cc Cynthia
Andrea

November 18, 1997

MEMORANDUM FOR DISTRIBUTION

FROM: ELENA KAGAN
DEPUTY ASSISTANT TO THE PRESIDENT
FOR DOMESTIC POLICY

RE: DEPUTIES MEETING ON CHILD CARE INITIATIVE

As you know, the President announced that he will unveil a child care initiative in his 1998 State of the Union Address. The Domestic Policy Council has been leading a policy development process, with significant input from various federal agencies and White House offices, to develop policy options on child care for the President's consideration.

The purpose of today's Deputies-level meeting is to discuss various policy options for the child care initiative that have been developed over the past months. At the meeting, representatives from the Departments of the Treasury, Health and Human Services, and Education will make brief presentations of several proposals, with the balance of the meeting reserved for discussion.

Attached for your review please find several documents: 1) an overview paper which outlines current federal investment in child care, proposes goals for a new child care initiative, and summarizes the policy options for discussion at the Deputies meeting, and 2) the policy proposals developed by various agencies (which are summarized in the overview paper).

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CHILD CARE INITIATIVE

Overview of Current Federal Investment in Child Care

The Federal government invests in child care in a variety of ways. The two principal mechanisms designed to help parents pay for child care are the Child and Dependent Care Tax Credit (CDCTC) and the Child Care and Development Block Grant (CCDBG):

- **Child and Dependent Care Tax Credit (CDCTC).** The CDCTC provides tax relief to taxpayers who pay for the care of a child under 13 or a disabled dependent or spouse in order to work. The non-refundable credit is equal to a percentage of the taxpayer's employment-related expenditures for child or dependent care, with the amount of the credit rate depending on the taxpayer's adjusted gross income. The Federal government spent approximately $2.6 billion on the CDCTC in 1997.

- **Child Care and Development Block Grant (CCDBG).** The CCDBG is the primary Federal subsidy program devoted to child care, enabling low-income parents and parents receiving Temporary Assistance for Needy Families (TANF) to work or participate in the educational or training programs they need in order to work. Welfare reform increased federal funding for child care by approximately $4 billion over five years (FY 1997 - FY 2002), and it consolidated four child care subsidy programs into the CCDBG. The funds are distributed primarily by formula to the States to operate direct child care subsidy programs and improve the quality and availability of care. The Federal government spent $2.9 billion in direct child care subsidies in FY 1997, serving a little more than one million children.

In addition, the $500 per-child tax credit in the Balanced Budget Act can provide significant additional support to help parents meet child care costs.

In addition to these programs, the federal government runs a food program for child and adult day care centers through the USDA and invests in after-school programs for school-age children. The Child and Adult Care Food Program (CACFP) provided meals to approximately 2.5 million children in approximately 35,000 child care centers (including after-school centers) in 1997. The General Accounting Office identified the CACFP as one of the most effective vehicles for reaching family child care providers and enhancing care in home-based settings. After-school programs are supported through a variety of initiatives, including the Department of Education's 21st Century Learning Centers, funded at $40 million for FY 1998, which will provide after-school program opportunities in public schools for a million children.

Goals of New Child Care Initiative

The goals for the Child Care Initiative will drive decisions on how to invest limited additional resources. Agency representatives generally have argued for a child care initiative addressing each of the following goals:

1. Helping more parents afford child care
2. Assuring safety and quality in child care
3. Making child care more available

These goals and their prioritization of course remain open for discussion and debate. A child care initiative could decide to focus on one or two of these goals, rather than all three.

Policy Options

The remainder of this memo outlines policy options relating to the goals of affordability, safety and quality, and availability. Some of the options address more than one of these goals, but are placed in a single category for organizational purposes.

I. AFFORDABILITY

In order to help more parents afford child care, the Administration could: 1) expand the Child Care and Development Block Grant and/or 2) modify the Child and Dependent Care Tax Credit. The pros and cons of building on one or both of these mechanisms are discussed in the attached papers prepared by the Departments of the Treasury and HHS. Information on the way the two mechanisms assist low-income families appears below, followed by policy options relating to each.

