# National Study of Child Care for Low-Income Families

# State and Community Substudy Final Report Executive Summary

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## The National Study of Child Care for Low-Income Families

The National Study of Child Care for Low-Income Families, conducted for the Administration for Children and Families in the U.S. Department of Health and Human Services, was a 10-year effort in 17 states and 25 communities to provide information on the response of states and communities to the child care needs of low-income families, on the employment and child care choices made by low-income families and on the factors that influence those choices. In addition, the study focused on the family child care arrangements of low-income families and the experiences of children in this type of care. The study was conducted by Abt Associates Inc. of Cambridge, Massachusetts, and the National Center for Children in Poverty at Columbia University's Mailman School of Public Health in New York City.

The State and Community Substudy is one of the three components of the National Study of Child Care for Low-Income Families. The study was designed to examine how states and communities formulate and implement policies and programs to meet the child care needs of families moving from welfare to work and other low-income parents; how these policies change over time; and how these policies, as well as other factors, affect the type, amount, and cost of care in communities. Three major objectives that guided the Substudy were:

1. To develop an understanding of state child care and welfare policies and how these were implemented at the community level;
2. To examine the effects of child care and welfare policies and community-level factors on the demand for and the supply of child care, and on the types of child care arrangements that low-income parents make; and
3. To examine changes in policies and programs over time and the effects of these changes.

To address these objectives, the study team collected a variety of information. This final report draws from administrative records, policy manuals, and key informant interviews from the 17 states and 25 communities that were conducted in 1999, 2000, 2001, and 2002. It describes subsidy usage and expenditure information between 1997 and 2001 and subsidy policies and their administration from 1999 to 2002.[1]

## State Spending on Child Care During the Study Period

The welfare reform legislation enacted in 1996 (The Personal Responsibility and Work Opportunity Reconciliation Act or PRWORA), and its creation of the Child Care and Development Fund (CCDF), brought with it increased investment in child care to serve the needs of families leaving the welfare rolls and other low-income families, many of whom may never have received cash assistance. The

[1] There is reason for the variation in dates for the Substudy's data collection. The first data collection occurred in 1999, at which point it was possible for states to report back to 1997 for subsidy usage and expenditure data. The last date that data were collected from states was in early 2003; at that time it was possible to collect complete subsidy *usage* data for 2002, but final *expenditure* data was only available through 2001. The earliest key informant and policy data were from 1999-- when data collection for the study began -- and the latest were for late 2002/early 2003.

legislation substantially increased the level of federal funding for child care and gave states more flexibility to decide how funds should be spent.

As a result of the legislation, ***spending on child care subsidies grew dramatically in every study state between Federal fiscal years (FFY) 1997 and 2001***. As a consequence of the legislation (as well as increased state investments in some states), the average increase in child care spending over this period was 110 percent. In most of the states, spending grew very rapidly between 1997 and 1999 and much more slowly between 1999 and 2001. Between 1997 and 1998, average growth in spending was 77 percent. Between 2000-2001, it slowed to 29 percent. Within this period of time, the patterns of state spending varied, although every state studied (except one) experienced its greatest annual growth in child care spending between 1997 and 1999.

To compare spending among states of different populations, we compared child care spending adjusted for the number of low-income children in each state and found that ***average state spending per low-income child[2] more than doubled in the study states from Federal fiscal years 1997 to 2001.*** (After rising each year between 1997 and 2000, average spending dropped slightly in 2001.) In addition, adjusted for state differences in child care costs, ***average state spending per subsidized child rose each year, increasing by 60 percent between 1997 and 2001. Average spending per child rose from $3,019 in FFY 1997 to $4,640[3] in FFY 2001.***

There were some fears that states would not draw down all of their potential Federal funding under the CCDF. However, contrary to these early fears, ***all study states spent sufficient state dollars to draw down their full allocations of Federal CCDF dollars in Federal fiscal years 1997 and 1998.*** All except two states drew down their full allocations in 1999, 2000, and 2001.

In addition to the CCDF, states could make use of funds that were not specifically earmarked for child care subsidies, most notably funds from the Federal TANF block grant and their own state revenues. The study found that ***beyond dedicated child care funds from the CCDF, states made substantial use of optional Federal and state funds not specifically earmarked for child care. The Federal TANF Block Grant was the prime source of optional child care funding.*** Average child care spending from all Federal and state optional sources as a percentage of total expenditures for child care tripled between 1997 and 2001, rising from 16 to 47 percent. In 1997, just one study state drew more than 20 percent of child care expenditures from its TANF Block Grant; in 2000, 15 states did.

