CHILD CARE POLICY TWO YEARS LATER

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The 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) is known for having changed welfare, but it also made four dramatic changes in child care policy. First, what had been four separate child care funding streams were consolidated into a single Child Care and Development Block Grant (CCDBG). Second, the amount of money available to states for child care was expanded, both by increasing funding for the block grant and by allowing states to transfer funds from PRWORA's Temporary Assistance for Needy Families (TANF) block grant into child care. Third, state responsibilities to guarantee child care, i.e., entitlements for families receiving or leaving welfare were eliminated. And fourth, states gained broad discretion in almost every aspect of providing child care for low-income families.

At the time that PRWORA was being enacted, most of the child care debate focused on the amount of federal funding: would it be sufficient for states to meet the needs of families moving off welfare; would states have to shift funding away from working poor families to do so? But the equally, and in some respects, more significant feature was that PRWORA essentially devolved the basic design of low-income child care policy to the states. It is now largely up to the states to decide which families will be eligible for subsidy assistance and whether eligible families will actually receive assistance. It is now largely up to the states to determine the rates at which providers get paid. It is effectively up to the states to determine the extent of parental copayments in return for receiving child care assistance. As to health and safety standards, there are minimal federal requirements and otherwise standards are up to the states. There is a minimum level of CCDBG funding that states must spend on quality initiatives, but states are free to spend more, and states have very broad discretion in deciding how to spend their quality dollars.

Congress left intact federal tax assistance for child care, which largely benefits middle- and upper-income families. And Congress left Head Start unchanged (although reauthorization is due this year). So one way to tell the story is to say that in the new world, it is completely up to states to design child care and education policy for low-income families. But, low-income subsidy policy is only one aspect of a broader early childhood care and education policy that encompasses child care, early education, Head Start, pre-kindergarten, school-age care, and federal tax policies. It is important to keep in mind that while state CCDBG programs are a significant part of the child care system, they are not the entire system.

Over the last few years, there has been a significant infusion of money into child care for low-income families. Federal funding went up by about 25 percent from 1996 to 1997; from $2.4 billion to about $3 billion. The recent Fiscal Survey of the States from the National Governors' Association and National Association of State Budget Officers estimates that combined federal and state spending increased from about $3.5 billion in 1996, to $4.7 billion in 1997, and would then jump to $6.3 billion in 1998. There are continuing arguments about who is getting assisted and whether it is enough, but there is, in fact, more money in the system than there was a few years ago. A study by the U.S. General Accounting Office (GAO) looked at seven states, and found that over the first year there had been, on average, a 24 percent increase in state spending in those states, but with significant variation between the states. In one state, spending for child care for low-income families has gone up by 62 percent and in another, spending has gone up by 2 percent. In a world where lots of choices are up to the states, a national aggregate number may be hiding substantial differences among states.

It is probably true that more low-income families are receiving child care assistance as a result of increased funding. About 17 percent more children were found to be receiving child care assistance in the seven states in the GAO study. National numbers may be available later this year. Without them, we cannot say much about who the additional children are: their family income, family circumstances, what percentage are in families receiving TANF assistance, whether or to what extent child care assistance for families outside the TANF structure has increased. We also cannot say much about what kind of care they are receiving—what share is center- or family-based or informal, unregulated or "exempt" care.

Before the 1996 legislation, there was a profound problem of availability of subsidy assistance for low-income families. The number the Administration uses is based on the number of families below 200 percent of poverty with children under age 13 and where a mother is working. There are about ten million children in that situation. In 1995, only about one million children were receiving some kind of federally subsidized child care. And while there is reason to believe the numbers are up,

the numbers are probably not up enough to substantially alter that picture.

Expanded spending has also meant new state initiatives intended to address quality and availability of care. In their CCDBG plans, almost every state describes consumer education efforts and funding for resource and referral agencies; 38 describe one or more program of grants or loans to providers to help providers meet state or local standards. Nineteen states describe making grants and loans available to programs for start-up or expansion of programs, focusing on issues like school-age care, care for special needs children, sick child care, care during nontraditional hours. A set of other states have used the quality money to implement compensation initiatives.

