed to promote quality.[15]

In PRWORA, Congress required that states certify in their state plans that there are health and safety requirements to which child care providers (except for most relatives) who serve children with CCDF-funded subsidies are subject.[16] (Providers who only receive child care funding from direct TANF expenditures are not subject to these requirements unless states elect to extend the requirements to such providers.) At a minimum, these requirements must include prevention and control of infectious diseases, including immunization requirements for most children, building safety requirements, and minimum health and safety provider training.[17]

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[12] 45 C.F.R. § 98.15(a)(2); 45 C.F.R. § 98.30(a). Note that in referring to grants or contracts, 45 C.F.R. § 98.30 has qualifying language saying that parents must have the option to enroll with a provider that has a grant or contract if such services are available. There is no similar qualifying language in 45 C.F.R. § 98.15(a)(2).
[13] 45 C.F.R. §§ 98.43(a) & (b)(2). State Plans must be resubmitted every two years.
[14] 63 Fed. Reg. at 39959.
[15] 45 C.F.R. § 98.51.
[16] 45 C.F.R. §§ 98.15(b)(5) & 98.41(a).
[17] 42 U.S.C. § 9858c(c)(F).

II. Profiles of the Child Care Systems in Five States

The child care experiences of five states — Illinois, Iowa, Maine, Texas, and Washington — are drawn from throughout this report to illustrate national trends, and innovative policy and program initiatives from the states offer guidance for federal and state policymakers. In this chapter, we offer brief descriptions of each state's overall child care system, as well as a table reflecting income eligibility levels and copayment policies in the five states. For more detailed information about these states' experiences, refer to the individual state reports (see p. 81 for information on how to obtain these reports). Executive summaries of these state reports can also be found in the Appendix.

Illinois

Illinois has created a seamless child care system with a guarantee of services to all families below the state's income eligibility level regardless of their connection to the welfare system (however, this guarantee is not in the form of a statutory entitlement). The state has invested a great deal of CCDF funds, TANF funds (both federal and state), and additional state resources in the child care system over the past five years yet is currently serving a slight majority of the children who are eligible for subsidies under state law. However, in order to keep this commitment, the state has had to set relatively low income-eligibility limits. These low limits produce a "cliff effect" for families, meaning that a small increase in income at a relatively low income level can result in a family becoming ineligible for care and having to pay a provider's full charge without any state assistance. Reimbursement rates in Illinois are also relatively low, which might be one of the reasons that so many of Illinois' subsidized children are in less expensive care that is not subject to state licensing regulations care. Illinois has invested resources in supply- and quality-building initiatives, but parents, providers, and advocates feel that more needs to be done to implement statewide system reforms. Although Illinois is facing budget troubles, the state has not decreased its commitment and investment in the child care system.[18]

Iowa

Iowa has increased the number of children to whom it provides child care subsidies since 1996, although its eligibility levels remain low compared to most of the country. The state has attempted to keep child care affordable for individuals below the poverty level by not charging a copayment. Additionally, the state has sought to keep child care accessible through reimbursement rates set at the 75th percentile for licensed child care centers and registered (regulated) family child care homes (although these rates are based on an out-of-date 1998 market rate survey). However, as in Illinois, low eligibility levels produce cliff effects for families, which are exacerbated by copayments that can escalate rapidly as soon as a family's income rises above 100 percent of poverty. Iowa has attempted to improve the quality of child care arrangements, but the lack of resources makes it difficult for these investments to produce far-reaching results. Furthermore, whatever progress Iowa has made over the last five years is being threatened by the state's economic downturn, which has prompted Iowa's governor to call for a 4.3 percent across-the-board budget cut. The effects of this planned cut on Iowa's child care programs are not yet known.[19]

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[18] Kathy Stohr, Susie Lee, and Sessy Nyman, *The Illinois Child Care Experience Since 1996: Implications for Federal and State Policy* (Chicago, IL: The Day Care Action Council of Illinois, February, 2002) at pp. 7-8, 11, 13-14, 18, and 27 [hereinafter *Illinois Child Care Experience*].

[19] Charles Bruner, Betsy Marmaras, and Abby Copeman, *The Iowa Child Care Experience: Implications for Federal and State Policy* (Des Moines, IA: The Child and Family Policy Center of Iowa, February, 2002), at pp. 19-20, 21, 25, 26-28, and 31 [hereinafter *Iowa Child Care Experience*].

Maine

Maine has invested in every aspect of its child care system, and its child care program's policies meet federal guidelines in terms of eligibility (children in families with the maximum income of 85 percent of SMI are eligible for subsidy), accessibility (reimbursement rates are set at the 75th percentile based on a recent market rate survey), and affordability (no family in the subsidy system pays more than 10 percent of its income in copayments, although all families — even those below poverty — must make a copayment.). The state has also invested in various initiatives to bolster the supply and quality of care. However, due to lack of resources and limited supply of certain types of care, many eligible Maine families do not receive subsidies or cannot access formal care. The state currently has a subsidy waiting list of approximately 2,000 families. Maine has cut $3.7 million in state child care funds from the FY 2002 budget. The state has made up the difference with increased transferred TANF funds and will use new federal CCDF funds to increase overall child care spending.[20]

Texas

Texas has devolved the authority for operating its child care system to local workforce development boards. The state government sets overall policy but gives localities a great deal of discretion in setting eligibility levels, copayment requirements, and reimbursement rates. Localities have increasing responsibility for raising local match dollars to draw down federal child care matching funds. Overall, the state has increased state funding, taken advantage of new federal funds for child care, and is serving more children than it was in 1996. However, there still are approximately 38,000 children on subsidy waiting lists throughout the state. The devolution of operational responsibility has allowed well-resourced local workforce boards with creative leadership to develop innovative programs to address quality and access issues for parents, while children in areas administered by boards with limited financial and/or leadership resources may be suffering. (However, the Texas Workforce Commission, the state agency that administers the child care program, notes that less than one half of one percent of the funds had to be reallocated in FY 2002 because boards could not meet their local match requirement.) Although these inequities might argue for strong state leadership and oversight to promote equity, state investment in child care is projected to decline. Moreover, the state has not taken full advantage of TANF funds to allow the state to serve more children and is now no longer using these funds in its child care system.[21]

Washington State

Washington state operates a seamless subsidy system that treats all eligible applicants equally. The state has used the increased dollars from CCDF and TANF to increase eligibility levels for child care subsidies to 225 percent of poverty and to make substantial investments in a wide variety of supply- and quality-building initiatives. Much of this investment has been accomplished with redirected TANF funds. Additionally, Washington is in the process of implementing new application and recertification procedures that will make it much easier for parents to obtain and keep subsidies. Despite these investments, however, the state still only reaches about one-quarter of federally eligible families, a rate which might be in part attributable to a

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[20] William Hager, Allyson Dean, and Judy Reidt-Parker, *Child Care, Money and Maine: Implications for Federal and State Policy* (Sanford, ME: William Hager, Allyson Dean, and Judy Reidt-Parker, February, 2002), at pp. 1, 14 & 25-28 [hereinafter *Child Care, Money and Maine*]. FY 2002 budget information from *Child Care, Money and Maine* and Maine Department of Human Services.

[21] Jason Sabo, Patrick Bresette, and Eva DeLuna Castro, *The Texas Child Care Experience Since 1996: Implications for Federal and State Policy* (Austin, TX: Center for Public Policy Priorities, February, 2002), at pp. 5-6, 10, 14, 26, 27, and 29-30 [hereinafter *Texas Child Care Experience*].

cliff effect caused by rapidly increasing copayments when parental income increases. Washington's child care progress is seriously jeopardized by the state's economic downturn, TANF shortfalls caused by declines in TANF caseload decreases, and a larger than projected usage of child care subsidies.[22] Just recently, Washington's governor reallocated TANF funds away from child care, which will result in decreased eligibility levels, increased copayments, and elimination of some quality initiatives, including targeted provider training and provider and family supports in child care.[23]

Table 1. Summary of State Income Eligibility and Copayment Policies for a Family of Three as of February 1, 2002[24]

State	Income Eligibility	Copayment Policy
Illinois	• Illinois sets its eligibility level at 50% of FY 1997 SMI ($21,819 for a family of three) and then applies a 10% income disregard, which allows families with incomes of up to $24,243 for a family of three. • $24,243 is equal to 166% of the 2001 federal poverty guidelines. • Equal to 43% of 2002 SMI. • Guaranteed to all eligible but no individual entitlement to care.	• All families have a copayment. • Based on income, family size, and the number of children in care. • Ranges from $1 per week for families with no income and one child in care to $55 per week for a family with three kids in care at the highest income level. • At the highest income levels in the subsidy system, families pay 8% for one child in care and 14% for two children in care.
Iowa	• Up to $20,484 for a family of three. • Equal to 140% of 2001 federal poverty guidelines. • Equal to 42% of 2002 SMI. • Families with a special needs child have a higher income limit of 175% of federal poverty guidelines. • Not guaranteed to all eligible.	• No copayments for families at or below 100% of the federal poverty guidelines. • Family copayments are only assigned to one child, regardless of the number of children who receive child care subsidies. • Based on family income and time in care. • Ranges from $.50 per half-day of care to $6.00 per half-day of care.

continued on next page

[22] Elizabeth Bonbright Thompson, *The Washington State Child Care Experience Since 1996: Implications for Federal and State Policy* (Tacoma, WA: Washington State Resource and Referral Network, February, 2002), at pp. 1, 7, 9-10, 17, and 21 [hereinafter *Washington State Child Care Experience*].

[23] Office of the Governor of Washington State, *Gov. Locke adjusts welfare reform spending in response to climbing welfare caseloads* (press release) (February 14, 2002) [hereinafter *Gov. Locke adjusts welfare reform spending*].

[24] CLASP calculations of 2001 poverty guidelines and 2002 SMI based on state reports' information on eligibility limits and copayment policies; U.S. Census Bureau, *Median Income for 4-Person Families, by State* (last updated July 23, 2001), http:///www.census.gov/hhes/income/4person.html; U.S. Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, *The 2001 HHS Poverty Guidelines* (last updated 01/07/02), http://aspe.os.dhhs.gov/poverty/01poverty.htm. 2001 poverty guidelines are used because states can (and do) use these guidelines for much of 2002. One hundred percent of the 2001 poverty guideline for a family of three is $14,630. Information on future Washington eligibility and copayment levels from CLASP calculations based on *Gov. Locke adjusts welfare reform spending.*

Table 1. Continued

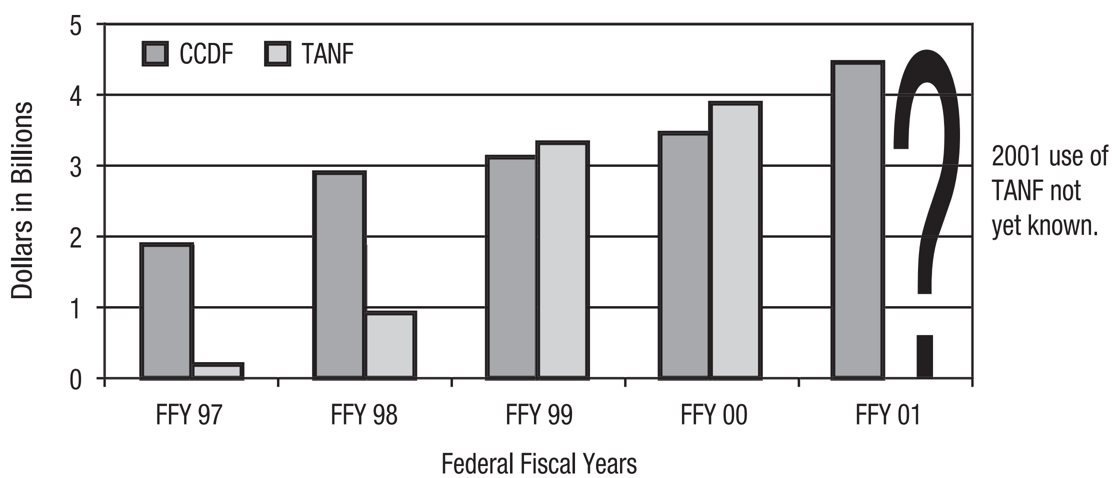
State	Income Eligibility	Copayment Policy
Maine	• Up to $41,081 for a family of three in FY 2002. • Equal to 281% of the 2001 federal poverty guidelines. • Equal to 85% of FY 2002 SMI. • Not guaranteed to all eligible.	• All families have a copayment. • Based on a percentage of family weekly income. • Families receiving subsidies are required to pay no more than 10% of family income, regardless of the number of children in care.
Texas	• Set by the local workforce development boards up to the federal limit of 85% of SMI. • Between $21,948-$38,052 for a family of three in FY 2002. • Equals a range of 49%-85% of 2002 SMI. • Equals a range of 150%-260% of the 2001 poverty guidelines. • Not guaranteed to all eligible.	• Parents participating in Choices (TANF employment services) or Food Stamp Employment & Training (FSE&T) services are exempt from copayments. • Copayments for all other families are set by the local workforce development boards. • Most local workforce development boards require parents who are required to pay copayments to pay an amount equal to 9% of their family's gross monthly income if they have one child in care. • The percentage typically increases to 11% for families with children, but variation occurs across local workforce development boards.
Washington	• Up to $32,916 for a family of three. • Equal to 225% of the 2001 federal poverty guidelines. • Equal to 63% of FY 2002 SMI. • Not guaranteed to all eligible. • Beginning in April, 2002, the state will be implementing a lower eligibility level of 200% of the federal poverty guideline, which will equal $29,260 for a family of three using the 2001 federal poverty guidelines.	• All families have a copayment. • $10 per month for families below 82% of the federal poverty guidelines (23% of FY 2002 SMI). Beginning in April, 2002, this copayment amount will increase to $15. • $20 per month for families with incomes between 82% and 137.5% of the federal poverty guidelines (23% to 38% of FY 2002 SMI). Beginning in April, 2002, this copayment amount will increase to $25. • $20 per month plus 44% of income over 137.5% of federal poverty once a family reaches 137.5% of the federal poverty guidelines (39% of FY 2002 SMI). Beginning in April, 2002, the base amount will increase to $25. The rest of the calculation will remain the same.

III. Funding for Child Care: Significant Increases But an Uncertain Future

Introduction

When Congress passed PRWORA in 1996, it made more federal funding available for child care through increased funding for CCDF and by allowing states to use TANF dollars for child care. As shown in Table 2 (see page 21), between Federal Fiscal Year (FFY) 1997 and FFY 2000, the amount of CCDF federal dollars available to states grew from $1.9 to $3.5 billion.[25] During this period, states chose to redirect significant proportions of TANF dollars to child care, with the amount rising from $189 million in FY 1997 to $3.9 billion in FY 2000 (about 25 percent of all TANF funds used that year).[26] Nationally, the redirection of TANF to child care in FY 2000 was larger than the entire federal portion of the CCDF allocation — $3.9 billion vs. $3.5 billion (see Figure 1).

Figure 1. CCDF Allocations and TANF Transfer and Direct Expenditures, Federal Fiscal Years 1997-2000



Note: The FFY 1997 appropriation does not fully reflect the amount of discretionary funds available to states in calendar year 1997. In 1997, only $19 million of the discretionary portion of CCDF was actually released by Congress for state use in FFY 1997, while the remaining $937 million was released to states on October 1, 1997 (the first day of FFY 1998).

[25] U.S. Department of Health and Human Services, Administration for Children and Families, Child Care Bureau, *FFY 2001 Final CCDF Allocations*. See also CCDF data for FFY 2000, FFY 1999, FFY 1998, FFY 1997. The FFY 1997 appropriation does not fully reflect the amount of discretionary funds available to states in calendar year 1997. In 1997, only $19 million of the discretionary portion of CCDF was actually released by Congress for state use in FFY 1997, while the remaining $937 million was released to states on October 1, 1997 (the first day of FFY 1998).

[26] CLASP, *The Impact of TANF Funding on State Child Care Subsidy Programs*, at p. 22.

In FFY 2001, Congress appropriated an additional $817 million in CCDF discretionary funding. However, starting in 2001, most states began experiencing economic downturns. As a result, many states are faced with difficult decisions about their budgets, and there is concern that funding for programs for low-income families generally and child care specifically might be cut.

Child Care Spending Doubled Between FY 1996 and FY 2000

Between FFY 1996 and FFY 2000, states took advantage of the increased funds available through CCDF and TANF to more than double their spending on child care.[27] Most of this increase has come from federal spending. In FY 1996, the year before PRWORA's passage, states spent $3.17 billion in federal and state dollars for the three AFDC-related programs and CCDBG. As reflected in Table 2, in FFY 1997, under the new consolidated block grant structure, states spent $4 billion in federal and state dollars. By FFY 2000, federal spending had increased by about $4 billion, and state spending grew by about $1.1 billion.[28] States have continued to meet their CCDF MOE requirements, and many have reported growing amounts of additional TANF child care MOE.[29] In FFY 2000, states reported $1.73 billion in TANF child care MOE, which includes $843 million above their CCDF MOE requirements.[30] In FFY 2000, all but two states drew down all available federal CCDF matching funds.[31] In FFY 2001, this figure grew to five states that did not obligate their full match funds.[32]

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[27] Calculated by CLASP based on CCDF figures from U.S. Department of Health and Human Services, Administration for Children and Families, Child Care Bureau, *FY 2000 CCDF State Expenditures*, http://www.acf.dhhs.gov/programs/ccb/research/00acf696/overview.htm; TANF figures from U.S. Department of Health and Human Services, Administration for Children and Families, Office of Administration, Office of Financial Services, *TANF Program Expenditures in FY 2000 through the 4th Quarter: Temporary Assistance for Needy Families (TANF) Fiscal Year 2000 — 4th Quarter Expenditure Data,* http://www.acf.dhhs.gov/programs/ofs/data/q400/index.htm; and CLASP state verifications. In addition, 43 states also used about $396 million or 12 percent of the Social Services Block Grant for child care in fiscal year 1999, which is the most recent year for which data are available. U.S. Department of Health and Human Services, Administration for Children and Families, Office of Community Services, *Social Services Block Grant Program: Annual Report on Expenditures and Recipients for 1999* (Washington, DC: U.S. Government Printing Office, 2001), at p. 13.

[28] The state spending total is the combined total of state spending for CCDF match, CCDF MOE, and additional state dollars beyond CCDF MOE that are reported toward meeting TANF MOE requirements. It is possible that states could have additional state spending not being reported toward TANF MOE, though we would not expect that any such spending would change the overall picture.

[29] U.S. Department of Health and Human Services, Administration for Children and Families, Child Care Bureau, *FY 2000 CCDF State Expenditures*, http://www.acf.dhhs.gov/programs/ccb/research/00acf696/overview.htm.

[30] CLASP, *The Impact of TANF Funding on State Child Care Subsidy Programs*, at p. 34.

[31] U.S. Department of Health and Human Services, Administration for Children and Families, Child Care Bureau, *FY 2000 CCDF State Expenditures*, http://www.acf.dhhs.gov/programs/ccb/research/00acf696/overview.htm.

[32] Unpublished data from the Child Care Bureau of the U.S. Department of Health and Human Services.

Table 2. CCDF and TANF Direct Expenditures on Child Care, FFY 1997-FFY 2000

	FY 1997	FY 1998	FY 1999	FY 2000
Federal CCDF Current and Prior Year Spending (Includes TANF Transfer)	$2.5 billion	$3.5 billion	$5.8 billion	$5.1billion
Federal TANF Direct Spending	$15 million	$247 million	$747 million	$1.46 billion
FEDERAL TOTAL	**$2.5 billion**	**$3.7 billion**	**$6.6 billion**	**$6.5 billion**
State CCDF Matching	$514 million	$548 million	$699 million	$765 million
State MOE (CCDF & TANF)	$945 million	$1.0 billion	$1.4 billion	$1.7 billion
STATE TOTAL[33]	**$1.5 billion**	**$1.6 billion**	**$2.1 billion**	**$2.5 billion**
FEDERAL AND STATE TOTAL	**$4.0 billion**	**$5.3 billion**	**$8.7 billion**	**$9.0 billion**

Devolution in Texas: A Three-Part Funding Story

In Texas, in addition to federal and state spending, there is a third part of the spending story — local spending. In 1995, the Texas legislature created the Texas Workforce Commission (TWC) to administer work support programs, including child care. Control of these programs and some spending responsibilities have been devolved to local workforce development boards. Funds are allocated by the state based on formulas that consider the child population and family income levels in the areas governed by the local workforce boards. As part of this devolution process, the state is asking local workforce boards to come up with local matching funds, which the state, in turn, will put up to draw down federal match. These funds are then distributed to the local workforce boards according to the amount of local match that was raised by each board. Texas advocates fear that this devolution has the potential to exacerbate pre-existing resource disparities across the state by advantaging local boards with access to greater resources.[34]

[33] The state spending total is the combined total of state spending for CCDF match, CCDF MOE, and additional state dollars beyond CCDF MOE that are reported toward meeting TANF MOE requirements. It is possible that states could have additional state spending not being reported toward TANF MOE, though we would not expect that any such spending would change the overall picture.

