# *Assessing the Self-Sufficiency Potential*

## (With special reference to refugees)


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*June 1999*


ISED

***Institute for Social and Economic Development***

# HOME-BASED CHILD CARE: ASSESSING THE SELF-SUFFICIENCY POTENTIAL (WITH SPECIAL REFERENCE TO REFUGEES)

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# Institute for Social and Economic Development's Refugee Welfare and Immigration Reform Project

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ISED is a nationally recognized non-profit organization providing both program evaluation and microenterprise development services to improve the effectiveness of human service organizations and enhance the economic well-being of individuals and communities. The Research and Evaluation Division conducts policy analysis, program evaluation, and social planning studies in areas such as welfare reform, family interventions, child welfare, criminal justice, and economic development; it also provides technical assistance to refugee service agencies and other non-profit organizations in organizational development and program design and implementation.

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*by Maria L. Hein, Reva I. Allen, and John F. Else*

## Introduction

The demand for subsidized child care services is increasing as a result of welfare reform and its work requirements.[1] A popular notion in many states is to encourage welfare recipients to become child care providers in order to meet the demand for child care and provide an avenue to self-sufficiency. This report provides information that can be used to assess the feasibility of home-based child care as a business that will provide a self-sufficiency level income. The report discusses factors that reduce or enhance the economic feasibility of a home-based child care business and describes potential sources of financing. The report also provides examples from four states of the maximum potential annual income and likely annual income for a home-based child care business that serves families receiving publicly funded child care subsidies.

[1] Information regarding eligibility criteria for publicly funded child care subsidies is presented in Appendix A.

## 1. What Issues Should Be Considered Before Starting A Home-Based Child Care Business?

First, no one should consider starting any business unless she[2] believes she will enjoy it and will deliver a quality product. No one should consider starting a child care business unless she enjoys children and is committed to providing the best possible care and to furthering children's educational development.

Second, if the home-based child care business is intended as the primary source of family income (rather than as a supplemental income source), welfare recipients need to determine whether opening this type of business will provide a self-sufficiency level income. In making this determination, home-based child care providers who plan to serve families receiving publicly funded child care subsidies must consider the following issues listed in the box to the right.

***Issues to consider before starting a home-based child care business:***

(a) the amount of and method of calculating the provider payment rate

(b) the number and ages of the children who can be served under licensing or registration requirements (if applicable)

(c) whether the provider is reimbursed for days when the child is not in care

(d) the timing of state-funded provider payments

(e) parent co-payments

(f) the hours of service

(g) structural changes to the provider's home needed to comply with licensing or registration requirements (if applicable)

(h) the use of reimbursements through the federal Child and Adult Care Food Program to reduce or break even on food costs.[3]

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[2] Because the majority of home-based child care providers are women, we refer to them using feminine pronouns. However, the information in this report is applicable to both men and women.

[3] In each state, the agency designated to administer the Child Care and Development Fund (CCDF) block grant sets policies related to most of these areas. Thus, a potential home-based child care provider must become familiar with her state's rules and regulations. This information is available from each state's child care administrator. Contact information for the child care administrator in each state is available on the National Child Care Information Center (NCCIC) website (http://nccic.org/statepro.html) or by calling the NCCIC (1-800-616-2242).

## a. Provider payment rate

States subsidize child care by reimbursing child care providers for serving children enrolled in the subsidy program. A child care provider may accept families for subsidized care if the provider meets the requirements set by the state and is willing to accept the provider payment rate.

In assessing the economic feasibility of providing home-based child care services to families receiving publicly funded child care subsidies, it is important to know what the provider payment rates are. The means of setting these rates vary from state to state. The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) requires that provider payment rates in each state be sufficient to allow equal access to child care for low income families. However, PRWORA does not define what this means. Although current federal child care regulations require states to complete market rate surveys every two years, the regulations do not set a minimum level for provider payment rates.[4]

State decisions about provider payment rates affect a provider's income potential. Some states reimburse providers at or above the 75th percentile[5] of market rates based on a *current* market rate survey; however, as of January 1998 only 18 states paid providers at or above the 75th percentile.[6] Even when states conduct market surveys, they may set provider payment rates at a flat level statewide rather than recognize regional (e.g., urban/rural) differences in costs by setting rates for individual regions (e.g., county). States that calculate provider payment rates at the regional level are more likely to reimburse at rates comparable to those charged private pay families in the area than those that use the same rate throughout the state. Finally, some states apply higher payment rates to providers who meet national accreditation standards or additional state standards.