Along with providing child care subsidies to low-income families, all of the states funded a host of activities designed to improve the quality and expand the supply of child care. CCDF regulations require states to spend a minimum of 4 percent of funding on quality activities. Activities supported with these funds include training and education for child care practitioners, salary enhancements for

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2 To make state comparisons using a similar metric, we divided spending by the number of children with working parents under 62% of State Median Income (SMI). We chose this level of income because it was the average income cut-off among states in 2003, as indicated in their CCDF state plans. For more information on the estimate, please see Footnote 9.

3 Per-child expenditures were adjusted using a child care cost index based on the relative average hourly wage for a child care worker. The Child Care Cost Index is defined as: $CCCI_I = W_I / W_N$), where $W_i$ = average hourly wage rate for child care workers in $\text{Region}_i$, and $W_N$ = national average hourly wage rate for child care workers.

teachers, consumer education for parents, and child care resource and referral systems for parents, practitioners, and communities. The study found that ***growth in state spending on quality outpaced the growth in total child care spending. Over these years, average per child spending on quality nearly quadrupled in the study states.*** Every year, all study states met the required four percent quality spending from designated streams within the CCDF, and, in 2001, 15 of the states exceeded four percent of their total child care spending from **all** sources, not just the designated streams within the CCDF.

## Meeting the Demand for Subsidies

Parallel to the increase in spending, the study documented increases in the numbers of children being served. There were 14 study states that could report subsidy use for both 1997 and 2002. ***From 1997 to 2002, the number of children served by child care subsidies nearly doubled in the average state***. Eleven of these 14 states experienced a growth rate of over 50 percent. Five states more than doubled their child care subsidy caseload in this time period. For most states, most of the growth occurred between 1997 and 1999. In fact, in four states, the number of children receiving child care subsidies decreased between 2000 and 2002.

In the majority of the study states, the numbers of children who received subsidies increased in each succeeding year during this period, but the gains were not steady. For the period between 1997 and 1999, the gains were dramatic: nine of the 14 states that could report subsidy use for both years showed increases of over 40 percent. The rate of growth slowed considerably between 2000 and 2002. In that period, only one state showed a growth rate of over 30 percent and, as mentioned in the previous paragraph, in four of the states, subsidy caseloads actually decreased.

***In concert with increased spending, the average percentage of low-income children served in the study increased from 15 percent in April 1997 to 24 percent in April 2002.***[4] The percentage peaked in 2001, at 25 percent. These averages mask the wide range among the study states of low-income children served. For instance, in April 2002, the proportion served varied 12 to 37 percent.

***In the majority of states in the study, more than half of all the subsidized arrangements were in child care centers.*** A much smaller proportion of subsidies supported care by relatives; in 13 of the states, 20 percent or less of subsidized arrangements were care with relatives, either in the relative's home or the child's own home. These two trends not withstanding, there was tremendous variation among the states.

## Variation in State Subsidy Policies and Their Implementation

The CCDF gave states great flexibility in setting policies, and the State and Community Substudy documented the resulting variation. In addition to the variation on policy and implementation, states dealt with changing economic fortunes differently. During in-depth interviews with state and community policymakers in the beginning of the study period, administrators in states and communities where growth was particularly rapid reported strong pressures to increase the level and

[4] To make appropriate comparisons, we used an estimate of the number of children under age 13 living in families with incomes below 62% of state median income (SMI), with all parents in the household employed, as well as all children under age 19 with disabilities.

amount of services to families as quickly as possible and their strategies for dealing with this pressure. In early 2003, when the last round of interviews occurred, the picture had changed dramatically. An economic downturn and the threat of a loss of state funds confronted state administrators with a new challenge—how to maintain their child care subsidy program in the face of reduced resources.

***In 2003, the income eligibility ceiling for child care subsidies for non-TANF families ranged from 37% of state median income (SMI) to 77% SMI.*** In three of the 17 states, eligibility ceilings were relatively unchanged since 1999. In five of the states, eligibility ceilings went up as a percent of SMI. In the remaining nine states, eligibility ceilings were lower in 2002/3 than they were in 1999, and in some cases, by more than 20 percent.. In addition to income requirements, eight of the 17 states required non-TANF families to work a minimum number of hours to be eligible: requirements ranged from 15 to 40 hours per week.