[34] *Texas Child Care Experience*, at pp. 6-7.

The Effect of TANF on Child Care Spending

A large part of the increase in federal spending on child care can be attributed to redirected TANF dollars. The major redirection of TANF funds to child care was an unexpected result of the 1996 welfare law. While welfare caseloads have declined more than 50 percent since 1996, under the block grant structure, states have continued to receive the same fixed amount of TANF block grant funds.[35] In each year between 1997 and 2000, states committed more TANF funds to child care, with 49 states using TANF for child care in 2000. The bulk of the funds — $2.4 billion in FY 2000 — were transferred by states to their CCDF block grants. Transferred funds must be spent under the same rules that apply to CCDF funds and are subject to the minimum 4 percent set-aside for quality improvement activities. In recent years, states have also increased their use of TANF dollars for direct expenditures on child care subsidies and other system improvements, with that amount growing from $15 million in FY 1997 to $1.5 billion in FY 2000. Such expenditures are not subject to CCDF data collection and other rules, but it appears that the significant majority of those funds are being spent to provide child care services for low-income employed families.[36]

Table 3. Effect of TANF on Overall Child Care Spending, State Fiscal Years (SFYs) 1996-2001

	SFY 1996 Federal and State Spending	SFY 2001 Federal and State Spending	SFY 2001 Federal TANF Spending[37]	Percent of Spending Increase Attributable to TANF[38]
Illinois[39]	$225,509,400	$663,100,000	$151,400,000	35%
Iowa[40]	$28,098,621	$66,155,997	$29,503,199	78%
Maine[41]	$15,314,288	$40,146,968	$10,919,096	44%
Texas[42]	$179,900,000	$445,490,891	$50,368,190	19%
Washington[43]	$121,616,183	$342,902,219	$181,678,848	82%

35 Under the former AFDC system, funding was tied to the size of the caseload; the larger the caseload, the more money a state received.

36 CLASP, *The Impact of TANF Funding on State Child Care Subsidy Programs*, at Table 9, p. 51.

37 These figures include federal TANF funds spent directly or through transfer to the CCDF block grant.

38 Calculations by CLASP based on figures provided by the five states.

39 *Illinois Child Care Experience*, at pp. 14-16. Illinois' state fiscal year runs from July 1 to June 30.

40 *Iowa Child Care Experience*, at p. 9. Iowa's state fiscal year runs from July 1 to June 30.

41 Child Care Services Budget Table from Maine Department of Human Services (last updated 1/27/2002). Maine's state fiscal year runs from July 1 to June 30.

42 Texas Workforce Commission letter to CLASP (February 13, 2002). Texas' state fiscal year runs from September 1 to August 31.

43 Letter from Washington State Department of Social and Health Services, Division of Child Care and Early Learning, to CLASP (February 15, 2002). Washington's state fiscal year runs from July 1 to June 30.

TANF dollars have played a very important recent role in the growth of the child care programs of four of the five states profiled in this report. The impact of TANF expenditures on increased overall child care expenditures ranged from 15 percent in Texas to 82 percent in Washington, as seen in Table 3. In FY 2001, 60 percent of Illinois' federal and state child care expenditures were in some way related to the TANF program.[44] Iowa, Maine, and Washington have also used TANF funds to increase the number of children served and to make quality- and supply-building investments.[45] In Iowa and Washington, federal TANF expenditures made up roughly 80 percent of the overall increase in child care expenditures between FY 1996 and FY 2001.[46]

In contrast, TANF-funded child care expenditures were a small part of the federal and state spending increases in Texas during these years. Over the last five years, Texas made minimal TANF transfers to the CCDF block grant and did not use any TANF dollars for direct spending on child care, despite freed-up funds resulting from large declines in the state TANF caseload. In SFY 2002 and SFY 2003, Texas will not transfer or directly spend any TANF dollars in the child care program.[47]

Threats to Child Care Funding: State Budgets Crises and Increasing TANF Caseloads

Child care investments in many states could be threatened by deteriorating economic conditions and TANF caseload increases. In January, 2002, 45 states and the District of Columbia reported that their revenues were below levels forecast at the beginning of the year, according to a National Conference of State Legislatures survey. At least 39 states have implemented or are considering budget cuts or holdbacks to address their financial situations. Twenty-five states and the District of Columbia reported that they have tapped or are considering tapping reserve funds in order to balance their FY 2002 deficits. At least eight states have or will consider tapping tobacco settlement funds.[48] These developments are in sharp contrast to the survey results from January, 2001, which showed that only six states were below forecasted revenue levels.[49]

These budget shortfalls are likely to seriously impact programs that assist low-income families and individuals. The Center on Budget and Policy Priorities recently reported that 19 states have made cuts to low-income and human services programs. Ten states have cut income support or employment support programs such as child care and job training, 17 have cut health care programs, and 17 have cut other social service programs. Another eight states have implemented sweeping, percentage-based cuts in the budget that have effected low-income programs, and at least another eight states are considering budget cuts to programs serving low-income households that were proposed by their governors.[50]

In addition, although overall national caseload figures have not yet increased, TANF caseloads rose in two-thirds of the states between March, 2001, and September, 2001. Those states with increasing caseloads had higher rates of increase than in previous years and states with decreasing caseload had lower rates of

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44 Calculations by CLASP based on *Illinois Child Care Experience*, at p. 15.

45 *Iowa Child Care Experience*, at pp. 8-10; *Child Care, Money and Maine*, at pp. 15-16; *Washington State Child Care Experience*, at p. 7.

46 *Iowa Child Care Experience*, at pp. 8-9; *Washington Child Care Experience,* at p. 7.

47 *Texas Child Care Experience*, at p. 10.

48 National Conference of State Legislatures, *State Fiscal Outlook for FY 2002 – January Update* (February 6, 2002), *http://www.ncsl.org/programs/fiscal/sfo2002.htm.*

49 National Conference of State Legislatures, *State Fiscal Outlook for FY 2001* (January 4, 2001), http://www.ncsl.org/programs/fiscal/sfo2001a.htm.

50 Kevin Carey and Iris J. Lav, *States Are Cutting Low-Income Programs in Response to Fiscal Crisis: Less Counter-Productive Options Are Available* (Washington, DC: Center on Budget and Policy Priorities, January, 2002), at p. 1.

decrease than in previous years.[51] Increased TANF caseloads could mean a reallocation of TANF funds to cash assistance, which could force states to cut their child care programs — especially those states that have depended heavily on TANF funds.[51]

Washington State and Iowa provide compelling examples of threatened child care funding. In Washington State, the September 11th terrorist attacks precipitated layoffs by major state employers, including Boeing, and reduced business and consumer spending. Adding to the strain on government revenues is the fact that Washington voters recently passed a fourth limit on the state's taxing power, a property tax limitation that will cost the state $34 million. Washington State is facing a projected budget shortfall of over $1 billion by the end of the biennial budget cycle in SFY 2003. Currently, it is not clear what the long-term impact of this shortfall will be on child care.[52]

However, the state is facing a TANF funding shortfall for SFY 2002 and SFY 2003 due to a four-month increase in the state's TANF caseload and an increase beyond the projected demand for child care subsidies. In December, the state's TANF caseload increased by 1,800. The Governor's office estimates that, if these trends continue, the state could face a TANF shortfall of $40-$60 billion. To plug this potential funding hole, the Governor is reallocating $54 million in future TANF spending, over $20 million of which is from child care programs, to cover anticipated caseload increases. In order to achieve these cuts, the Governor's plan reduces the income eligibility level for subsidy assistance from 225 percent to 200 percent of poverty, increases child care copayment costs for all families by $5 per month, and eliminates or reduces funding for various quality and supply initiatives undertaken in recent years.[53]

The investments that Iowa has made in its child care program are also threatened by the state's worsening economic condition and increasing TANF caseloads. In November, Iowa Governor Tom Vilsack called for a 4.3 percent across-the-board cut to the state's budget. However, revenues have decreased even more than anticipated, which makes it likely that there will be additional cuts in SFY 2002 and SFY 2003. Given the relatively small amount of state funding in the child care subsidy system, there have not been drastic reductions proposed in child care subsidies. However, there have already been reductions to the state's resource and referral agencies, which could jeopardize the state's efforts to improve the supply of quality care (because many of the state's quality initiatives operate out of the resource and referral agencies) and result in parents getting even less information about quality child care or subsidy options. Additionally, if state economic conditions worsen further, the state might become unable to draw down its full share of federal CCDF matching funds.[54]

Rising TANF caseloads are also proving to be a powerful threat to Iowa's child care subsidy system. The SFY 2002 budget was built upon the assumption of an average monthly welfare caseload of 18,590 families. However, in August, 2001, the actual Iowa TANF caseload consisted of 20,103 families, which had increased to 20,248 by October 2001.[55] The state's deteriorating economic conditions are also creating more unemployment, which could potentially cause caseloads to increase further. If caseloads continue to increase, the state may be forced to reallocate child care funding to cash assistance.

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[51] Mark Greenberg, Elise Richer, and Vani Sankarapandian, *Welfare Caseloads Are Up in Most States* (Washington, DC: CLASP, 2002), http://www.clasp.org [hereinafter CLASP, *Welfare Caseloads Are Up in Most States*].
[52] *Washington State Child Care Experience*, at pp. 8-9.
[53] *Gov. Locke adjusts welfare reform spending.*
[54] *Iowa Child Care Experience*, at p. 31.
[55] Ibid, at p.10, footnote 13; CLASP, *Welfare Caseloads Are Up in Most States*.

Conclusion

The national funding situation for child care is a story of increasing funding in recent years and of looming threats to current child care funding levels. Between FY 1997 and FY 2000, total child care spending doubled. However, the vast bulk of the increased spending came from federal dollars, and the federal share grew from about two-thirds to three-quarters of total child care spending. Federal TANF dollars have accounted for much of the increase in child care funding, but these funds may be less available as states face the challenges of faltering economies and increasing caseloads. Additionally, states' economic troubles and budget shortfalls could jeopardize present and future child care investments as states might be forced to decrease state child care spending, including meeting the CCDF matching requirements necessary to access federal matching funds.

IV. Unmet Need for Child Care Subsidies: Demand Continues to Outstrip Supply

Over the past five years, increased funding has partially addressed the greater need for child care subsidies as more single parents moved into the workforce. The reports of these five states show that receiving subsidies can improve family economic well-being and give parents an enhanced ability to choose the care they want for their children. However, states have to make difficult policy trade-offs as they attempt to meet increased demand for subsidies with limited resources. As a result, states have had to adopt policies that have resulted in large numbers of potentially eligible families not receiving the child care subsidies they need.

How Many Children Receive Subsidy Assistance?

One important measure of the effectiveness of child care subsidy programs is the number of children assisted. However, a simple count does not tell us how much or what kind of assistance is provided. For a more complete picture, one needs to look at other key dimensions of the system, including the copayment schedule for participating families; payment rates used to compensate eligible providers; the characteristics and quality of settings in which children are receiving care; and the extent to which arrangements are responsive to the logistical needs of working parents and the developmental needs of children. Still, looking at the numbers of children receiving child care subsidies can provide valuable information about the extent to which families who could potentially benefit are receiving some amount of assistance.

Unfortunately, there is no precise national total for the number of low-income families or children receiving child care assistance. States report the number of children receiving CCDF-funded assistance, and the federal government has released totals through FY 1999. One would anticipate that numbers in later years would be somewhat higher, since overall funding was greater in FY 2000 and FY 2001. Moreover, the CCDF totals do not include families receiving child care assistance funded with non-transferred TANF dollars or with state dollars not counting toward CCDF maintenance-of-effort requirements. Additionally, each state profiled in this report has prekindergarten and Head Start programs that serve children ages five and under. However, these are typically not full-day, full-year programs, and, unless the state provides wraparound care for days and hours when these programs do not meet, Head Start and prekindergarten usually do not fully meet the child care needs of working families.[56] Even with these

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[56] See Rachel Schumacher, Mark Greenberg, and Joan Lombardi, *State Initiatives to Promote Early Learning: Next Steps in Coordinating Subsidized Child Care, Head Start, and State Prekindergarten* (Washington DC: CLASP, April, 2001), at pp. 5-6 [hereinafter CLASP *State Initiatives to Promote Early Learning*]. In some areas of the country, Head Start programs have made significant progress in increasing collaboration with child care programs to provide extended day or wrap-around care, and, if such care was being provided to a child with CCDF funds, the child will be counted as receiving CCDF-funded assistance.

qualifications, we are confident that the CCDF totals reflect most low-income families who receive child care assistance through the CCDF structure.[57]

Between 1996 and 1999, the average monthly number of children receiving CCDF-funded child care subsidies nearly doubled, growing from 1 million to 1.8 million.[58] In many respects, this reflects a dramatic growth in the number of families and children receiving help. However, the number of families who are federally eligible for and needing child care assistance also grew rapidly over this period. DHHS estimates that the number of federally eligible children grew by approximately one million from October, 1997 (FFY 1998), to October, 1999 (FFY 2000).[59] Many factors could be contributing to this increase. First, the welfare caseload dropped by 1.8 million families from 1996 to 1999, and studies consistently find that the majority of leavers are employed, typically in low-wage jobs.[60] Second, the share of families working or participating in work-related activities while receiving TANF assistance also grew significantly; by FY 1999, nearly 900,000 adults receiving assistance were employed or engaged in work-related activities. Third, there was a large increase in labor force participation by low-income single parents, which may include families not previously connected to the welfare system; between 1996 and 1999, the number of employed single mothers grew from 1.8 million to 2.7 million.[61] Thus, over this period, both the number of families needing and the number of families receiving child care assistance grew significantly.

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[57] We reach this conclusion based on several factors. First, although TANF was a larger source of child care funding than was the federal CCDF allocation in FY 2000, most TANF dollars used for child care were transferred to state CCDF programs rather than spent directly. Subsidies provided with transferred dollars would be treated as CCDF assistance for purposes of federal reporting. Second, while there is no single source to calculate the amount of state child care funding in excess of CCDF match and MOE expenditures, some states have no expenditures in excess of federally required levels, and the amount of additional state child care expenditures reported for purposes of TANF MOE claiming in FY 2000 was $843 million. See previous chapter for discussion of the relationship between CCDF and TANF MOE. Thus, even if the actual amount of state funding were several multiples of that level, the significant majority of overall child care subsidy spending would still be occurring within the CCDF structure. Finally, as explained earlier in the text, state prekindergarten programs or Head Start are not typically full-day, full-year, and when states use CCDF funds to provide full-day or full-year slots, such children will appear as receiving CCDF assistance in federal reporting.

[58] Note that this comparison is between CCDF-funded assistance in FY 1999 and assistance under the predecessor programs (the CCDBG and IV-A child care funding streams) in FY 1996. U.S. Department of Health and Human Services, Administration for Children and Families, *State Spending Under the Child Care Block Grant* (fact sheet) (Washington, DC: U.S. Department of Health and Human Services, November 12, 1998); U.S. Department of Health and Human Services, Administration for Children and Families, *New Statistics Show Only a Small Percentage of Eligible Families Receive Child Care Help* (press release) (Washington, DC: U.S. Department of Health and Human Services, December, 2000, http://www.acf.dhhs.gov/news/press/2000/ccstudy.htm [hereinafter *Small Percentage of Eligible Families Receive Child Care Help*].

[59] U.S. Department of Health and Human Services, *How Many Children are Estimated to be Eligible for CCDF-Funded Child Care Subsidies?* (Presented to HHS State Administrators Conference, August 13, 2001) [hereinafter *How Many Children are Estimated to be Eligible for CCDF-Funded Child Care Subsidies?*). Federally eligible children are children under age 13 (or under 19 if the child has a disability and cannot care for him or herself) whose family's income is below 85 percent of SMI and whose parents are working and/or in education or training programs. These figures differ from the figures presented in *Small Percentage of Eligible Children Receive Child Care Help* because the August, 2001, figures reflect federal eligibility as of October 1999 (or FY 2000) as opposed to the earlier figures used in *Small Percentage of Eligible Children Receive Child Care Help*, which reflect federal eligibility as of October, 1997 (or FY 1998).

[60] Pamela Loprest, *How Are Families That Left Welfare Doing? A Comparison of Early and Recent Welfare Leavers*, Series B, No. B-36 (Washington, DC: The Urban Institute, April, 2001), at pp. 3-4.

[61] *2000 Statistical Abstract*, Table No 653.

It seems clear that only a fraction of potentially eligible families receive child care assistance. DHHS has estimated that, between FY 1998 and FY 1999, there were 14.75 million children in families meeting CCDF income eligibility guidelines (i.e., below 85 percent of SMI[62]) and with parents engaged in work or education.[63] Therefore, the 1.8 million children receiving subsidies in FY 1999 constituted only 12 percent of children in families who were potentially eligible for assistance under federal rules; they constituted only 18 percent of eligible children under more restrictive state income eligibility standards.[64] As noted above, if one assumed that some additional children received assistance from other funding streams and that expenditures have grown since FY 1999, one would likely reach a higher percentage,[65] but it would not change the basic conclusion that most eligible families and children are not receiving subsidy assistance.[66]

In the five states profiled in this report, the increases in the numbers of children served are dramatic. Between FY 1997 and FY 2001, the number of children receiving child care subsidies grew by 128 percent in Illinois, 117 percent in Iowa, 97 percent in Washington, 47 percent in Texas, and 23 percent in Maine.[67] However, none of the five states is serving the majority of federally eligible children: the share of potentially eligible children assisted in 2001 ranges from 8 percent in Iowa and Texas to 28 percent in Illinois[68] (see Table 4).

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[62] The value of 85 percent of SMI is different for each state; the national average value across all states is about $38,000. Gina Adams and Monica Rohacek, *Child Care and Welfare Reform*, Welfare Reform and Beyond Policy Brief, No. 14 (February, 2002), at p. 4, http://www.brookings.edu/dybdocroot/wrb/publications/pb/pb14.htm [hereinafter Adams and Rohacek, *Child Care and Welfare Reform*].

[63] *Small Percentage of Eligible Families Receive Child Care Help*.

[64] Ibid.

[65] We say that we would "likely" reach a higher percentage because, while funding has increased since 1999, the number of employed single mothers and TANF families who are working or participating in work or training activities has probably also grown over this period.

[66] A review of 17 states by Abt Associates and the National Center for Children in Poverty looked at all sources of child care funding in those states and concluded that none of the 17 states served more than 25 percent of federally eligible children in 1999. Ann Collins, Jean Layzer et al., *National Study of Child Care for Low-Income Families, State and Community Substudy Interim Report* (Washington, DC: U.S. Department of Health and Human Services, Administration for Children and Families, November 2, 2000), at pp. 38-39 [hereinafter *Low-Income Child Care Study*].

[67] CLASP calculations based on information provided in the five state reports and conversations with the five state child care agencies.

[68] Ibid.

Table 4. Average Monthly Number of Children Receiving Subsidies[69] and CCDF Federally Eligible Children

	Children Assisted FY 1997	Children Assisted FY 1999	Children Assisted FY 2001	Percent Increase FY 1997-FY 2001	CCDF Federally Eligible Children as of October, 1999[70]	Percentage of Eligible Children Assisted per month in FY 2001[71]
Illinois[72]	92,000	155,000	210,000	128%	746,400	28%
Iowa[73]	6,584	10,356	14,261	117%	183,500	8%
Maine[74]	10,240	11,817	13,367	23%	55,300	N/A
Texas[75]	68,614	92,687	101,142	47%	1,236,800	8%
Washington[76]	37,199	57,231	73,310	97%	286,900	26%

[69] These figures (except those of Maine) reflect all children receiving subsidies in the state during the state fiscal year funded by CCDF and other federal and state funding sources, unless indicated otherwise. They do not reflect the number of children in Head Start or prekindergarten, except, in most cases, if the children are receiving subsidized wraparound care. In some cases, they might differ from figures released by the U.S. Department of Health and Human Services since the DHHS figure only reflects CCDF-funded children rather than all subsidized children.

[70] *How Many Children Are Estimated to be Eligible for CCDF-Funded Child Care Subsidies?*

[71] The percentages in this column were computed by dividing the average monthly number of children served in state fiscal year 2001 of the four states by the number of CCDF federally eligible children in those states as of October 1, 1999. The "12 percent" figure discussed earlier, representing the percentage of federally eligible CCDF children who were served in FY 1999, was computed by dividing the average monthly number of children served in federal FY 1999 by the number of CCDF federally eligible children in the United States as of October 1, 1997.

