WR- Child care ideas

TO: John Hilley
Gene Sperling
Jack Lew

FROM: Bruce Reed
Jennifer Klein

DATE: 7/14/97

RE: Child Care Tax Proposals

As you discuss spending options for tobacco tax funds, here are proposals to expand tax subsidies for child care.

1. Dependent Care Tax Credit

Currently, taxpayers may claim non-refundable income tax credits for eligible employment related expenses for dependent care. Eligible expenses include those for the care of a child under 13 or a disabled dependent or spouse. Eligible expenses are limited to $2,400 for one dependent or $4,800 for two or more dependents. The credit rate depends on income, with a 30 percent credit rate for those with adjusted gross income below $10,000. The credit rate is reduced with income, so that those with incomes over $28,000 have a 20 percent rate.

There are three options to expand the dependent care tax credit (DCTC):

(1) <u>Make the DCTC refundable</u>. The existing DCTC is non-refundable, meaning that taxpayers whose income tax liability is less than the credit do not receive the full benefit. As with the Earned Income Tax Credit, making the DCTC refundable would allow taxpayers with low tax liabilities to receive a check from the IRS for the amount by which the credit claimed exceeds their tax liability.

Treasury estimates the revenue cost of this proposal at around $4 billion for 1998-2002. The Joint Committee on Taxation last year estimated that it would cost about half of the Treasury estimate. (Please note that all cost estimates are from previous discussions of these proposals.)

(2) <u>Increase the maximum amount of eligible dependent care expenses to up to $4,000 for one dependent and up to $8,000 for two or more dependents</u>.

(3) Change the income range over which the 30 percent credit rate declines to 20 percent. Under this option, families with incomes of $17,000 would receive a 30 percent credit for eligible care expenses and the rate would phase down to 20 percent for families with incomes at $45,000 or more.

Treasury estimates that this proposal would cost about $2 billion over 1998-2002. This revenue cost could be reduced if the changes to the phasedown occurred in steps.

2. Kohl Business Tax Credit

Senator Kohl proposed to allow firms to claim a tax credit for up to 50 percent of the cost of building, renovating, or operation child care centers, with a credit limit of $150,000 per year. The Joint Committee on Taxation has estimated that the revenue cost of the Kohl proposal is $2.6 billion over 1998-2002 (but note that the Kohl proposal is not available for years after 1999, reducing its overall revenue cost). The credit could also be limited to construction, expansion, and renovation expenditures (since those are the capital costs that may be difficult for firms to finance), most likely reducing the revenue cost to well below $1 billion for 1998-2002.

Bruce —
FYI
Elena
WR - Child care ideas

July 25, 1997

MEMORANDUM

TO: Elena Kagan ✓
FROM: Nicole Rabner
CC: Jennifer Klein
RE: Child Care

Our first child care working group meeting is set up for Tuesday, July 28, with representation from the appropriate agencies (list attached). You had asked Jen and me to distribute paper to the working group on possible policy options for discussion. With Olivia's blessing, we sent out the attached 2-page document, which is a shortened version of the document that HHS sent to us earlier.

Also attached is a summary of the focus groups you chaired, prepared by Joan and her staff for internal use, as well as the final, released statement by the President on the conference and the accomplishments document.

We also have a meeting scheduled with the First Lady, Melanne, David Hamburg and Deborah Phillips to discuss child care and get feedback from them on policy- and conference-development direction.

July 24, 1997

MEMORANDUM FOR DISTRIBUTION

FROM: Jennifer Klein, DPC/OFL
Nicole Rabner, DPC/OFL

RE: Background for Working Group Meeting on Child Care

Attached please find a draft working paper of policy options relating to child care for your review in advance of the working group meeting at the White House, which will take place on Tuesday, July 28 at 5:15pm, in room 180 OEOB. The paper is meant for discussion purposes only and does not represent an exhaustive list of ideas for consideration and discussion. Please bring reactions, as well as other suggestions, to the meeting, and feel free to call either of us at 202/456-6266. Thank you.

DISTRIBUTION:

✓Elena Kagan, DPC 2nd fl. / WW
Jennifer Klein, DPC/OFL
Nicole Rabner, DPC/OFL
Cynthia Rice, DPC
Olivia Golden, HHS
Cherrie Carter, OPL
Faith Wohl, NPR
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Carolyn Beecraft, DOD
Linda Smith, DOD
Carrie Wofford, Labor
Martha Johnson, GSA
Pauline Abernathy, DOE
Michael Barr, Treasury
TBD, Labor
TBD, SBA
TBD, Commerce

FOR INTERNAL DISCUSSION PURPOSES ONLY

Child Care Policy Options
Draft Working Paper

1. Make the Dependent Care Tax Credit Refundable for Child Care Expenses and/or Increase the Amount of Credit Available on a Sliding Scale to Reach Low and Moderate Income Working Families

The Dependent Care Tax Credit (DCTC) is an income tax credit for taxpayers who incur employment related expenses for child care or elder care. The credit is now available to single parents who work and to two-parent families in which both parents work. The maximum allowable credit, available on a sliding scale depending on income, ranges from $480 to $720 for families with one child and from $960 to $1440 for families with two or more children. Since the credit is not refundable, it cannot be used by most low income working families with incomes below the federal income tax threshold (approximately $24,000 for a family of four).