	CCDBG	**CDCTC**
Current Federal funding level	$2.9 billion (FY 1997)	$2.6 billion (FY 1998)
Eligibility criteria	Families (TANF and non-TANF) with children under 13 who need child care and earn less than 85% of state median income	Taxpayers who pay for at least 50% of the care of a child under 13 and/or a disabled dependent or spouse in order to work.
% of overall dollars in program going to families with AGI below 200% of poverty	100%	19%

	CCDBG	CDCTC
% of families with AGI below 200% of poverty and children under 13 who receive assistance under program	12% (of potentially eligible families)	13%
Amount of federal assistance	$2,200 (average, annual federal subsidy per-child)	$494 (average tax relief per family with AGI below 200% of poverty)

1. **<u>Increase Federal Investment in the Child Care and Development Block Grant</u>**

There are three options for additional investment in the Child Care and Development Block Grant:

OPTION ONE: Increasing CCDBG funding based on current formula.

OPTION TWO: Increasing CCDBG funding and working with states to set specified benchmarks or performance standards for use of additional funding (e.g. to expand eligibility, make co-payments more affordable, improve reimbursement rates).

OPTION THREE: Increasing CCDBG funding and requiring that funds are targeted to reach families of a specified income level or to pay child care costs for children of a specified age level.

For each of these options, using HHS estimates, for every $100 million of annual additional investment in the CCDBG, the child care costs of at least an additional 35,000 children from families with incomes below 200% of poverty will be subsidized:

Increased Investment in CCDBG	Number of Additional Children Reached
$100 million/year or more than $500 million/5 years	Approximately 35,000/year
$300 million/year or more than $1.5 billion/5 years	Approximately 105,000/year
$500 million/year or more than $2.5 billion/5 years	Approximately 175,000/year

Increased Investment in CCDBG	Number of Additional Children Reached
$700 million/year or more than $3.5 billion/5 years	Approximately 250,000/year
$1 billion/year or more than $5 billion/5 years	Approximately 350,000/year

2. Modify the Child and Dependent Care Tax Credit

The Child and Dependent Care Tax Credit is currently a non-refundable credit that may be claimed by taxpayers who pay for the care of a qualifying individual (children under 13 years old and/or disabled dependents or spouses) in order to work. The credit is equal to a percentage of the taxpayer's employment-related expenditures for child or dependent care. The amount of the credit rate depends on the taxpayer's adjusted gross income (AGI). The credit rate is phased down from 30% (for taxpayers with AGI of $10,000 or less) to 20% (for taxpayers with adjusted gross income above $28,000). The maximum amounts of qualifying expenses for which credits may be claimed are $2,400 for one qualifying individual and $4,800 for two or more qualifying individuals. Thus, the maximum credit ranges from $480 to $720 for a taxpayer with one qualifying individual and $960 to $1,440 for a taxpayer with two or more qualifying individuals.

Four options are proposed for discussion:

OPTION ONE: Beginning in 1999, taxpayers would become eligible for the 30 percent credit rate if their income is $18,000 or less. The credit rate would be phased down from 30% to 20% for AGI between $18,000 and $45,000. In subsequent years, the starting point for the phase down range would be indexed for inflation, as would the maximum amounts of qualifying child and dependent care expenses that could be claimed.

> **IMPACT AND COST**: The Department of the Treasury estimates that this option would affect 2.1 million taxpayers with AGI below $45,000, providing an average tax cut increase of $74. It would cost approximately $2.4 billion over five years (see Treasury paper for fuller discussion).

OPTION TWO: Beginning in 1999, taxpayers would become eligible for a 50% credit rate if their income is $18,000 or less. The credit rate would be phased-down from 50% to 20% for AGI between $18,000 and $47,000. In subsequent years, the starting point for the phase down range would be indexed for inflation, as would the maximum amounts of qualifying child and dependent care expenses that can be claimed.