[72] *Illinois Child Care Experience*, at pp. 10-11.

[73] *Iowa Child Care Experience*, at p 8. Iowa's figures do not include 1,277 children receiving wraparound care and TANF recipients who are in job search.

[74] Maine was unable to provide CLASP with the average monthly numbers of children receiving subsidies for these fiscal years. The Maine figures in this table represent federal fiscal annual counts of children (the number of children served over the course of a year) as reported on Maine's ACF-800 form submitted to DHHS. Therefore, we cannot determine from this data what percentage of eligible children were assisted in FY 2001 because the 55,300 figure is an average monthly number and the 13, 367 figure is an annual count; they are therefore not comparable.

[75] *Texas Child Care Experience*, at pp. 17-19; *Texas Workforce Commission Letter to CLASP* (February 13, 2002).

[76] *Washington State Child Care Experience*, at p. 39, Appendix.

One would not expect all eligible families to want or need assistance because some families rely on unpaid informal arrangements. However, one clear indication of unmet need comes from looking at the share of working families currently paying for care; any of these families who are not receiving a subsidy would likely benefit from the receipt of subsidy either to defray current costs or to improve existing arrangements. The Urban Institute reports that 40 percent of families with incomes below 200 percent of poverty pay for care, as do 53 percent of families with incomes above 200 percent of poverty.[77] The fact that higher-income families are more likely to pay for care suggests that, at least to some extent, the lower level of paid arrangements among lower-income families reflects economic constraints. Families under 200 percent of poverty paying for care pay an average of 16 percent of their earnings ($217/month) toward child care compared with 6 percent ($317/month) among higher-income families.[78] Accordingly, a significant number of low-income families currently paying for care could benefit from access to help paying child care costs.

It is also possible that many low-income families currently relying on informal, unpaid arrangements would shift to more formal arrangements if they were provided with a choice of a quality early education program for their children and assistance to pay for it. In 2000, for example, 61 percent of three- and four-year-olds in families with incomes of $40,000 or more attended nursery school or kindergarten, compared to only 46 percent of children in families with incomes below $20,000.[79] Another striking indication of parental preference comes from the experience of Georgia's universal prekindergarten program, which is available free to all four-year-old children regardless of family income, and, combined with Head Start, has a take-up rate of 70 percent of eligible four-year-olds.[80]

Results of Limited Funding: Policies and Practices That Limit Subsidy Access for Low-Income Families

Limited funding is the ultimate explanation for current low CCDF participation levels. However, potentially eligible family might not be able to access a child care subsidy for a variety of policy decisions, including waiting lists, eligibility levels set below what is allowed under federal law, high copayments, priority given to TANF recipients and/or TANF leavers, lack of outreach, and administrative barriers, among others.[81]

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[77] Linda Giannarelli and James Barsimantov, *Child Care Expenses of America's Families* (Washington, DC: The Urban Institute, 2000), at p. 7 [hereinafter *Child Care Expenses of America's Families*]. Note that, using 1995 data, the Census Bureau had reported that 34 percent of families with employed mothers and incomes below 200 percent of poverty paid for care, as did 43 percent of families with employed mothers and incomes at or above 200 percent of poverty. Kristen Smith, "Who's Minding the Kids? Child Care Arrangements, Fall 1995," *Current Population Reports,* P70-70 (Washington, DC: U.S. Census Bureau, October, 2000) [hereinafter "Who's Minding the Kids?"].

[78] *Child Care Expenses of America's Families,* at p. 7. Census data indicate an even more dramatic difference for families below the poverty level; those who pay for child care spend an average of 35 percent of their income for child care while those above poverty pay an average of 7 percent of their income for child care. "Who's Minding the Kids?" at p. 26, Table 14.

[79] U.S. Census Bureau, "Scholars of All Ages: School Enrollment, 2000," in *Population Profile of the United States: 2000* (internet release) (Washington, DC: U.S. Census Bureau, 2002), at pp. 8-1 & 8-2, http://www.census.gov/population/pop-profile/2000/chap08.pdf.

[80] Rachel Shumacher, Mark Greenberg, and Joan Lombardi, S*tate Initiatives to Promote Early Learning: Next Steps in Coordinating Subsidized Child Care, Head Start, and State Prekindergarten – Georgia's Experience* (Washington, DC: Center for Law and Social Policy), at p. 14. Counting all four-year-old children served in Georgia prekindergarten and Head Start, 70 percent are served.

[81] These policies, including reimbursement rates and the undertaking of supply-building and quality-improvement initiatives, are discussed in later chapters.

Waiting Lists

While the federal government does not track the extent of waiting lists among state child care programs, the Children's Defense Fund has reported that, as of March, 2000, at least 17 states had waiting lists for child care assistance.[82] Two of the five states profiled in this report (Maine and Texas) currently report waiting lists for child care subsidies. Maine's list consists of 2,000 families[83] and Texas' list consists of approximately 38,000 children.[84] However, waiting lists do not tell the entire story of unmet need. Some families may not leave their names on a waiting list if they don't believe it is likely that they will ever reach the top of the list and receive a subsidy. The authors of the Maine report estimate that the potential need for child care assistance could be as high as 30,000 families, if one takes into account that some eligible families may choose not to participate, relying instead on unpaid informal care.[85]

Low Eligibility Levels

In the CCDF structure, states are free to set eligibility levels for assistance below 85 percent of SMI, and the vast majority of states do so. Only three states set their income eligibility limits at the federal maximum of 85 percent of SMI for the year 2000.[86] While Texas allows local workforce development boards to set income eligibility limits at 85 percent of SMI, currently only four of the 28 local workforce boards do so.[87] As shown in Table 1 (see page 17), among the five profiled states, income eligibility for a family of three ranges from $20,484 in Iowa to $41,081 in Maine; in Texas, income eligibility varies among local workforce development board areas from $21,948 to $38,052.

Setting low eligibility limits can help states target resources and reach more families. However, one consequence of setting low eligibility limits is "the cliff effect" produced when a family reaches the eligibility limit through a small increase in earnings, but does not have sufficient wages to afford the full cost of care without a subsidy. Families must then choose whether to continue their child care arrangement, potentially bearing large out-of-pocket expenditures, or move their child into less expensive care. One Illinois parent told her story to the Day Care Action Council of Illinois:

> *I got an increase in pay of $20 a week and [went] from $250 a month in child care to $800 a month for child care. It put me over the limit. The income part was not enough to match the child care part and it was like 'sorry, you make too much money.' I went to my employer and said I don't want a raise. I need my pay reduced. He was like, 'are you nuts?'*[88]

An Iowa parent told a similar story to the Child and Family Policy Center of Iowa. Roberta, a single parent with two small children, entered the TANF program and ended up getting a job that paid $1,640 per month; her child care copayment for care in a registered family day care home was $150 per month. Two months after she was hired, Roberta received a $1,000 raise (equal to $83 per month), which put her $16 per month over the eligibility level for subsidized care. According to the Iowa authors:

> *Immediately, her child care bill went up to $550 per month, or nearly one-third of her income. She was forced to move her daughter to a cheaper day care arrangement, which proved to be unreliable and very unsatisfactory. Although there have been several times when the provider has been neglectful in caring for her daughter, [Roberta] doesn't know what else she can do.*[89]

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82 CDF, *Fragile Foundation*, at p. 63.
83 *Child Care, Money and Maine*, at p. 22.
84 *Texas Workforce Commission Letter to CLASP* (February 13, 2002).
85 *Child Care, Money and Maine*, at p. 22-23.
86 CDF, *Fragile Foundation*, at p. 27-31.
87 *Texas Child Care Experience*, at p. 37, Appendix 1.
88 *Illinois Child Care Experience*, at p. 18.
89 *Iowa Child Care Experience*, at p. 21.

High Copayments

The federal government has recommended that child care copayments should not exceed 10 percent of family income. Some have suggested that 10 percent is too high for low-income families, since non-poor families pay, on average, 7 percent of their income for child care.[90] In any case, in 2000, almost all states met the 10 percent standard for a family of three with income at the federal poverty level; only five states exempted families at or below the poverty level from copayment requirements.[91] However, at 150 percent of the federal poverty level, families of three were ineligible for subsidy assistance in seven states, and copayments in excess of 10 percent were assessed in an additional seven states.[92]

As can be seen in Table 5 (next page), copayments differ widely among the profiled states: for a parent and child with an income of $11,500, the annual copayment is $0 in Iowa and $690 in Maine; Texas copayments vary across the state. Table 5 also shows how copayments can cause cliff effects as parental income increases. In these five states, this effect appears to come from state policies designed to set copayments at a low level for poor and near-poor families. However, copayments can then increase quite rapidly as parents' income increases modestly. In Washington State, for instance, if a family's pre-tax income increases from $17,500 to $20,500 per year, the family's annual copayment increases by approximately $1,320 (or 44 percent of the family's pre-tax pay increase).[93]

There is considerable interplay between eligibility limits and copayments. Due to limited resources, states sometimes have to choose between raising eligibility limits and lowering copayments. In Illinois, income eligibility limits are low, but parental copayments are generally below 10 percent. In Washington, income eligibility limits are relatively high, but, as parental income rises above 137.5 percent of poverty, families face rapidly escalating copayments. Table 5 shows these interactions for families at various income levels.

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[90] "Who's Minding the Kids?" at p. 26, Table 14.
[91] CDF, *A Fragile Foundation*, at p. 84.
[92] Ibid, at pp. 88-89.
[93] CLASP calculations based on data in Table 5.

Table 5. Eligibility and Copayment Amounts and Percent of Income for a Family of Two (Single Parent with One Non-Special Needs Child in Full-Time Care)[94] at Different Gross Income Levels[95]

	$11,500 (99% of FY 2001 poverty guidelines)			**$14,500** (125% of FY 2001 poverty guidelines)		
	Eligible	**Annual Copay**	**Percent of Income**	**Eligible**	**Annual Copay**	**Percent of Income**
Illinois	Yes	$572	5%	Yes	$1,040	7%
Iowa	Yes	$0	0%	Yes	$1,250	9%
Maine	Yes	$690	6%	Yes	$1,160	8%
Texas (1)	Yes	$1,035	9%	Yes	$1,305	9%
Washington (2)	Yes	$240	2%	Yes	$240	2%

	$17,500 (151% of FY 2001 poverty guidelines)			**$20,500** (177% of FY 2001 poverty guidelines)		
	Eligible	**Annual Copay**	**Percent of Income**	**Eligible**	**Annual Copay**	**Percent of Income**
Illinois	Yes	$1,300	7%	No	Full provider's fee **(6)**	30%
Iowa (3)	No **(4)**	Full provider's fee	26%	No	Full provider's fee	22%
Maine	Yes	$1,750	10%	Yes	$2,050	10%
Texas (1) (5)	Depends	$1,575	9%	Depends	$1,845	9%
Washington (2)	Yes	$912	5%	Yes	$2,232	11%

Note (1): The majority of Texas local workforce boards charge copayments 9% of income for one child.
Note (2): Washington State subtracts any child support paid out by the parent from the calculation of income. This estimate assumes that the parent does not pay child support. The figures do not account for the resulting policy changes from the recently announced reduction in TANF funding for child care in Washington State.
Note (3): The Child and Family Policy Center of Iowa assumes average child care expenditures in Iowa of $4,500. This estimate assumes that the provider would charge the family this rate.
Note (4): If the child was a special needs child, he or she would still be eligible for subsidies because Iowa's eligibility limit for special needs children is at 175% of poverty.
Note (5): No local workforce board in Texas has income eligibility limits below 150% of poverty. Whether a family above that income level is eligible for subsidies depends on the area in which the family lives.
Note (6): The Day Care Action Council of Illinois reports that a center provider in the Chicago metropolitan area would be reimbursed $24.34 per day (or $6,085 per year) for a preschool-aged child. This estimate assumes that the provider would charge the family this rate.

[94] These estimates assume full-day care, five days a week for 50 weeks per year.
[95] CLASP calculations based on income eligibility levels shown in Table 1 of this report and state copayment tables. See Illinois Department of Human Services, *Important Parent Co-Payment Information* (Effective 7-1-98) (obtained from Day Care Action Council of Illinois); Iowa Department of Human Services Employee Manual, *Child Care Assistance*, Title 18, Chapter 1, at p. 39 (revised August 7, 2001); *Child Care, Money and Maine*, at p. 39, Appendix B; *Texas Child Care Experience*, at pp. 39-40, Appendix 2; *Washington State Child Care Experience*, at p. 38, Appendix. Income levels are expressed as a percentage of the 2001 poverty guidelines calculated by the U.S. Department of Health and Human Services because these are the figures that are used by states to determine eligibility and copayment levels. Federal poverty guidelines are updated more quickly than the federal poverty thresholds and are used to calculate eligibility for various federal programs. The 2001 poverty guideline for a single mother with one child was $11,610. In defining state eligibility levels, we used either the FY 2001 federal poverty guidelines or the FY 2002 State Median Income calculated by the Census Bureau, depending on the measure the state uses.

Prioritizing TANF Recipients and "Leavers"

Prioritizing TANF recipients and leavers for child care subsidy eligibility in times of limited resources can hurt non-TANF families with no recent connection to the welfare system. Although there are legitimate reasons for adopting such a prioritization policy when resource constraints limit the number of available subsidies, preferences for one group diminishes the number of subsidies available for the non-preferenced families, some of whom could be just as needy. This situation will be played out in Texas over the next two years. The Texas Workforce Commission (TWC), the state agency that oversees the child care program, projects that between SFY 2002 and SFY 2003 there will be a reduction in the number of children served per day of almost 6,000 children of working poor parents who are not current TANF recipients. The reduction will occur because limited funding will require a small decrease in the number of children who will receive subsidies per day. However, the state will have to serve over 5,000 more children of TANF recipients who are guaranteed child care services, largely due to changes in exemption policies for parents with young children. As a result, the state will have to reduce the number of slots that are available to families who are not TANF recipients in order to accommodate the increased numbers of TANF recipients' children.[96]

Lack of Outreach

In recent years, barriers to participation in the Medicaid and Food Stamp programs due to administrative complexity have received much attention; recent research suggests that similar administrative barriers occur in state child care subsidy systems. Policymakers have become increasingly aware of the importance of outreach in other programs, but state child care programs often do little or no outreach, reflecting, in part, their inability to serve additional families. Without outreach, many parents might not know that they are eligible for services or know how and where to access these services.[97] None of the five states profiled in this report are doing systematic outreach to inform low-income families that they are eligible for child care services.

Administrative Barriers

Complicated and/or lengthy applications, in-person interview requirements for application or recertification, and short recertification periods can each reduce or disrupt participation. In some states, a parent changing eligibility status (i.e., TANF recipient, transitioning off of TANF, working poor) may have to provide additional information to different agencies that may or may not coordinate their efforts with each other.[98] These complicated transitions can cause parents to lose their child care subsidies. For instance, many families who leave TANF stop receiving a child care subsidy for a variety of reasons, including that they do not know they are still eligible or that they have to affirmatively request the subsidy rather than automatically retaining their eligibility. A review of state studies of families who have left welfare found that in no state did more than one-half of surveyed employed leaver families report receiving child care subsidies, and in the majority of states the proportion was less than one-third.[99] Additionally, in nine states, when a non-TANF, low-income parent loses his or her job, the parent also loses his or her child care subsidy even if the

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[96] *Texas Child Care Experience,* at pp. 18-19; Texas Workforce Commission Letter to CLASP (February 13, 2002).
[97] Adams & Rohacek, *Child Care and Welfare Reform*, at p. 5; Gina Adams et al., *Preliminary Findings on the Adequacy of Child Care Funding from the Assessing the New Federalism* (ANF) *Child Care Case Studies*, presentation at the Brookings Institution (June, 2001); The Southern Regional Task Force on Child Care Report and Action Plan for the South, *Sound Investments: Financial Support for Child Care Builds Workforce Capacity and Promotes School Readiness* (December, 2000), http://www.kidsouth.org/images/SRICC2000Report.pdf.
[98] Ibid.
[99] Rachel Schumacher and Mark Greenberg, *Child Care After Leaving Welfare: Early Evidence from State Studies* (Washington, DC: CLASP, 1999), at p. 2.

parent is engaged in job search activities.[100] In addition, the Iowa and Washington State reports describe administrative barriers faced by providers, such as complicated paperwork requirements and late payments, which might make providers more reluctant to accept subsidized children.[101]

Washington State has adopted some innovative policies and practices to help parents apply for and maintain their subsidies. In many local communities, the state is closing its client services offices and dealing with all requests for child care subsidies through a call center, where clients are talked through the application and recertification process over the phone. Parents can provide income and employment information, and the call center worker will place the client on hold to call the employer to verify the information. Child care providers requesting information on their clients' status or on their payments are also routed through the call center. All call center employees are trained and monitored and given uniform instructions.[102] This approach has not been implemented yet, but, depending on how it is implemented, it could prove to be a good model for streamlining the application and recertification process.

What Difference Does a Child Care Subsidy Make to a Low-Income Family?

According to the five state reports, the receipt of a child care subsidy can improve family economic well-being and give parents greater choice in who cares for their children. The Iowa authors demonstrate that when an Iowa family's income increases from $15,000 to $20,000 (causing the family to lose subsidy eligibility), its annual disposable income only increases by $34.[103] The Maine report suggests that even at the upper bounds of eligibility ($36,452 in FY 2001), subsidies play a vital role in stabilizing families' economic well-being. For instance, a Maine family of three earning $36,452 in FY 2001 would receive a child care subsidy equal to $2,600 and have a copayment of $3,640 for one child in care. With the subsidy, the family would have about $3,500 in disposable income after paying for such essentials as food, housing, health care, transportation, and clothes. Without the subsidy and paying the full cost of the same child care arrangement, the family would have only $919 left to cover all other family expenses for the year.[104]

There is also a non-economic value of subsidies to families, measured in terms of their relief at being able to work and place their children in child care settings with which they are comfortable. In a 2000 survey, Maine parents were asked to describe the effects of receiving a child care subsidy:[105]

- *"[This voucher] allowed me to come off welfare. I want to work but could not afford child care."*
- *"I can now afford quality child care and not worry about my child being put in jeopardy."*
- *"[Now] my child only has to go to one provider. I'm not always looking for someone to watch him."*
- *"I don't have to leave my children alone after school now."*
- *"My 13-year-old does not have to be responsible for watching his brother and sister."*
- *"I feel my children are safer now that they are cared for in licensed child care."*

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100 CDF, *Fragile Foundation*, at pp. 34-36.
101 *Iowa Child Care Experience*, at p. 24; *Washington State Child Care Experience*, at pp. 21-22.
102 *Washington State Child Care Experience*, at pp. 21-22.
103 *Iowa Child Care Experience*, at p. 39, Table 3.
104 CLASP calculation based on *Child Care, Money and Maine*, at p. 21.
105 *Child Care, Money and Maine*, at p. 23.

Conclusion

The numbers of families and children receiving subsidy assistance have increased substantially since 1996; at the same time, so have the numbers of families and children in need of such assistance. As a result, even though the numbers of families receiving child care subsidies have grown, most eligible families are still not receiving assistance, and some would surely benefit were they to have this help. Many low-income families currently paying for child care do not receive subsidy assistance; many others are relying on informal, unpaid arrangements. The limited resources for subsidy assistance get expressed in a range of ways: through waiting lists, low eligibility standards, high copayments, limited outreach, and administrative complexity for families seeking or receiving such assistance.

V. An Unmet Challenge: Assuring Access to a Broad Range of Child Care

A successful child care subsidy system should help families gain access to a broad range of child care providers. Participating families should have access to high-quality early education programs and child care that is responsive to their work-support needs, including infant care, inclusive child care for children with disabilities or other special needs, and providers with flexible hours for parents working night, weekend, and split-shift schedules. Participating children should have an opportunity to be in an appropriate early-learning environment. The previous chapter explored the extent to which eligible families are able to participate in the subsidy system. However, whether a subsidy program can actually provide access to this broad range of care depends on two key factors: (1) whether there is an adequate supply of such care available and (2) whether participating families can purchase it through the subsidy system. This chapter deals with the extent to which participating families are able to access a broad range of child care providers, focusing specifically on payment rates and the supply of regulated or licensed child care for specific populations of children.

