

CHILD CARE

WAL SPECS
C. care

Child care is critical to the success of welfare reform. It is essential to provide child care support for parents receiving assistance who will be required to participate in education, training, and employment. In addition, child care support for the working poor is also essential to "making work pay" and to enable parents to remain in the workforce. Our goal is to increase child care funding so that families have the access to the child care that they need, to simplify the administration of Federal child care programs, and to assure that children are cared for in healthy and safe environments.

Current Law and General Direction of Proposal

The Federal Government currently subsidizes child care for low-income families through a number of different programs. The programs have different eligibility rules and regulations, creating an extremely complicated system that is hard for both providers and recipients to navigate. The major existing programs include an entitlement to child care for AFDC recipients (title IV-A); transitional child care (TCC) (also an entitlement) for up to a year for people who have left welfare for work; a capped entitlement (\$300 million) for those the state determines to be at-risk of AFDC receipt (At-Risk); and the Child Care and Development Block Grant (CCDBG). There is also a disregard for child care costs available to working AFDC recipients. While these multiple programs provide valuable support for child care, legislative changes are needed to strengthen the welfare reform plan.

Legislative Changes Needed

We are at this time making changes only in the IV-A programs, which will remain as separate authorities. Any changes in the CCDBG will be made during its reauthorization in 1995.

1. Expansion of funds to the working poor.

Change the At-Risk Child Care Program, Section 402(i) to a capped entitlement with no state match required. Change the amount specified for the program (to be decided)--
Section 403(n)(2)(B).

Why no
state
match?

This program is currently a capped entitlement (\$300 million) with the same match rate as that for all IV-A child care.

2. Program simplification/consistency issues.

a. The states will be given the option to have one lead agency for child care funded under the IV-A programs and the CCDBG. They will retain the flexibility to have more than one agency involved. Accountability to the Federal Government will flow through the IV-A agency.

b. There will be one State plan for the IV-A and CCDBG programs. The requirements for coordination, public involvement, and consultation in relationship to development of the plan will follow the CCDBG statute.

c. In all programs, the CCDBG language will be incorporated for

- unlimited parental access
- parental complaints
- consumer education
- compliance with state and local regulatory requirements
- establishment of health and safety requirements
- compliance with state and local health and safety requirements
- reduction in standards

What impact?
Contrary?

Added to the health and safety standards section are:

--a requirement that the state must have requirements that all children funded under these authorities are immunized at levels specified by PHS. States will be given the flexibility to exclude particular immunizations if they submit an acceptable justification to the Secretary.

good

--a requirement that the state must have a requirement to assure that no child has access to toxic and illegal substances or weapons in the child care setting.

d. A requirement that the state will have to establish and periodically revise, by rule, a sliding fee scale that provides cost sharing by the families that receive Federal assistance for child care services. The fee scale will be the same for all programs (same used for CCDBG).

e. There will be one requirement for state reporting to cover all programs, with core data elements to be defined by the Secretary.

3. Continuity of care.

The states will be given the option under the IV-A programs to extend hours and weeks of care when reasonable to assure continuity of care for children and required participation of their parents in JOBS, WORK, and employment.

4. Information to parents.

State must provide child care information to parents (use CCDBG language, adding "(including options for care and payment)."

5. Supply and quality Issues.

a. Create a 5% set aside in the at-risk program for quality improvements using language in CCDBG Section 658G as allowable activities.

b. Create a 5% set aside in the at-risk program to increase the availability of child care appropriate for infants and toddlers in low-income communities.

c. Establish explicitly that licensing and monitoring of IV-A funded child care providers is an allowable administrative cost, limited by a formula established by the Secretary.

d. Create a 1/2% set aside in the at-risk program for training, technical assistance, and projects of national significance.

Why
set
aside
in zero-
match
program?