IMPACT AND COST: The Department of the Treasury estimates that this option would affect 2.2 million taxpayers with AGI below $47,000, providing an average tax cut increase of $233. It would cost approximately $4.6 billion over five years (see Treasury paper for fuller discussion).

OPTION THREE: The CDCTC would be made refundable in 1999, thus allowing individuals who do not have an income tax liability to claim the credit.

IMPACT AND COST: The Department of the Treasury estimates that this option would affect 1.3 million families, mostly with AGI between 160-200% of poverty, providing an annual tax cut increase or refund of $407. It would cost approximately $6.9 billion over five years (see Treasury paper for fuller discussion).

OPTION FOUR: In addition to making the CDCTC refundable, the phase-down would be adjusted as described in Option One.

IMPACT AND COST: The Department of the Treasury estimates that this option would affect 3.4 million families, providing an average tax cut increase or refund of $347. It would cost would cost approximately $11 billion over five years (see Treasury paper for fuller discussion).

II. SAFETY AND QUALITY

Four proposals to ensure safety and quality in child care will be presented for discussion: increasing federal funds targeted to quality improvements, either by increasing funding for the CCDBG (with its set-aside for quality improvements) or by establishing a separate quality fund; increasing federal investment in education and training for child care providers; and establishing a new fund for activities related to consumer education, technology development and utilization, and data and research.

1. Increase Federal Funds Targeted to Quality Improvements

OPTION ONE: Increase federal funding in the CCDBG and thereby increase required 4% set-aside for quality improvements.

IMPACT AND COST: For every $100 million of annual, additional investment in the CCDBG, States would receive an additional $4 million in flexible funding for quality improvements:

Additional Annual Investment in CCDBG	Increase in Quality Set-Aside Per Year (4% of increase)
$100 million	$4 million
$300 million	$12 million
$500 million	$20 million
$700 million	$28 million
$1 billion	$40 million

OPTION TWO: Establish a fund distributed to the States according to the CCDBG formula to provide grants to communities to improve safety, quality, and learning for young children in child care (see HHS paper for fuller discussion). This fund would differ from the 4% set-aside for quality in the CCDBG because it would be designated for use by communities, rather than by States, and because it would be targeted for to infants and toddlers.

> **IMPACT AND COST**: This fund would build on the North Carolina model of community grants known as "Smart Start." HHS recommends a funding level of $800 million per year or $4 billion over 5 years to reach 1,000 communities; still needed is a range of cost options and further impact analyses.

2. **Increase Federal Investment in Provider Education and Training**

OPTION: Build on the Child Care Provider Scholarship Fund announced by the President at the White House Conference on Child Care, in which states provide scholarship funds to students working toward a state or national credential, certificate or Associate, B.A. or B.S. degree. Child care workers, who must commit to remaining in the field for at least one year for each year of assistance received, will earn increased compensation or bonuses when they complete their course work, provided by some combination of the scholarship fund and the worker's employer.

> **IMPACT AND COST**: For every $50 million of annual federal investment in the Child Care Provider Scholarship Fund (matched with one State or Community dollar for every four federal dollars), up to 50,000 child care providers will receive scholarship assistance.

Federal Investment in Child Care Provider Fund	Number of Scholarships Available
$50 million/year or $250 million/5 years	50,000/year
$100 million/year or $500 million/5 years	100,000/year
$150 million/year or $750 million/5 years	150,000/year
$200 million/year or $1 billion/5 years	200,000/year

3. <u>Increase Federal Investment in Consumer Education, Research, and Technology</u>

The CCDBG currently contains a 4% set-aside for quality activities, under which consumer education is an allowable, but not a required expense. HHS reports that although some States are investing some of their quality set-aside in consumer education efforts, these efforts are limited and scattershot. Further, HHS reports that no funds are presently targeted to child care data and research.