The Role of Payment Policies for Providers

State policy decisions on setting payment rates for providers can restrict the ability of parents with subsidies to access a broad array of child care. If a state's payments meet provider costs and are made without undue administrative complexity, then providers should be willing to participate in the system. However, when rates are lower than what providers customarily charge or if payments are not made in a timely manner, providers face a burden in accepting subsidized children. They may respond by declining to participate in the system or by restricting the number of subsidized children they accept. If they do decide to participate, they may be restricted in their ability to make investments that promote quality care, such as hiring additional staff at higher wages. Another issue is whether providers are willing to accept payment after services are rendered, which is how the vast majority of CCDF subsidy payments are made.[106]

A study by Colorado's resource and referral agency illustrates the dilemma that providers face when payment rates are low. The study compared the Colorado subsidy payment rate to providers' actual charges for child care centers and family child care homes in 10 urban counties (in Colorado, each county sets its own reimbursement rates). Centers in these 10 counties lost $1,141 per year for every subsidized child they accepted; family day care homes lost $720 per year per child. Providers in these counties address this situation in a number of ways — by limiting the number of subsidized children they accept, by refusing to take any subsidized children, by cutting program investments, by accepting less profit (if they are for-profit centers), by charging higher rates for private-paying clients, or by taking a loss.[107]

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[106] According to FY 1999 data from the Child Care Bureau, 83 percent of children received CCDF subsidies through the use of certificates or vouchers, 11 percent through grants or contracts, and 6 percent through payments to parents. Certificate and vouchers payments are usually made on a reimbursement basis. U.S. Department of Health and Human Services, Administration for Children and Families, Child Care Bureau, *FY 1999 CCDF Data Tables and Charts*, http://www.acf.dhhs.gov/programs/ccb/research/99acf800/typepay.htm.

[107] Colorado Resource and Referral Agency, *The Fiscal Impact of Colorado Child Care Assistance Payments on the Child Care Industry: An Assessment of How the Child Care Provider Underwrites Publicly Purchased Child Care, 2001* (Englewood, CO: CORRA, 2001), at pp. 4-5.

The report on the Illinois child care experience quotes two providers describing the effect of low payment rates on their ability to provide quality care, which echo the findings of the Colorado study:

> **Suburban Chicago infant/toddler center director:** *There is no way we could provide the kind of care we do on the IDHS [the agency that administers the state's child care subsidy program] subsidy reimbursement alone. We supplement the subsidy by about $8,300 per year for each child. That's a lot of fundraising.*[108]
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> **Southern Illinois child care provider:** *The low reimbursement rate means cutting corners — and that usually means not being able to pay staff an adequate/living wage. That means programs suffer with staff turnover, low quality, less nutritious meals, [fewer] needed projects such as new equipment, playground improvements, and/or facility repairs as a direct result of the low reimbursement rate. It is difficult for centers to attract quality staff. Staff in most centers receiving this low reimbursement rate do not receive any benefits.*[109]

In developing their payment policies, states must make a set of key decisions: how to set rates, how much of a provider's time will be compensated, whether to offer differential rates for specialized care, how to avoid administrative barriers, and whether to use contracts with providers in addition to certificates/vouchers in their child care system. First, the dollar amount of the payment rate will play an important role in determining how much care a family can purchase in the relevant market. DHHS guidance instructs states that market rates set at least at the 75th percentile of the regional or state provider market will be considered adequate to meet the equal access provisions of the CCDF statute.[110] Due to data limitations, it is difficulty to tell whether states are now closer to meeting the 75th percentile standard than they were before the passage of the PRWORA, though it is clear that many states still fall short. In 1995, twenty-one states reported that they set their rates at the 75th percentile.[111] In 2000, 28 states reported that they were paying providers at least at the 75th percentile based on a market rate survey that was completed at least as recently as 1998.[112] Unfortunately, due to limited 1995 data reporting, we cannot determine whether this represents an actual increase or better data reporting.

Of the five states profiled in this report,[113] only Maine pays providers at the 75th percentile based on a recent market rate survey.[114] Iowa pays regulated providers at the 75th percentile based on a 1998 market rate survey but pays non-regulated providers based on a 1996 market rate survey.[115] According to Washington State's Division of Early Childhood Learning, rates in Washington have increased since 1996, and the rates have ranged from the 58th percentile to the 74th percentile of the relevant child care markets since 1996.[116] According to the author of the Washington State report, as of January, 2002, when Washington State's rates are updated to reflect the results of the 2002 market rate survey, providers will

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108 *Illinois Child Care Experience*, at p. 28.
109 Ibid.
110 63 Fed. Reg. at 39959.
111 CDF, *Fragile Foundation*, at pp. xxvii-xxx. Colorado reimbursement rates are set at the county level; some counties might have used the 75th percentile of the current market rates. Furthermore, the data for six states do not indicate whether rates were set at the 75th percentile using a current market rate survey.
112 Ibid, at p. 95.
113 Texas reimbursement rate policies vary by local workforce development board.
114 *Child Care, Money and Maine*, at p. 13.
115 *Iowa Child Care Experience*, at p. 25.
116 Letter from Washington State Department of Social and Health Services, Division of Child Care and Early Learning, to CLASP (February 15, 2002).

be paid between the 52nd and 58th percentile of the 2002 market rate.[117] Illinois updated its rates in 1998, but they remain quite low for Chicago providers; providers of center-based care for pre-schoolers are paid at the 18th percentile in Chicago (meaning that 82 percent of centers charge more than the rate)[118] while rural center care providers are paid at the 64th percentile.[119]

Second, states must set policies that determine how much of a provider's time will be compensated. For example, a provider's usual practice may be to have a price for a full-time slot and another price for a half-time slot. However, a state wishing to constrain costs may prefer to make payments based on the actual days or hours of a parent's work schedule. Nearly one-half of the states pay providers on an hourly or daily basis.[120] Another related policy decision is whether the state will pay for days during which a child is absent. If the state does not pay for sick days, then parents with subsidies often have to pick up the cost of these days. In 2000, all but seven states imposed some limitations on the number of absent days for which a provider could receive payment.[121]

Third, states must decide whether to use enhanced payment rates to encourage providers to serve children for whom the supply of care is limited, such as children with disabilities or other special needs or infants and toddlers, and to improve the quality of the care they provide. The use of "tiered reimbursement" (use of a variable rating system to provide higher payment rates to child care centers and family child care homes that meet guidelines for increased levels of quality) is becoming a more widely used vehicle for improving the quality of subsidized care paid for with certificates or vouchers. Tiered reimbursement policies potentially can create incentives for quality initiatives, including staff training and credentialing, and provide better information for parental child care choices and government contracting because it can be determined what quality criteria a provider has met.[122] These types of tiered rate structures were discouraged under prior law but are permissible in the CCDF structure. In 1995, only six states had differential rates for high quality care; by 2000, that number had increased to 22. In 1995, only one state offered a differential rate for care provided during non-traditional hours; by 2000, that number had increased to 13.[123] All five of the states profiled in this report use differential rates to increase the supply of particular types of care or to give incentives for providers to improve the quality of care they provide.

Fourth, informal state practices can affect parents' access to a range of child care settings. For instance, as discussed in the Iowa and Washington reports, delays in reimbursing providers who accept certificates or vouchers can affect providers' willingness to participate.[124] Administrative burdens on parents also can affect providers. For example, when parental copayments are too high, the provider may have to pursue the parents for payment — having to decide whether to forego the payment and keep serving the child or to refuse to serve the child any longer.

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117 *Washington State Child Care Experience*, at p. 5.
118 *Illinois Child Care Experience*, at p. 27.
119 Conversation with Linda Saterfield, Illinois Department of Human Services (February 18, 2002).
120 CDF, *Fragile Foundation*, at p. 99. In 2000, three states paid providers on an hourly basis and one state (Iowa, which will be discussed later) pays for half a day (four-and-a-half hours per day) of care. Eighteen states paid on a daily basis. California will pay whatever unit of payment the provider charges the families it serves.
121 Ibid, at p. 102. These seven states will usually not limit absent-day reimbursement except in situations of extended absences in which it appears that the child might not be attending the child care program anymore.
122 Gwen Morgan, *Tiered Reimbursement Rates and Rated Licenses* (Boston, MA: The Center for Career Development in Early Care and Education, Wheelock College, May, 1999), at p. 3.
123 CDF, *Fragile Foundation*, at p. xxxi.
124 *Iowa Child Care Experience*, at p. 24; Washington State Child Care Experience, at p. 29.

Finally, states must determine whether and to what extent they will use contracts with providers as a part of the subsidy system approach to paying for child care for subsidized children. When a parent receives a voucher, he or she can use the voucher to pay for any child care that is allowed under federal and state law, as long as that provider is willing to participate in the system. In a contract system, such as the one operated by Maine, the state or locality contracts with a child care provider for a specified number of child care slots, and may require certain standards or services as part of the contract. The provider then accepts subsidized families to fill the slots and is guaranteed payment even if a particular family leaves the child care provider. States must also provide parents entering the CCDF subsidy system with the option of using a certificate or voucher. In Maine, contracted providers must meet performance measures and quality assurances, which are not required of providers who receive vouchers. All of the contracted providers in Maine have waiting lists, indicating parental interest in using these providers.[125] According to a recent study by the Children's Defense Fund, only 19 other states use contracts, mostly on a very limited basis. (Two of these states reported to CDF that they were planning to discontinue funding for their contract programs.)[126] Examples of the uses of contracts include: purchasing care for infants and toddlers, children with disabilities and other special needs, and the children of teen parents; paying for wraparound care for children in Head Start or prekindergarten programs; and providing seed money for public-private partnerships.[127]

Limited Supply of Regulated Child Care

A limited supply of certain types of regulated child care can disproportionately restrict the options of low-income families. Supply may be limited for a particular type of care — for instance, licensed or regulated care for infants and toddlers, for school-aged children, for children with disabilities and other special needs, and for children whose parents work nontraditional hours. Or, a particular type of care may be generally available, but be of limited supply in low-income communities. It is important to remember that there is little data on the number and quality of child care settings outside of the licensed care system. In addition, there is only limited information available about the quality of different child care settings, regulated or not, as will be discussed in the next section.

The supply of accredited child care is limited for families at all income levels. In November, 2001, the National Association for the Education of Young Children (NAEYC), the national accrediting body for child care centers and other early education programs, reported that nationwide there were only 8,074 accredited child care centers, pre-schools, kindergartens and before- and afterschool programs, with an additional 9,272 that were pursuing accreditation. The accredited programs served under 720,000 children.[128] To get a sense of the demand for such programs, consider that, in 2000, 65.3 percent of mothers with children under six and 78 percent of mothers with children between the ages of six and 13 worked outside the home. In a market of limited supply, accredited providers might prefer to serve a non-subsidized child whose parents can pay the full charge for care, rather than waiting for what may only be partial reimbursement from the state.

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[125] *Child Care, Money and Maine*, at p. 9.
[126] CDF, *Fragile Foundation*, at pp. 127-28.
[127] Ibid (providing a complete list of the uses for contracts), at pp. 127-28.
[128] National Academy of Early Childhood Programs, *Accreditation Update*, Vol. 3, Number 1, Winter 2002, http://www.naeyc.org/accreditation/accred_update/winter2002.pdf.

Research suggests that low-income families have less access to licensed or regulated care than higher-income families. Respondents to a survey of 17 states by Abt Associates and the National Center for Children in Poverty reported that while they believed that low-income families could find child care, these child care arrangements were often not in regulated or licensed centers or family day care homes.[129] The following analysis by CLASP indicates that this lack of access is related primarily to two factors. First, low-income families tend to live in communities where there is often little licensed or regulated care. Second, low-income families have a greater need for types of licensed or regulated care that are in limited supply and are often expensive when available.

A study of regulated child care in Illinois and Maryland found that, in communities with high and very high concentrations of low-income people, there were fewer total slots in regulated child care centers and family child care homes than there were in more well-off communities. Moreover, the supply of regulated center slots in Illinois and Maryland and regulated family child care home slots in Maryland grew more slowly in low-income neighborhoods between 1996 and 1998. The story of the supply of regulated family child care homes in Illinois is more mixed; the number of family child care home slots grew in communities with very high concentrations of low-income families, declined in areas with a high concentration of low-income families, and remained about the same in higher income communities.[130] A study of Census data found that fewer regulated and center slots were available in rural areas than urban areas, especially poor rural areas.[131]

Subsidies can help some low-income children access regulated care or child care centers. As will be discussed in the next section, in FY 1999, 56 percent of CCDF-subsidized children were in center-based care and 72 percent were in licensed or regulated settings (including centers, family child care homes, and group homes).[132] In contrast, in 1997, 19 percent of children under age five who were below 200 percent of the poverty level with an unemployed parent and 31 percent of children age five who were below 200 percent of poverty with an employed parent used center-based care as their primary arrangement.[133] Data from two of the profiled states support this analysis. Iowa's Polk County, in which Des Moines and 12 percent of the state's population is located, has 12 accredited child care enters. Only 5.6 percent (76) of the 1,363 children served by these centers are subsidized children. However, subsidized children are more likely to be in these accredited centers than are children in families with incomes above the state's subsidy eligibility level but below 85 percent of SMI.[134] In Washington State, 57 percent of all family child care homes and 86 percent of all child care centers serve at least one subsidized child. However, 13 percent of surveyed providers reported that they limit the number of subsidized children they will serve; local child care resource and referral agencies believe that this percentage is probably higher.[135]

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[129] *Low-Income Child Care Study*, at p. 87.
[130] J. Lee Kreader, Jessica Brickman Piecyk, and Ann Collins, *Scant Increases After Welfare Reform: Regulated Child Care Supply in Illinois and Maryland*, 1996-1998, *A Report of the NCCP Child Care Research Partnership* (New York: National Center for Children in Poverty, June, 2000), at pp. 23-26. In Illinois, there were more regulated family child care slots in low-income areas than there were in higher income areas but the total number of center and family child care slots in higher income areas exceeded the total for low income areas.
[131] Rachel Gordon and P. Lindsay Chase-Lansdale, "Availability of Child Care in the United States: A Description and Analysis of Data Sources," in *Demography*, Vol. 38, No. 2, at p. 306 (May, 2001).
[132] U.S. Department of Health and Human Services, Administration for Children and Families, Child Care Bureau, *Final 1999 Data and Tables*, http:///www.acf.dhhs.gov/programs/ccb/research/99acf800/cover.htm [hereinafter *Child Care Bureau, Final 1999 Data and Tables*].
[133] Kathryn Tout, Martha Zaslow, Angela Romano Papillo, and Sharon Vandivere (Child Trends), *Early Care and Education: Work Support for Families and Developmental Opportunity for Young Children* (Occasional Paper Number 51) (Washington, DC: Urban Institute, September, 2001), at p. 22, Table A3.
[134] Iowa's income eligibility level is set at 140 percent of poverty, which is the equivalent of 46 percent of state median income. *Iowa Child Care Experience*, at pp. 27-28.
[135] *Washington State Child Care Experience*, at p. 21.

Limited Child Care for Special Populations

Regulated child care settings for specific groups of children can be difficult and expensive to access for all families, particularly low-income ones. These limited types of licensed or regulated care include: care for infants and toddlers, for school-aged children, for children with disabilities and other special needs, and for children whose families work non-traditional hours.

Infants and Toddlers

Since 1996, the potential demand for infant and toddler care has increased for unmarried mothers. In 1996, 54.5 percent of unmarried mothers with children under age three were working outside the home; in 2000, that figure had increased to 67.3 percent.[136] One factor behind this increased demand is the PRWORA provision that eliminated federal exemptions from welfare work requirements for parents of very young children. According to the August 2000 *Third Annual Report to Congress* on TANF, 24 states impose work requirements on parents when a child reaches age one, and 18 other states impose such requirements before the child reaches one.[137]

This increased demand is coupled with a limited supply of licensed child care for infants and toddlers.[138] For instance, the Illinois state report notes that more than 50,000 babies are born in Chicago every year. However, according to data from Illinois' child care resource and referral agencies, there are currently 438 infant slots in centers and 4,431 slots in licensed homes for children under 15 months in Chicago.[139] Assuming that work patterns of Chicago mothers with infants mirror those of the nation as a whole (that is, 55 percent are in the labor force), the current number of licensed infant slots can only meet 18 percent of the potential need at most. Several of the authors of the state reports hypothesize that the mismatch between supply and demand is due to the cost of caring for infants and toddlers compared to pre-schoolers: if a provider can care for ten pre-schoolers per staff member or four infants, economics would dictate that the provider will limit the number of infants and toddlers served.[140]

Even when slots are available for infants and toddlers, the care may be of troubling or uncertain quality. A 1995 study of center-based infant/toddler care found that "almost half of the infants and toddlers [were] in rooms having less than minimal quality and that 40 percent of the rooms serving infants were providing care that jeopardized children's health, safety, or development."[141] A more recent review of six studies rating the quality of selected infant and toddler centers found that none of the studied programs provided

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[136] Bureau of Labor Statistics, Table 3, "Employment Status of the Civilian Noninstitutional Population," and Table 26, "Median Percent of Total Family Income Contributed by Earnings of Women Maintaining Families," 2000 (unpublished data) [hereinafter BLS, Tables 3 and 26]. The percentage of married mothers with children under age three remained relatively constant, dropping only slightly from 60.5 percent in 1996 to 59 percent in 2000.
[137] U.S. Department of Health and Human Services, *Temporary Assistance for Needy Families (TANF) Third Annual Report to Congress* (Washington, DC: 2000), p. 197. Four states have no exemption criteria for individuals caring for young children.
[138] Deborah Phillips and Gina Adams, "Child Care and Our Youngest Children," in *The Future of Children: Caring for Infants and Toddlers*, Vol. 11, No. 1 (Los Altos, CA: The David and Lucile Packard Foundation, Summer and Spring 2001), at p. 46 [hereinafter *Child Care and Our Youngest Children*].
[139] *Illinois Child Care Experience*, at p. 25.
[140] Ibid; *Child Care, Money and Maine*, at p. 27.
[141] Emily Fenichel, Abbey Griffin, and Erica Lurie-Hurvitz, *Quality Care for Infants and Toddlers* (Washington, DC: U.S. Department of Health and Human Services, July, 1999), at p. 3, http://nccic.org/pubs/qcare-it/demand.html (citing Suzanne Helburn et al., *Cost, Quality, and Outcomes Study*, Denver: University of Colorado, 1995, at p. 2).

good quality care and that the care provided to infants and toddlers consistently rated below the quality of care provided to pre-school children.[142]

All five profiled states have attempted to address the supply and quality issues relating to infant and toddler care. For instance, Illinois provides enhanced payment rates for centers that increase their supply of infant care. The Illinois Department of Human Services estimates that this program has created 400 new infant slots throughout the state. However, the Illinois report authors note that few centers have qualified for the enhanced rates because the process for applying for them is burdensome for providers.[143] In addition to contracting with certain providers to care for school-age children, Maine also pays providers about $15 per week more for infants and toddlers than for pre-schoolers. However, given that Maine providers can only care for four infants per adult as compared to ten pre-schoolers, the Maine authors do not feel that the enhanced payment rate is sufficient to encourage large numbers of providers to care for pre-schoolers.[144] Washington State has also undertaken several initiatives to improve the supply and quality of infant and toddler care, including providing bonuses, training, and supports for providers who care for infants and toddlers.[145]

School-Aged Children

Many school-aged children need out-of-school time activities and supervision. In 2000, the labor force participation rate for mothers with children between the ages of 6 and 13 was 78 percent; the rate for unmarried mothers was 83.4 percent.[146] A recent Urban Institute study found that, while the majority of children ages 6-12 were in supervised child care arrangements or cared for by a parent, anywhere from 3.6 million to 4.4 million school-aged children cared for themselves on a regular basis each week.[147] While the authors of the Urban Institute study are careful to point out that some children are mature enough to handle this responsibility and that these arrangements might reflect parental preference, they also indicate that these situations can be harmful to children, particularly younger ones and those who live in dangerous neighborhoods.[148] A recent Child Trends analysis of welfare work program evaluations indicates that there is reason for concern that parents' work might lead to decreased parental monitoring during non-school hours. This could be one of the factors that leads to findings that adolescent children of welfare recipients who are subject to work requirements are more likely to exhibit risky behaviors (although the difference is not always statistically significant). One of their policy suggestions is to provide more after-school opportunities so that adolescent children have more monitoring.[149]

Self-care might be the result of the limited supply of child care options for school-aged children. A 1997 General Accounting Office study in Baltimore City, Chicago, and two rural counties in Oregon found that the supply of school-aged care could only meet a fraction of the demand — ranging from 23 percent in Chicago to 66 percent in Oregon's Benton County. The authors estimated that if work participation

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[142] National Center for Early Development and *Early Learning, Early Childhood Research and Policy Briefs*, Vol. 1, No. 1 (Chapel Hill, NC: Frank Porter Graham Child Development Center, University of North Carolina at Chapel Hill, 2000), at p. 2.
[143] *Illinois Child Care Experience*, at p. 25.
[144] *Child Care, Money and Maine*, at p. 27.
[145] *Washington State Child Care Experience*, at p. 27.
[146] BLS, Tables 3 and 26.
[147] Jeffrey Capizzano, Kathryn Tout, and Gina Adams, *Child Care Patterns of School-Age Children with Employed Mothers* (Washington DC: Urban Institute, September, 2000), at p. 29.
[148] Ibid, at p. 30.
[149] Jennifer L. Brooks, Elizabeth C. Hair, and Martha J. Zaslow, *Welfare Reform's Impact on Adolescents: Early Warning Signs* (Child Trends Research Brief) (Washington, DC: Child Trends, July, 2001), at pp. 2-3, 4, & 6.

rates for welfare recipients were to increase to 50 percent, these percentages would decrease to 17 percent in Chicago and 62 percent in Benton County.[150]

As in other areas, low-income families appear to be disproportionately affected by these supply issues. A study of three cities in which the school-aged population is predominately low- to moderate-income found that there were sufficient slots to serve 10-20 percent of school-age children in programs that run every day throughout the year; there were spaces for an additional 10-15 percent in programs that met sporadically throughout the week or throughout the year.[151] Low-income families are more in need of programs for school-age children for at least two reasons. First, they are more likely to live in neighborhoods that parents might consider too dangerous for children to be left alone. Second, there is evidence that low-income children have less access than their higher-income counterparts to afterschool activities, such as enrichment classes, sports, and lessons. A 1990 study found that 20 percent of children in families with incomes over $50,000 had access to these types of programs compared to only 6 percent of children in families with incomes between $15,000 and $25,000 per year. The cost of such afterschool programs (many of which are supported with parent fees) and transportation can keep low-income children from being able to participate.[152] Increasingly, however, public and private efforts are seeking to build the capacity of school-based programs to provide afterschool care.[153]

Children with Disabilities and Other Special Needs

The U.S. Census Bureau reports that, in 1997, 643,000 children ages zero to three and over four million children ages 6 to 14 had some form of disability.[154] Studies have found a relatively high incidence of disabilities among low-income children. A 2000 report based on interviews with California welfare recipients in 1992 and 1996 found that 19.5 percent of the families had at least one child who was disabled or ill.[155] The following table compares the percent of children above and below the poverty line who have limitations in their activities due to a chronic condition that lasts longer than three months.