6. Payment.

a. Prohibit states from lowering below their statewide limit or payment rates from levels established in their 1994 plan unless a market rate survey indicates that the cost of care goes down. Without allowing a lowering of the 1994 rates, allow future rates to be set by geographic areas in the state that are related to child care cost variations in such areas.

b. Retain the disregard, but mandate that states must provide working AFDC recipients with the same level and forms of child care assistance as families in JOBS, TCC, and At-Risk Child Care.

/?

D-R-A-F-T
NOT FOR CIRCULATION

WR SPEC
C. CARE

CHILD CARE AND WELFARE REFORM

Proposed Legislative Changes
February 2, 1994

Child care is critical to the success of welfare reform. It is essential to provide child care support for parents receiving assistance who will be required to participate in education, training and employment. Child care support for the working poor is also critical to "making work pay" and to enable parents to remain in the workforce.

The child care plan under welfare reform seeks to:

- o Increase funding so that low-income families have access to the care they need.
- o Ensure children safe and healthy environments that promote child development.
- o Create a more seamless child care system.

This paper includes three sections: options for the overall structure of child care assistance, building the supply and quality of child care, other related issues.

I. Options for the overall structure of child care assistance

Option A- Build on current structure of child care programs

- o Continue the individual entitlement (AFDC child care and TCC).
- o Significantly expand the At-Risk capped entitlement over a period of years, phasing in by income up to 130 percent of poverty.
- o Maintain and gradually expand the Child Care and Development Block Grant. States will have considerable flexibility in the use of CCDBG dollars for quality and supply building. CCDBG dollars would not be used for welfare recipients (with the possible exception of contracted care).
- o Efforts would be made to ensure greater consistency across programs

Option B- Consolidate child care programs

In this option, the overall approach would be to consolidate child care assistance into two funding streams: one for those parents receiving public assistance and one for those who have completed transitional assistance and/or who are at risk for receiving public assistance. There are at least two variations to such an approach which differ only on how child care is treated for those parents in the WORK program.

Variation 1

- o Establish a "JOBS" child care program which continues the IV-A child care guarantee for people in the transitional assistance program and for people who enter the WORK program.
- o Create a "WORKING FAMILY" child care program which continues the guarantee for up to 12 months of child care assistance when people leave AFDC for private sector jobs (now TCC) and creates a capped entitlement for the low-income working families (consolidating and expanding At-Risk and CCDBG).

Variation 2

- o Establish a "JOBS" child care program which continues the IVA guarantee for people in the transitional assistance program.
- o Create a "WORKING FAMILY" child care program which
 - Creates a new child care guarantee for WORK participants
 - Continues the guarantee for up to 12 months of child care assistance for people who leave AFDC for public sector jobs (now TCC)
 - Creates a capped entitlement for low-income working families (consolidating and expanding AT-Risk and CCDBG)

Discussion: Currently there are four child care funding streams: IV-A child care, TCC, At-Risk and CCDBG. Child care under the IV-A program is guaranteed to welfare recipients who are employed or who participate in State-approved education or training activities. Transitional Child Care (TCC) is guaranteed for a period of up to 12 months after leaving AFDC. Child care for the working poor is funded through the At-Risk Program (capped entitlement) and the Child Care and Development Block Grant.

To date the overall approach to child care under welfare reform has been to build on the current programs while attempting to provide more consistency and coordination. An alternative approach would attempt to consolidate programs and create a more simplified system that distinguishes between child care for those in transitional assistance and child care for working families, while maintaining consistency in administration and quality.

II. Building the Quality and Supply of Child Care

Given the anticipated demand on the child care system, and the critical need to improve the quality of care for at-risk children, the following issues have been raised in consultations with outside groups and during the last discussion of child care and welfare reform. Issues are presented as questions, followed by a recommendation and/or options and a brief discussion.

1. How should health and safety standards be addressed?

Recommendation: Make the requirements for health and safety standards consistent across all programs, using the CCDBG language.

Added option: Add some basic standards such as: 1- That all children in child care settings (or those settings serving more than 2 children) be immunized according to CDC standards. 2- That firearms, abusive substances and poisons be inaccessible to children, and 3- that the State conduct criminal record checks on all subsidized child care providers.