2. Double the Number of Children from Working Families Receiving Child Care Assistance through the Child Care Development Fund (CCDF) By Increasing CCDF Funds Over Five Years To Reach 2 Million Children by 2002

Low-income families face major obstacles in finding or affording child care services. While the average family spends about 7 percent of their income on child care, low-income families spend approximately a quarter of their income for child care services. An estimated 10 million children from working families will be eligible for federal child care assistance, yet only 1-1.4 million children currently receive assistance. Among working families earning 150% of poverty, 4 out of 5 do not receive federal child care assistance. Among working families earning at or below the poverty line, 2 out of 3 do not receive assistance.

3. Establish a Quality Incentive Grant Fund to Provide Grants to States (With Match from the Private Sector) to Improve Child Care for Young Children Based on the Military Child Care Model, Including Support for Achieving Accreditation

Research confirms that the quality of child care can impact children's language and cognitive development and can affect school-readiness. Yet study after study reveals a crisis in the quality of child care across the country. At the White House Conference on Early Childhood Development and Learning, the President pointed to the military child care program as a model for the rest of the country. Of particular note is the military's focus on establishing family child care networks, achieving outside accreditation of its facilities, and tying professional training to compensation.

4. Launch an Infant/Toddler Family Child Care Initiative by Providing Additional Funds through CCDF or Another Funding Mechanism to Encourage Communities to Establish and Support Family Child Care Networks

As the number of infants and toddlers in care increase, many families are turning to small family child care homes to provide a more home-like setting for their children. One of the most effective strategies for improving the quality of these settings is the establishment of networks of support and training specifically designed for family child care providers.

5. Establish a Scholarship Program for Child Care Professionals By Exploring Loan Forgiveness and Scholarship Funds

Research confirms the importance of early childhood staff to the quality of child care services. Yet child care providers receive inadequate wages and there are limited resources to recruit and retain staff. When scholarships are provided, the quality of care improves (as seen in the TEACH scholarship program in NC).

6. Double the Number of School Age Children Who Have Access to Quality Child Care By Providing Incentive Funding to Stimulate Community-Wide School-Age Child Care Efforts, With Involvement of Schools and Community-Based Organizations

The need for after-school care has grown dramatically in recent years. With the vast majority of parents with school-age children in the workforce, millions of school-age children go home to an empty house after school. Yet most schools close at 3:00 pm and remain closed in the summer months. While the number of school-age programs has grown over the last decade, there are still dramatically few school-age programs for low-income working families, particularly for children aged 10-13. Despite poor access to quality programs, recent research documents the positive effects that school-age programs can have on academic achievement of low-income children. FBI studies report that crime rates increase between 3-6pm.

Bruce / Cynthia / Jen -
This is interesting and should be very useful for the NGA speech. Elena

Policy Briefing
July 18, 1997

Welfare-To-Work And Child Care

A Survey Of The Ten Big States

Margy Waller

Less than a year after Washington launched an historic experiment in welfare reform, state decisions about child care benefits are undermining one of the key principles of reform: that work must pay more than welfare. A PPI survey of the states with the 10 largest caseloads, completed in early July, shows that some states are diverting child care funds from the working poor to welfare recipients, jeopardizing the ability of the working poor to stay off welfare rolls. This trend, if sustained, would represent a perverse twist to welfare reform by penalizing the very families who are working hard to stay off welfare.

A sound welfare policy should not only require work, but should also "make work pay." To reward work over welfare, states must offer supports, including child care, health care, and transportation subsidies, to enable the working poor to remain in the job market. The risk for low-wage workers who lack child care for their children is obvious: without someone to watch the children, a parent can't go to work.

That is why the success of welfare reform depends on the existence of accessible, affordable, quality child care for all low wage workers: those on welfare, those moving from welfare to work, and those who were never on welfare. The best way to achieve this is to create a system that does not make distinctions between workers based on their connections to the welfare system. But just the opposite is occurring in states like Georgia and Ohio, which are focusing on services to welfare recipients at the expense of other low-wage workers.

Christine Ferguson's story is illustrative. Ferguson, a Wal-Mart cashier earning $6.80 an hour in Union Township, Ohio, lost her child care subsidy when her county welfare department ran out of state funds for the program and eliminated eligibility for assistance to 110 families like hers, those whose earnings are higher than 125 percent of federal poverty guidelines. Like other states, Ohio has saved money as its welfare caseload has fallen. But Ohio has refused to reallocate these savings for child care to the working poor and has reduced overall state funding for child care this year, even as it has passed some of those savings on as tax cuts.

Meanwhile, Ferguson's child care costs have increased from $65 a month (her copayment with the subsidy), to $400 a month. "I'm really glad [President] Clinton wants to do this welfare refo...

identical to Christine's.

Lacking a federal model for work-based welfare reform, states are experimenting -- and the results are decidedly mixed. A few states have moved a long way in the direction of ... universal system of child care for all low-wage workers; Illinois has the best of creating a universal system of child care for all ...

model. Two states, and possibly a third, will reduce state funding for child care this year, while others have made a significant new state investment as they attempt to reach more families. Many states prioritize child care support to families currently receiving welfare or transitioning from welfare to work. Most states have created incentives to child care providers who fill gaps in delivery to infants and workers with a nontraditional schedule.