Table 6. Children with Limitations Caused by Chronic Conditions as a Percent of All Children, by Poverty Level (1998)[156]

	Below Poverty	Above Poverty
Children Ages 0 to 4	4.0%	2.5%
Children Ages 5 to 17	11.1%	7.1%

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150 U.S. General Accounting Office, *Welfare Reform: Implications of Increased Work Participation for Child Care* (Washington, DC: U.S. General Accounting Office, May, 1997), at p. 9 [hereinafter GAO, *Welfare Reform and Child Care*].
151 Robert Halpern, "After-School Programs for Low-Income Children: Promises and Challenges," in *The Future of Children: When School is Out*, Vol. 9, No. 2 (Fall 1999), at p. 83.
152 Deborah Lowe Vandell and Lee Shumow, "After School Child Care Programs," in *The Future of Children: When School is Out*, Vol. 9, No. 2 (Fall 1999), at p. 69.
153 Joy Dryfoos, "The Role of the School in Children's Out-of-School Time," in *The Future of Children: When School is Out*, Vol. 9, No.2 (Fall 1999), at pp. 129-130.
154 Jack McNeil, "Americans with Disabilities: 1997," *Current Population Reports*, P70-73, (Washington, DC: U.S. Census Bureau, February, 2001), at p. 17, Table 5.
155 Marcia K. Meyers, Henry E. Brady, and Eva Y. Seto, *Expensive Children in Poor Families: The Intersection of Childhood Disabilities and Welfare* (San Francisco, CA: Public Policy Institute of California, 2000), at pp. 27-28 & 37-39.
156 *America's Children: Key National Indicators of Well-Being*, at p. 88, Table HEALTH2, http://www.childstats.gov/ac2001/hlth2.htm.

Finding care for a child with a disability or other special needs can pose challenges for any family, regardless of income. One Illinois mother said:

> *My baby had pretty bad asthma when he was born, and I was looking for child care that I would be able to trust because he would have bad attacks and have to go to the hospital. I couldn't find any good child care [for him] until he was eight months old, so I stayed at home with him. After I found him good child care, I went back to work.*[157]

Some data to estimate the supply of care are available for children with disabilities and other special needs. The 1997 General Accounting Office study referenced above found that, in poor areas of Baltimore City, only 13 percent of known child care providers offered care for children with disabilities or other special needs. Fifty percent of known providers in poor areas of Chicago had experience in caring for children with disabilities and other special needs, but there is no indication of how many children they had cared for and whether they were caring for these children at the time of the survey.[158] A state survey cited in the Maine report found that up to one-third of child care providers served children with medical, physical, or behavioral needs. Twelve percent of the providers reported that they had not enrolled a child because of the child's behavior, and 21 percent said that they had asked a child to leave the program because of his or her behavior.[159]

After reviewing the existing literature on children with disabilities and other special needs and their child care needs, the authors of a National Academy of Sciences report concluded that:

> *the inability or unwillingness of many child care providers to accept children with disabilities … transportation and other logistical problems, difficulties with coordinating early intervention and child care services, and the scarcity of appropriately trained caregivers … made the effort to find any child care a tremendous challenge for these families.*[160]

The five states profiled here are attempting to address these issues through a variety of approaches, including enhanced payment rates and provider training and supports, in part through collaboration between child care resource and referral agencies and public health nurses, particularly in Illinois, Iowa, Maine, and Washington.[161] However, part of Washington State's program to provide supports for providers who serve children with special needs was cut by the Governor's recent decision to reallocate TANF funds.[162]

Children Whose Parents Work Non-Traditional Hours

According to 1997 data from the Bureau of Labor Statistics, 37.7 percent of all women with children under 14 worked nonstandard hours,[163] and 43.3 percent of women with a high school education or less worked these types of hours.[164] More recent analyses confirm these work patterns for low-income women. A recent review of studies of individuals who have left welfare found that, "[i]n most places, close

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[157] *Illinois Child Care Experience*, at p. 26.
[158] *GAO, Welfare Reform and Child Care*, at pp. 35 & 37.
[159] *Child Care, Money and Maine*, at p. 27.
[160] Jack P. Shonkoff and Deborah Phillips, eds., *From Neurons to Neighborhoods: The Science of Early Childhood Development* (Washington DC: National Academy of Science, 2000), at p. 324 [hereinafter *From Neurons to Neighborhoods*].
[161] *Illinois Child Care Experience*, at p. 26; *Iowa Child Care Experience*, at p. 27; *Child Care, Money and Maine*, at p. 32; *Washington State Child Care Experience*, at p. 27.
[162] *Gov. Locke adjusts welfare reform spending.*
[163] Defined as variable hours, weekends, or evenings.
[164] Harriet B. Presser and Amy G. Cox, "The Work Schedules of Low-Educated American Women and Welfare Reform," in *Monthly Labor Review* (April, 1997), at p. 27, Table 1.

to half work some or most weekends; between one-quarter and one-half work evening, night, or early morning hours; and up to one-quarter work changing schedules."[165] A recent survey by the AFL-CIO found that 42 percent of women earning less than $25,000 worked non-traditional hours.[166]

The lack of licensed or regulated care during nonstandard hours can be difficult for families. The 1997 GAO study found that the percentage of known providers in the four poor communities that offered care during nontraditional hours ranged from a low of 12 percent in Baltimore City to a high of 41 percent in Linn County, Oregon.[167] The Maine report notes that, in 1999, while almost three-quarters of licensed child care centers and family child care homes provided care during vacations and holidays, no more than 2 percent of licensed centers and 6 percent of licensed family child care homes provided evening, overnight, weekend, or 24-hour care.[168] The Illinois findings were similar: 3.3 percent of Illinois child care centers and 20 percent of Illinois family child care homes offer care during evening hours, and approximately 1 percent of child care centers and 13 percent of family child care homes offer care weekends and overnight.[169]

One particular challenge states face is determining what low-income parents want and re-targeting resources to meet these needs. Maine resource and referral staff note that parents seeking odd-hour care generally want formal care during the early mornings and early evenings; parents would rather have informal in-home care for late night and overnight so that their children can sleep in their own beds.[170] An Illinois pilot project has found that parents appear to prefer family child care homes to centers for the provision of care during non-traditional hours.[171]

Conclusion

The five state reports show that although low-income families with subsidies are more likely to access formal and regulated child care than their peers without a subsidy, low payment rates and insufficient supply of necessary and appropriate child care may be limiting the ability of these families to access a broad range of child care and early education choices for their children. Moreover, despite recent state initiatives, the limited supply of specialized types of care remains an important issue for families who are receiving subsidies, as well as for those outside the subsidy system.

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[165] Elise Richer, Steve Savner, and Mark Greenberg, *Frequently Asked Questions About Welfare Leavers* (Washington, DC: CLASP, November, 2001), at p. 4.
[166] AFL-CIO, *Ask a Working Woman 2000 Survey*, http://www/aflcio.org/women/survey1.htm.
[167] GAO, *Welfare Reform and Child Care*, at pp. 34 and 41. These figures do not disaggregate the type of nonstandard hour care that is provided.
[168] *Child Care, Money and Maine*, at p. 28. In Maine, only 2 percent of centers and 6 percent of licensed family homes provided care during evening hours, less than 1 percent of centers and 4 percent of licensed family homes provided overnight care, and only 1 percent of centers and 5 percent of licensed family homes provided care on weekends.
[169] *Illinois Child Care Experience*, at p. 24.
[170] *Child Care, Money and Maine*, at p. 28.
[171] *Illinois Child Care Experience*, at p. 25.

VI. Enhancing Quality and Promoting Early Learning: Creative State Initiatives, Still Not Enough Quality Child Care

The body of research linking quality child care to good child development outcomes has grown considerably since 1996. States have responded by spending CCDF and other dollars, such as TANF and state funds, to develop initiatives to enhance child care quality. In addition, many states have sought to increase the quality of child care to meet early education standards and to serve as prekindergarten program sites, and there is potential for national leadership to encourage more connections between early learning and literacy goals and the existing child care system.[172] A recent report issued by the Committee for Economic Development, a research and policy organization composed of more than 200 business leaders and educators, concluded their call for universal preschool programs with the observation that:

> *With so many preschool-age children now spending significant amounts of time with care-givers other than their parents, the old distinctions between child care and preschool no longer make sense. Formal preschool programs in fact provide child care for the hours that they operate. Child care programs in turn have the potential to affect child development through the quality of their offerings. Thus it is important to include in a new vision for early education the goal of making high-quality extended-day and year-round services available in concert with the development of universal preschool programs.*[173]

However, as discussed throughout this report, limited resources force states to make difficult trade-offs between expanding access and promoting quality within the child care subsidy system, and quality initiatives typically reach only a fraction of children. While many policymakers agree that low-income parents need child care in order to work, there is less agreement on the need to ensure that families have access to child care arrangements that meet high quality standards. Over the past five years, increased federal CCDF money, a required set-aside for quality enhancements, and access to TANF funds have enabled states to promote quality and expand access. Now, however, the current economic climate may force states to make tough budget choices, leaving the emerging quality initiatives to suffer.

What Is Quality Child Care and Why Is It Important?

As labor force participation among low-income mothers has increased, young children are experiencing extended hours of non-parental care, which offers an opportunity in those settings to enhance their early learning and subsequent child outcomes. A recent Urban Institute study reported that 41 percent of preschool-age children with working mothers experienced 35 or more hours of non-parental care per week in 1997, with the percentage rising to 52 percent for children of mothers employed full-time.[174]

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[172] Several recent reports have recommended that efforts to promote early education will require services to be provided in an array of settings, including child care. For more discussion of this issue, see CLASP, *State Initiatives to Promote Early Learning: Next Steps in Coordinating Child Care, Head Start, and State Prekindergarten,* and the Committee for Economic Development (CED), *Preschool for All: Investing in a Productive and Just Society* (Washington, DC: CED, 2002) [hereinafter CED, *Preschool for All*].
[173] CED *Preschool For All*, at p. 28.
[174] Jeffery Cappizano and Gina Adams, *The Hours that Children Under Five Spend in Child Care: Variations Across States* (Washington, DC: Urban Institute, 2000), at p. 3, Table 1.

At the same time, researchers have expanded their understanding of how the nature of child care experiences may impact child development. Brain development research has shown that early care environments that include a warm, responsive caregiver have a positive impact on subsequent human cognitive, emotional, and social development.[175] The National Research Council determined that secure attachments with responsive caregivers are a necessary component of effective early education programs and, indeed, help to promote social and intellectual competence, especially for children at greater risk of school failure.[176] A National Academy of Sciences (NAS) literature review concluded that research consistently points to the role of high-quality interventions and early educational experiences in improving early learning, language skills, and achievement in school, as well as improved social and emotional development.[177] The NAS study also found that low-quality child care can be harmful to child development or, at the very least, can deny children the opportunity for an early education intervention that could help them in their later lives.[178] Another study found that the quality of children's early learning experiences was related to the children's later transition to and performance in elementary school; the effect was stronger for children of mothers with lower levels of education.[179] A study of the North Carolina Abecedarian program found positive impacts on cognitive measures through age 21 for children who had participated in an early education intervention (from birth to five years) as compared to non-participating children; it also found a decreased likelihood of a need for special education and an increased likelihood that the participating children attended a four-year college.[180] Finally, another recent study found long-term associations between participation in high-quality preschool programs and follow-up school-age services in Chicago schools, and subsequent behavior by program participants, including lower juvenile arrest rates and better educational achievement.[181]

The new research has also highlighted ways in which policymakers can improve the quality of care provided to children. Researchers have identified particular key measures of quality, including children's relationships with caregivers (called process measures) and the nature of the activities children participate in, the ratio of adults to children, and caregiver education characteristics (called structural measures).[182] Furthermore, researchers have also found that the quality of children's relationships with their caregivers or teachers is often related to the nature of the structural measures.[183] Therefore, it appears that policymakers can improve child care learning environments and have an impact on child outcomes by designing policies to improve these structural measures, such as lowering child-staff ratios and requiring caregivers to have additional training and/or education.

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[175] Rima Shore, *Rethinking the Brain: New Insights into Early Development* (New York: Families and Work Institute, 1997), at pp. 27-29.
[176] Barbara T. Bowman, M. Suzanne Donovan, and M. Susan Burns (Eds.), *Eager to Learn: Educating Our Preschoolers* (Washington, DC: Committee On Early Childhood Pedagogy, National Research Council, National Academy Press, 2001), at pp. 49-52 [hereinafter *Eager to Learn*].
[177] *From Neurons to Neighborhoods*, pp. 338-342.
[178] Ibid, at p. 394.
[179] Cost, Quality, and Outcomes Study Team, *Cost, Quality, and Outcomes Study Go to School* (Chapel Hill, NC: University of North Carolina at Chapel Hill, Frank Porter Graham Child Development Center, 1999), at pp. 26-28.
[180] The Abecedarian Project Team, *Early Learning, Later Success: The Abecedarian Study* (Chapel Hill, NC: Frank Porter Graham Child Development Center, University of North Carolina at Chapel Hill, 2000).
[181] Arthur J. Reynolds, et al., "Long-Term Effects of an Early Childhood Intervention on Educational Achievement and Juvenile Arrest: A 15-Year Follow-up of Low-Income Children in Public Schools," in JAMA, Vol. 285, No. 18 (May 9, 2001), at p. 2339.
[182] Deborah Lowe Vandell and Barbara Wolfe, *Child Care Quality: Does it Matter and Does It Need To Be Improved?*, at pp. 2-6, http://aspe.hhs.gov/hsp/ccquality00/ccqual.htm.
[183] Ibid, at p. 31.

How Can Policymakers Ensure That Quality Services Are Available?

Policymakers can affect quality in two realms: child care environments and child care providers. The quality of the child care learning environment itself can be influenced by licensing standards and enforcement. The quality of child care providers can be improved through policies aimed at compensating and retaining well-trained and nurturing child care teachers. (Other payment and financial incentive methods that can increase the supply of quality programs, including tiered reimbursement and direct contracts with programs meeting certain standards, are discussed in the previous chapter.)

Licensing Requirements and Enforcement

At the most basic level, licensing standards provide an important vehicle for states to promote a certain level of safety and quality and to monitor child care providers for compliance. Standards governing health and safety procedures in child care settings, minimal training for providers, and class size and child-staff ratios are three basic criteria around which states can certify and monitor providers. In each of these areas, there are no required federal standards.

All states have minimum licensing standards, although there is considerable variation among them. For instance, 27 states require all center-based providers and 16 states require all family child care homes to be subject to licensing under state law.[184] There is also variation in training requirements across states. As of June 1, 2000, approximately 30 states did not require child care center or family child care teachers to meet any early childhood training requirements before they became teachers. However, many more states had ongoing training requirements; all but seven states require child care center teachers to have ongoing training, and all but 11 have ongoing training requirements for family child care providers.[185] Many states also allow child-staff ratios that exceed recommended levels. In 2000, half the states had required child-staff ratios for 18-month-old children that exceeded the maximum ratio of 5 to 1 recommended by the National Association for the Education of Young Children (NAEYC). That year, the child-staff ratio for three-year-olds in 21 states exceeded the NAEYC maximum recommended ratio of 10 to 1.[186]

The resources devoted to the enforcement of licensing requirements also vary across states. Although most states conduct licensing visits to center and family child care providers, state policies regarding exemptions from regulations vary considerably. In addition, only 11 states reported that their licensing staff had caseloads of 75 provider facilities or fewer in FY 1999, which is the recommended level articulated in the National Health and Safety Performance Standards. Seventeen states reported caseloads of 150 provider facilities or more. The states that are profiled in this report vary in their licensing enforcement capacities. In FY 1999, Illinois, Iowa, and Texas were three of 11 states that had caseloads of 75 provider facilities or less per licensor. Washington State had 118 cases per licensor, and Maine had 327 providers per licensor.[187]

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[184] U.S. Department of Health and Human Services, Administration for Children and Families, Child Care Bureau, *Child Care and Development Fund: Report of State Plans for the Period 10/01/99 to 09/30/01* (Washington DC: U.S. Department of Health and Human Services), at pp. 104-105 (summarizing compilation of licensing requirements by the National Resource Center for Health and Safety in Child Care, http://nrc.uchsc.edu/).
[185] Helen Blank, Andrea Behr, and Karen Schulman, *State Developments in Child Care, Early Education and School-Age Care 2000* (Washington DC: Children's Defense Fund, March, 2001), at p. 57.
[186] Ibid, at pp. 67-68 (citing the Center for Career Development in Early Care and Education at Wheelock College, October, 2000).
[187] U.S. General Accounting Office, *Child Care: State Efforts to Enforce Safety and Health Requirements* (Washington, DC: Government Printing Office, 2000), at pp. 37-38.

The structural features of child care settings are key influences on the quality of relationships between children and their child care teachers. Small class sizes and low child-staff ratios are related to more frequent and individually responsive interactions between child care teachers and children, which can increase opportunities for development of language and social skills.[188]

The Impact of Teacher Wages on the Supply of Quality Child Care

High levels of caregiver education, a stable workforce with low turnover, and adequate worker compensation have each been linked to better quality early learning environments. A study by the Center for the Child Care Workforce found that the presence of a greater proportion of highly-trained teaching staff was the strongest predictor of whether a center could sustain quality improvements over time.[189] Over the course of the past five years, there has been a growing recognition of the importance of these workforce-related concerns, as well as a greater number of state initiatives to address them.

Throughout the country, low pay and high rates of staff turnover continue to limit the maintenance or expansion of the supply of quality child care. Data from the Bureau of Labor Statistics tabulated by the Center for the Child Care Workforce showed the average hourly wages for all teachers of children five and under in 1999 (see Table 7).

Table 7. Mean Hourly Wage for Teachers of Children Ages Five and Under (1999)[190]

Occupation	Mean Hourly Wage
Family child care provider	$4.82
Child care worker	$7.42
Preschool teacher	$9.43
Kindergarten teacher	$24.51
Minimum wage — 1999	**$5.15**

Available data indicate that low wages contribute, in part, to turnover among child care teaching staff. A longitudinal survey of 75 child care centers in northern California found that 76 percent of the teaching staff employed in 1996 and 82 percent of those employed in 1994 were no longer employed in the same setting in 2000. Average turnover rates between 1999 and 2000 were 30 percent per year. The study further found a link between higher compensation and lower rates of turnover; centers with no turnover paid significantly higher wages than centers with turnover.[191]

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[188] *Eager to Learn*, at p. 7.
[189] Marci Whitebrook, Laura Sakai, Emily Gerber, and Carollee Howes, *Highlights Then and Now: Changes in Child Care Staffing*: 1994-2000 (Washington, DC: Center for the Child Care Workforce, 2001), at pp. 2-5 [hereinafter Center for the Child Care Workforce, *Changes in Child Care Staffing.*]
[190] Center for the Child Care Workforce, *Current Data on Child Care Salaries and Benefits in the United States* (Washington, DC: Center for the Child Care Workforce, March 2001), at p. 4 [hereinafter Center for the Child Care Workforce, *Current Data on Child Care Salaries and Benefits*].
[191] Center for the Child Care Workforce, Changes *in Child Care Staffing,* at pp. 2-4.