OPTION: Establish a new fund for activities related to consumer education, technology development and utilization, and data and research. Funds would support research and demonstration projects, a National Center on Child Care Statistics, a national child care hotline, and a consumer education campaign to help parents select safe and healthy care for their children (see HHS paper for fuller discussion).

> **IMPACT AND COST**: HHS recommends federal investment of $50 million per year; still needed is a range of cost options and further impact analyses.

III. AVAILABILITY

Two options to make child care more available will be presented for consideration: 1) investing in school-age care opportunities, and 2) providing incentives to businesses to create and/or run child care programs.

1. <u>Invest in School-Age Care Opportunities</u>

Three options will be presented for consideration:

OPTION ONE: Expand the existing 21st Century Community Learning Centers program to provide start-up funds to school-community partnerships to establish before- and after-school programs for school-age children at public schools. This expanded program would target additional funding to high-need communities (using eligibility requirements for the President's Title V Teacher Recruitment proposal), further concentrate on providing enriching after-school programming for children, and require an increased local match to ensure that programs become self-sustaining after receiving start-up funding (see Department of Education paper for fuller discussion).

IMPACT AND COST: The Department of Education recommends annual federal funding of up to $400 million. Using the Department of Education assumption of a one-to-one local match and an average per-child cost of an after-school program as $800/year, the Department estimates that this level of funding would enable the program to serve up to 1 million children. Using these estimates, other levels of federal investment would yield:

Federal Investment	Approximate Number of Children Served
$100 million	250,000
$400 million	1 million
$680 million	1.7 million (which would double the current level of participation in after-school programs)
$800 million	2 million

OPTION TWO: Establish a fund to support after-school program opportunities to be distributed to the States according to the CCDBG formula, with matching and benchmark-setting requirements. Funds would go through States directly to communities, with 50% targeted to areas with high concentrations of poverty. These funds would enable communities to create new programs and link already-existing community resources such as schools, libraries, parks, and recreation centers to build the supply of school-age care and improve quality. The proposal is modeled after the Making the Most of Out of School Time (MOST) projects (see HHS paper for fuller discussion).

IMPACT AND COST: HHS recommends an annual investment of $300 million; still needed is per-child cost and a range of investment options and further impact analyses.

OPTION THREE: Increase federal funding in the CCDBG and thereby increase CCDBG dollars targeted to support after-school opportunities. HHS estimates that approximately one-third of children currently served by the CCDBG are school-age.

IMPACT AND COST: HHS estimates a general increase in the CCDBG will proportionately increase school-age slots by approximately 30%.

2. **Provide Tax Incentive to Businesses**

OPTION: Senator Kohl has introduced legislation to provide a tax credit to businesses that incur costs related to providing child care services to their employees. Qualifying expenses would include those a business incurs to build or expand a child care facility, operate an existing facility, train child care workers, reserve slots at a child care facility for employees, or provide child care resource and referral services to employees. The credit would cover 50% of qualified costs incurred, but could not exceed $150,000 per year.

IMPACT AND COST: The Department of the Treasury advises that low-wage workers are generally less likely to receive employer-provided fringe benefits than middle- and higher-wage workers and that the proposed credit is therefore likely to benefit disproportionately middle- and higher-wage workers. The Joint Committee on Taxation has estimated the Kohl proposal to cost $2.6 billion over five years.

HHS submission

Affordability

Federal child care assistance in FY 1997 provides $2.9 billion in direct subsidies, serving a little more than one million children. However, even with this substantial investment, only 10% of eligible children receive assistance. Due to the high demand for assistance, States often set eligibility levels below the allowable income level established in the Federal statute. For example, although a State can allow families up to 85% of State Median Income to receive assistance, many States cut off eligibility at 130% of the Federal poverty level. Therefore, many working families are not eligible for direct assistance and are also unable to take advantage of the Dependent Care Tax Credit.

OPTION 1: Increase CCDBG funding without benchmarking or targeting.

Interaction with Current Program: The proposal is simply an increase in the CCDBG.