Discussion: Currently providers receiving CCDBG funds must meet standards set by the state for control of infectious diseases (including immunizations), building and physical premise safety and training. Most States use the same standards for CCDBG and IV-A - with the exception of exempt care. While this language requires States to impose limited health and safety standards on legally exempt providers under CCDBG, similar provisions are allowed but not required of exempt providers paid for under Title IV-A. This recommendation would address both the consistency of regulations and the basic quality protection for all children.

We could also add some basic health and safety standards either in the statute. Putting some items into the statute would make a statement regarding the quality of care and would highlight other Administration priorities. Immunizing very young children, for example, is a public health priority; in addition such a provision is included in the Republican plan. Assuring that firearms, abusive substances and poisons are inaccessible to

children is also consistent with other high priorities. Finally, an unpublished IG report indicates that criminal record checks are uncovering significant concerns with the backgrounds of some providers.

2. What are the best ways to direct additional funds towards quality and supply building?

The approach used to direct additional funds to building supply and improving quality depends on the overall structure of the child care programs. Several options are provided below.

- o Allow states to use the Child Care and Development Block Grant to increase quality and supply for the entire child care system.
- o Reauthorize the Child Care Improvement Grants at \$50 million for first year and growing to \$75 million by the year 1999.
- o Create a set aside for quality and supply building in the capped At-Risk program (consistent with levels allowed in CCDBG). 5%?
- o Allow States federal match for administrative costs including for licensing, monitoring, staff training, and recruitment.
- o Set aside a portion of funds or a set amount for projects of national significance that would help stimulate new approaches to quality and supply building. DO
LATER

Discussion: The general recommendation at our last meeting was to allow much greater flexibility in CCDBG for quality and supply building. Consultations with outside groups raised several concerns with such an approach. Concerns were raised that we would be reducing funds for working poor and that the Block grant would eventually be eliminated if it did not provide a significant amount of direct services to children. There was consistent requests to re-establish the Child Care Improvement Funds we lost in 1992, develop a set aside in the at-Risk pool that would mirror CCDBG and allow states to receive FFP for administrative cost.

In a more consolidated system, a set aside could be established for quality and supply building activities. Such funds could address the quality and supply priorities established in CCDBG, would be administered by the state, and could address

the quality issues for the entire child care system. In addition, a one percent set aside could be established for projects of national significance to be administered from the federal level (At current level of funding for all 4 child care programs, one percent would come to \$17-20 million).

3. Should we require consumer education?

Recommendation: Yes, all applicants for federal child care assistance should receive appropriate counseling and information regarding all child care assistance programs and resources available.

Social K

Discussion: There is a growing consensus of opinion on the need for additional consumer education across programs. This will become increasingly important as parents enter the transitional assistance program and need to understand their rights, guarantees and options.

4. Should we include a provision which would give states greater flexibility to ensure children greater continuity in child care (regardless of the employment status on their parents)?

Recommendation: Allow States to include in their IV-A Claims, up to some specified limit, expenditures on contracted services and other payments which might not be allowable under current rules in order to ensure continuity of care for children.

Regs

Discussion: According to regulations, the State must assure that there are procedures in place to ensure that the care provided or claimed for reimbursement is reasonably related to the hours of participation or employment. Although States have the flexibility in determining whether care is "reasonably related", federal policy statements (and auditors) suggest to States that they are at some financial risk if the correlation between hours of care and hours of need is not close enough.

States also have the flexibility to provide up to one month of child care during job search, although this may not cover periods between programs sessions and other times when consistency is important for the child.

Testimony at the welfare hearing revealed that this issue poses serious problems to those struggling to work or participate in training programs and/ or jobs that may fluctuate. All too often children have to go in and out of programs and or parents cannot receive adequate coverage for study periods and other related issues.