This report is a part of PPI's continuing effort to monitor those experiments -- and determine if states are truly replacing welfare with a system that supports people who work. It is critical for states to make that investment now, while caseloads are dropping, the economy is strong, and states have new resources for investment in the bridge to work.

It is all the more critical because as work requirements for welfare recipients increase under the new federal law, the demand for child care assistance to working welfare recipients will too. If states meet the work requirements, and provide child care to those working families, it should not come at the expense of reducing or eliminating funding for working poor families. It would be unfortunate if states use the flexibility provided by the new law to maintain the inequities of the old system when they have the opportunity to design a seamless employment system for all entry-level workers.

This paper examines the decisions about child care that have, or are, being made in the 10 states with the largest welfare populations. It begins with a review of the circumstances that states find themselves in under the new welfare law and the need for child care as an integral part of the employment system for all low-wage workers. Then it reviews some of the major findings of the survey. Finally, the paper makes five recommendations for developing a child care system for all low-wage workers.

The Background

New Welfare Law Requires Work Last year, historic legislation eliminated the guaranteed system of cash assistance to poor families and replaced it with block grants to states. These block grants are based on a formula that requires the federal government to send states the amount of money they received at a time when caseloads were at an all-time high. Although states are permitted to reduce state spending, a House Ways and Means Committee report found that the states now have 34 percent more federal resources per welfare family than they would have had under the old program.[2]

States need to use these new resources to move a steadily increasing number of welfare recipients into "work activities" to meet new federal guidelines. In 1997, 25 percent of the welfare caseload must be working; 50 percent of the caseload must be working by 2002. Caseload reduction can help states meet the goals. For example, if a state's caseload this year is 10 percent less than it was in 1995, the state can meet the work participation rate by having just 15 percent of the current caseload in work activities.

Four Child Care Programs Become One Flexible Block Grant The new law combined four child care programs, targeted to different populations, into one flexible block grant. Each of these separate and categorical funding streams was added to the existing Child Care and Development Block Grant, now called the Child Care and Development Fund (CCDF). The block grant provides states with $4 billion more in federal child care funds per year than has ever been spent before. However, the Congressional Budget Office (CBO) estimates that if states continue to spend the same amount on the working poor, there will be a $1.4 billion funding shortfall for children of welfare recipients.

Because of increased federal requirements for welfare recipients, states feel pressure to target new child care funds toward working welfare recipients, in order to meet increasing work participation rates. Over time, such a decision has great potential to increase welfare rolls as working poor families lose jobs for lack of child care.

Infant Care and Child Care for Third Shift, Part-Time and Weekend Workers does not Meet Demand, and Demand is Increasing Communities are generally not meeting current demand for infant care. A report from the United States General Accounting Office (GAO) on the supply of infant care found that the percentage of current demand that is met by the known supply (excluding informal options) ranges from 16 to 67 percent. The report notes that the gap is greatest in poor communities.[3] The new federal law eliminates the exemption from work requirements for parents with children under age three, and creates an option for states to exempt parents of children under age one. Since the old rule accounted for as much as 75 percent of the exempt population, the new law increases the need for infant care.

Most child care providers are available only during traditional work hours, while poor working mothers in entry level positions often need odd-hours child care because their new jobs do not have 9-to-5 work day hours. A recent GAO survey of child care providers in four communities found that the percentage of providers offering care during nontraditional hours ranged from 12 percent to 35 percent.[4] Most sites offering odd-hours care are providers who operate child care homes (private homes with few slots), not child care centers which have a higher capacity.[5]

The Child Care Crunch

Many studies cite the importance of accessible and affordable quality child care for workplace success. A GAO report found that if welfare recipients received child care subsidies, work participation rates would increase from 29 percent to 44 percent, at a time when there were no time limits and more flexible work requirements.[6] Researchers report that a primary barrier to work participation among welfare recipients is lack of child care access.[7] A GAO study of participants in welfare-to-work programs in 38 states found 60 percent of respondents reported that a lack of child care is a barrier to work.[8]

Welfare recipients who leave welfare for low-wage positions need the support of child care assistance to retain the new jobs. A GAO report on the impact of welfare reform on child care needs, says that a former welfare recipient may be unable to keep a job and earn enough to support her family without assistance, if her child care subsidy ends before she has moved up the career ladder to self-sufficiency.[9] Two earlier reports for state welfare departments found that at least twenty percent of mothers in transition from welfare to work who lost child care assistance returned to welfare.[10]

The cost of care is a significant factor limiting access for low-wage workers. Family child care costs can be hard to estimate because they vary depending upon type and quality of care, geographic location, and number of children in care. A survey of the Wisconsin welfare caseload found that for over two-thirds of the caseload, the market cost for child care would be more than half of minimum wage earnings.[11] A U.S. Census report showed that child care costs take an average of 18 percent of household income for families below the federal poverty level, while non-poor families used only 7 percent of household income for care.[12] The same report says that the average cost is $3,856 per year.[13]

Mothers who want, but cannot afford, center or home-based care must turn to family or friends, and sometimes older children as care givers. Fifty-five percent of poor parents use informal care arrangements, while only 21 percent of nonpoor families do so.[14] These options can be less reliable and stable than center-based care. Finally, new work requirements may decrease the availability of informal care arrangements when family members who were able to provide care have work requirements themselves.[15]

Employers say child care problems make employees unreliable when parents are forced to stay home, or take work time, to deal with care problems. The National Conference of State Legislatures reports that 80 percent of employers surveyed found child care problems force parents to use work time.[16] A report from the Colorado Business Commission on Child Care Financing concludes that lost work-time and reduction in productivity due to child care problems results in a $3 billion annual loss nationwide.[17]

Making work pay requires a comprehensive employment system with many components: child care, health care, transportation, earned income tax credits, etc. This survey reviewed only the child care aspect of the employment systems states are developing.