Low provider payment rates reduce the likelihood that operating a home-based child care business will achieve the dual objectives of meeting the demand for child care and providing an avenue to self-sufficiency, particularly if it is anticipated that a significant percentage of the families served will be receiving publicly funded child care subsidies. In states where provider payment rates are low, a number of scenarios may occur. First, child care providers who accept families at the provier payment rate may have difficulty becoming self-sufficient through the business. Second, if it is an option in their state, child care providers may charge parents fees in addition to their co-payment (Adams, Schulman, & Ebb, 1998); by doing so the business becomes more economically viable, but access to child care services for low-income persons becomes increasingly limited. Third, some child care providers will not serve families receiving publicly funded child care subsidies.

***State decisions about provider payment rates affect a provider's income potential.***

[4] Under the former Aid to Families with Dependent Children (AFDC) and Child Care and Development Block Grant (CCDBG) child care programs, states were required to set the provider payment rates at the 75th percentile of market rates. (See Appendix B for more information about these programs and the current Child Care and Development Fund.) This requirement was designed to ensure that families receiving subsidized child care services had access to a significant share of the child care service providers in their communities.

[5] The 75th percentile of market rates is determined by ordering the rates charged by child care providers from lowest to highest and then identifying the point at which three-quarters of the rates are below the point and one-quarter are above the point.

[6] This survey of 1996/97 market rates was conducted by Adams, Schulman, & Ebb (1998).

### b. Number and ages of the children served

The provider must take into account the number and ages of children she is allowed to serve as a home-based child care provider in her state and the number for whom she can provide safe, quality care. Each state specifies the maximum number of children who may be served in a home-based child care business. Each state also specifies the number of children of different ages or possible combinations of children from different age groups who can be served. States also determine whether the provider's own children must be included in the total number of children served if they will also be cared for during business hours; most states specify that they must be included.

These parameters affect the income potential of the home-based child care business. Generally, the more children the provider is allowed to serve, the higher the income potential. While reaching maximum capacity soon after starting the business and maintaining that capacity increases income potential, caring for a large number of children may have negative consequences in terms of stress, safety, and quality of care. The provider is usually reimbursed at a higher rate for younger children, a factor that may influence which children the provider chooses to enroll and the way services are marketed. Providers who plan to care for their own children in their home-based child care businesses should determine the extent to which this will reduce their income and the implications of this reduction.

### c. Absenteeism

Another issue is whether the provider is reimbursed for days when the child is not in care. If the provider is only reimbursed for the actual days the child is in care, then income is lost every time a child is absent. In this case, the likelihood that provider payment rates will allow the provider a self-sufficiency level income is reduced. Some states reimburse providers for all days that children are absent or for absences due to certain circumstances (e.g., illness or vacation). Some states reimburse for absences as specified by the provider's policy. For example, some home-based child care providers require payment for all days that children are absent; others do not require payment for certain absences, such as those due to family vacations; still others do not require families to pay for days children are absent if the provider is informed in advance.

***States' policies about paying home-based child care providers for days children are not in care vary and affect income potential.***

### d. Timing of state-funded provider payments

The timing of state-funded provider payments is critical to the economic feasibility of operating a home-based child care business. Most private pay clients are required to pay for care in advance. In contrast, provider payments for subsidized care are generally received after the services have been provided. Typically, providers are required to submit reimbursement requests every two weeks or every month and then must wait at least two weeks (and often longer) to receive payment from the state. Thus, because expenses are incurred well in advance of revenues, home-based child care businesses that accept families receiving subsidized care will typically require additional capital to cover cash flow.

***Businesses may require capital to cover cash flow.***

## e. Parent co-payments

When families enroll in the subsidized child care program, an assessment of whether they will be required to pay co-payments to their child care providers is made. (See Appendix C for information about how co-payments are established.) The state-funded provider payment and parent co-payment, if applicable, together make up the maximum amount the provider receives (the provider payment rate).[7]

The method for collecting co-payments varies from state to state. In some states, families receiving subsidized care make co-payments directly to the provider. In others, the co-payments are sent to the state and then forwarded to the provider together with the state's payment. If the provider has to collect the co-payment, failure of families to pay may result in decreased income to the provider or an increase in expenses for debt collection.

