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Expanding the Possibilities

Making Use of Economic Recovery Funds: Child Care Policy Options for States

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The American Recovery and Reinvestment Act (ARRA), signed into law on February 17, 2009, provides $2 billion in funding to states for child care assistance for low-income families with children from birth to age 13 through the Child Care and Development Block Grant (CCDBG). These funds are in addition to the current federal allocation for CCDBG. The ARRA carves out $255 million of the additional funds for quality improvement, of which $93.6 million is targeted for activities to improve the quality of care for infants and toddlers. CCDBG economic recovery funds are discretionary funds that do not require a state match. States should act swiftly to ensure that these funds are used effectively to further the economic recovery goal of the ARRA, including creating new jobs, by serving more families, and improving the quality of care.

With the extraordinary budget challenges that states are facing, new funds should be used both to maintain as well as to improve state child care policies. Moreover, it is important that states not limit their choices to one-time-only investments. Because states must balance their budgets every year, no state child care policy is a "permanent" policy. At the same time, to build the case for permanent funding, states should document that they are using these funds effectively in ways that improve the quality of child care and help low-income families recover from the economic crisis.

Given the economic conditions in most states, the most effective strategy to meet these goals may be for a state to improve or expand in one or two policy areas and document the effects that these changes have on children, families, and child care providers. The most effective ways for using the new funding, including the quality and infant/toddler care set-asides, to further the ARRA's goals are to:

Serve more families:

- Eliminate waiting lists or unfreeze eligibility.
- Raise income eligibility limits for child care subsidies to at least 200 percent of poverty.

Improve quality:

- Invest in low-interest bridge loans to providers in low-income communities for equipment, renovation, maintenance, and ongoing costs.

- Provide scholarships and grants for child care providers to attain education and training and to increase compensation based on providers' level of education.
- Hire licensors to inspect all licensed child care centers and family child care homes at least once per year.
- Hire specialists to promote high-quality care for infants and toddlers.

Serve more families and improve quality:

- Provide grants to programs in underserved communities to pay for start-up costs.

Serving more families will immediately help families and providers struggling in a difficult economy. It will enable policymakers to easily demonstrate that they have used the funds effectively, and it will give policymakers and advocates concrete evidence to show the ongoing need for funds. At the same time, targeted and thoughtful investments in programs that improve quality will stimulate state economies as center-based and family child care providers buy materials, pay for tuition at community colleges and four-year universities, and engage in renovation or start up new businesses, and as states hire inspectors and specialists. In short, these options create jobs, put additional resources into state economies, stabilize the budgets of existing providers serving low-income families, and help low-income families get or stay in the paid labor force.

Although this document urges the policy choices above, it provides several options for states to consider beyond these preferences. No state can, or should, try to implement every policy listed here with its ARRA funds. Policymakers can choose from these options to best meet the particular goals and needs of their states and the families in their states.

In most states, the policy changes set forth in this document can be made at any time through administrative or regulatory processes, although some states may require legislative approval for the expenditure of "unanticipated federal funds" such as these funds.[1]

Under CCDBG, states have flexibility in setting their child care policies for:

- categorical eligibility, including the required number of work or training and education hours and what activities qualify for each,
- income eligibility,
- payment rates for providers,
- parent copayment levels, and
- decisions on investments in initiatives to increase the quality of care.

Parents must be given their choice of providers, which means that if a state chooses to contract directly with providers for care, they must offer vouchers or certificates as an option to parents as well.

Bills appropriating CCDBG funds have required that CCDBG discretionary funds be used to supplement and not supplant state general revenue for child care assistance for low-income families.[2] The ARRA includes identical language. As in appropriations bills, the ARRA does not mention supplantation of federal or local funds. There is no federal guidance on this issue to date, but it is expected that the U.S. Department of Health and Human Services will establish a date to serve as a baseline for state expenditure levels.

In addition to the existing rules for CCDBG funds, there are some accountability provisions in the ARRA that apply to these funds. The federal government, through the Office of Management and Budget (OMB) and the appropriate agencies, is establishing procedures to meet these provisions.[3] The ARRA provides governors with 45 days, from enactment of the law, to certify that they will accept economic recovery funds. If a governor fails to act by April 3, a state legislature may pass legislation to override the governor in order to receive the funds. Economic recovery funds, according to the ARRA, are available for a two-year period, FY 2009 through FY 2010. According to CCDBG rules for discretionary funds, which these are, states must obligate these funds over this time period but have until the end of FY 2011 to spend the funds. The $2 billion increase is not considered a permanent increase to the CCDBG program (baseline funding).