The PPI Survey: States Have Not Taken Full Advantage of New Block Grant Flexibility

The Progressive Policy Institute (PPI) conducted this survey in May, June and July of 1997 to gather information about the decisions made in the 10 states with the largest welfare caseload (California, Florida, Georgia, Illinois, Michigan, New York, Ohio, Pennsylvania, Texas, and Washington). These states include almost two-thirds (65 percent) of the national caseload.[18] In late May, PPI sent a written survey to each state. A large group of key informants from state administrations, state legislatures, and child care policy organizations participated in follow-up telephone interviews as state legislatures debated the passage of welfare reform use laws. While the survey results provide information available through the first week of July, several states had not finished work, and others anticipate changes or have left some issues to the state agency. Before passage of the new federal law, many states urged that federal funding for child care permit creation of

seamless systems so that one set of rules -- for eligibility and application -- would apply to all child care applicants. State administrators were frustrated by gaps in service and artificial distinctions created by narrowly targeted and categorical funding.[19] In fact, the expressed intent of Congress in passing the law was to treat all working families the same. A welfare reform guide for Members of Congress on welfare reform notes that the purpose

paperwork caused by the old child care

seamless systems so that one set of rules -- for eligibility and application -- would apply to all child care applicants. State administrators were frustrated by gaps in service and artificial distinctions created by narrowly targeted and categorical funding.[19] In fact, the expressed intent of Congress in passing the law was to treat all working families the same. A welfare reform guide for Members of Congress on welfare reform notes that the purpose of the law is to "eliminate gaps, disruptions, and paperwork caused by the old child care system that established separate child care programs for each of these groups of parents."[20]

It seemed likely that given more flexibility, states would eliminate artificial distinctions and finally create a system basing eligibility on income. All poor families would be eligible for services, *if they are working* -- whether in an unsubsidized low wage job, a community service job or workfare position. Unfortunately, only a few states in the PPI survey have done what was expected. PPI found that states so far have largely declined to take advantage of the flexibility in the new law, and are focusing resources on working welfare recipients to the detriment of other low-wage workers.

Ohio plans to significantly decrease state funding in the face of gaps in service to working poor; Illinois plans to increase state funding by 80 percent. Two states have reduced state spending on child care assistance overall: Ohio and Pennsylvania. Governor George Pataki of New York proposes to decrease spending by 5.4 percent, but the legislature proposes an increase of 13.6 percent. In Pennsylvania, the decrease is relatively small, only 1 percent. The decrease in Ohio amounts to nearly 11 percent of state funding for child care. Every state surveyed plans to provide state matching funds for all available federal dollars, thereby increasing overall child care spending. However, at a time when there is an influx of new federal resources relative to welfare caseloads, it is difficult to understand why any state would reduce its general revenue funding for working families.

Two states plan to increase state funding by only 1 percent: Georgia and Washington. Other states have recognized the value of an increased investment in child care. California and Michigan plan to increase state spending on child care by 12 and 13 percent respectively. Texas plans a 24 percent increase next year. President Clinton recently recognized Florida for its significant new state investment in child care -- 40 percent overall. Illinois is the big leader here, increasing state funding by 80 percent over last year.

Half of the states prioritize available funding to families connected to the welfare system; three states guarantee funds for welfare families and provide services to other low-wage workers only if funding permits. Five of the 10 states surveyed intend to provide assistance to welfare recipients and those in transition to work *before* assisting other low-wage working families. This is surprising, given the number of state administrators, governors, and others who have said that such a system is inherently inequitable given the relative similarities between these families, and the incentive it creates to enter the welfare system to ensure eligibility for child care assistance.

PPI's survey asked whether states intend to guarantee assistance for child care to any groups. PPI defined a guarantee as a promise to all who met eligibility criteria that child care assistance would be available, no matter how many families apply during the year. (We did not ask whether the guarantee is an entitlement by state law.) Two states, Ohio and Georgia, plan to guarantee child care to welfare recipients and those in transition to work, while making assistance available to other working poor, "if funding permits." Texas will guarantee assistance only to families in transition from welfare to work.

Three states say they will "guarantee" funding for transitional assistance for one year after leaving welfare for work; four other states say transitional families are eligible for assistance if funding permits within budget limits. The Georgia, Ohio and Texas child care plans "guarantee" transitional child care support for one year after welfare recipients leave welfare for work. However, if these former welfare recipients exceed newly created income ceilings, they will lose assistance before the end of the year.