Cost Estimate: The Secretary has recommended a $700 million increase in the CCDBG to expand the number of children served with subsidies. These funds would be matched at the FMAP (which averages around 56%).

Impact Analysis: An increase of $700 million in CCDBG would provide at least 250,000 child care slots in FY 99.

Pros:

- Gives States the flexibility to spend the funds as best fits its needs.
- Enables the States to serve more working families with subsidy through the CCDBG.

Cons:

- May not be targeted enough to reach the working poor population in need of child care assistance.

OPTION 2: Increase the Child Care and Development Block Grant (CCDBG) funding and require States to set benchmarks to make care more affordable and accessible for low-income working families.

Interaction with Current Program: New funding will be provided through the CCDBG, although in order to access additional dollars, each State would have to set benchmarks, based on the State's individual situation. The benchmarks would describe how States will expand eligibility to serve more working families, make copayments more affordable, and improve reimbursement rates. For instance, if a State currently sets eligibility at 130% of the Federal poverty level, they may expand eligibility to 135% of poverty.

Cost Estimate: See Option 1 above.

Impact Analysis: An increase of $700 million in CCDBG would provide at least 250,000 child care slots in FY 99. Requiring States to set benchmarks will ensure that funds are targeted to low-income working families.

Pros:
- Retains State flexibility to use funds for the particular child care needs of their populations.
- Targets low-income working families without adding regulatory or administrative burden on the States.
- Focuses on results by requiring States to set and report on benchmarks.

Cons:
- May have to provide technical assistance to States in order for them to set appropriate and enforceable benchmarks.
- May not be sufficiently targeted to assure that funds reach specific age groups or specified income levels. However, all funds would still reach low income families that are eligible for CCDBG.

OPTION 3: Increase CCDBG funding, but require that the funds be targeted.

OPTION 3A: Target the CCDBG increase to reach families of a certain income level.

Interaction with current program: Funding would be provided through the CCDBG. Every State would be required; regardless of its individual situation, to assure that the additional money goes to families at a specified income level.

Cost Estimate: See Option 1 above.

Impact Analysis: This option would assure that additional funds are targeted to working poor families, rather than those families who are moving from welfare to work.

Pros:
- Provides a mechanism to target funds to more working poor families.

Cons:
- Limits the flexibility that States have under CCDBG to assess their own needs and allocate funds accordingly.
- Restricts States' ability to use the funds to move families from welfare to work.
- Recreates the type of administrative complications that the reforms in the Personal Responsibility Act were designed to eliminate.
- May not achieve its goal due to a substitution effect. For example, States may move the working families whom they already serve under this targeted funding and use the existing funding on other families, leading to no net increase in the number of working families served.

OPTION 3B: Target the CCDBG increase to reach children of a certain age.

Interaction with Current Program: Funding would be provided through the CCDBG. Every State would be required, regardless of its individual situation, to assure that the additional money goes to children in a specified age group.

Cost Estimate: See Option 1 above.

Impact Analysis: This option provides a mechanism to reach a specific targeted population based on the age of the children in the family. For instance, only a third of the children currently served are school age. Therefore, a general increase in CCDBG will proportionately only increase school age slots by over 30%. Targeting could increase the number and proportion of school age children affected.

Pros:
- Provides a mechanism to attempt to target funds to children in a certain age group.

Cons:

- May not achieve its goal due to a substitution effect. For example, States may move the children of a targeted age whom they already serve under this targeted funding and use the existing funding on other children, leading to no net increase in the number of children served from the specified age group.
- May restrict States' ability to serve all children in families with children of different ages (one child may be eligible while a "non-target" age child may not be eligible for the subsidy).
- Takes away the flexibility that States have under CCDBG to assess their own needs and allocate funds accordingly.
- Restricts States' ability to use the funds to move families from welfare to work, by constraining States' priorities.
- Recreates the type of administrative complications that the reforms in the Personal Responsibility Act were designed to eliminate.