## f. Hours of service

The provider's decision regarding hours of services may affect the income potential of the business. Child care providers who wish to maximize their income potential may choose to provide second or third shift or weekend care in addition to (or instead of) first shift care.[8] It is important to ascertain what the state-funded provider payment for each shift will be in order to estimate the difference in income potential, since state policies vary. Some states reimburse at a higher rate for off-hours care; others reimburse at the same or a lower rate.

Some business owners may want or need to hire staff to expand their business hours. The business owner may need to hire staff if she lives in a state that limits the number of hours a day an individual can provide care or if she wants to limit the number of hours she works. If additional staff are hired, this cost would need to be included as an operating expense.

## g. Structural requirements

Potential home-based child care providers must be aware of the state's requirements regarding the physical environment of the child care business. These requirements vary from state to state. For example, some states require that the provider have a certain amount of space available for the provision of child care or access to an enclosed outside play area. Some potential providers, particularly those who live in rental property, may have difficulty complying with the requirements.

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[7] The combination of the state-funded provider payment plus the parent co-pay may not be higher than the amount the provider charges a private pay family for care.

[8] Before providing off-hours care, providers should ascertain that there is adequate demand for these shifts.

### h. Child and Adult Care Food Program (CACFP)

Registered home-based child care providers can benefit by participating in the CACFP program. The CACFP program reimburses home-based child care providers for meals served to children in their care. There is a two-tier payment rate. Providers who live in a low-income area (according to school or census data) or who are eligible on the basis of income can be reimbursed at Tier I (higher) rates. If neither of these conditions applies, providers may be reimbursed at Tier I rates for children in their care who live in low income areas if the family is willing to apply on behalf of the provider. If none of the above conditions apply, the provider is reimbursed at Tier II (lower) rates. The provider can be reimbursed for two meals and a snack per child per day. The CACFP program *may* cover the full cost of food if the provider qualifies for reimbursement at Tier I rates. If the provider decides to operate her for-profit child care business out of a facility other than her home, she will no longer qualify for CACFP reimbursements.

***Home-based child care providers may be able to cover food costs through CACFP, a federal food program.***

## 2. What Are the Maximum Potential Income and the Likely Income of a Home-Based Child Care Business?

The income potential and likely income of a home-based child care business vary by state and county. Following are examples of how state policies affect the economic feasibility of operating home-based child care businesses in the states of Iowa, Minnesota, Wisconsin, and Maine.[9] In each example, the **maximum** annual income and **likely** annual income from operating a home-based child care business in that state are provided. The **maximum** annual income figures are based on the assumptions described in this section. Experience shows that the **likely** annual income figures are almost always lower than the maximum; one should expect that the actual income will **not** be at the maximum level. We have chosen to estimate the **likely** annual income as 80% of the **maximum** annual income. Providers should expect their annual income to be substantially less in the first year of operation than in subsequent years.[10] Therefore, income projections are provided for years 1 and 2.

***Assumptions common to the maximum potential income calculations of all illustrations:***

- ***The provider reaches full capacity in the fifth month of year 1 and then maintains full capacity.***
- ***The provider is caring for children of various ages in combination in order to obtain the maximum provider payment allowed under her license or registration.***[11]
- ***The provider is the only employee of the business.***
- ***The provider receives payment six weeks after submission of reimbursement requests.***[12]
- ***The provider receives reimbursement through the CACFP program at Tier 1 rates that cover her full food costs.***
- ***The provider received a $3,000 loan to start her business and makes monthly loan payments of $100.***
- ***The business receives income through provider payments and the CACFP program and makes expenditures in the following categories: toys and activity materials, safety equipment, record-keeping supplies, outdoor play equipment, consumable supplies, household goods, advertising, renter's and liability insurance, accounting and legal costs, utilities, self-employment and income taxes, food, loan payments, and substitute provider***[13] ***wages.***

[9] In Iowa, the same provider payment rate is used throughout the state. For the other three states, the counties with the highest provider payment rates are used in the examples.

[10] The projected income for the first year of operation will be lower due to: (a) lower anticipated enrollments in the early months of operation and (b) initial delays in receiving payments.

[11] In some states, providers who are not licensed or registered may receive state funded provider payments, but the rate may be lower.

[12] Because the process for disbursing provider payments is different in each state, the timing of the reimbursements varies. Although providers in some states may receive provider payments less than six weeks after submission, for the purposes of this report we have chosen to make a conservative estimate.

[13] The substitute provider is used 16 days per year.