Serve more families

States can use ARRA funds to help families currently on waiting lists for assistance, revise eligibility criteria to help more families qualify for and retain eligibility for assistance, reduce parent copayments, address the supply of care, and reach out to families with limited English proficiency.

Waiting Lists. States should provide help to more families who need it to keep them in the workforce. Providing help with child care expenses also assists families currently paying for care, as it frees up a portion of their income to be spent on other household necessities. States can:

- **Serve children currently on waiting lists for child care assistance,** if they maintain a waiting list.

- **Unfreeze eligibility for child care assistance for low-income families not receiving Temporary Assistance for Needy Families (TANF),** if eligibility is currently frozen.

Eligibility Determination. States should offer assistance to additional families as well as determine initial and continued eligibility for child care assistance in ways that maximize subsidy utilization and enable families to maintain employment through fluctuations in their income or job status. This includes eligibility policies that account for temporary employment, part-time work, or significant changes in the number of hours low-income workers have from week to week. States can:

- **Include job search as an eligible activity for receipt of child care assistance,** if it is not already permitted. Under CCDBG, states may allow parents to qualify for child care assistance during a job search, which helps families afford the child care they need to look for work in a challenging economy and simultaneously promotes consistent care for children that supports their healthy development.

- **Extend the eligibility period covering job search to a minimum of three months,** if it is already permitted for child care subsidy eligibility. In November, California temporarily suspended its time limit on job search for parents of young children through the end of the state fiscal year (June, 2009). The eligibility change applies to children participating in child care and development programs who are below the age of school entry.[4]

- **Raise income eligibility limits for child care subsidies** to allow families with incomes up to at least 200 percent of poverty to qualify. Under CCDBG, families are eligible to receive child care assistance up to 85 percent of state median income, which may be higher than twice the federal poverty level in many states.

- **Determine eligibility by averaging income and work hours over a minimum of a six-month period** to account for instability in a parent's employment and fluctuating schedules. Some states also permit providers to bill the state for additional hours of care if parents with irregular schedules need care for additional hours of work in a particular week or month.[5]

- **Consider only the income of the parent or guardian** of children receiving assistance for determining eligibility and exclude the income of other household members, including related and unrelated household members.

- **Exclude other government assistance when defining income** for the purposes of eligibility. Such assistance may include federal or state tax credits, education loans or scholarships, nutrition assistance, housing or energy assistance, TANF benefits, Social Security benefits, child support payments, and medical expenses or insurance.

- **Extend eligibility for child care assistance for families enrolled in Head Start and Early Head Start programs to one year**, so children can continue to participate in programs that extend beyond the Head Start/Early Head Start hours for a specified period of time. Federal CCDBG guidance makes clear that states may establish different eligibility periods for children enrolled in Head Start or pre-kindergarten collaborations with child care.[6] In Illinois, most families in the subsidy system receive an initial determination of eligibility for six months with eligibility redetermined at the end of that time. Families enrolled in Head Start or state pre-kindergarten collaborations may have eligibility determined annually at the beginning of the program year.[7]

- **Extend redetermination periods to one year and limit interim reporting requirements** to better accommodate families experiencing changes in employment. Massachusetts switched to 12-month redetermination for most families in its subsidy system after a study found that 86 percent of families remained eligible for subsidies at the time of their required six-month redetermination.[8]

- **Eliminate or liberalize child support cooperation provisions for families applying for child care subsidies.** For many families, compliance with the child support cooperation provisions makes it difficult to participate in the child care subsidy system due to the complexity of the legal system, the lack of access to the noncustodial parent, or fears of domestic violence.