Four states will provide such transitional assistance to as many families as possible within state funding limits: California, Florida, New York, and Pennsylvania. In New York, Governor Pataki and the Legislature have competing proposals; the Governor would allow local welfare administrators to set an income ceiling for eligibility (up to the state maximum), but would not require a time limit. The Legislature would limit transitional child care support to one year, with an income ceiling. Florida proposes a two-year time limit for transitioning welfare recipients. California has two transitional programs: one has a two-year time limit and no income ceiling, the other program limits assistance based on income, but not time.

Michigan, Illinois, and Washington (beginning this fall) cover recipients in transition to work as part of their income-based programs. Transitional workers are treated just like other low-wage workers -- they are eligible until they reach the income ceiling.

Only three states have moved to create a seamless system of child care support for all low-wage workers; seven of the largest states have so far chosen to keep the old system. Only three states surv~~eyed by PPI have moved to~~ develop a child care system with eligibility based on income: Illinois, Michigan and Washington. Households with income below 50, 60, and 52 percent of the respective state median income (SMI) are eligible for child care services. In Michigan, working welfare recipients will get priority, but the state does not anticipate a funding shortfall. There is no time limit on assistance in any of these states.

Some states create expectations of services for working poor, but may not be able to meet them. In order to compare the income levels that states use to determine eligibility for child care support, PPI converted the varying state standards to a percentage of state median income. Some states choose to use SMI as their yardstick for eligibility, others base eligibility on a percentage of federal poverty guidelines. PPI uses SMI to adjust for wide cost of living differences, allowing for a more accurate cross-state comparison of eligibility.

Federal law limits the use of the child care block grant to households with incomes below 85 percent of state median income. Nevertheless, the PPI survey found income ceilings ranging from a high of 100 percent of SMI in one California program (using some state funding) to a low of 50 percent of SMI in Illinois.

However, when it comes to child care for the working poor (as in other categories where support is not guaranteed), it is critical to distinguish between eligibility for, and access to, services. States with a high income ceiling may not provide services to many of the families below the ceiling. In the past, states often were forced to close intake for services, and many states maintained long waiting lists.[1] One state administrator commented that children would be in college before they reached the top of a waiting list.

Michigan (60 percent of SMI), Illinois (50 percent of SMI), and Washington (52 percent of SMI) have set eligibility relatively low compared to other surveyed states -- but, the state legislatures in those states have allocated funding that they believe will cover all eligible families likely to apply. Illinois has increased state funding by a whopping 80 percent since last year. These states have moved closest to creating a seamless child care program with universal access for eligible families, determining eligibility by income rather than making artificial distinctions based on a recent connection to the welfare system.

Most states have created incentives for filling gaps in services to parents of infants and workers with nontraditional hours. Six of the 10 states surveyed offer, or are considering, an incentive for child care providers who supply odd-hours care or infant care. Usually the incentive is a higher rate of payment (recognizing the higher costs of such care). In California, providers with nontraditional hours get contractual priority. Six states will provide incentives for infant care: California, Florida, Michigan, New York, Ohio, and Washington. Three states will provide incentives for odd-hours care: California, Florida, and Ohio. Illinois is considering various incentives and three states are not currently planning to provide incentives targeted to creation of infant or odd-hours care: Georgia, Pennsylvania, and Texas. Pennsylvania will ask for local input on whether to use new funds for infant care or nontraditional care.

States are also providing incentives to alleviate other shortages, such as care for special needs and school-age children (before and after school hours). Finally, some states are encouraging collaborative approaches for child care and Head Start centers. (While there are also many issues related to provider payment rates and licensing that will affect quality and availability of care, the PPI survey did not address these issues, beyond enhanced rates paid as an incentive to create care for targeted populations.)

Three states require parents to return to work when their infant is three months old; nine states fail to take full advantage of the federal option to exempt parents of children under age one. All states surveyed have a newborn work exemption. Illinois provides up to one year for each newborn -- the federal maximum. Georgia, Ohio, Pennsylvania, and Washington all create a twelve-month lifetime exemption. Governor Pataki's proposal guarantees a three month exemption for the birth of each child, subject to twelve month lifetime limit for the parent; local welfare administrators would have discretion to extend the three month exemption.

Florida and the New York legislature provide a three-month exemption for each child, with no lifetime limit. Michigan requires parents to work when an infant is thirteen weeks old. In contrast, Texas will retain its current provision, permitting an exemption for parents of children under age six, until September 1997, when the exemption will be only for parents of children under age five. At this writing, the debate over this issue is raging in California. While the Democratic proposal creates a one year exemption for new parents, California Governor Pete Wilson has proposed a twelve-week exemption.

States have developed confusing family copayment requirements. All states require some families to pay part of the cost of their child care; California, Georgia and Washington have complicated formulas for calculating family child care copayments. Washington uses a complex set of rules that require a family earning less than 74 percent of the federal poverty level to pay $10.00 a week. But once the household income exceeds 74 percent of federal poverty, the weekly copayment will be the greater of $20.00 or 47 percent of the household income over 100 percent of the federal poverty level. Georgia's formula has three separate categories for eligibility and two different copayments. From the worker's perspective, it may not be easy to figure out which of the three categories applies, or which sources of income the state will count. In California, the copayment may vary depending on the original source of funds (federal or state), a fact the worker is not likely to know.