# Home-based child care

## a. Iowa

Regulatory constraints:
In Iowa, regulations specify:

- a maximum of 11 children (including the provider's own pre-school children) in a registered family day care home[14] if at least 5 are school-aged children who receive before and after school services during the school year
- a provider payment rate of $90 per week per child (or $9/part day; school-aged children can be in care for no more than two hours at a time)

Other assumptions:
Three additional assumptions are made:

- the provider submits for reimbursement monthly
- the provider is paid for four days of unscheduled absence per month per child
- the provider serves school-aged children two hours per day throughout the year

Income projections:

| Year 1 | Maximum Potential Income | Likely Income |
|---|---|---|
| Provider with 2 children of her own in day care | $11,100 | $8,800 |
| Provider with one child of her own in day care | $13,600 | $10,880 |
| Provider with no children of her own in day care | $15,100 | $12,080 |
| **Year 2** | | |
| Provider with 2 children of her own in day care | $18,000 | $14,400 |
| Provider with one child of her own in day care | $21,800 | $17,440 |
| Provider with no children of her own in day care | $25,800 | $20,640 |

[14] In each of the state examples, we use the term for home-based child care businesses that is used in that state's child care regulations.

## b. Minnesota

Regulatory constraints:
In Hennepin County, Minnesota, regulations specify:

- a maximum of 10 children (including the provider's own children) during the first year of business operation in a licensed family child care business if at least 4 are school-aged children who receive before and after school services during the school year
- a maximum of 12 children (including the provider's children) in subsequent years in a licensed group family child care business if at least 2 are school-aged children who receive before and after school services during the school year
- a provider payment rate of $125/week/infant, $115/week/toddler, $105/week/preschooler, and $100/week/school-ager (or $17.50/part day)[15]

Other assumptions:
Four additional assumptions are made:

- the provider submits for reimbursement bi-monthly
- the provider is paid for days children are absent due to illness, vacation, or holiday
- parents of children served in the child care business who are TANF recipients are participating in TANF work-related activities[16]
- the school-aged children are in care full-time in June, July, and August

Income projections:

| | Maximum Potential Income | Likely Income |
|---|---|---|
| **Year 1** | | |
| Provider with 2 children of her own in child care | $17,600 | $14,080 |
| Provider with one child of her own in child care | $21,200 | $16,960 |
| Provider with no children of her own in child care | $25,100 | $20,080 |
| **Year 2** | | |
| Provider with 2 children of her own in child care | $35,900 | $28,720 |
| Provider with one child of her own in child care | $40,000 | $32,000 |
| Provider with no children of her own in child care | $44,500 | $35,600 |

[15] Licensed family child care providers who obtain certain accreditations are paid at a higher provider payment rate. In Minnesota, licensed family child care providers must have served in this capacity for a minimum of three months to obtain an accreditation allowing payment at the higher rates. Most licensed family child care providers in Minnesota are not accredited.

[16] In Minnesota, if the provider serves families receiving publicly funded child care subsidies who are also TANF recipients, the state will not reimburse the provider for care provided until the state formally approves the child care. We have received reports of approval delays of two weeks, during which time the provider received no compensation.

## c. Wisconsin

Regulatory constraints:
In Milwaukee County, Wisconsin, regulations specify:

- a maximum of 8 children (including the provider's own children under the age of 7) in a licensed family day care home
- a provider payment rate of $155/week/infant or toddler and $140/week/preschooler or school-ager (or $4.67/hour for school-agers)[17]

Other assumptions:
Three additional assumptions are made:

- the provider submits for reimbursement bi-monthly
- the provider is paid for days children are absent
- the provider does not serve school-aged children

Income projections:

| Year 1 | Maximum Potential Income | Likely Income |
|---|---|---|
| Provider with 2 children of her own in day care | $20,300 | $16,240 |
| Provider with one child of her own in day care | $25,200 | $20,160 |
| Provider with no children of her own in day care | $30,200 | $24,160 |
| **Year 2** | | |
| Provider with 2 children of her own in day care | $29,200 | $23,360 |
| Provider with one child of her own in day care | $32,400 | $25,920 |
| Provider with no children of her own in day care | $40,600 | $32,480 |

[17] Licensed family day care providers who obtain certain accreditations are paid at a higher provider payment rate. In Wisconsin, licensed family day care providers must have served in this capacity for a minimum of one year to obtain an accreditation allowing payment at the higher rates. Most licensed family day care providers in Wisconsin are not accredited.