Parent Copayments. Federal CCDBG regulations require states to establish sliding fee-scales for parents. By reducing copayments, states can free up dollars for low-income families that they can immediately use to purchase other goods and services. States can:

- **Eliminate parent copayments for families with incomes under the federal poverty level**. Under CCDBG, states are permitted by law to exempt poor families from providing copayments. Twelve states report waiving copayments for all families with incomes at or below the poverty level.[9]

- **Reduce parent copayments for all families** to no more than 6 percent of family income, the average share of family income paid by parents who pay for care.[10] Currently, average copayments are higher than 6 percent in 21 states.[11]

Supply. Most states provide child care assistance to parents through vouchers or certificates. States may also contract directly with providers to serve a set number of children who are eligible for assistance. Under CCDBG, states may offer child care assistance in the form of contracts as long as vouchers are also made available to parents. In a challenging economy, vouchers may be unable to provide programs with the reliable support they need to keep their doors open, especially in low-income neighborhoods. Contracts provide a stable source of funding that can help providers stay in business and maintain their current staff. The rate paid to providers also affects the supply and quality of child care available to families in the subsidy system; higher rates give providers resources to keep their programs open and support quality investments. States can:

- **Increase rates** if rates are not set at the 75th percentile of a current market rate survey, to ensure that child care providers have the resources that are necessary to keep their doors open without compromising the quality of care they offer to children.

- **Contract directly with child care centers and family child care networks** to create additional slots for children in low-income communities. As part of the contract, states should require that child care providers meet higher quality standards beyond basic licensing requirements, for example National Association for the Education of Young

Children (NAEYC) accreditation or Head Start standards. States may prioritize contracts for underserved populations including infants and toddlers and children with special needs.

- **Pay differential child care subsidy rates to centers and family child care homes that care for groups of children for whom care is often in short supply,** including infants and toddlers, English Language Learners, children with special needs, children in rural areas, and children living in low-income communities. In California, contracted center-based child care providers receive rates above the standard reimbursement rate for care for infants (70 percent higher), toddlers (40 percent), children with exceptional needs (20 percent), limited English proficient (LEP) children (10 percent), children at risk of abuse or neglect (10 percent), and children with severe handicaps (50 percent).[12] States might also consider using differential payment rates for providers who complete coursework or training on cultural competence or have a bilingual endorsement.

- **Provide grants and technical assistance to community-based organizations to create child care slots** targeting English Language Learners, the fastest growing segment of the child population. Through direct contracts and grants, states can support organizations' efforts to develop high-quality child care or to build their capacity to work in partnership with existing providers.

- **Pay providers for days when children are absent** to ensure that providers have a stable source of funding to maintain their business and to eliminate disincentives for serving particular populations, including infants and toddlers who are more frequently ill and are required to have more regular medical check-ups than older children.

Language Access and Outreach. All agencies that receive federal funds—including subsidy agencies—are required to provide meaningful access to services for LEP individuals.[13] Nearly one in seven children has at least one parent who is LEP.[14] To improve language access and outreach and help ensure that all eligible children can receive child care assistance, states can:

- **Provide dedicated funding for translation and interpretation services at the local level**, including facilitating access to language telephone line services for local child care licensing and subsidy offices. Minnesota provides access to language line services in Spanish, Hmong, and Somali to child care resource and referral agencies statewide.

- **Provide grants for community outreach on subsidy eligibility and enrollment to community-based organizations with expertise in serving LEP populations** to develop and implement effective outreach models to help eligible families learn about and obtain child care assistance.

Invest in initiatives to improve the quality of child care

States are required to spend 4 percent of CCDBG funds on initiatives that improve the quality of care, in addition to the $255 million targeted for quality improvements in the economic recovery bill. These quality funds can be used for grants to programs to help bolster their quality, teacher/provider scholarships and bonuses, infant/toddler specialists, quality rating and improvement systems (QRIS), and partnerships with Head Start and state pre-kindergarten to support full-day services.

Quality Improvement Grants to Programs. States may provide support to providers who have been hurt financially by the economic crisis and to providers who lack sufficient resources to make investments in quality, including the purchasing of materials that promote learning and development. States can:

- **Provide low-interest bridge loans to providers in low-income communities** to ensure that short-term declines in revenues do not result in providers with an otherwise stable financial record going out of business. One study found that even one month of missed payments can drive a child care provider out of business.[15]

- **Give grants to child care centers and family child care homes in underserved communities to pay for start-up costs**. The supply of high-quality child care settings is particularly lacking in low-income, rural, and language-minority communities.