5. What proposals should be considered to assure reasonable child care payments? There are at least two sub-questions related to this issue:

A. Should we eliminate or alter the statewide limit?

Maximum amount

Recommendation: Include a provision that would require states to maintain their statewide limit and maintain their payment rates at a level not lower than the statewide limit(s) and payment rates established in their FY 94 IV-A state supportive services plan (unless the cost of care on the market goes down).

Discussion: According to the statute, the states must pay the actual cost of care, the local market rate (which is defined in regulations) or a limit set by the state at no lower than the Dependent Care Disregard.

Many outside groups have indicated a strong interest in eliminating the statewide limit in order to allow parents of at-risk children access to good care. However, there appeared to be little interest in such a proposal at our last meeting on child care.

We recommend an approach that would, at a minimum, hold rates harmless in order to avoid lower rates during the anticipated period of growth and demand on child care services.

inaccurate

B. Should we eliminate the dependent care disregard?

Options:

- o Continue the disregard at current levels.
- o Continue the disregard but raise the levels.
- o Eliminate application of the disregard for children eligible for IV-A paid child care (but retain for other dependents to which it applies).
- o Retain the disregard, but require that families be offered the option of receiving paid care for eligible IV-A children.
- o Require that States supplement the disregard to pay for care for eligible IV-A children so that parents have equal access to the same level of payment as parents using other methods of payment.

Indisregard but allow states to increase? -Cost?

Discussion: Most states use the dependent care disregard to provide child care for AFDC families who have income from work. Many people from outside groups and some state officials believe that we should eliminate the use of the disregard as a mechanism for payment of child care for three reasons. First, the disregard is so low (\$200 a month for children under age 2, \$175 for children at least age 2) that it does not cover the cost of quality child care. Second, families must incur the child care costs "up front."

Third, since the disregard is applied for the purpose of determining a family's income in determining need for and amount of AFDC assistance, the benefits of the method rarely result in a dollar-for-dollar reimbursement for child care services. Rather, the "payment" for care is a factor in the family's AFDC check, which is computed based on the state's "standard of need." Families receiving child care through other IV-A methods of providing care may have access to more care choices due to higher levels of payment available through those methods. Currently, however, States by regulation have the option of supplementing the disregard to provide IV-A child care. Thirteen States use this option. Use of the disregard alone, however, is the most criticized characteristic of IV-A child care.

Continuing the disregard "as is" would continue inequities in providing child care to eligible AFDC children depending on whether the parent was working or in some other activity. Raising the disregard levels not only would potentially raise the number of eligible AFDC families, impacting on the size of the program, but might not resolve inequities in payment levels between groups of AFDC children who are eligible for IV-A child care.

Eliminating application of the disregard to a family with children eligible for IV-A paid child care could prevent the family from becoming eligible for AFDC or cause families now eligible to lose eligibility. Should the family still become eligible or remain eligible, loss of this disregard might lower their AFDC payment, because the family would have more countable income. While potentially assuring that families who do become eligible would have access to better care, this approach would also create an eligibility or payment inequity between those families and families with other dependents to whom the dependent care disregard applies. Also, a family who would lose AFDC as a result of this approach would, as "working poor," lose the benefit of the child care guarantee that is built into IV-A policy--since other child care subsidies such as CCDBG and At-Risk child care do not entail guarantees of services.

Giving an AFDC family the option of the disregard could create a dilemma for them of choosing between eligibility (or AFDC check size) and potentially receiving better and higher quality child care choices through IV-A paid care.

Requiring, rather than allowing, states to supplement the disregard for children who otherwise would be eligible for IV-A paid child care retains the benefit of the calculation in eligibility and size of benefit check. It also potentially offers the family access to more and higher quality child care choices. The approach may not increase Federal and state costs as much as fully paying for care for those children, but it would result in increased direct child care expenses. It would be more administratively difficult, since it requires coordination of AFDC and child care, which in many states are carried out in separate organizations.

III. Related Issues

1. Should we include a proposal to make the Dependent Care Tax Credit refundable?

NO

Recommendation: This proposal should not be used in place of direct funding, only as an add-on if funding is available.