Treasury Submission

Modifying the Child and Dependent Care Tax Credit

Current Law

A taxpayer may be eligible for a nonrefundable tax credit if he or she pays for the care of a qualifying individual in order to work. Qualifying individuals include children under the age of 13 and disabled dependents or spouses. The credit is equal to a percentage of the taxpayer's employment-related expenditures for child or dependent care.

The amount of the credit rate depends on the taxpayer's adjusted gross income. The credit rate is phased-down from 30 percent (for taxpayers with adjusted gross income of $10,000 or less) to 20 percent (for taxpayers with adjusted gross income above $28,000). The maximum amounts of qualifying expenses for which credits can be claimed are limited to $2,400 for one qualifying individual and $4,800 for two or more qualifying individuals. Thus, the maximum credit ranges from $480 to $720 for a taxpayer with one qualifying individual and $960 to $1,440 for a taxpayer with two or more qualifying individuals.

Employees may exclude from their taxable income (and their earnings for social security tax purposes) amounts their employers provide as child and dependent care benefits, including cafeteria plan contributions. The exclusion is limited to $5,000 of child care expenses per year and does not vary with the number of qualifying dependents. The amount of the expenses eligible for the child and dependent care credit is reduced dollar for dollar by the amount of excludable expenses.

Options to Increase the Credit Amounts and/or to Extend Eligibility

Option 1: Beginning in 1999, taxpayers would become eligible for the 30 percent credit rate if their income is $18,000 or less. The credit rate would be phased-down from 30 percent to 20 percent for AGI between $18,000 and $45,000. In subsequent years, the starting point for the phase-down range is indexed for inflation, as are the maximum amounts of qualifying child and dependent care expenses that can be claimed for the credit or the employer exclusion.

Option 2: Beginning in 1999, taxpayers would become eligible for a 50 percent credit rate if their income is $18,000 or less. The credit rate would be phased-down from 50 percent to 20 percent for AGI between $18,000 and $47,000. In subsequent years, the starting point for the phase-down range is indexed for inflation, as are the maximum amounts of qualifying child and dependent care expenses that can be claimed for the credit or the employer exclusion.

Option 3: The child and dependent care tax credit would be made refundable in 1999, thus allowing individuals who do not have an income tax liability to claim the credit.

Option 4: In addition to making the child and dependent care tax credit refundable, the phase-down range would be adjusted as described under option 1.

Impact Analysis and Cost

Cost and Number of Families Affected by Various Options									
	Cost in Fiscal Year (millions)							Number of Taxpayers with Cut (1999)	Average Tax Cut (1999)
	1999	2000	2001	2002	2003	1999-2003	1999-2007		
Option 1	39	192	204	239	238	673	2,446	2.1 million	$74
Option 2	132	613	543	550	555	1,838	4,638	2.2 million	$223
Option 3	150	698	636	683	747	2,167	6,880	1.3 million	$409
Option 4	215	1,014	965	1,068	1,205	3,261	11,078	3.4 million	$234

Options 1 and 2: Increase Amount of Child and Dependent Care Tax Credit

Pros

- The child and dependent care tax credit parameters have not been adjusted for inflation since 1982. Options 1 and 2 essentially adjust the child and dependent care credit for inflation since 1982.
  - -- In 1982, nearly 6 percent of taxpayers who benefited from the child and dependent care tax credit were eligible for the maximum credit rate of 30 percent.
  - -- But in 1999, very few taxpayers will qualify for the 30 percent rate because the income threshold ($10,000) has not been increased since 1982 Options 1 and 2 increase the threshold from $10,000 to $18,000, the level it would be in 1999 if the parameters had been indexed in 1982.
- Through the tax system, assistance can be provided directly to parents for their child care needs with low administrative costs.
- Working parents can receive the credit by filing a tax return and avoid the hassles and stigma associated with applying for assistance through welfare offices.

Cons

- The child and dependent care tax credit is not well targeted to those with low income.