## d. Maine

Regulatory constraints:
In Cumberland County, Maine, regulations specify:

- a maximum of 12 children in a certified day care home if all 12 are school-aged children who receive before and after school services during the school year
- a provider payment rate of $110/week/infant, $100/week/toddler, $90/week/preschooler, and $90/week/school-ager (or $50/week for before and after school only)

Other assumptions:
Four additional assumptions are made:

- the provider submits for reimbursement monthly
- the provider will be paid for days on which either the provider or children are absent due to illness or vacation
- the provider will serve only 10 children: 8 preschoolers and 2 school-aged children[18]
- the school-aged children are in care full-time in June, July, and August

Income projections:

| Year 1 | Maximum Potential Income | Likely Income |
|---|---|---|
| Provider income regardless of the number of children of her own in day care[19] | $22,000 | $17,600 |
| **Year 2** | | |
| Provider income regardless of the number of children of her own in day care | $30,000 | $24,000 |

[18] This combination yields the highest monthly provider payment.

[19] If the provider is the sole staff person, the provider does not have to count her own children in the child count.

## 3. What Public Resources Are Available to Help Home-Based Child Care Providers?

Thirty states and the District of Columbia enter into special contracts with child care providers to make child care slots available for specific populations of children receiving publicly funded child care subsidies.[20] These populations are: infants and toddlers, children with special needs, children in protective services, and school-aged children before and after regular school hours. Contracts may also be used to provide drop-in care and extended day/full year programs in collaboration with Head Start. Most often the child care slots are purchased in child care centers, but home-based child care providers are eligible for this funding as well.

***Obtaining contracts with the state can benefit home-based child care businesses.***

Obtaining contracts with the state may increase the economic feasibility of some home-based child care businesses. First, in some cases the provider receives funding for child care slots in advance rather than after services are provided. Second, some contracts allow providers to be paid even if some of the contracted child care slots are not filled (Blank, 1997). However, in order to be eligible for these contracts the provider must be willing and qualified to serve whatever specific populations the state targets.

In 40 states and the District of Columbia, state child care administrators make grant or loan programs available to: (1) assist child care providers in meeting state and local child care standards; (2) start, expand, or enhance child care programs; (3) fund training and quality improvement initiatives; or (4) purchase equipment to make programs safer or for other purposes (National Child Care Information Center, 1998). Grant or loan programs to help start, expand, or enhance child care programs may focus on specific types of care, such as care for school-age children, children with special needs, mildly ill children, infants, and toddlers, as well as care during non-traditional hours, extended day programs in collaboration with Head Start, pre-kindergarten programs, and school-based programs. Quality improvement initiatives include grants or loans for activities such as accreditation of child care programs and providers. Home-based child care providers are eligible for these grant and loan programs.

[20] The states that fund slots to provide care for specific populations of children are: Alabama, Arizona, Arkansas, California, Colorado, Connecticut, Delaware, Florida, Illinois, Indiana, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Mississippi, Montana, Nevada, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, Virginia, Washington, and Wisconsin. These states use contracts or other funding mechanisms, such as grants, for this purpose.

# *Home-based child care*

Home-based child care providers can obtain information about grant and loan programs and other resources through their local child care resource and referral agencies or their state child care administrators. Child Care Aware can help providers locate the child care resource and referral agency in their area. Child Care Aware can be reached by calling 1-800-424-2246 or by accessing their website (http://www.childcarerr.org). Contact information for the child care administrator in each state is available on the National Child Care Information Center (NCCIC) website (http://nccic.org/statepro.html) or by calling the NCCIC (1-800-616-2242).

Several federal legislative proposals have been introduced that could potentially benefit home-based child care business owners. See Appendix D for information about these legislative proposals.

## 4. What Do Refugee Home-Based Child Care Providers Offer to Their Communities?

Refugee home-based child care providers can enrich a community's child care options. Refugee home-based child care providers may be able to provide culturally competent and linguistically appropriate child care services to families of the same ethnicity or nationality. This may increase refugee and immigrant parents' willingness and ability to use child care services. For other families, refugee home-based child care providers could offer multicultural experiences that are not commonly available. For all families in need of child care, increasing the number of refugee home-based child care providers may increase the supply of child care available in a community.

***Refugee child care providers can make unique contributions to their communities. They may face unique challenges.***

## 5. What Barriers Might Refugees Face?

Potential barriers to refugees serving as home-based child care providers include limited English-language proficiency and cultural factors. These barriers may create difficulties in the following areas: (a) accessing information, (b) using available resources, (c) accessing continuing education and training, (d) completing processes related to starting and maintaining a business, (e) understanding and negotiating subsidy and reimbursement mechanisms, and (f) marketing to potential clients of other ethnicities or nationalities.