The story is similar in the five states profiled in this report. Table 8 provides some information about child care teacher salaries, benefits, and turnover rates for center-based care in the five states. Average hourly salaries of child care teachers in these states are consistent with the national averages and do not exceed those of preschool teachers, as seen in Table 7 (except for the highest wages in Illinois). For the states that had data on health insurance, 42 percent of Illinois centers and 61 percent of centers in Iowa offer health insurance to child care teachers.

Table 8. Selected Salary, Benefit, and Turnover Information from Five States[192]

State	Average Hourly Salary for Child Care Teachers	Average Annual Turnover Rate	Health Insurance Offered to Teachers in Centers[193]
Illinois (Statewide 1999)	Lowest: $8.68		
	Highest: $10.97	N/A	42%
Iowa (Statewide 2000)	Starting Wage: $7.00		
	Peak Wage: $9.00	29%	61%
Maine (Statewide 2000)	$8.32	20%	N/A
Texas (Selected Counties 1999)[194]	$7.16	N/A	N/A
Washington (Statewide 2000)[195]	$8.66	N/A	N/A

How Do CCDF Funds Support Quality Child Care?

States are required to spend at least 4 percent of their CCDF funds to enhance the quality of child care. These initiatives need not be limited to children receiving subsidies funded with CCDF dollars. In addition to these "quality set-aside" funds, many of the decisions that states make related to child care assistance policies, such as how much to pay providers, affect the quality of care. This is especially true when government-funded child care assistance purchases a larger proportion of the child care available in a community than does privately purchased child care.

Are the Early Education Needs of CCDF-Funded Children Being Met?

Federal data do not provide a full picture of where children are currently served with CCDF funding or of the quality of those settings. The vast majority of CCDF funds (approximately 90 percent in FY 2000) are used to fund child care services.[196] The chart below shows the data reported by the states to the U.S. Department of Health and Human Services (DHHS) about the settings in which subsidized children were cared for in FY 1999.

[192] Center for the Child Care Workforce, *Current Data on Child Care Salaries and Benefits*, at pp. 13-35.
[193] It is unclear whether the insurance premiums are fully or partially paid by the employer.
[194] Dallas, Tarrant, Travis, and Hidalgo Counties.
[195] Letter from Washington State Department of Social and Health Services, Division of Early Child Care and Early Learning, to CLASP (February 15, 2002).
[196] CLASP calculations based on CCDF figures from U.S. Department of Health and Human Services, Administration for Children and Families, Child Care Bureau, *FY 2000 CCDF State Expenditures,* http://www.acf.dhhs.gov/programs/ccb/research/00acf696/overview.htm.

Table 9. National Data on Child Care Arrangements of CCDF-Subsidized Children (FY 1999)[197]

Child Care Arrangements	Total	Licensed or Regulated Care	Legal Unregulated Care
Child's Home	10%	0%	10%
Family Home/Group Home	34%	17%	17%
Center	56%	55%	1%
TOTAL	**100%**	**72%**	**28%**

Table 10 shows the distribution of subsidized children in child care arrangements in FY 1995, two years before state implementation of PRWORA.[198]

Table 10. National Data on Child Care Arrangements of CCDF-Subsidized Children (FY 1995)[199]

Child Care Arrangements	AFDC Child Care	Transitional Child Care	At-Risk Child Care	CCDBG
Child's Home	16.9%	10.1%	4.7%	6.6%
Family Home/Group Home	40.5%	33.9%	27.4%	35.5%
Center	42.7%	56.0%	67.9%	57.9%
TOTAL	100%	100%	100%	100%

Although the FY 1995 data are not broken down by licensed versus unlicensed care, we can see that in FY 1995, as in FY 1999, the majority of subsidized children were cared for in centers, followed by family and group homes.

In addition, the FY 1999 data reveal that almost 30 percent of subsidized children were in unlicensed care with minimal state oversight of provider qualifications or ongoing monitoring of the children in care. However, even for the remaining majority of children who were in licensed care, we know little more than that the providers met state basic health and safety standards, which vary from state to state.

Although federal data are not available, several studies raise questions about where low-income children are currently spending their days. A study of low-income families in three cities (Boston, Chicago, and San Antonio) who were at or below 200 percent of poverty found that nearly half (46 percent) of the children studied were cared for in unregulated homes (usually by a relative) and about another half (44

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[197] Child Care Bureau, *FY 1999 Data and Tables*.

[198] Data for children receiving AFDC Child Care, TCC, and At-Risk Child Care were collected as average monthly numbers of children, and data for children receiving CCDBG-funded child care were collected as an unduplicated annual count of children. Therefore, one cannot combine these data for analysis without converting them.

[199] U.S. Department of Health and Human Services, Administration for Children and Families, Child Care Bureau, *Federal Child Care Programs in FY 1995*, http://www.acf.dhhs.gov/programs/ccb/research/1995.htm#1995.

percent) were cared for in child care centers. The authors found that 78 percent of the centers and only 12 percent of the unregulated homes provided good quality care. Observational assessments indicated that child care centers provide the most developmentally supportive settings for children, the highest levels of safety, greatest cognitive stimulation, most appropriate supervision and control, and greatest warmth and caring. Moreover, child care centers had a higher percentage of employees with high school diplomas. However, the mothers surveyed were satisfied with the unregulated home care in terms of its accessibility and flexibility, as well as with their communication with the child care provider.[200]

Another study of child care usage by welfare recipients in cities in three states (California, Connecticut, and Florida) provides helpful information about the quality of settings for some subsidized parents.[201] The use of subsidies by this population ranged from 13 percent in Connecticut to 50 percent in Florida. Child care center usage by the studied population ranged from a low of 13 percent in Connecticut to a high of 70 percent in Florida, and unregulated home care usage ranged from a low of 25 percent in Florida to a high of 77 percent in Connecticut. The quality of these settings varied, but, overall, 21 percent of three state samples of child care centers were assessed as providing "good or excellent care and early education, while 42 percent of these samples were determined to be of poor quality."[202] In contrast, only 13 percent of the three state samples of home-based providers provided good or excellent quality care, and 71 percent of the providers of home-based care received ratings of poor quality.[203]

Using CCDF to Address Structural Quality Concerns

States can also spend CCDF funds on quality initiatives designed to make more systemic improvements to child care settings for low-income families. In FY 2000, states spent an average of 6.1 percent of these funds on quality improvements.[204] The CCDF State Plans approved by DHHS provide few details about how these funds are spent or about any measurement of the effectiveness of the expenditures. A study by Abt Associates and the National Center on Children in Poverty identified several categories of quality improvement spending by 17 states, including monitoring, consumer education, training, and professional development opportunities.[205] According to the authors of this study, these funds were dispersed among many small projects with different strategies to address local needs, rather than focused at the state level on one particular aspect of improving quality.[207]

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200 Rebekah Levine Coley, P. Lindsay Chase-Lansdale, and Christine P. Li-Grining, *Child Care in the Era of Welfare Reform: Quality, Choices, and Preferences*, (Baltimore, MD: Johns Hopkins University, 2001), at pp. 2-4.

201 Bruce Fuller and Sharon Lynn Kagan, *Remember the Children: Mothers Balance Work and Child Care under Welfare Reform* (Berkeley, CA, and New Haven, CT: University of California, Berkeley and Yale University, February, 2000), at pp. 71 and 88.

202 Ibid, at p. 82. The quality of child care centers was measured using the Early Childhood Environment Rating Scale (ECERS).

203 Ibid, at p. 83. The Family Day Care Rating Scale (FDCRS) was used to measure quality for regulated and unregulated child care homes.

204 This figure only represents the quality spending that the states reported to DHHS as part of their 4 percent set-aside requirement. Therefore, it might not represent the total amount of state quality improvement spending. Furthermore, we cannot tell from the federal data whether or not states are meeting the 4 percent set-aside requirement. States have until the end of the liquidation period for each funding stream (three years for discretionary funding, two years for matching funding, and one year for mandatory funding) to meet this requirement. Therefore, "a point in time" spending evaluation does not provide enough information to determine compliance with this requirement.

205 *Low-Income Child Care Study*, at pp. 91-95.

206 Ibid, at p. 92.

207 As discussed earlier, looking at one year of quality expenditures does not provide sufficient information to determine whether or not a state has met its 4 percent quality set-aside requirement.

All five of the states profiled in this report reported to DHHS that they were spending at least 4 percent of their CCDF mandatory, matching, and discretionary funds on quality activities in FY 2000.[209] While states have broad discretion to determine how best to use their quality set-aside funds, these five states have developed similar promising initiatives. However, these efforts, like the ones described above by Abt Associates, are generally small in scale and have not achieved systemic reform. These initiatives, which are funded with 4 percent quality set-aside funds, as well as TANF funds and other federal and state dollars, include the following:

Collaboration between Head Start and prekindergarten programs and the child care subsidy system has increased in all five states, including the use of subsidies to extend hours of service to those not covered by part-day Head Start or prekindergarten programs.

In each of the five states, resource and referral agencies help parents find and evaluate child care settings to determine if these settings meet their needs and those of their children. These agencies also provide technical assistance and supports to providers to enhance their service quality.

Scholarship and wage enhancement programs have been designed to increase child care teacher salaries and reduce turnover:

- In Illinois, Great START (Strategy to Attract and Retain Teachers) gives salary enhancements to child care teachers based on their education and training in early childhood education. In FY 2002, the state will spend $5 million to provide wage supplements to 2,500 teachers (out of approximately 45,000 child care and preschool teachers statewide).[208]

- Texas operates a Train Our Teachers Scholarship program.[209]

- In Washington State, the Career Ladders project requires the wages of child care teachers to increase based on their time on the job, experience, and education. The Washington State Career Ladders project involves 124 centers.[210] Funding will not be expanded due to recent TANF budget reallocations.[211]

- T.E.A.C.H. (Teacher Education and Compensation Helps) Early Childhood® provides scholarships for college or travel to child care teachers who, if they stay with their child care providers for a year after using the scholarship, receive a wage increase or bonus. Illinois and Washington have implemented T.E.A.C.H. programs. In 2000-2001, the Illinois T.E.A.C.H. Scholarship Program awarded scholarships to 729 child care teachers in 435 sponsoring programs. Associates who completed their contracts earned 14 credit hours on average, with an average 5-16 percent increase in wages.[212] In FY 2002, Illinois will provide scholarships to as many as 1,500 teachers across the state.[213] In 2000-2001, Washington awarded scholarships to 90 child care workers in 51 sponsoring programs with funds from the City of Seattle, King County, and the

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208 *Illinois Child Care Experience*, at p. 33.
209 *Texas Child Care Experience*, at p. 29.
210 *Washington State Child Care Experience*, at p. 28.
211 *Gov. Locke adjusts welfare reform spending*.
212 Workshop materials developed by the Day Care Services Association in North Carolina for a National Association for the Education of Young Children conference (November, 2001).
213 *Illinois Child Care Experience*, at p. 33.

Foundation for Early Learning.[214] Iowa is beginning to implement a pilot demonstration project of T.E.A.C.H.[215]

Provider training initiatives. All five profiled states are undertaking initiatives to offer training and supports to providers:

- Iowa supplies training and support for providers who care for infants and toddlers. The state's goal is to create a network of trainers coordinated by an infant and toddler specialist housed in each of the state's five resource and referral agencies.[216]
- Maine offers an intensive 180-hour training program in early childhood education for child care providers in the state. Currently, this program reaches five percent of the provider population. The state also gives scholarships to providers who pursue additional education in early childhood development.[217]
- Washington State has implemented several training initiatives, including an ongoing training and support program called the State Training and Registry System (STARS), an apprenticeship program in which child care providers can attend college and work with more experienced providers. The state also created an education and training program for TANF recipients, which between 1998 and 2000 placed 400 TANF recipients in child care provider positions.[218]

Four of the profiled states have created linkages with the health care system to provide health consultations for providers and link children with health insurance programs:

- Illinois, Iowa, Maine, and Washington have implemented Healthy Child Care America, which has a dual function: (1) linking children in child care settings with health insurance and promotion programs, such as the State Children's Health Insurance Program (SCHIP), and (2) offering technical assistance to child care providers to help them improve the health and safety of their settings and meet the special needs of infants and toddlers, as well as children with disabilities.[219]
- Maine funds mental health and early education specialists who identify children with disabilities or other special needs and one-on-one case aides who work with the children after they have been identified as having special needs.[220]

While the authors of the five state reports are supportive of the quality initiatives in their states and praise their potential to create systemic change, they also raise concerns about the limited reach of these efforts and the instability of funding for them in times of economic downturn. In Washington State, the Governor's reallocation of TANF funds cuts several initiatives designed to increase the supply of quality child care.[221]

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[214] Workshop materials developed by the Day Care Services Association in North Carolina for a National Association for the Education of Young Children conference (November, 2001).
[215] *Iowa Child Care Experience*, at p. 27.
[216] *Iowa Child Care Experience*, at p. 27.
[217] *Child Care, Money and Maine*, at pp. 30 & 32.
[218] *Washington State Child Care Experience*, at p. 28.
[219] *Illinois Child Care Experience*, at p. 34; *Iowa Child Care Experience*, at p. 27; *Child Care, Money and Maine*, at p. 32; *Washington State Child Care Experience*, at p. 27.
[220] *Child Care, Money and Maine* and conversation with Kerry Wiersma of Maine Department of Human Services.
[221] *Governor Locke shifts TANF funds.*

In Texas, prior to FY 2002, local workforce boards were responsible for spending 4 percent of their child care dollars on quality investments. According to the authors of the Texas report, this responsibility gave local boards the opportunity to design creative initiatives that were responsive to local needs and took advantage of local resources. Beginning in FY 2002, however, the state will no longer require local workforce development boards to spend 4 percent of their child care dollars on quality improvements. Instead, the state will satisfy its 4 percent set-aside requirement with federal CCDF dollars that are used for licensing and regulatory activities, as well as several statewide quality initiatives, including technical assistance, teacher scholarship programs, and the development of a statewide resource and referral services. Local workforce boards can continue to fund quality initiatives, but these resources will have to compete with those that are going towards funding child care slots. However, if the local boards reduce funding for child care slots and fail to meet their state performance standards for units of child care services delivered, they may be subject to sanction by the state and could be required to develop and implement a Service Improvement Plan to correct the deficiency.[222]

Conclusion

Research confirms the importance of placing children in quality child care settings with nurturing child care providers who are educated in child development and adequately compensated. It also supports efforts to provide greater opportunities for early education before low-income children reach school. We know that the majority of subsidized children are cared for in licensed settings nationwide, but there is little data about the quality of these settings and even less information about the quality of license-exempt and informal child care settings. In preceding chapters, we demonstrated that recent increases in child care funding may have helped low-income families afford more formal or regulated care than they would otherwise have been able to access. States have expanded funding for quality, due to both the required set-aside in the CCDF and freed-up TANF dollars, and have begun many promising initiatives to improve the quality of child care in their states. However, these initiatives are often small in scale, and states would benefit from expanded resources to reach more providers and children. In addition, policymakers would benefit from more resources devoted to research and evaluation tools and technical assistance to study state child care initiatives. All five of the states profiled in this report have taken steps to pay, educate, and train teachers better and to improve basic health and safety in programs, but they are struggling to maintain and expand these efforts in the face of state budget shortfalls.

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[222] *Texas Child Care Experience*, at pp. 29-30.

VII. Implications of the National and State Experiences and Recommendations for Reauthorization

This report has sought to offer a national perspective on federal and state child care policy since 1996, illustrated by the findings of five separately published reports on the experiences of Illinois, Iowa, Maine, Texas, and Washington State. We found that much has changed since 1996. Federal and state child care funding has increased with most of the funding coming from federal CCDF and TANF dollars. States have used this funding to increase the number of children served, increase the supply of care, and develop and implement quality initiatives, including the promotion of early education programs and collaborations by all of the different programs that provide preschool services to children ages 3 to 5. However, funding still remains inadequate to meet fully the child care needs of low-income families — for instance, the five states profiled in this report are only serving between 8 percent and 28 percent of federally eligible CCDF children. In addition, state child care funding and TANF dollars that are currently being used for child care could be jeopardized by budget shortfalls and increasing welfare caseloads, which might require a reallocation of TANF dollars from child care to cash assistance. Despite the increased resources of the past five years, states have still had to make difficult policy trade-offs and will likely continue to have to do so.
In this final chapter, we summarize the implications of this report and offer recommendations for federal policymakers in five areas: funding, quality, administrative barriers, access to a broad array of care, and data collection.

Expand Funding

Limited and potentially unstable funding prevents states from being able to provide subsidies to all children who could benefit from them and from assuring that subsidies provide access to early learning opportunities and a broad array of child care providers. In order for states to provide early learning opportunities to children and support the labor force participation of parents working outside the home, states will need additional sufficient and stable child care funding. In his FY 2003 budget, President Bush proposed flat funding for both the mandatory and discretionary portions of the CCDF block grant. Given the growing demands for child care subsidies, if funding remains fixed, over time there will be fewer children served, waiting lists could grow, and states will continue to have to make these difficult policy trade-offs.

Recommendations

- **Increase significantly the Child Care and Development Fund's mandatory funding — with the goal of eventually being able to serve all eligible children.** The increase should come in the form of mandatory rather than discretionary funding so that states can rely on the funding and plan their budgets accordingly. We would recommend that most or all of the mandatory funding increase not require a state match because many states are facing budget shortfalls and may not be able to put up additional state match.

- **Increase TANF funding to account for inflation, and maintain current state access to TANF funding for child care.** TANF funding has become a crucial source of child care funding. State administrators appreciate the current flexibility of the spending rules and have used TANF funds in diverse and important ways. However, if TANF funds remain flat and caseloads increase, states will be unable to increase, and may be unable to maintain, their use of TANF funding for child care. Therefore, we recommend that Congress increase TANF block grant funding and continue to permit states to transfer TANF to CCDF and/or spend TANF directly on child care.

- **Eliminate federal rules that restrict use of TANF for child care.**[223] If all child care were treated as "nonassistance," it would greatly simplify the ability of states to use TANF for child care without drawing complex distinctions among categories of care. In addition, states should be allowed to spend prior-year unobligated TANF funds for nonassistance, and to transfer prior-year TANF funds to CCDF to the extent that the state had not reached its maximum transfer amount.

Improve Quality

Although our knowledge of the importance of quality has increased over the last five years and states have invested in initiatives to improve quality, there is a need for more funds targeted to enhancing existing child care settings and tracking progress. States have made and continue to make investments in quality. However, the current funding levels for quality do not provide sufficient resources for full-scale, statewide quality improvements. Additionally, as the Texas experience demonstrates, without additional overall funding for child care, these types of investments will have to compete against the immediate need to increase the number of available child care slots for low-income working families.

Recommendations

- **Increase the percentage set-aside to improve the quality and availability of child care as total CCDF funding increases.** The current set-aside funding level is insufficient to meet the goals for the set-aside funds. Researchers have begun to pinpoint aspects of care that could improve child outcomes for children, particularly those of disadvantaged backgrounds, including improved licensing standards and enforcement, child-staff ratios, and teacher education, training, and compensation. Additional funding will also help states address child care supply needs for target populations, such as children in low-income communities, children with disabilities or other special needs, children whose parents work non-traditional hours, and infants and toddlers. States should ensure that providers have access to health consultants, resource and referral services, as well as specialists in disability and infant and toddler issues. Parents also need access to resource and referral services. States will need additional resources to bring about these quality improvements. However, increased resources through the set-aside should not reduce the funding available for child care slots.
- **Require states to apply the same health and safety requirements to child care providers who serve children with subsidies funded through direct TANF expenditures and those who serve children with subsidies funded through CCDF expenditures.** Under current law, states must certify that providers who receive CCDF-funded subsidies are subject to state health and safety requirements. However, when child care subsidies are funded directly with TANF dollars, CCDF health and safety requirements do not apply unless the state elects to extend the requirements to TANF-funded providers. We recommend that both types of providers be subject to CCDF health and safety requirements.
- **Encourage states to undertake compensation and training initiatives for child care providers and to launch other efforts to improve the quality of existing child care settings.** In addition to an increase in the quality set-aside, additional funds should be made available to create incentives for states to undertake targeted quality investments. The U.S. Department of Health and Human Services should also take an active role in providing technical assistance and disseminating best practices to states as they undertake these types of investments.