***Co-payment rules varied greatly for families at 33% of SMI as well as for families at 50% of SMI.*** For instance in 2003, in eight states, families at 33% of SMI, either had no co-payment or were required to pay less than 5 percent of their weekly income. In three states, the required amount represented more than 10 percent of income. Changes in state co-payment requirements as a percentage of family income between 1999 and 2003 were quite varied: they increased in four states (more than doubling in one state), changed a small amount or not at all in six states, and decreased in seven states.

***In 2003, only five of the states in the study had adjusted reimbursement rates for child care providers; all others kept them at earlier levels.*** Two of the states used payment rates set in 2000 or earlier; the remaining state payments were adjusted in 2001. For some states, the rate adjustments drew on market rate surveys that occurred within the previous year, but in other states, the adjustment was based on information that was several years old.

***Although families had access to virtually all types of legal child care, the extent of subsidy and regulatory requirements imposed on legal providers differed by state and community.*** Requirements for small family child care homes, relative caregivers, and in-home care (where it is allowed) varied in stringency. Requirements for center-based care also varied, and those states that imposed less stringent regulations also tended to purchase higher proportions of center-based care. The greatest variation in regulation was for small family child care homes, which are regulated in some but not all of the states.[5]

## Child Care Subsidies and the Local Supply of Child Care

State and community policymakers establish policies in programs taking into account, and perhaps influencing, local child care markets. Just as in other areas examined by the Substudy, there was great variation in regulated child care. ***The number of regulated child care slots available for children under the ages of 13 from families at all income levels varies widely across the study communities.*** At one end of the distribution, seven out of 25 of the counties in the study reported 300 or more

5 Legally license-exempt providers are not subject to any licensing requirements, but usually need to meet some requirements in order to receive subsidies. These may include criminal background checks, health and safety inspections, child development training, and certification in CPR or health and safety training.

regulated slots per thousand children under age 13. Five counties report 100 or fewer regulated slots per child.

***Maximum payment rates for subsidies appeared adequate to pay for large percentages of regulated slots in many of the study communities.*** In about two-thirds of the study communities, for both centers and homes, subsidy rates appeared adequate to purchase 75 percent of the regulated child care slots from infant, preschooler, and school-age child care providers, assuming providers accepted subsidy payments.[6] In a minority of the study communities, subsidies were adequate to purchase less than half of the regulated child care slots.

***In some communities, a substantial proportion of child care in centers, facilities and regulated family child care homes was paid for by child care subsidies.*** In five of the 20 reporting counties, children whose care was subsidized accounted for more than 30 percent of the slots in center-based care. These counties included large rural areas where there were limited numbers of centers as well as large urban counties where there were substantial numbers of income-eligible children. Subsidies purchased at least 30 percent of the slots in regulated family child care arrangements in nine of 18 reporting counties.

## Implications of the Findings

### Period of Growth in Funding, Followed by Period of Some Targeted Cuts

The data collection for the State and Community Substudy took place during a unique period in Federal and state child care subsidy policy. After adjusting calculations to address state differences in the cost of child care, the study team found that growth in child care expenditures more than doubled between 1997 and 2001. In 1997, after several years of nearly level Federal funding, states had the opportunity to expand subsidies rapidly, both through the funds from the Child Care and Development Fund and by using surplus TANF funds. As a result of this expansion in funding, states were confronted with broader interest in and political pressure related to subsidies. They also had to make a variety of decisions, including: which groups to serve and with what system of priorities; how to streamline and make delivery systems more efficient; how to expand services rapidly despite state and local administrative constraints; and which parts of the system should be improved first. The first three years of data collection for the study documented these issues, and how they were resolved.

The year 2000 was a turning point in many states. Although subsidy spending held steady or grew by slight amounts in the majority of study states, in two states there was a slight decrease in spending between 1999 and 2000, and three other states reported decreases between 2000 and 2001.