## 6. Conclusion

Persons who consider opening home-based child care businesses, in particular businesses serving families receiving publicly funded child care subsidies, should assess whether this business will provide a self-sufficiency level income. If it is determined that opening a business serving only families receiving publicly funded child care subsidies will not allow self-sufficiency, the provider may wish to consider reserving some child care slots for private pay clients.

Home-based child care business owners also need to make decisions about how they will operate their businesses. They will need to develop a process for accurate record keeping, develop contracts to use with families to clarify the business's policies, purchase liability insurance, and obtain ongoing training. It is also important to note that the potential home-based child care business owner and persons residing with her may be required to provide criminal record reports prior to starting the business.

Microenterprise organizations can provide assistance in assessing whether the home-based child care business will provide a self-sufficiency level income, making decisions about how to operate the business, and accessing public and private financing. Some microenterprise organizations provide specialized services to refugees interested in starting small businesses.[21]

[21] To find out whether there is a refugee microenterprise program in your community, contact ISED-East (phone: 302-368-3939). To find out whether there is a microenterprise agency in your community, contact the Association for Enterprise Opportunity (phone: 312-357-0177).

## Appendix A

## Who May Be Eligible for Subsidized Child Care?

*Note: Data regarding state eligibility guidelines for subsidized child care are based on Child Care and Development Fund state plans as of October 1, 1997. Changes may have been made to state plans since that date.*

According to federal law, children may be eligible for subsidized child care if they:

- are under age 13,
- live with a family whose income does not exceed 85% of the State Median Income (SMI) for a family of that size, and
- have parent(s) who are working or attending a job training or educational program or who receive or need to receive protective services for their children.

However, the law does not guarantee that child care funds will be available to all children who meet these eligibility requirements. Most states have chosen to set the eligibility guideline for subsidized child care at a dollar amount less than 85% of the SMI, and eligibility guidelines have been established as low as 40% of the SMI. State choices about eligibility guidelines for subsidized child care are as follows:

- Seven states and the District of Columbia have set the eligibility guideline at 85% of the SMI.
- Twelve states set the eligibility guideline at a point between 70% and 84% of the SMI.
- Eight states set the eligibility guideline at a point between 60% and 69% of the SMI.
- Fourteen states set the eligibility guideline at a point between 50% and 59% of the SMI.
- Seven states set the eligibility guideline at a point between 40% and 49% of the SMI.
- Two states set the eligibility guideline based on a percentage of the federal poverty level.

States are required to set an income level defined as "very low income," and families at or below this income level must be given priority for child care subsidy services.

Source: National Child Care Information Center. (1998). *Child Care and Development Block Grant: Report of state plans for the period 10/1/97 to 9/30/99.* Vienna, VA: Author.

# Appendix B

## How Has Child Care Funding Changed under PRWORA?

The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA) changed the manner in which child care services are funded. Under the Aid to Families with Dependent Children (AFDC) program, each of the three federal child care entitlement programs (AFDC Child Care, Transitional Child Care, and At-Risk Child Care, known collectively as the IV-A Child Care Programs) had a corresponding funding stream. States were required to allocate matching funds to access federal funds from each of these funding streams. In addition, the Child Care and Development Block Grant (CCDBG) provided federal funds to states to assist low-income families with child care costs. PRWORA consolidated the three federal child care programs and the CCDBG into a single block grant to the states, known as the Child Care and Development Fund (CCDF) (Long & Clark, 1997). Federal child care funding under PRWORA is capped, and services are no longer considered an entitlement (Greenberg & Savner, 1996).

Under PRWORA, federal child care funding is available to states through the components of the CCDF block grant (mandatory, discretionary, and matching funds) and through the TANF block grant (Long & Clark, 1997).

- **Mandatory funds:** Each state receives its share of mandatory funds ($1.2 billion in FY97). A non-federal match is not required. The funding amount for each state is determined by the highest amount of federal Title IV-A child care funding received by the state in FY94, FY95, or the average of FY92-95 (Long & Clark, 1997). One year's unspent funds may be carried over to succeeding fiscal years until expended (Child Care and Development Fund Final Rule, 1998).