Discussion: The DCTC is not available to many low-income families at this time because it is not refundable. However, even if it is made refundable, it cannot be seen as a child care mechanism for most low-income families because: 1- a family must have the funds to spend for care before receiving the credit (therefore causing a cash flow problem), and 2- the credit is too low to support the cost of care (about 300,000 families gain between \$50 and \$249; about 500,000 gain between \$250 and 499; and about 700,000 gain more than \$500).

2. Should any changes be made to the State match to ensure that child care is provided?

(THIS QUESTION SHOULD BE DISCUSSED WITHIN THE OVERALL WELFARE REFORM PROPOSAL, RATHER THAN IN THE CONTEXT OF CHILD CARE ONLY- IT IS PRESENTED HERE ONLY TO RAISE THE ISSUES AND OPTIONS)

Options:

- o Raise the Federal match rate for child care to be consistent with other parts of the welfare reform proposal.

- o Provide a better match for child care (or eliminate the match in the capped entitlement).
- o Allow States to use State preschool funding and or private sector funds for the match.
- o Allow states to propose a plan for more comprehensive services linked to child care using state dollars and allow such funds to be used for the match.

Discussion: States are having significant problems drawing down AFDC child care TCC and At-Risk child care funds. Currently some 16 states are using CCDBG dollars to help pay for IV-A guaranteed child care. Furthermore, several states have not been able to access their full portion of At-Risk funds due to the match. There is already a proposal to increase the state match to FMAP plus eight percent as part of the overall welfare reform plan; however more relief may be needed for child care.

One proposal is to "liberalize" what States can use for the match. For example, it is estimated that there is some \$670 million being spent by States on preschool programs. Although states can currently use State Preschool dollars to match, few States have used this mechanism. We could simplify the process and be more explicit about the allowable use of such funds, although this would only help a limited number of states because not many states make substantial investments in preschool programs.

Encouraging States to provide comprehensive services to the children in care funded through IVA would increase the quality of care, however, it would be administratively difficult to track health and social service dollars. Furthermore, we would have to ensure that health funds are not double counted.

Eliminating the match for the capped entitlement is the easiest option, but it presents equity and consistency issues and naturally would put more pressure on federal resources. However, if little additional money is provided for the working poor, eliminating the match (making it consistent with CCDBG) and targeting the program on the working poor population, would provide some assistance.

OC

WR-SPECS
C.CARE

DATE 12-13-93

TO:

Name: Bruce Reed

Organization: _____

Telephone Number: 456-6515

Fax Number: 456-7028
⁷³⁹

Number of pages - cover page plus 10 page(s)

NOTE:

FROM:

Name: WENDELL PRIMUS

Organization: HHS - ASPE

Telephone Number: (202) 690-7409

Fax Number: (202) 690-6562

additional health and safety standards adopted by CCDBG is optional in IV-A child care. These include:

- o the prevention and control of infectious diseases (including immunizations)
- o building and physical premises safety; and
- o minimum health and safety training appropriate to the provider setting.

/ good

We propose to require states to extend the health and safety provisions in CCDBG to IV-A child care. This is particularly important since children in families receiving public assistance may be in the most need for health and safety protections. In addition, consideration should be given to the proposal that all child care providers require up-to-date immunizations for children under age 6. Such a requirement is a basic public health protection long recognized by public schools for school age children.

7. Enhancing licensing, monitoring and other program improvements

Issue: How can we encourage better licensing, monitoring and other program improvements?

Proposals: Reauthorize the licensing, monitoring and improvement grants at \$25 million for FY 95, growing to \$50 million by 1999. Consider allowing a federal match for administrative costs incurred for licensing, monitoring, recruitment and training.

Discussion: There are few if any incentives for states to improve licensing, monitoring and other aspects of title IV-A child care. Although there is a discretionary grant program authorized at \$50 million, the \$13 million that was spent on this program in 1991 (and strongly supported by the states) was eliminated in 1992. Furthermore, states are currently not allowed a federal match for expenses for licensing, monitoring and recruitment and training.