- **Provide small equipment grants to providers in low-income communities** to buy materials such as books, toys, and other learning supports. Providers who cannot afford basic materials and equipment have difficulty creating environments that support children's positive development.

- **Extend grants and low-interest loans to centers and family child care homes to make needed improvements and renovations** to meet higher standards reflected in state QRIS, accreditation standards, or Head Start Performance Standards.

- **Support family child care networks** to promote professionalism and increase quality in family child care settings through ongoing support, training, and monitoring.

- **Provide grants to community-based organizations with expertise in providing training services to child care providers with limited English proficiency.** In particular communities, 25 percent or more of the child care workforce may speak a language other than English.[16] States can partner with organizations with experience working with LEP populations to ensure these providers have access to training that improves child care quality.

- **Hire licensors to inspect all licensed child care centers and family child care homes at least once per year**, with each inspector having a maximum caseload size of no more than 50 programs per licensing staff, the level recommended by NAEYC.

- **Support resource and referral networks** to help families find child care that meet their needs and assist their community's child care providers.

Scholarships and Bonuses. The quality of child care providers/teachers is a critical determinant of the overall quality of care. States can invest in enhancing the education and training of providers and teachers. States can:

- **Make new scholarships available** to assist individual providers/teachers in child care centers and family child care homes in obtaining training, credentials, and degrees. The T.E.A.C.H.© program, operating in 22 states, provides scholarships to child care providers seeking higher education to partially cover the cost of tuition, books, release time, and travel expenses. After completing a specified amount of coursework, participants may receive bonuses to supplement their wages.[17]

- **Provide grants to increase individual providers' compensation** based on their level of education, with preference given to providers caring for a significant share of low-income children. The Child Care WAGE$® Project (WAGE$) has been implemented in Florida, Kansas, North Carolina, and South Carolina, and similar wage incentive programs exist in Illinois and Wisconsin. WAGE$ provides salary supplements directly to low-wage teachers, directors, and family child care providers to improve retention in the field. Graduated salary supplements are tiered based on the teacher's education level, with different rewards for directors or teachers and family child care providers.

Infant/Toddler Specialists. Specialists provide individual and/or group training and intensive consultation to child care centers, family child care homes, and relative caregivers on strategies to improve the quality of care for infants and toddlers. States can:

- **Hire specialists to promote high-quality care for infants and toddlers** and create a network of such specialists across the state. Specialists should target child care centers and homes serving children eligible for federally funded child care assistance.

Quality Rating and Improvement Systems. According to NAEYC, 18 states have established a statewide QRIS and an additional 27 states have a QRIS in the process of development. A QRIS establishes levels of quality that exceed state licensing standards to provide information to parents and encourage providers to improve quality. If a state has a QRIS that is operational, programs need support to reach higher levels of quality. States can:

- **Develop a QRIS** if they have not previously created one. States may also utilize funds to implement or expand a QRIS that is the process of development.

- **Provide grants to child care centers and family child care homes to achieve and maintain the progressively higher standards and training requirements established in the state QRIS.** States may consider giving preference to centers in which a significant share of children served are receiving federally funded child care assistance and homes that participate in the Child and Adult Care Food Program.

Head Start/Pre-kindergarten Partnerships. States should work in partnership with Head Start and state pre-kindergarten programs to ensure that they meet the needs of low-income, working families. In addition to extending eligibility for child care assistance for children enrolled in Head Start or state pre-kindergarten (see above recommendation), states can:

- **Allow child care providers to receive a full-day/full-year child care subsidy**, including for the hours children are in Head Start or state pre-kindergarten programs. Massachusetts allows providers who receive Universal Pre-kindergarten funds to also receive a full-day subsidy for eligible children. Wisconsin pays community-based child care providers for the total number of hours that children receive services in programs that blend pre-kindergarten and child care subsidy funds.

- **Use contracts with providers to extend the day** for low-income children in Head Start or state pre-kindergarten programs. Vermont uses contracts to promote full-day/full-year services in collaboration with Head Start and Parent Child Centers.