- **Discretionary funds:** Each state is eligible for its share of discretionary funds. A non-federal match is not required. Discretionary funding is authorized at $1 billion each year (FY97-FY2000), subject to annual appropriations. Discretionary funds are provided to states according to prior rules governing the distribution of CCDBG funds, which were based on the proportion of children under 5 years old, the number of children receiving free or reduced-price school lunches, and the state's average per capita income (Long & Clark, 1997). Discretionary funds are allocated for use in the fiscal year in which they are awarded or the succeeding fiscal year. Unspent obligations at the end of the succeeding fiscal year must be spent within one year (Child Care and Development Fund Final Rule, 1998).

- **Matching funds:** States that meet matching requirements are eligible for matching funds ($0.77 billion in FY97) (Long & Clark, 1997). To claim from the matching fund, a state must first obligate all mandatory funds for the fiscal year in which matching funds are being requested (Child Care and Development Fund Final Rule, 1998). In addition, the state must make the required maintenance-of-effort expenditure, which equals the amount of its IV-A Child Care funding match in FY94 or FY95, whichever is higher. State child care expenditures above that level are matched by federal funds (at FY95 Medicaid matching rates) up to the state's maximum allocation of these funds. The maximum allocation for each state is based on the ratio of the number of children under age 13 residing in the state to the national total number of children under age 13 (Long & Clark, 1997). States that receive matching funds must obligate the funds within the fiscal year in which they are granted and must spend the funds within the next fiscal year (Child Care and Development Fund Final Rule, 1998).

- **Temporary Assistance for Needy Families (TANF) block grant funding:** States have two options for using TANF block grant dollars to support child care. First, states may use TANF block grant funds to provide child care services. Second, states may transfer up to 30% of the state's TANF block grant to the state's child care administrator, the agency designated to administer the CCDF, to provide child care services (Greenberg & Savner, 1996). State TANF block grant funds transferred to the child care administrator are subject to federal and state child care regulations under the Child Care and Development Fund.

As noted above, PRWORA authorizes $1 billion per year for child care discretionary funds (subject to the annual appropriations process).[1] In addition, PRWORA authorizes federal funding for State mandatory and matching child care funds each year in the following amounts, of which approximately $1.2 billion per year is designated as mandatory funds:

- $1.967 billion for FY97
- $2.067 billion for FY98
- $2.167 billion for FY99
- $2.367 billion for FY2000
- $2.567 billion for FY2001
- $2.717 billion for FY2002 (Greenberg & Savner, 1996)

States may use CCDF funds to finance child care services for low-income families and to finance other activities the state deems appropriate to meet certain goals of the CCDF (Greenberg & Savner, 1996). All states use CCDF funds to finance child care services for low-income families through publicly funded child care subsidies (National Child Care Information Center, 1998). States may also use CCDF funds to finance activities the state deems appropriate to meet the following goals of the CCDF:

- to promote parents' choice about the child care that best suits their family's needs
- to provide consumer education to help parents make informed choices about child care
- to provide child care for parents trying to achieve independence from public assistance
- to implement the health, safety, licensing, and registration standards established in state regulations (Greenberg & Savner, 1996)

States must spend at least 4% of their CCDF and state matching funds to participate in activities to improve the quality or availability of child care services. This money is referred to as the 4%

[1] The 105th Congress added $182 million to the discretionary funds available for FY2000, making a total of $1.182 billion available.

quality set aside. Activities to improve the quality of child care services include creating statewide resource and referral networks and funding provider training (National Child Care Information Center, 1998). Activities to improve the availability of child care services include contracting with child care providers to make child care slots available for specific populations of children receiving publicly funded child care subsidies.

The CCDF and TANF block grants increase the total funds available to states for child care. The actual funding for each state depends on the degree to which the state appropriates the matching funds required to draw down available CCDF federal funding and whether the state transfers TANF block grant dollars to child care programs (Long & Clark, 1997). According to Blank and Adams (1997), during their 1997 legislative sessions all but one state appropriated the funds needed to draw down their maximum allocation of federal matching funds. In fact, eighteen states appropriated state funds *beyond* this amount. In 1998, at least 25 states and the District of Columbia were using or planning to use TANF block grant funds for child care, but some of these states used TANF funds to replace state funding for child care rather than add to it (Blank & Poersch, 1999).[2] Even though most states maximized the federal funding available (Blank & Adams, 1997) and many transferred TANF funds to child care (Blank & Poersch, 1999), many states turn away low-income working families eligible for publicly funded child care subsidies or place them on waiting lists because they are not able to meet the demand (Blank, 1999). In fact, in some areas, low-income working families must wait over two years for child care assistance (Blank, 1999).