8. Coordinated planning, administration and reporting

Issue: How can we promote coordinated planning, administration and reporting across programs?

Proposal: Allow states to select a lead agency that can administer all child care funding streams; require one state plan across programs and facilitate consistent reporting and automation.

Discussion: Currently there is little consistency in planning, reporting and administration across child care programs in many states, although States are encouraged to coordinate programs and describe how they coordinate. The CCDBG and IV-A programs require plans and reporting. However, the requirement for a IV-A State child care plan is established by regulation and is currently tied to the JOBS plan. Furthermore, although the State can choose the lead agency for CCDBG, it must use the welfare agency to administer IV-A child care. Such inconsistency across programs does little to encourage a coordinated system.

9. Demonstrations

Issue: What type of demonstrations could help improve services and inform future policy decisions?

Proposal: Establish demonstration programs that would encourage states to improve and expand the quality of infant care and would provide support for HHS to launch other projects to help improve and coordinate child care services.

Discussion: Currently there are ^{limited} no resources and limited program capacity for HHS to fund programs of national significance, evaluation or technical assistance through the title IVA child care programs. As child care continues to grow, the importance of promoting assessment and demonstration to improve the child care system and to inform policy becomes particularly important.

10. Other important issues for consideration

o Should a refundable tax credit be part of an overall child care package?

o Should performance measures be established for child care? Should better match rates be tied to performance measures?

wh
Confidential- not for distribution

DR/
DRAFT

CHILD CARE AND WELFARE REFORM
Proposed legislative changes

OVERALL APPROACH TO CHILD CARE ASSISTANCE

Child care is critical to the success of welfare reform. It is essential to provide child care support for parents receiving assistance who will be required to participate in education, training and employment. Child care support for the working poor is also pivotal in order to "make work pay" and to enable parents to remain in the workforce.

The child care plan under welfare reform seeks to:

- o Increase funding so that low-income families have access to the care they need.
- o Ensure children safe and healthy environments that promote child development.
- o Create a more consolidated and simplified child care system.

Currently, child care is guaranteed to welfare recipients who are employed or who participate in State-approved education or training activities. Transitional Child Care (TCC) is guaranteed for a period of up to 12 months. Child Care for the working poor is funded through the At-Risk Program (capped entitlement) and the Child Care and Development Block Grant.

The proposal to expand and improve child care assistance includes the following:

1. Continue the individual entitlements (AFDC child care and TCC)
2. Significantly expand the At-Risk capped entitlement over a period of years, phasing in an individual entitlement for the working poor at or below 130 percent of poverty.

(For example, For FY95, there could be x number of dollars in the At Risk program at sufficient levels to cover all people at some percent of poverty; increasing by some percent above poverty each year until all working poor families at or below 130 percent of poverty are covered. Another option is to phase-in the individual entitlement by targeting participants with children at various ages).

3. Maintain and gradually expand the Child Care and Development Block Grant. States will have considerably more flexibility in the use of CCDBG dollars for quality and supply building. States would not be permitted to use CCDBG funds to pay for care guaranteed under the AFDC child care and TCC programs. Efforts will be made to ensure greater consistency across programs in such areas as standards, sliding fee scales and payment rates along with more coordinated planning, reporting and program administration.

ISSUES AND DISCUSSION

The following specific issues have been raised regarding the plan for child care assistance. Issues are presented as questions, followed by a proposal and brief discussion.

1. Definition of the child care guarantee

Issues:

o How do the periods covered in current law fit with the transitional assistance/JOBS and WORK periods suggested in the overall welfare plan? (For example, would TCC begin after JOBS or after WORK?)

o How do we ensure that the states actually make child care available to those covered under the child care guarantee?

o What happens when states do not provide adequate resources to fulfill the individual child care guarantees?

Proposal: Individuals will be entitled to child care assistance under circumstances and for periods no less than those covered in current law.