[223] For a more fully developed discussion of this issue, see CLASP, *The Impact of TANF Funding on State Child Care Subsidy Programs.*

- **Provide federal leadership and incentive funding to states to develop strategic plans to promote universal access to early care and education opportunities for all young children from birth to age five.** As interest in promoting early learning grows, effective policies must build on the existing resources of all current early education systems and providers. States and the federal government should create coordinating bodies that work across child care, Head Start, and state prekindergarten programs to assess all needs and resources for early education opportunities and develop strategic collaborative plans to deliver services in an array of settings meeting recognized quality standards. Federal funding should be available to states engaged in this process for planning and implementation. Plans should address both the early education needs of children and the work support needs of parents.[224]

Provide Access to a Broad Array of Care

States should be required to adopt policies that will improve the ability of low-income parents to access a broad array of providers of child care services and early learning opportunities. It is important that states enact policies and practices to ensure that reimbursement rates are sufficient for families to access a broad array of child care providers and purchase quality care.

Recommendations

- **Require states to demonstrate in their State Plans that they are giving parents the choice of a high-quality early education program.** To fulfill this requirement, states would be required to examine the adequacy of their payment rates and other practices that might interfere with parental choice and equal access to benefits for subsidized children. This process would give states an opportunity to consider how their child care systems can function both as a work support for parents and as an opportunity to promote child development and school readiness.
- **Require that states base child care payment rates on a current market survey and set rates that are sufficient to purchase a broad range of high-quality care in the local market, with enhanced rates or tiered rate structures as needed to ensure access for children with disabilities or other special needs, infants and toddlers, and children whose parents work non-traditional hours.** The current CCDF equal access provisions have not been sufficient to assure equal access to quality care, and they should be strengthened. States should be required to base their payment rates on a current market rate survey. Even if the survey is conducted every two years, payment rates should be adjusted at least for inflation to keep them reasonably current with market conditions. Also, given the supply problems for specialized care, states should provide enhanced reimbursement rates or experiment with tiered rate structures to encourage supply development.
- **Require states to submit their market rate surveys, descriptions of their survey methodology, and payment rates with their State Plans.** Currently, states are not required to submit these surveys or the actual provider rates with their State Plans. By requiring states to submit them, the Secretary of DHHS and the public could better determine how rates compare across states, and states could learn from each other about the best way to conduct market rate surveys.

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[224] These recommendations are highlights of the recommendations proposed in CLASP, *State Initiatives to Promote Early Learning*. Please see this report for a more detailed discussion and analysis of these early learning recommendations.

Increase Outreach and Lower Administrative Barriers

State and local policies and practices can keep parents from obtaining and keeping their child care subsidies. Many of these policies and practices are not required by federal law, and they may or may not be purposeful efforts to restrict program access, but they still have the effect of making it far more difficult for eligible families to enter and participate in the subsidy system.

Without any change in federal law, DHHS could provide technical assistance to states about best practices that help parents access and keep child care subsidies. For instance, the call-in centers in Washington, the seamless child care systems of Illinois and Washington, and the operation of the subsidy system by a child care resource and referral agency, as occurs in Illinois, are all practices that might help parents access child care subsidies. These and other promising approaches should be reviewed and evaluated, with the results disseminated by DHHS.

Recommendations

- **Require states to describe in their State Plans (and in annual reporting) their efforts to enhance accessibility, affordability, and continuity of care and to post this submission on their states' web sites.** States would report to the Secretary any activities they had undertaken to:

  - o Provide outreach to eligible families;
  - o Coordinate with the state agencies administering the Food Stamp, Medicaid, and SCHIP programs to inform applicants for and recipients of these benefits about the availability of and eligibility rules for child care subsidies;
  - o Simplify the state's child care application form and requirements;
  - o Make copayments affordable for families, particularly families below the poverty level;
  - o Simplify periodic reporting and recertification requirements; and,
  - o Provide for continuity of care when a family's employment or employment-related activity has been temporarily disrupted.

  The Secretary of DHHS will use this information to produce an annual report on state efforts to improve access, which should be widely disseminated.

- **Allow states to provide six months of child care assistance to families who are leaving welfare without any additional application or recertification requirements.** Such an approach would make it easier to ensure that families leaving assistance due to employment could continue their child care arrangements without interruptions that could adversely affect parental work or children's continuity with providers. Eligibility for the subsidy and the amount of family copayment would be calculated based on the family's circumstances during the last month that the family receives welfare, except if a family experiences and reports a change in circumstances during the six months that would lower copayments. This policy parallels the provision in H.R. 2646, the Agriculture, Conservation and Rural Enhancement Act ("the Farm Bill") passed by the House and the Senate, which expands the current state option to provide transitional Food Stamp benefits to families leaving welfare. This child care provision would help parents by ensuring that they will receive a child care benefit for at least six months during this sometimes difficult transition period from welfare to work. Furthermore, the process for receiving this benefit will be simplified, and parents will not have to take time off from work to apply or recertify their eligibility for benefits at multiple agencies.

- **Require states to continue to provide child care subsidies to income-eligible families for a reasonable period of time after job loss and while the family is engaged in job search.** In some states, once a family is no longer employed or engaged in education or training, the family loses child care subsidy eligibility. The loss of the child care subsidy could make the cost of care so prohibitively high that parents will be forced to remove their children from a child care provider with whom their children have bonded. This policy will help to ensure that this continuity can be maintained for a reasonable period of time while a parent is seeking new employment.

Improve Data Collection

States need additional resources, guidelines, and technical assistance in order to improve their data collection and dissemination capacity and to better describe their child care subsidy systems. Throughout this report, we have indicated areas in which further data collection would be useful in guiding policymakers. At the most basic level, it would be helpful to improve the ability to count the number of children currently served by subsidies, which is somewhat complicated by the various child care funding streams. To this end, Congress and the Administration could reexamine the data collection requirements for TANF- and CCDF-funded child care in order to more accurately determine unmet needs.

More importantly, there is a need to understand the nature and quality of the early learning experiences purchased with CCDF subsidies. Although research has begun to pinpoint child care policies that can lead to better learning environments and outcomes for children, there are still holes in our knowledge about how effective the CCDF system is at providing these opportunities for low-income children. For instance, it would be useful to be able to track the long-term outcomes of subsidized children in various CCDF-funded settings. This research could help inform future decisions about how best to target resources to improve child outcomes.

Finally, better data should be collected on the interactions of parents and providers with the child care subsidy system. Why do some parents not use subsidies? Were they too difficult to get? Did they not want to participate in the subsidy program? Could they not find a provider who would accept the subsidy? We should also document the specific needs of families who need care that is in limited supply, such as infant/toddler care, school-aged care, care for children with disabilities and other special needs, and care during non-traditional hours. Additionally, the experiences of providers are also an essential part of this analysis. Why do providers limit the number of subsidized children they will serve? What effect does a low reimbursement rate have on a provider's willingness to accept subsidized children? Armed with this kind of information, policymakers will be better able to move forward with policies that can address the real unmet need for subsidies among low-income parents.

States can and should explore the feasibility of conducting these kinds of studies themselves. However, given the current fiscal environment in many states, it might be necessary for the federal government to provide the funding to enable these studies to be undertaken.

Recommendations

- **Require that TANF funds used for child care be subject to simplified and improved CCDF data collection requirements.** Without common data collection provisions across TANF and CCDF, it is very difficult to have an accurate count of the numbers of families and children receiving subsidy assistance or a consistent description of the characteristics of the families, children, and providers served. However, the CCDF data requirements should be reviewed to assure that they secure only the most policy relevant data and do not overburden states.

- **Provide funding for the Secretary to give grants for research to investigate the quality of early learning experiences funded by CCDF and the impact of participating in CCDF-funded child care on child well-being from birth through school age.** This information would give direction to future policymakers who wish to improve the quality of child care services.
- **Make funding available to states to survey low-income parents (both those receiving subsidies and those who are not) to determine the barriers they face in accessing the subsidy system and quality child care.** Given the importance of parental choice in the child care system, having this information is vital for states that are attempting to design policies that meet both work support and child development goals.
- **Make funding available to states to conduct surveys of child care providers (both those who participate in the subsidy system and those who do not) in order to identify means of improving access, provider participation, affordability, and quality of care.** If there are policies or practices that are making providers reluctant to serve subsidized children, these policies and practices should by systematically identified and addressed.

Appendix

Executive Summaries of the Five State Reports:
Illinois, Iowa, Maine, Texas, and Washington

The Illinois Child Care Experience Since 1996: Implications for Federal and State Policy

By Kathy Stohr, Susie Lee, and Sessy Nyman
For the Day Care Action Council of Illinois

Executive Summary

Funding for Child Care

The story of child care for low-income families in Illinois since the enactment of welfare reform is one, by and large, of success. In Fiscal Year 1997, Illinois spent $263 million on child care to provide subsidies to 92,000 children. In the current fiscal year (2002), Illinois is projected to provide subsidies to 221,000 children at a cost of $685 million.

Illinois has been able to double its spending on child care in the past five years due to a variety of reasons. Illinois has taken full advantage of the flexibility offered in the Child Care and Development Fund (CCDF) and the Temporary Assistance for Needy Families (TANF) program to create a widely supported child care subsidy program. Illinois offers child care subsidies to all eligible low-income working families (earning less than 50 percent of the 1997 state median income). There are no subsidy waiting lists nor is the assistance time-limited.

Funding for this program comes from state and federal sources. The primary federal sources are the CCDF and the TANF block grant. Since FY 1997, federal spending on child care in Illinois has increased by $216 million, a nearly 240 percent increase. State spending has increased by $184 million, more than 270 percent. Illinois spends more on child care than is necessary to draw down all available federal dollars.

As the number of families using child care subsidies has increased over the last five years, the TANF caseload has decreased substantially. Congress has given the states crucial flexibility to transfer funds from TANF to child care. This has allowed Illinois to respond to the increased need for child care. In federal FY 1998, Illinois used $64 million in TANF funds for child care. By federal FY 2001, that amount had increased to $151 million.

Perhaps even more significant is the amount of money Illinois is spending on child care as part of its Maintenance-of-Effort (MOE) requirement for the TANF program. Under the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of 1996, Illinois is required to spend $430 million in state dollars on programs related to family well-being. Illinois has wisely used this provision to increase state spending on the child care subsidy program.

Unmet Need for Child Care

A recent study by the U.S. Department of Health and Human Services and the Urban Institute estimates under the program's current rules 372,000 Illinois children under the age of 13 are potentially eligible for the child care subsidy program. Illinois expects to provide subsidies to 59 percent of those children in FY 2002, for a total of 221,000. However, because the income eligibility limits have remained unchanged since 1998, the pool of eligible families is actually shrinking in Illinois. The income eligibility limit is only 39 percent of the state's current median income.

The federal government allows states to use CCDF money on subsidies for families earning up to 85 percent of the state median income (SMI). In 1997, Illinois made the decision to limit these subsidies to families earning less than half the state median income, but this decision ensured that all eligible families receive subsidies. Since 1997, Illinois has had no waiting lists for subsidies.

On the other side of this policy are low- and moderate-income families who earn too much to qualify for a subsidy, but not enough to pay for the full cost of quality child care. According to the Center on Budget and Policy Priorities, the U.S. Census Bureau's Current Population Survey finds that 812,000 children are in working families earning less than 85 percent of the state median income. Even at this income level, licensed child care for two children could easily consume nearly one-quarter of a family's budget.

Many parents interviewed for this report shared a common experience: making too much money to be eligible for a child care subsidy, but not making enough to afford the full cost of child care. This parent's story is typical:

> *As far as the day care help goes, the income guidelines for the subsidized child care program need to be reviewed. They haven't been updated for three years. Why? To mothers like me, we're caught in a vicious circle. I chose to have my child and raise her, and to do that I need day care. In order to have day care, I need to be able to pay for it. I took my pay raise thinking it would be better for us, but I stop and think each day if it really did. I no longer qualify for day care help because I make 'too much money.'*

Parents who lose subsidy eligibility due to a small raise can face a tremendous increase in child care costs. The co-payment for two children in a family earning $24,000 annually is $54 per week, which is 12 percent of that family's income. If the parent receives a 2 percent raise, she becomes ineligible for a subsidy. Her child care costs could sky-rocket to hundreds of dollars each week. This is referred to as the "cliff effect." What choice does this parent have but to refuse a raise or find substandard care for her children?

Equal Access to Quality Child Care

While Illinois is doing a commendable job in providing subsidies to all eligible families, it is not necessarily doing all that can be done to ensure that all families have access to good quality child care.

The fundamental problem in Illinois is low reimbursement rates to providers. This is particularly acute in the Chicago metropolitan area, where more than two-thirds of the subsidy caseload resides. As an example, the reimbursement rate to centers serving preschoolers is $24.34 per day. The most recent market rate survey finds that 82 percent of slots cost more than this amount. This means that the state is reimbursing at the 18th percentile, when the national standard suggested in regulations is the 75th percentile. This disparity remains in spite of a 1998 increase in rates.

When reimbursement rates are well below market rates, child care programs are less likely to accept subsidized children. Those programs that do accept a large number of subsidies find it difficult to maintain quality and retain qualified staff.

Finding good quality child care is particularly difficult for families with infants and children with special needs and for parents who work during non-traditional hours. Illinois is working to address each of these supply problems with special projects.

Initiatives to Enhance Child Care Quality

Illinois spends 4 percent of its total child care budget on quality-building initiatives. With a fund of just over $28 million, Illinois provides a variety of resources and services to parents, children, and child care professionals. However, in a state as large as Illinois, the quality fund meets only a fraction of the need.

More than 46,000 families used child care referral and education services, but there are an estimated 1.5 million children in Illinois with working mothers. Nearly 1,500 child care workers will benefit from the TEACH® (Teacher Education and Compensation Help) program, and 2,500 will receive bonuses through the Great START program. But, there are more than 45,000 child care professionals in Illinois.

While the need for child care continues to rise, especially among families receiving TANF, the number of licensed child care homes has been slowly declining. Directors of child care centers are continuously losing qualified staff. As a result, they are closing classrooms for lack of teachers.

What Needs to Be Done

There is little in Illinois' child care system that cannot be fixed with a large infusion of funding. Good child care is expensive. Subsidies can make child care affordable for parents in low-wage jobs. Parents who earn too much to qualify under Illinois' rules are often left without the choice of good quality, dependable care. An infusion of funding will help attract and retain highly qualified child care professionals. If the subsidy rate is comparable to market rates, it can ensure good quality care and early education for Illinois' youngest residents.

No parent should have to go to work each day worrying about the safety and well-being of her child. No parent should have to make the choice between paying the rent and paying the child care bill. With political will and adequate funding, no parent would.

The Iowa Child Care Experience Since 1996: Implications for Federal and State Policy

By Charles Bruner, Betsy Marmaras, and Abby Copeman
For the Child and Family Policy Center

Executive Summary

Introduction

Among states, Iowa has one of the very highest rates of workforce participation by parents of both pre-school and school-age children. Therefore, Iowa has one of the highest needs for child care.

This paper describes the growth in Iowa's public child care subsidy and support system to help meet that need. Part One describes the growth in funding support in the context of the growth in need and demand. Part Two examines how well Iowa's system has addressed issues of child care affordability, availability, and quality.

Since 1990, Iowa's public support for child care has grown dramatically but primarily as the result of increased federal, as opposed to state, funding. While Iowa has made a major effort to create economic incentives for families to move from welfare to work through its earned income disregards, its support for increased or improved child care has been modest.

Part One: Growth in the Context of Demand and Need

Since 1986, Iowa's child care subsidy program (including subsidies for working families, families in training and education programs under TANF, or whose children are in protective child care) grew from a $1.6 million program serving 1,260 children to a $19.5 million program serving 6,485 children in 1996 and a $49.9 million program serving 14,360 children in 2001. Since 1996, that growth has been entirely the result of increased federal funding through the Child Care and Development Fund (CCDF) and transfers from the Temporary Assistance for Needy Families (TANF) Fund. During that period, state funding declined from over one-half of all funding to about one-sixth of all funding.

Iowa's child care subsidies do enable families leaving welfare for low-paying jobs to experience a significant economic gain as a result of their working, which otherwise would be minimal (as a result of declining welfare and food stamp benefits and increases in social security and other state and federal taxes). When families with child care expenses increase their earnings to the point they lose eligibility for the child care subsidy, however, they retain very little of their increased earnings as actual disposable income. Working poor and low-income families, who are most likely to have very young children in need of child care, have a very high effective tax on their earnings, in large measure because of the costs of child care.

While Iowa's child care subsidy and support program has expanded significantly over the last decade, so has the number of families with very young children who need child care subsidies and support. During the same general period that the number of children being subsidized increased by 8,300 (1992-2000), the number of pre-school children in families where mothers worked increased by 30,000, and the number of children in TANF households declined by 33,000, many due to parental workforce involvement. Overall, the growth in Iowa subsidies, while dramatic, has not fully reflected the growth in the need for subsidized care.

In addition, Iowa's combined funding support to families on welfare through cash assistance and all low-income families through child care subsidies, when added together and adjusted for inflation, has declined. From 1990 to 2001, the combined spending on both programs has declined from $210 million to $126 million in real (inflation-adjusted) dollars. It also has declined from over 6 percent of the state budget to less than 3 percent of the state budget.

Part Two: Affordability, Availability, and Quality Issues in Iowa's Child Care System

Iowa has managed to keep within its child care subsidy program appropriation amount largely by keeping eligibility limits low. Families (unless they have a special needs child) must have an income less than 140 percent of poverty to qualify for the subsidy program, one of the seven lowest state eligibility levels in the country. While co-payments are not high for parents in the subsidy system (although they can take more than 10 percent of a family's income, particularly when more than one child requires care), there is a huge "cliff effect" for families increasing earnings just above the eligibility level. At that point, their child care costs can suddenly jump to require 40 percent of their earnings or more. This low eligibility level makes it very difficult for working families above the eligibility level to secure child care that is safe and affordable, with several individual stories showing families having to make the choice between the two. Even under the subsidy program, reimbursement rates and administrative requirements often provide barriers to families to select the care they desire for their children.

Iowa also has significant child care shortage areas, particularly for second- and third-shift care, for infant care, and for care in rural communities. Second- and third-shift care is particularly problematic, as a large percentage of families leaving welfare find their best opportunities for earning money are through accepting non-traditional hours employment.

While Iowa uses federal quality funds for several innovative programs to improve quality, particularly in providing wrap-around child care for children also in Head Start or other enriched pre-school programs, Iowa's system itself has serious quality concerns. The majority of the growth in the child care program has been in non-registered and unregulated care, as opposed to care in licensed centers or registered family day care homes. Families report they often use such settings not out of preference, but out of necessity.

An examination of Polk County child care use patterns also shows that high-quality child care (as indicated by accreditation) provides proportionately many fewer slots for families with subsidy payments than those who pay the cost themselves. Further, almost all of the self-paying families are in the upper-income levels, with almost none in the 140 percent to 200 percent of poverty range, who simply are priced out of that level of care.

While Iowa has made significant investments in a variety of other early childhood services (family support, parenting education programs, and enriched pre-school programs) for low-income and vulnerable families, Iowa's overall state, federal, and local investments in developmental and educational supports for very young children pale in comparison with those made for school-aged children and young adults. Overall, Iowa invested less than $600 per child on developmental and educational supports for very young (0-5) children and their families in FY 2001, compared with nearly $5,900 per school-aged child (6-17) and $3,650 per young adult (18-23).

Conclusions and Recommendations

At the federal level, expansion of the Child Care and Development Fund is needed, with particular attention to addressing the growth in the need for subsidized child care in order to ensure that working families see real economic improvement through their employment. In particular, the federal government should consider a Working Parent Child Care Equivalency Act that insures that necessary CCDF, TANF, and other funding is directed to the full spectrum of working low- and moderate-income families, and not just those on or leaving public assistance.

At the state level, Iowa has a number of reports that provide direction for improving the quality, affordability, and availability of child care. These require funding, and the state must regard these as investments needed for overall state growth and well-being. In the long term, investments in early care and education (including but not limited to child care) are a critical component of any comprehensive Iowa economic development strategy and should be recognized as such.

Child Care, Money and Maine: Implications for Federal and State Policy

By William Hager, Allyson Dean, and Judy Reidt-Parker

Executive Summary

We feel an urgent need to call for a new national dialogue focused on re-thinking the meaning of both shared responsibility for children and strategic investing in their future. The time has come to stop blaming parents, communities, business, and government, and to shape a shared agenda to ensure both a rewarding childhood and a promising future for all children.