The demand for child care subsidies is expected to continue to increase as the annual TANF work participation rate requirement[3] increases over time. Although states that met certain conditions and were willing to appropriate the state funds needed for the match were not limited in the amount of federal child care funding they could receive under the AFDC program, federal child care funding under PRWORA is capped. Thus, the availability of increased funding in times of increased demand for subsidized child care is reduced. In fact, early in 1997 the Congressional Budget Office projected a $1.4 billion shortfall in meeting child care needs for TANF families over the next five years (Blank, 1997).

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2 A state could appropriate the state funds needed to draw down their maximum allocation of federal matching funds and use federal TANF block grant funds for child care, but still not exceed previous levels of child care spending. For example, in FY96 State X appropriated $4 million for child care, which exceeded the amount needed to draw down its maximum allocation of federal matching funds. In FY97, State X appropriated $3 million for child care, which was the amount needed to draw down its maximum allocation of federal funds. State X also transferred $1 million in TANF block grant funds to child care. Thus, the amount of money designated for child care remains the same while the state portion of funding decreases.

3 PRWORA requires, as a condition of receiving maximum federal TANF funds, that a specified percentage of each state's TANF recipients participate in approved work activities for a specified number of hours each week.

## Appendix C

## How Are Parent Co-Payments Determined?

*Note: Data regarding methods used by states to compute parent co-payments and the percentage of states that waive co-payments are based on CCDF state plans as of October 1, 1997. Changes may have been made to state plans since that date.*

Some families who participate in a state's child care subsidy program may be required to pay towards the cost of care through state-regulated parent co-payments. Most states compute a co-payment for each child; other states compute one co-payment per family. States generally use one of three methods to determine the family co-payment. Most states (62 percent) use a sliding fee scale. Many states (27 percent) set the co-payment as a percentage of the cost of care. Some (4 percent) set co-payments as a percentage of family income. Others (8 percent) use a combination of methods. States have the option to waive co-payments for families at or below the federal poverty level (National Child Care Information Center, 1998). Most states (85 percent) waive co-payments for some or all families with incomes below the federal poverty level.

## APPENDIX D

## HAVE LEGISLATIVE PROPOSALS BEEN INTRODUCED IN CONGRESS THAT COULD POTENTIALLY BENEFIT HOME-BASED CHILD CARE PROVIDERS?

Legislative proposals have been (or will be) introduced during the 1999 legislative session that could potentially benefit home-based child care providers. These legislative proposals, if enacted, would do the following:

- Create a government entity to assist qualifying child care providers by offering:
  - F loans for start-up costs, rent, and facility renovation needed to meet licensing standards
  - F reasonably priced liability and fire insurance
- Establish a foundation to conduct research on early childhood development issues, fund pilot programs, and produce educational materials
- Allow the Department of Housing and Urban Development to offer guarantees to private lenders that make loans to child care providers for certain purposes (e.g., renovation of child care facilities or purchase of fire safety equipment)
- Amend the Social Security Act to make appropriations for child care subsidy funding from FY2000 through FY2004 (reserving some of these funds for activities designed to improve the quality of child care services funded through the CCDF)
- Make appropriations for child care quality and early learning programs from FY2000 through FY2004
- Require states to use at least four percent of their CCDF funds for one or more of the following: (1) resource and referral programs; (2) grants or loans to assist child care providers in meeting State and local standards; (3) monitoring of compliance with regulatory and licensing requirements; (4) training; or (5) supplementing the compensation of child care staff who work for providers who serve families receiving publicly funded child care subsidies
- Establish a scholarship program for child care providers
- Amend the National School Lunch Act to increase reimbursement rates for home-based child care providers under the Child and Adult Care Food Program (CACFP)
- Establish funding to provide an incentive to states to increase provider payment rates
- Mandate states to perform current market rate surveys

To obtain additional information about legislative proposals relevant to home-based child care providers, contact the Child Welfare League of America's Public Policy Division (phone: 202-942-0278) or the Children's Defense Fund (phone: 202-628-8787; ask for the Child Care Division). The Children's Defense Fund (CDF) also provides legislative updates through its CDF Child Care listserv. You may subscribe to the CDF Child Care listserv through the CDF website (http://www.childrensdefense.org/listserv_cc.html) or by calling the Children's Defense Fund.

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