Discussion: Current law states that the State agency must guarantee child care for children if it is determined necessary for individuals who are working or who are participating in education and training programs (including, but not limited to JOBS program activities), provided the State approves the education or training program and determines the individual is satisfactorily participating in the activity.

A family that loses AFDC due to increased hours of, or income from, employment or because of loss of the earnings disregard is eligible for the child care transition, provided the family has received AFDC in at least three of the six months

immediately preceding the month it became ineligible for AFDC and has a dependent child (or a child who was considered dependent if the child were needy). A family is eligible for transitional child care for twelve months after the last month for which the family was eligible for AFDC.

The proposal will reaffirm the individual guarantee to child care assistance as a prerequisite to participation and for a transitional period of at least one year. The proposal is to ensure that the current guarantees fit with the periods for transitional assistance and post transitional assistance that will emerge in the overall welfare reform package.

In addition, if we want to assure high levels of participation, we must consider ways to encourage states to provide adequate resources to build supply and provide the necessary assistance. If this does not occur, we can expect that states will continue the current practice of using the lack of child care funding as "good cause" for not participating. This will become much more of an issue as we require higher levels of participation, particularly from families with younger children. We cannot expect people to participate in training, education of work unless the guarantee to child care assistance is provided.

2. State Match

Issue: What match rate should be used for child care assistance?

Proposal:

Option I- Improve the state match rate for AFDC child care and TCC to FMAP plus 8. Eliminate the match for the At-Risk program.

OR

Option II- Improve the state match rates for all child care assistance programs to allow increased federal assistance

Discussion: Currently, the entitlement programs use FMAP and the CCDBG has no state match. There appears to be general consensus in the overall welfare reform package to improve the state match (e.g. FMAP plus 8). There is less consensus on whether this should be the match for all child care, or if a better match rate should be used.

Given prior experience, it is clear that the states may not

invest in child care unless there is a dramatic increase in federal support. Without such support, we run the risk of wholesale "exemptions" to participation- if parents cannot be guaranteed child care. Furthermore, we greatly undermine the "make work pay" principle if we do not make significant progress in expanding investments in child care for the working poor.

Issue: How can we facilitate the state's ability to access federal child care dollars?

Proposal: Assure that states can use State pre-k, local dollars and private sector child care funds for low-income families to draw down federal child care resources. Consider allowing states to submit plans on the use of other funds that promote quality and comprehensive services in child care to be used as the match.

Discussion: Although states are currently able to use state prek dollars, local and private funds to draw down federal child care dollars, such an approach has not been encouraged or procedures simplified. More than 30 states now have state preschool programs. Such investments in early childhood programs should be encouraged.

Furthermore, we should continue to encourage local and private investments in child care. However, private funds should only be used to match federal dollars when the funds will be used for eligible children without special stipulations made by the donor. (For example a company could not agree to donate child care funds only if their employees are guaranteed certain low-income child care slots from the state).

3. Payment Rates

Issue: How should payment rates be established? How can we balance a parent's ability to access safe and stable care and the states ability to guarantee child care?

Proposal: Payments for child care would be set at an amount that is the lesser of the actual cost of care or at the local market rate (as determined in accordance with regulations established by the Secretary). [States would be allowed FFP if they reimburse above the local market rate to secure quality care.]

The following options should be considered to ensure adequate payment rates:

o Include a provision that states could not lower current rates to control costs.

o Include a provision which says that within two years of enactment, states would not be allowed to establish a statewide limit on payment which is less than the local market rate.

Discussion: Currently, rates are established as follows:

The IVA program allows states to make payment for the cost of care in an amount that is lesser of:

o the actual cost of care, and
o the dollar amount of the disregard (currently \$175/month, \$200/month for children under age 2) or a higher amount established by the state.

However, FFP is not available for child care costs which are greater than the applicable local market rate (as determined by the Secretary--currently set at the 75th percentile of local market rate).

The At Risk program follows the same rules, except it does not mandate that the payment can be set at the disregard rate.