### Sources of Funding for Child Care Subsidies

The TANF block grant was an important part of the story of the unprecedented increase in the amount of subsidies available to low-income families during the study period. The CCDF has not been the

[6] Communities vary, however, in the proportions of centers and homes that accept subsidized children, regardless of whether their fees are at or below the state payment rate. In addition, state rules related to absenteeism, etc., affect the ultimate amount that providers actually receive for subsidized children. Parental co-payment requirements and additional charges to parents also must be considered when examining payment rates.

only major Federal source of child care support. Starting in 1999, the TANF block grant was a major source of funding for child care in the study states. The use of TANF funding peaked in 2000. While the CCDF and TANF block grants were responsible for the large majority of spending, other sources of child care funding were important for some states.

### Growth in Numbers of Children Served and Amount of Regulated Supply Supported

As described in the section above, the increased expenditures were reflected in the growth of numbers of children served in the study states. From 1997 to 2002, the number of children served by child care subsidies nearly doubled in the average state. A second set of questions relates to the effects of subsidies on the child care market. The State and Community Substudy collected data about the regulated supply in 2000. By using the number of the regulated slots, and comparing it with the number of arrangements paid for by subsidies, the research team was able to estimate the proportion of supply supported by subsidies. In eight of the 20 counties that were able to report data on regulated supply and on subsidized arrangements, nearly one-fourth or more of the regulated county-level supply was at least partially supported by subsidies. (Many subsidized families also made co-payments to these providers for the slots.) We would expect that, in low-income neighborhoods within these counties, this proportion would be much higher. To the degree that these 25 counties represent those with moderate or high poverty rates in the country,[7] it appears that the government has become a major purchaser of regulated care in such areas. Although the study documented the growth in subsidies but not the effects of that growth, it seems reasonable to conjecture that subsidies must be responsible for influencing at least some aspects of child care supply in terms of its price, its quantity, and/or aspects of its quality.

### Growth in Efforts to Boost the Value of the Subsidy and Improve Quality

At the outset of the study, there were concerns that pressures on states to increase the numbers served by subsidies would cause state policymakers to shortchange concerns about the quality of the services supported. These concerns, however, were not borne out by the experiences of many states.

There are two major ways that the CCDF and other subsidy spending could potentially boost quality. The first is that policymakers could improve the value of the subsidy in terms of the maximum payment rate to providers and by making other rules more generous, such as paying for child absences, so that more providers would be willing to accept the subsidy. They could also reduce co-payment amounts, making the subsidies more desirable for families and the prospect of accepting them less risky for providers who are worried about collecting large co-payments from parents. An increased subsidy value would increase the purchasing power of parents as well as increasing the desirability of accepting the subsidy, giving parents the potential to select higher quality options available in their neighborhoods than they would without subsidies or with subsidies that were less valuable.

The second potential way to improve quality is by providing support directly to providers in ways that are separate from the subsidy payment system, or by providing information to parents to help them become more informed child care consumers.

[7] The study used the sampling frame provided by the National Child Care Study of 1990, but excluded counties with child poverty rates below 14 percent in 1993.

During the study period, many of the states in the study did both of these things. On average, the adjusted value of the subsidy per child served increased between 1997 and 2001 by 60 percent[8]. Funding for quality-improvement and supply-expansion activities also grew substantially during the study period.

### Increased Access to Regulated Care

At the outset of the study, there was concern that a combination of events – tight labor markets, new pressures on regulated child care caused by families moving from welfare to work, parents preferring to keep subsidy dollars "in the family" by using relatives, and relatively few center-based providers willing to accept subsidies – would mean that subsidies would go to license-exempt providers in unprecedented amounts. However, this did not turn out to be the case in most of the study states, as more than half of subsidized arrangements were in centers, and in three-quarters of the study states, 20 percent or less of subsidized arrangements were care with relatives. There was, however, a great degree of variation among states in the percentage of subsidies that went to center, non-relative family child care, and relative care.

### Variations in Subsidy Policy

A challenge of the report was to describe the changes that occurred in state's subsidy systems over the study time period using summary statements, while not masking the underlying, great variation in nearly every aspect of the subsidy systems that we examined in this study. Each summary statement needed to be accompanied by a multitude of caveats and qualifications. The study highlights the fact that each state's child care subsidy policies are unique and interact with the state's child care regulatory environment, its other social policies, and local child care and labor markets.

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8 This figure was calculated by taking the mean expenditure per subsidized child among the study states. Each state's expenditures were adjusted using a child care cost index, described in footnote 3.