States have set reasonable copayments for families at the poverty level. Copayment rates are important to an assessment of access to care because if the family share of the cost of child care is too high (as a percentage of household income), the family will not be able to get care even if they are eligible according to the state eligibility rules. The Child Care Bureau at the federal Department of Health and Human Services recommends a copayment of no more than 10 percent of the household income.

The state copayment formulas are complicated and difficult to evaluate for their impact on families. The best way to compare what the family will be required to contribute is to ask each state about the cost of care for the same hypothetical family; we asked about a family with one parent and two children in child care with income at 100 percent of the federal poverty guidelines, $13,330. (PPI's survey did not ask about copayments for other income levels or household sizes and makes no finding on the appropriateness of copayment levels for these other family circumstances.) Only one state reported a copayment above the recommended level: Texas has a copayment formula that requires the family to pay 11 percent of household income. All other states surveyed have set copayments for PPI's hypothetical family of three below the recommended level.

PPI'S Five Action Steps for States

This survey highlights a problem that we hope will be addressed quickly by a determined effort of national and state leaders. It is a vital principle of PPI that welfare reform should not disadvantage the working poor. Many state legislatures are still in session or will be meeting again in the coming months; state legislators and Governors should re-examine the state child care plans and eliminate any artificial distinctions that have been made between working poor families. Success in these 10 large states would lead the way for smaller states and is critically important because the big states represent nearly two-thirds of the national welfare caseload. Still it is important to note that some smaller states have created systems of child care basing eligibility on household income.

1) Create a seamless system of child care. As families move from welfare, to workfare, to low-wage, unsubsidized positions -- they should not have to change child care providers, worry about reapplying, or deal with a new set of rules for assistance. A seamless system lets families cross the bridge from welfare to work without disruption in child care services. Employers urge decision-makers to invest in child care because they know an employee with child care difficulties will miss work. Children should be able to count on seeing the same care-giver and friends; parents should focus on successfully making the transition.

Child care assistance systems should be fair and easy to understand. In Illinois there will be one set of rules for all low-wage workers receiving child care assistance. But, California proposes the kind of system that all states should avoid: depending upon the source of the funds, and the state department administering the program -- parents may have different eligibility criteria, income ceilings, time limits, and copayments. The state will have to treat families in identical situations differently, and it will be difficult for parents to anticipate the impact of program regulations.

2) Base eligibility for child care on income, not on current or recent receipt of welfare. All low wage workers need the certainty of affordable, accessible child care. Again, Illinois has the right idea. Creating a system of care that bases eligibility on income level ensures that working welfare parents get assistance, but not at the expense of other low-wage workers -- especially those who have long managed to avoid asking for welfare. Those families transitioning from welfare to work will get child care -- until their income reaches the ceiling set by the state. Careful monitoring to evaluate the impact of the loss of child care assistance when families hit the "cliff" of the income cap will be critical. If states find that the level is set too low or too high, they can adjust it. Michigan and Washington propose a system that bases eligibility for child care on household income, although Michigan's plan has a priority for service to welfare recipients. Decision-makers in these three states believe the allocated funding will be sufficient to assist all families below the income ceiling.

A system that determines eligibility based on current or previous receipt of welfare ignores the reality that low-wage workers are likely to return when informal child care arrangements fail. In the first years of block grants, pressure on available funds will be less, because work requirements will be at the lowest levels. In the current economy, many families who would otherwise be forced to rely on welfare are working in low wage jobs. Helping these families now may enable them to stabilize and move up the career ladder so that they do not fall back into the system when the economy falters.

3) Make copayments affordable and understandable. All families should have the responsibility of contributing to the cost of care. But, eligibility for child care that is not affordable is deceptive. It is an empty promise to say that all low-wage working families will be *eligible*, if the copayment is set so high that families cannot afford to access the child care. The Child Care Bureau at the Department of Health and Human Services recommends a copayment of no more than 10 percent of household income. The national average payment is 7.5 percent of household income for all families.[21]

Families should be able to understand the copayment formula and easily budget for child care expenses. Entry level workers often have fluctuating schedules and paychecks, so families may have to calculate their share of the cost with some frequency.

4) Limit gaps in service by offering incentives to providers and taking advantage of the federal option to exempt parents of children under age one. States can enhance the capacity of the child care system to meet the needs of parents of infants, as well as third-shift, weekend and part-time workers by providing incentives to providers.

Communities are generally not meeting current demand for infant care. Demand for infant care will also increase, as the exemption for parents of young children is narrowed significantly in most states. Another way to limit demand for infant care, reduce costs and support families, is to take advantage of the work exemption for parents of children under age one. Since the national average subsidy rate for infant care is almost $2,200 more per year than the subsidy for toddler care, offering a work exemption for parents of infants is a fiscally prudent step to take in a time of limited resources.[22] More importantly, it is consistent with recent findings in the research on child development. At a Congressional hearing on July 10, 1997, Dr. Edward Zigler, Sterling Professor of Psychology at Yale University and Director of the Bush Center in Child Development and Social Policy, stated, "Parents and their new babies need time together to establish the rhythms of life, to reach a level of sensitive attunement and to become securely attached."