— Jack Shonkoff and Deborah Phillips, Editors
From Neurons to Neighborhoods: The Science of Early Childhood Development

As we begin this new millennium, we are faced with a rapidly evolving culture, one which requires families to place the economic requirement for work at the very top of their priorities. In our current reality, child day care for our children has become a necessity for family survival as never before. Child care has become as essential to a community's well-being as a dependable water or sewer system. The question is no longer "Do children need child care?" but "Who will care for the children?" We must ask if families have choices for their child care arrangements, or if they are choosing the only options available.

Public policy on both the state and federal levels has had, and will continue to have, a profound impact on these children and these families. In the course of development of this document, when analyzing the child care system in Maine, the authors have reached the following conclusions:

- Maine has excellent, often groundbreaking policies concerning the state child care system.
- Maine has found great success in "working together," both in community collaborations and in private/public partnerships.
- Even with the significant increases we have seen in public funding over the last five years, child care resources continue to be dramatically insufficient to meet the overall child care needs in Maine.
- Maine has become overwhelmingly dependent upon both the Child Care and Development Fund (CCDF) and Temporary Assistance for Needy Families (TANF) Block Grants for the provision of quality child care for Maine families.

Maine's child care system should be commended for developing policies for assisting families in accessing appropriate care for their children, including:

- Making child care subsidies available to working families earning up to 85 percent of state median income.
- Requiring working parents who access these subsidies to contribute to their child care expenses, but limiting the amount of this "parent co-pay" to a maximum of 10 percent of family income, meeting the limit recommended in federal regulations.
- Reimbursing child care providers at the 75th percentile of the market rate for child

care costs, once again meeting the recommended federal regulation for a state to meet equal access standards.

- Prioritizing child care subsidies for the most needy (those who are transitioning from welfare to work).
- Making subsidies available to "at-risk" children, regardless of the family's employment.

The state of Maine has also acknowledged that, in addition to dealing with the cost of care, there needs to be an investment in the quality of that care. This investment has included:

- Maintaining a system of regionally-based Child Care Resource Development Centers;
- Developing a comprehensive, statewide program for the training and professional development of child care providers (referred to as "Maine Roads to Quality");
- Assisting providers so they are able to accept children with special needs (referred to as "Child Care Plus ME"); and,
- Providing a "premium rate of reimbursement" for those child care providers who accept low-income children and can prove that they are "programs of quality."

Even given these important, often groundbreaking policies, there is still much to be concerned with in the provision of adequate care for Maine's children. These concerns are primarily linked to the current level of resources of available for these investments. Specific concerns include:

- **Families who cannot access a subsidy:** There is sufficient funding to make child care subsidies available to only a relatively small percentage of eligible families (by one analysis, there are sufficient resources for less than one-third of eligible low-income working families to actually access a child care subsidy).
- **Children at risk because of the lack of subsidies:** There is anecdotal information demonstrating that income-eligible working families who cannot access a subsidy are making difficult, potentially dangerous decisions concerning the well-being of their children.
- **Too few providers to meet family need:** In addition to the barrier imposed by the cost of care, a high percentage of Maine families find that the care they need (care for infants and toddlers, care for school-aged children, and care for children with special needs) simply does not exist in their communities.
- **Too few providers being trained:** Even with the commendable investment in the quality of care, these initiatives still reach only a small percentage of child care providers in Maine.

In addition to these programmatic concerns, Maine currently has an overwhelming reliance on federal funding for child care. Currently, 76 percent of spending for child care services (and over 90 percent of spending on the quality and inclusion initiatives) comes from a single source, the federal CCDF block grant. The future of the child care system in Maine is tied to the level of funding and the regulations set by this block grant.

In that light, the recommendations that resulted from this study are primarily concerned with the reauthorization of the federal CCDF and, by necessity, also touch on state policy and TANF reauthorization. These proposals include:

1) Continuing the existing flexibility under CCDF so that the Maine child care system may continue its commitment to existing subsidy policies.

2) Increasing CCDF enough to allow Maine to make a significant impact on the number of families able to receive a child care subsidy.

3) Maintaining the TANF block grant funding at current or increased levels.

4) Establishing TANF work requirements that ensure there are sufficient resources within the system to support the children of these families.

5) Increasing funding in the CCDF quality set-aside to both sustain Maine's ongoing quality and training initiatives and to increase the number of providers able to access these initiatives.

6) Establishing funding in CCDF specifically to be used to provide enhanced rates for child care programs of quality.

7) Funding for a specific "Resource Development Set-Aside" to support and increase the work done by the Resource Development Centers.

8) Increasing funding to support inclusion projects for children with special needs requiring custodial child care (either by an increase in the quality set-aside funding or a specific set aside for children with special needs).

9) Establishing federal requirements and funding to support adequate research on a state-by-state basis to establish a clear understanding of the issues of need, availability, and effectiveness of child care services. In the development of this document, it became clear that there is simply too little objective information available concerning too many aspects of the publicly funded child care system.

In conclusion, we can do no better than to offer this statement by former U.S. Attorney General Eliot Richardson in reference to public funding for early childhood programs: "When these investments [in early childhood programs] are proven to save lives and tax dollars, why shouldn't policymakers provide the funding that will enable communities to get the job done?"

The Texas Child Care Experience Since 1996: Implications for Federal and State Policy

By Jason Sabo, Patrick Bresette, and Eva DeLuna Castro
For the Center for Public Policy Priorities

Executive Summary

Changes in the child care system in Texas have paralleled major welfare reforms over the past five years. Child care policies, funding, and programming have all experienced significant and far-reaching modifications. Both funding levels and the numbers of children in subsidized care have increased dramatically. Changes in the management and oversight of child care programs have resulted in a very decentralized and locally controlled system. While the trends have been generally positive, risks and problems have accompanied the shift to local control, and increases in funding are not keeping pace with growing demands.

In 1996, child care subsidy spending totaled $179.9 million, with state funds accounting for $22.6 million of the total or 12.5 percent. In 2000, total child care spending was $398.4 million, with state funds accounting for $68.4 million of the total or 17 percent. By 2003, total child care spending will increase to $441.4 million with state funds accounting for $75 million of the total, remaining at 17 percent. Increases in state spending on child care have been primarily due to increased federal requirements for state match for CCDF.

Until the current biennium, the state had committed all the funds necessary to draw down federal matching dollars. However, this pattern stalled as competition for limited state revenue resulted in inadequate appropriations for fiscal 2002 and 2003. More evidence of the pressure on state funds has been an ever-increasing expectation that local workforce development boards (LWDBs) will generate matching funds to draw down federal child care dollars. The variation in local capacity to meet this expectation raises concerns of equity in access to child care funds and implications of federal and state devolution. Despite the funding increases in recent years, stagnating state funding comes at the same time as demands are projected to increase as more TANF recipients are required to enter the workforce. As a result, child care for the working poor faces reductions in the coming years as resources are shifted to meet this increased need.

Perhaps most troubling has been the role that TANF funding has, and has not, played in the child care picture in Texas. With caseloads declining precipitously between 1995 and 2001, Texas found itself with large surpluses in TANF funds — $400 million in 1997 and $600 million in 1999. Unfortunately, only a fraction of these funds were transferred to CCDF to expand child care assistance. By 2001, Texas was transferring about $33.5 million in TANF to CCDF. But then came the Appropriations Act for 2002 and 2003. All TANF-to-CCDF transfers were eliminated and offset by increases in federal CCDF funds. This short-sighted budget decision marks a lost opportunity to expand child care assistance in a time of accelerating demand.

As an indication of demand, the current waiting list for child care assistance stands at more than 40,000 children. However, this only hints at the state's actual unmet need. In 2003, the Texas Workforce Commission (TWC) projects that it will provide child care to 107,195 children. While this is certainly a lot of children in care and a significant increase from the 1996 total of 63,221 children, it represents a fraction of the need. Texas is a state of 21 million people with 3 million living in poverty. In determining who will receive child care assistance in Texas, the TWC allows LWDBs in 28 regions of the state the flexibility to set eligibility limits at or below the federally allowable maximum 85 percent of the state median income (SMI).

Using the state's maximum allowable eligibility standard as a measure, approximately 1,350,000 children would potentially be eligible for child care.

In 1995, when Texas authored its own welfare reform legislation, a key component was the creation of the TWC. TWC consolidated nearly all employment-related programs, including child care, into a single agency and decentralized responsibility and rulemaking to LWDBs. LWDBs manage state and federal funds and are composed of community volunteers from the business, labor, education, community-based, and child care sectors, with a paid professional staff. Business interests must comprise at least 51 percent of an LWDB's membership. Previously, child care had been the responsibility of the Texas Department of Human Services and all child care rulemaking was done at the state level.

Decentralization of the Texas child care system has presented significant challenges. TWC allocates federal CCDF and state general revenue funds appropriated by the Texas Legislature to its network of LWDBs. Allocations depend on local population and projected need. LWDBs then contract with providers to deliver child care services and with public and private entities to administer resource and referral services. Management of workforce development and child care services is contracted to non-profit and for-profit entities via an RFP (Request for Proposals) process. Child care funding makes up the single largest funding stream they manage, outstripping all other workforce funding.

All this local control comes with a catch for LWDBs. In addition to a significant management and rule-making responsibility, the State of Texas expects LWDBs to find money locally to draw down federal funds. This requirement shifts a portion of the responsibility for accessing federal money away from the state to local communities. LWDBs serving rural and border areas have limited local capacity to generate match and, in turn, benefit less from increased child care allocations.

Another area of concern is related to efforts to improve the quality of care in the child care system. Here, too, Texas has made important strides since 1996 only to see a troubling reversal in the current budget cycle. Beginning in 2002, LWDBs will no longer be mandated to spend 4 percent of their child care funds on quality initiatives. Up until the current fiscal year, local spending on quality improvement initiatives has been used to satisfy the federal requirement that 4 percent of CCDF dollars be spent on quality initiatives. Texas has decided that funding for its child care regulatory and licensing activities and state-level activities will be used to satisfy the 4 percent quality spending requirement. LWDBs may choose to continue spending their child care dollars on quality initiatives but do so in a direct trade-off with increasing the number of children served, and at the risk of not meeting state performance measures for units of child care service delivered. While there are encouraging signs that some LWDBs are electing to continue quality improvement efforts, other areas are eliminating this spending, and fiscal pressures will make this a difficult decision for any LWDB. Progress in improving the quality of child care is clearly threatened by this policy change.

The Center for Public Policy Priorities offers the following recommendations:

1. **Texas cannot provide families with the child care they need to get and stay employed without increased state and federal funding.**

   Texas child care spending has increased dramatically since 1995. As a result, more children are receiving child care subsidies now than ever before. However, much more needs to be done. Texas has allowed its child care system to become increasingly reliant on federal funds and local match dollars. Even though an artificially low waiting list of approximately 40,000 children remains, Texas is not drawing down all available federal child care funds and has zeroed out TANF transfers to child care in 2002 and 2003. Texas is leveling its child care spending because of the increased competition for state general revenue dollars, not because it has fulfilled the state's tremendous unmet need. Texas is choosing to dedicate state general revenue dollars elsewhere and is demanding more and more from local communities while providing less and less care to working poor families.

2. **O TANF, Where Art Thou?: Texas must be more strategic in its use of the TANF block grant. States must be mandated to make significant efforts to help reduce poverty, not fill state budget holes, with TANF dollars.**

   Congress must retain the ability of states to transfer TANF funds to the CCDF to increase child care assistance. However, it must also pay close attention to supplantation issues and work to ensure that the needs of low-income families have first call on TANF funds. Without an investment in true poverty reduction programs, Texas is destined to continue serving the same families and, perhaps, their children with its already under-financed support systems.

3. **Local efforts to improve child care quality need funding if they are to be effective.**

   Texas continues to make unacceptable trade-offs between the quality of care and helping parents to pay for child care. Funding for children's programs in Texas is now so tight that the state is asking communities to choose between the quality and the quantity of child care assistance. Congress must increase investments in the CCDF to allow states to help more families with their child care costs, to help better prepare children for school, and to ensure that the quality set-aside can be increased beyond the current 4 percent.

The Washington State Child Care Experience Since 1996: Implications for Federal and State Policy

By Elizabeth Bonbright Thompson
For the Washington State Child Care Resource & Referral Network

Executive Summary

Washington has a long history of thinking holistically about developing quality child care and out-of-school time systems, and providing services for all families in the state. This includes providing a good safety net of child care subsidies for low-income families, even before welfare reform in 1996. Washington's child care system has grown and improved through collaboration, systems thinking, the existence of strong advocacy and intermediary organizations, and bipartisan legislative support. WorkFirst, Washington's welfare reform program, has seen caseload declines of 44 percent from early 1997 to mid-2000. Until the last several months, Washington enjoyed a strong economy and a high rate of population growth over the last five years.

Funding for Child Care: Substantial Gains Vulnerable to Economic Downturn

Funding for child care services in Washington has quadrupled from fiscal year 1996 to fiscal year 2001. During that same time period, the state's population of children under age 13 remained constant. Washington has committed ever-increasing amounts of its federal and state dollars to enhance the quality, affordability, and availability of child care and out-of-school time services. This growth in child care services and quality activities over the past five years has been directly related to Temporary Assistance for Needy Families (TANF) expenditures on child care. Half of all current TANF dollars are used for child care. As a result, funding for child care services would be extremely vulnerable if TANF caseloads go up (which they have begun to do in 2001) or if the federal reauthorization process results in fewer TANF dollars available to Washington State. Decreases in the availability of TANF funds for child care services could result in child care subsidy waiting lists, a reduction in the eligibility level for subsidies, and a decrease in the amount of investments in quality related services above the required minimum 4 percent of the federal mandatory, matching, and discretionary funds, as well as state matching funds, of the Child Care and Development Fund.

The state has used TANF funds to drive a number of major efforts to expand and improve the child care system, including:

- Expanding the number of children served by increasing income eligibility from 175 percent of the federal poverty level (FPL) (49% of the state median income [SMI]) to 225 percent of FPL (64 percent of SMI);
- Dedicating funds for building capacity in infant, toddler, children with special needs, school-age, and non-traditional-hour care;
- Providing scholarships to child care providers for professional development activities; and
- Implementing increased compensation for center employees based on education and experience.

Although significant progress has been made in Washington to support the quality, affordability and availability of child care and out-of-school time services, Washington has a fragile system that is vulnerable to funding instability, taxpayer resistance to government spending, a downturn in the economy, the inability of many families to obtain affordable quality care, and an underpaid and undertrained workforce with extremely high turnover rates.

Unmet Need Remains High Although Increasing Numbers of Families Are Served

Washington has an integrated child care subsidy program for all eligible families — TANF and non-TANF alike. This approach, along with increased resources and policy decisions such as raising the eligibility level to 225 percent of FPL (64 percent of SMI), has resulted in a 71 percent increase in the number of children receiving subsidies from state fiscal year (SFY) 1996 to SFY 2001. The number of families receiving subsidies increased 60 percent in the same time period. In those five years, the mix of subsidy program participants has shifted markedly from nearly equivalent numbers of TANF and non-TANF families to a current mix with about two-thirds non-TANF families. A growing proportion of children in licensed child care are receiving subsidies.

Despite the growing number of families receiving subsidies, only 19 percent of eligible families receive subsidies. The following reasons are cited for eligible families not receiving subsidies:

- use of family, friends, or neighbors for care,
- lack of information about subsidies,
- difficulties with high co-payments,
- too much hassle, and
- reluctance or fear to use government services for cultural reasons.

Low- and moderate-income families not eligible for subsidies often have a difficult time affording quality, licensed care and are choosing less costly options that sometimes leave children home alone or in the care of older siblings who are still minors themselves.

Subsidies Do Not Assure Equal Access to Quality Child Care

Subsidy rates in Washington are falling farther behind market rates and fall far short of approaching the true cost of care. Subsidy reimbursement rates will be between the 52nd and the 58th percentile of the 2000 market rates in January 2002 — a marked decline from the 75th percentile a few years ago. As a result, caregivers who accept child care subsidies are increasingly subsidizing the system themselves through their own low wages. Although a significant portion of centers and family child care homes indicate they accept families with subsidies, most of them limit the number of subsidized children they will accept.

The inadequate supply of some types of care has been highlighted by the consistently growing population in Washington State coupled with the demands of welfare reform. Aggressive capacity-building efforts have headed off some of these problems, although infant care, care in rural communities, care for children with special needs, school-age care, and care during non-traditional hours are still often very difficult to find. Increasingly, parents' choice of child care is complicated or constrained by language barriers between parents and providers and/or the lack of providers offering culturally sensitive programs that respect cultural or religious beliefs of families.

Quality Initiatives Create Effective Models; Implementation is Not Widespread

Washington's quality initiatives are widely viewed as very successful, innovative, and encouraging signs of the ability to make progress on difficult and challenging issues within the child care system. Accomplishments include the creation of a mandatory entry and annual training requirement for licensed caregivers; a comprehensive statewide resource and referral system serving families, providers, and communities; partnerships that help providers successfully meet health and safety standards and improve the health and well-being of the children and families they serve; providing extra support for families who have children with special needs; and planning for innovative long-term financing strategies. However, all of them need stable, sustained funding, and some are seriously under-funded now. Other programs need to be added as models prove effective and as new ideas arise. We must fund system-wide services to meet the diverse needs of the caregivers in their broadening family support role. The mix of quality initiatives needs to continue to bolster the creation of an effective child care system for all of the children living in Washington State.

Washington has taken innovative and effective steps in the last five years to support a professional development system for caregivers that includes training and wage-progression opportunities intended to improve quality and reduce high staff turnover levels. These successful efforts have shown that progress is possible within the existing constraints. Yet they highlight the difficulties of operating in a system that is largely underfinanced and tries to survive by patching together solutions that constantly bump up against the reality of the true cost of quality care.

Conclusions

Families and policymakers have vigorously demonstrated that affordable, quality child care is of great value to children, to working families, to our educational system, to our economy, and to our communities. Welfare reform opened a window on the importance of child care during a period when new brain research, an expanding economy, changing demographics, increasing concerns over the well-being of children, and education reform shed additional spotlights on how our state and country support and care for children during the most important years of their social, emotional, intellectual, and physical development. New awareness of the widespread benefits of quality child care and out-of-school time care led Washington, and many other states, to improve child care systems using discretionary funds available through reduced TANF caseloads. This commitment of TANF resources is a powerful recognition of the importance of child care to working families and to the success of welfare reform.

All of this good work hangs in the balance now as Washington State faces mounting budget shortfalls, rising unemployment, and ever-increasing costs of providing essential public services. Congress and Washington State must choose the policy path that maintains the gains made in child care, supports models that demonstrate effective ways to do more and do it better, and moves toward a comprehensive child care system with adequate and stable financing to provide strong undergirdings to locally-driven, effective responses to children, family, and community needs.

The Child Care Experience of Five States:

To obtain copies of the five separately published reports on child care policy in Illinois, Iowa, Maine, Texas, and Washington State, contact the following organizations:

Illinois

The Illinois Child Care Experience Since 1996: Implications for Federal and State Policy, by Kathy Stohr, Susie Lee, and Sessy Nyman

Day Care Action Council of Illinois
Public Policy and Advocacy Program
4753 North Broadway, Suite 1200
Chicago, IL 60640
(773) 561-7900
www.daycareaction.org

Iowa

The Iowa Child Care Experience Since 1996: Implications for Federal and State Policy, by Charles Bruner, Betsy Marmaras, and Abby Copeman

Child and Family Policy Center
218 Sixth Avenue
Fleming Building, Suite 1021
Des Moines, IA 50309
(515) 280-9027 voice
(515) 244-8997 fax
www.cfpciowa.org

Maine

Child Care, Money and Maine: Implications for Federal and State Policy, by William Hager, Allyson Dean, and Judy Reidt-Parker

Child Care Services of York County
P.O. Box 512
Sanford, ME 04073
(207) 324-6025

Texas

The Texas Child Care Experience Since 1996: Implications for Federal and State Policy, by Jason Sabo, Patrick Bresette, and Eva DeLuna Castro

Center for Public Policy Priorities
900 Lydia Street
Austin, TX 78702
(512) 320-0222
(512) 320-0227
www.cppp.org

To download a copy of the Texas report, visit:
http://www.cppp.org/policy/childcare/texasfinal.pdf

Washington State

The Washington State Child Care Experience Since 1996: Implications for Federal and State Policy, by Elizabeth Bonbright Thompson

Washington State Child Care Resource and Referral Network
917 Pacific Avenue, Suite 301
Tacoma, WA 98402-4437
(253) 383-1735 voice
(253) 572-2599 fax
www.childcarenet.org

Center for Law and Social Policy
CLASP

1015 15th Street, NW, Suite 400
Washington, DC 20005
(202) 906-8000
(202) 842-2885 fax
www.clasp.org