The CCDBG program states that payment rates must be sufficient to ensure equal access for eligible children to comparable child care services in the state or substate to children whose parents are not eligible.

Our approach is to encourage states to set consistent rates across the various child care programs in order to ensure that all low-income parents have equal access to the same type of care, regardless of the funding stream. Furthermore, we hope to strike a balance between the needs of parents for decent care, and the limited resources available in states.

Although our current policies imply that rates should be at the 75th percentile, according to the statute, states are allowed to establish a statewide limit that can be no lower than the disregard. Studies indicate that low reimbursement rates have a negative impact on both the supply of care and the availability of safe and stable care for children. This is particularly significant since these are the same children who are eligible for Head Start, and therefore are in need of services that promote school readiness.

Burden of proof is on those who want to change current law
Change disregard?

NO

Currently we have very little firm data on what the states are actually paying (as a percentage of the market). However, during recent program reviews, most states indicated that they are paying at the 75th percentile, however ACF staff question the reliability of this data and suspect that rates are lower.

We do know that most states are reimbursing care above the disregard level and have made progress in moving towards the 75th percentile. However, all states have not reached this goal. Furthermore, the pending welfare reform proposals could have the effect of significantly lowering rates (and affecting parental access to adequate care) if statewide limits are lowered.

4. Payment Mechanism

Issue: Should we continue to allow states to use the disregard as a sole method of payment for working AFDC families?

Proposal: States could continue to use the disregard as a mechanism for payment, however, parents would be offered a second option and would have access to the same level of assistance as provided under other methods of payment.

Discussion: According to current law, a state agency may:

- o Provide care directly,
- o Arrange for care through providers by purchase of service contracts or vouchers,
- o provide cash or vouchers in advance to the families,
- o reimburse a family, or
- o adopt other arrangements the agency deems appropriate. (This would include the disregard)

As part of the provision that allows states to make other arrangements it deems appropriate, most states use the disregard as a method of payment. Some states use the disregard as the sole method of providing care for AFDC families who are working. There is considerable question as to whether this allows AFDC working families equal access to care that they would have received through direct assistance.

4. Eligibility for the At Risk Program

Issue: Should low-income parents in training or education be eligible for the At-Risk Program?

Proposal: States can allow low-income parents in training or

NO
CHANGE
NECESS.
↓
WORK
DISINGENUOUS?

in education to be eligible for the At-Risk program if the states determine that such assistance will reduce the likelihood of becoming eligible for AFDC.

Discussion: Current law restricts the At-Risk program to working parents. If we are trying to encourage people to pursue continued education and trying to avoid welfare, we need to ensure that child care is provided. Furthermore, under the current system, when working parents are involved in training, the state must use two different funding sources to cover child care. For example, a state may use At-Risk child care to cover the work hours, but would have to find a second source (perhaps CCDBG) to cover the hours in training. This causes an undue burden on the states.

?
STATE
FLEX.

5. Linkages to Head Start and other programs

Issue: How can we ensure linkages between child care and Head Start and other early childhood programs?

Proposal: Add a provision to encourage states to use a portion of their title IV-A child care funds to provide contracts and grants to purchase extended day services and to guarantee continuity of care for children during the program year.

Little
or big?

BRADLEY
OK?

COST
IMPLICATIONS?

Discussion: Over the past few years ACF has attempted to encourage "wrap around" policies which promote the use of IVA and TCC child care for families using Head Start and other programs. Many programs have been discouraged from accessing these funds due to policies that restrict reimbursement to attendance, do not allow continuity of care as parents go in and out of programs or in and out of job search, and limit reimbursement rates.

6. Standards

Issue: How can we help ensure health and safety standards for children in child care.

Proposal: Child care provided under the IV-A programs must meet the health and safety requirements established in CCDBG. In addition, consideration should be given to requiring parents with children under six to show evidence to the provider that their child is immunized.

?

[Handwritten signature]

Discussion: Currently, the IV-A programs will reimburse States only for those programs that meet applicable standards of State and local law. The States' application of any