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Endnotes

[1] The National Council of State Legislatures offers a table with state specific information.
[2] For the example, the Consolidated Appropriations Act of 2008 stated that CCDBG funds "shall be used to supplement, not supplant state general revenue funds for child care assistance for low-income families."
[3] See www.recovery.gov for more information. The Office of Management and Budget has released initial implementing guidance,
http://www.recovery.gov/files/Initial%20Recovery%20Act%20Implementing%20Guidance.pdf.
[4] California Department of Education, Management Bulletin 08-16, http://www.cde.ca.gov/sp/cd/ci/mb0816.asp.
[5] Gina Adams, Kathleen Snyder, and Pati Banghart, *Designing Subsidy Systems to Meet the Needs of Families: An Overview of Policy Research Findings, 2008,* http://www.urban.org/UploadedPDF/411611_subsidy_system.pdf; Kathleen Snyder, Patti Banghart, and Gina Adams, *Strategies to Support Child Care Subsidy Access and Retention: Ideas from Seven Midwestern States,* Urban Institute, 2006, http://www.urban.org/publications/411377.html.
[6] U.S. Department of Health and Human Services , Administration for Children and Families, *Eligibility Determination for Head Start Collaboration,* Policy Interpretation Question (ACYF-PIQ-CC-99-02), http://www.acf.hhs.gov/programs/ccb/law/guidance/current/pq9902/pq9902.htm.
[7] See Center for Law and Social Policy, *Illinois Child Care Collaboration Program* state profile, http://www.clasp.org/ChildCareAndEarlyEducation/StateEarlyHeadStartInitiatives.html.
[8] Valora Washington, Nancy Marshall, Christine Robinson, Kathy Modigliani, and Marta Rosa, A *Study of the Massachusetts Child Care Voucher System,* Bessie Tartt Wilson Children's Foundation, 2006, http://www.kidspromise.org/MassachusettsChildCareStudyReport.pdf.
[9] U.S. Department of Health and Human Services, Administration for Children and Families, *Child Care and Development Fund Report of State Plans 2008-2009*, http://nccic.acf.hhs.gov/pubs/stateplan2008-09/index.html.
[10] U.S. Department of Health and Human Services, Administration for Children and Families, *CCDF Data Tables (Preliminary Data),* http://www.acf.hhs.gov/programs/ccb/data/ccdf_data/07acf800_preliminary/list.htm.
[11] CLASP analysis of *FY 2007 CCDF Data Tables (Preliminary Data)*.
[12] California Department of Education, *Child Care and Development Programs Reimbursement Fact Sheet*, http://www.cde.ca.gov/sp/cd/op/factsheet07.asp.
[13] *Prohibition Against Exclusion From Participation In, Denial of Benefits Of, and Discrimination Under Federally Assisted Programs On Ground Of Race, Color Or National Origin*, 42 U.S.C. 2000d, *et seq.* and *Improving Access to Services For Persons With Limited English Proficiency*, Exec. Order No. 13166 (August 11, 2000). See http://www.hhs.gov/ocr/lep/ and http://www.lep.gov for additional information and resources.
[14] Calculated from Census 2000 5pct microdata (IPUMS) by Donald J. Hernandez, Nancy A. Denton, and Suzanne E. Macartney, Center for Social and Demographic Analysis, University at Albany, State University of New York, downloaded from http://mumford.albany.edu/children/data_list_open.htm.
[15] Ann Lucas, *Business Practices of Minnesota Child Care Centers: A Survey Report,* First Children's Finance, http://www.firstchildrensfinance.org/sites/1a1c876e-617f-4aa3-9aa0-4f030b14bbf7/uploads/Business_Practices_Report_-_Final_-_FCF_Version.pdf.
[16] Marcy Whitebook, Laura Sakai, Fran Kipnis, et al., *California Early Care and Education Workforce Study: Licensed Child Care Centers and Family Child Care Providers*, Center for the Study of Child Care Employment and California Child Care Resource and Referral Network, 2006, http://www.iir.berkeley.edu/cscce/pdf/statewide_highlights.pdf; Hannah Matthews and Deeana Jang, *The Challenges of Change: Learning from the Child Care and Early Education Experiences of Immigrant Families,* Center for Law and Social Policy, 2007, http://clasp.org/publications/challenges_change.htm.
[17] See Center for Law and Social Policy, *North Carolina T.E.A.C.H. Early Childhood® & Child Care WAGE$®* state profile, http://www.clasp.org/ChildCareAndEarlyEducation/InfantToddlerInitiatives.html.