5) Use block grant funds and savings from caseload reductions to build the child care system for all low-wage workers. In a weekly radio address, President Clinton noted that all states have ended the old welfare program, and that caseloads represent the lowest percentage of our population on welfare since 1970. President Clinton urged states to invest the resources available from caseload reduction in a system that will enable welfare recipients to get and keep work -- specifically by providing child care.

The PPI survey asked states about their plans to increase overall funding for child care. All of the states indicated an intention to use the total available federal matching dollars. Some states are transferring funds from the Temporary Assistance for Needy Families (TANF) block grant to the Child Care and Development Fund. As caseloads continue to drop and while the work participation rates are relatively low, states can afford to make transfers from the TANF block grant. States can transfer up to 30 percent of the TANF block grant, and assistance provided by the transferred dollars is not subject to the federal five year lifetime limit.

Most states are increasing state funding (PPI's definition of state funds does not include transfers from federal block grants) for child care. The only exceptions are Ohio and Pennsylvania which will probably experience a decrease from the prior year's state spending. In Ohio, the state chose not to continue spending $10 million from caseload reduction savings that was incorporated into the state's budget for the prior year when counties began to run out of funds for the working poor. Given Ohio's "guarantee" of assistance to families with a recent connection to the welfare system, working poor families will experience a reduction in available child care slots. In New York, Governor Pataki proposes a 5.4 percent decrease, while the legislature proposes a 13.6 percent increase. Pennsylvania's reduction is less than 1 percent of state funding.

Conclusion

The PPI survey on child care shows a trend for states to overlook the flexibility available to them and retain a child care system with gaps and inequities as if the federal government were still insisting on this flawed program design. Unfortunately, this tendency will punish working poor generally by failing to invest new resources in their access to child care. Every new law has potential for unintended consequences; hurting low-wage workers would be an unfortunate outcome of the historic legislation passed last year. States have the resources to follow the lead provided by Illinois: create a seamless child care system for entry level workers and fund it adequately to ensure universal access for all eligible families. Welfare reform requires many difficult decisions, and it has only been eight months since the federal law passed. Although states have filed their first child care plan and many states have completed a legislative debate on this issue, legislators and Governors have an ongoing opportunity and responsibility to improve the state employment system. We think they will. In the meantime, Congress should carefully monitor state actions and make changes in the federal law when necessary.

Margy Waller is senior analyst for social policy for the Progressive Policy Institute.

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WR - Child care ideas
cc: EK, ER, DF, Tom, + return

Background Information
Child Care Proposal

A high-quality child care program is one that makes the healthy development and education of children its first objective and strives to stimulate the learning process of all children through developmentally appropriate activities that foster social, emotional, and intellectual growth.

Research has clearly demonstrated that no single factor ensures the quality of a child care program, but rather a combination of factors. This proposal incorporates current research into a multi-level approach for improving the quality of child care.

In the proposal, the terms credential and accreditation are used to refer to formal credentialing and accreditation processes by a private non-profit or public entity that is state recognized (minimum requirements: age-appropriate health and safety standards, age-appropriate developmental and educational activities as an integral part of the program, outside monitoring of the program/individual, accreditation/credentialing instruments based on peer-validated research, programs/facilities meet any applicable state and local licensing requirements, and on-going staff development/training). There are several organizations that currently provide accreditation and/or credentialing for early childhood development programs and professionals.

There is no question that higher quality child care is more expensive than custodial care. Therefore, most of these proposals will entail an increased expenditure of funds. When possible, potential budget offsets have been identified.

<u>Provisions to Encourage Parents to Place their Children in High Quality Care</u>

1. *Dependent Care Tax Credit* -

• Increase either the percentage of allowable child care expenses (current law - 20% to 30%) or the total amount of the eligible child care expenses (current law - $2,400 for 1 child; $4,800 for 2 or more) when the parent places a child in an accredited child care center or with a credentialed child care professional.
AND
• Make the Dependent Care Tax Credit refundable for working families eligible for the ETIC

costs for this option; no budget impact if the Dependent Care Tax Credit is limited to families with adjusted gross incomes under $90,000 per year and a balance is reached regarding lowering the percentage of allowable child care

expenses for non-accredited/non-credentialed care balanced with an equal but opposite raise in the percentage for accredited/credentialed care.

2. *Dependent Care Assistance Plans (part of Flexible Spending Accounts authorized in the Economic Recovery Tax Act of 1981)* -

• Increase the amount which parents can contribute to a Dependent Care Assistance Plan when the parent places a child in an accredited child care center or with a credentialed child care professional

• Include a provision which requires federal agencies (including legislative, executive branch, and judicial) to offer Dependent Care Assistance Plans to federal employees.

• Permit working mothers who contribute to Dependent Care Assistance Plans to use the funds to pay themselves to stay home with their child--(best example, working woman finds out she is pregnant, signs up for the Dependent Care Assistance Plan, between the time she signs up and the time she gives birth she accumulates $4,000 in her account; upon the birth of her child, she stays home from work on maternity leave and draws down $1,000 per month for the next 4 months to help offset her loss of income for the time she stays home - advantage: the $4,000 she used is untaxed resulting in a tax liability savings).

AND

• Increase the maximum amount that can be placed in a Dependent Care Assistance Plan when dependent care is being provided for 2 or more persons.