One concern about broad state discretion is that it results in wide variation, and in some cases, troubling choices in some of the most important dimensions of the system. For example, around basic eligibility for child care subsidies, there are wide variations in state cut-off levels. Under federal law, states can choose to allow for eligibility up to 83% of state median income, but only nine states do so. Families with incomes above $20,000 are ineligible in ten states, and families with incomes above $25,000 are ineligible in half of the states. In seven states, the maximum eligibility level is set at less than half of state median income. A number of states are cutting off assistance at a point where families may be above the poverty line, but are clearly not in a position to afford the basic cost of child care.

Just looking at the eligibility level for a state may not tell much, because a state could have generous eligibility standards while not assisting most of those who are eligible. A survey by the Children’s Defense Fund estimated that about half of states were turning away eligible working families or putting them on waiting lists.

A second concern is the amount parents are required to pay under a state’s sliding fee structure. In recent years, many people have begun to articulate a standard of child care as being affordable if a family is not required to pay more than 10 percent of its income. One reason for this standard is that we know from other data that families above poverty that pay for child care spend about 7 percent of their income for it, while families below poverty pay, on average, about 18 percent of their income.

In many ways, even an affordability goal of 10 percent is an unrealistically high standard. First, it is a share of income still greater than that paid by families above poverty, and second, for a family earning $700 of $800 a month, it is obvious that there may be no spare money to direct to child care. But if we accept 10 percent as a reasonable standard, a recent U.S. Department of Health & Human Services (HHS) study found that 22 states are not meeting the standard and 40 states were imposing at least some fees on families with incomes below the poverty line. So even where child care assistance is formally available, it may be at a required level of contribution that is simply unaffordable to families.

A third concern involves child care payment rates. Such rates are not the only factor affecting quality, but it is difficult to see how there can be significant improvements in quality of care without addressing payment rates and compensation. As the amount of money in the child care subsidy system increases, the role played by payment rates can significantly affect quality by constraining the amount providers can set as their overall rates. Low payment rates may make it more difficult for providers to increase staff salaries or to make investments that enhance quality of care.

Before PRWORA, states were required to do market rate surveys of child care providers in the community every two years, and to set payment rates based on what was known as the 75th percentile, a payment rate high enough to encompass 75% of providers or slots in the community. States could restrict how much they would pay by setting upper limits, but the market rate surveys were an important tool in setting subsidy rates. Under PRWORA, there is no requirement to pay for child care at the 75th percentile, and it appears that most states are not doing so. They can do market rate surveys if they want to, but do not have to, and some states have dropped them. In the recent HHS study, 29 states were not paying providers based on the 75th percentile of a 1996 market rate survey; only 12 had conducted or planned to conduct a market rate survey in 1997 and 14 had not conducted a market rate survey since at least 1994. Some states may be extending the availability of subsidy by holding down payment rates in a way that could have adverse effects on the child care system as a whole.

Under new child care regulations issued by HHS on July 24, 1998, states will be required to conduct market rate surveys at least every two years, and HHS will give consideration to whether a state is making payments at the 75th percentile in determining whether the state's rates are sufficient to ensure equal access to the care available to families not receiving subsidies. This could be a significant step forward, though it is still limited by the fact that states are not required to ensure that payments at the 75th percentile or a comparable level are made.

Why have many states placed higher priority on expanding the numbers of families receiving subsidies than increasing payment rates? There is no single answer, but several factors can be identified. First, the pressure of welfare reform to reduce the number of families receiving welfare assistance has created a need to maximize the number of available child care slots, even if it means higher copayments and leaving reimbursement rates unchanged. Second, increasing the number of families receiving child care assistance is a highly visible, politically winning strategy; in contrast, improving reimbursement rates may not lead to any immediately visible result except higher reimbursement rates, and may even be seen as hurting those families not receiving subsidies. And finally, it is important to emphasize that even with additional funds, states face difficult trade-offs and cannot reasonably be expected to do everything at once. At the same time, the failure to address rates at a time of a large infusion of funding may make it harder to do so later, because with more families receiving subsidies, the cost of any rate adjustment becomes that much larger.

The emerging scenario is one of more money going into child care, and as a result, more families receiving assistance, and a set of new quality initiatives. Essentially, money matters. At the same time, the states— facing the pressures of welfare reform and extending assistance to as many families as possible, in part because of work expectations—are spreading resources in a way that may not be addressing fundamental issues of quality in child care, and may be putting in place a structure that will make it harder to address quality in the future. The willingness to invest public funds can be used to improve the child care system, but the current investment is only a fraction of what would be needed if our ultimate goal is to make child care available and affordable to all low-income families, and to make real efforts to address the quality of their children's experience and their optimal development.