Much of the cost can be offset by lowering the amount which parents can contribute for everyone, except those placing children in accredited/ credentialed care

5. Require states to include the costs of child care into calculations of child support obligations for custodial parents who work or are actively seeking employment with a differential rate for parents placing their children into accredited child care centers or with a credentialed professional.

No cost to federal, state, or local government

<u>Provisions to Encourage Child Care Providers to Offer Higher Quality Care</u>

1. Extend Perkins Loan forgiveness to individuals who accept employment in the child care field as a credentialed child care professional.

Miminal cost, no estimate available

2. Provide a tax exclusion or credit for businesses who provide educational assistance to child care providers which leads to accreditation or credentialing; if the child care provider is a 501(c)(3) this can already be done as a charitable deduction, if the provider is a religious provider or a "for-profit" entity such as a family child care home, then the contribution will need to be sent to a 501(c)(3) for distribution as scholarships or grants to the religious and family child care providers

Currently allowable by law, but should be referenced in package to encourage businesses to use their charitable giving in this manner. No additional costs.

3. Provide a time-limited, capped tax exclusion for employers or partnerships of employers who initiate child care arrangements for their employees- limit to start-up costs and the child care must be accredited or credentialed to qualify [can include starting child care center, funding family child care associations and child care resource and referral agencies to recruit and train new child care providers, sick care centers, funding on- or off-site after school programs, etc.]

Cost depends on the caps that are applied; will be written as a business expense deduction for employers under §162 of the tax code

4. Permitting businesses to receive a charitable tax deduction for donating educational equipment and materials to public schools and accredited/ credentialed child care providers (not related to employer sponsored or employer provided child care)

Donations to family and other "for profit" child care providers will need to be made through a non-profit association, resource and referral agencies or other similar entity currently qualified as a charitable entity under the tax code; the addition of public schools will entail minimal costs but is a necessary element politically and practically.

5. Expanding the federal clearinghouse activities regarding child care to: disseminate information to states, child care providers, and parents, initiating a public awareness campaign stressing the importance of high quality child care and how to identify such child care, and providing child care accreditation and credentialing entities that have been in existence for 5 years or less support and assistance (including competitive grants) to refine and evaluate their instruments/processes.

Discretionary funding costs, no estimates yet on the amount of funds realistically needed to expand the clearinghouse activities, support for accreditation entities is pretty flexible.

6. Establish an incentive program for states who affirmatively move to improve the quality of child care by: Establishing a subsidity program for child care professionals who are credentialed (to supplement their salaries); Increasing on-site monitoring to a minimum of twice yearly, including at least one unannounced visit; Developing state accreditation/credentialing standards for child care professionals; Establishing a scholarship program for child care providers to help in educational or training costs leading toward accreditation/credentialing; Expanding training and technical assistance activities; Improving state consumer education efforts re: child care including the expansion of resource and referral services, and Improving state child care complaint systems; and Providing increased rates of reimbursement available under all state and federal child care assistance programs for child care that is accredited or preformed by credentialed professionals. MIMIMUM REQUIREMENT FOR STATES TO PARTICIPATE: State has not lowered child care standards since 1995, State has not reduced the type of child care requiring state licensing or otherwise constricted the application of state child care licensing since 1995, and State is in compliance with the Child Care and Development Block Grant Act.

Funding is discretionary, unless the leftover funds from the welfare related child care (entitlement $) is designated for this purpose. Because states are required to match the federal funds to draw down a portion of the welfare-related child care entitlement funds, it is anticipated that there will be leftover funds at the end of each year. Under current law, those leftover funds are to be distributed the following year to states which have drawn down their full allocation of matching funds and demonstrate the ability to match and need for additional child care funds. It is estimated that at least $200 million will be needed to make this an effective incentive for states.

7. Require child care paid for from funds made available in the Social Services Block Grant, Public Housing Demonstration Grants, the Corporation for National and Community Service and other federal programs utilized in part for child care services to pay differential rates (20% higher) for accredited or credentialed child care services or activities leading to accreditation or credentialing.

No additional cost.

8. Provide a tax deduction for child care centers and providers for the costs required to achieve accreditation or receive professional credentials (including required training or education and the cost of obtaining the accreditation or credentialing)

Can already be deducted as a necessary business expense if the provider is a for profit entity, or as a Schedule C deduction for sole proprietors such as family child care providers. We need to get additional information to determine the feasibility of reducing the current tax floor for the costs of child care credentialing in order to make the tax deduction within the reach of individuals who obtain additional education or training leading to child care credentialing.

9. Create a national infrastructure to facilitate child care training and professional development including hardware needed to build interactive satellite network with at least 2 receiving locations in each state (number dependent upon geographic and population size of state); logistical mechanism for scheduling training events broadcast over the system; limited to 3 years for development and start-up of the system and infrastructure.

Discretionary funding. Proposal being developed by coalitionof child care professionals and groups. Costs to be determined.

10. Increase the use of funds of the Community Development Block Grant to include upgrading child care facilities to meet accreditation standards, and for renovating buildings for use as child care facilities, as long as the facilities achieve accreditation within 3 years.

No additional cost, just an expansion of the allowable uses for CDBG funds.