-- Under current law, about 1 percent of the child and dependent care tax credit is received by families with money income in the bottom quintile and children under 13. About 32 percent of the credit is received by those with income in the top quintile.

-- Taxpayers, who also claim the $500 child credit, will not benefit from an increase in the child and dependent care tax credit unless their income is at least between 130 and 160 percent of poverty.

- The IRS cannot easily verify child care expenditures. In 1988, about one-third of the child and dependent care tax credit amounts were overclaimed on tax returns. While compliance efforts since 1988 may have reduced this error rate, these initiatives have not significantly improved IRS's ability to verify expenditures.

<u>Options 3 and 4: Expand Eligibility for the Credit by Making it Refundable</u>

<u>Pros</u>

- Low-income taxpayers will not benefit from an expansion of the child and dependent care tax credit unless the credit is made refundable.

<u>Cons</u>

- Many beneficiaries of a refundable child and dependent care tax credit already are able to use the EITC to fully offset their income and payroll taxes. Hence, critics of refundability will be quick to label a new refundable child and dependent care tax credit as "welfare" and vigorously fight the proposal.

- In the past, efforts to create new refundable credits (including recent experience with the child credit) have led to increased scrutiny of the EITC and its compliance problems. Unfortunately, the EITC will remain vulnerable to such attacks until the most recent set of compliance initiatives can be fully implemented, and studies show an improvement in compliance.

- The child and dependent care tax credit will generally not be available to most taxpayers until the end of the year. But low-income parents, particularly those who are just entering the workforce, need assistance in "real-time."

HHS Submission

The Supply and Quality of Care for Young Children

Currently, activities to improve safety, health, and learning in child care are funded by States under the required 4 percent minimum set-aside for such activities in the Child Care and Development Block Grant (CCDBG). States fund a variety of quality activities including training, licensing improvements, and resource and referral services. Since there is a tremendous need for direct assistance, most States spend only the minimum set-aside on quality activities.

OPTION 1: Increase CCDBG funding thereby increasing the amount of money that is allocated to quality via the 4% minimum set-aside.

Interaction with the Current Program: This proposal is simply an increase in the CCDBG.

Cost Estimate:
The funds for quality activities would increase by 4% of the total CCDBG increase. The Secretary proposes a $700 million subsidy increase.

Impact Analysis: A CCDBG increase would result in the States having more money to direct toward quality activities. The Secretary's proposal would result in $28 million more for quality. However, the net increase in quality funds would be offset by the fact that the increased subsidies would result in more children in child care in need of quality enhancements.

Pros:

- Improves affordability
- Potentially increases supply
- Devotes more funding to State-identified quality and supply issues.

Cons:

- Is not primarily a quality strategy; 96% of the new funds do not target quality at all, but 100% of the funds are applied to one of the three goals of quality, affordability, and supply.
- Does not target young children, especially infants and toddlers, who have the most critical health and safety concerns in child care.
- Does not allow the Administration to use its funds to leverage additional public and private resources to increase the total investments in quality.
- Does not pomote decision making at the community level.

OPTION 2: Establish a fund distributed to the States according to the Child Care and Development Block Grant formula to provide grants to communities to improve safety, health, and learning for young children in child care. The funds would specifically target young children, with a focus on infants and toddlers who are the most vulnerable children in care. States would be required to match the Federal money and would have to set benchmarks to measure their outcomes. At least 85% of funds would go directly to communities and 50% would be targeted to areas with high concentrations of poverty. This model is based on the Smart Start program in North Carolina which has allowed many counties to improve the supply and quality of care for young children. With these funds communities might choose to establish family child care networks, promote accreditation, help providers meet health and safety standards, and promote health and parent education in child care.

Interaction with the Current Program: The vast majority of the CCDBG funding currently goes toward affordability, most often in the form of vouchers. The quality money is extremely limited and typically goes to general activities funded by the States. Little or no money is administered for these purposes directly by communities. The new funding would not replace the quality set-aside, but would give communities a role in building local supply.

Cost Estimate:
The Secretary has recommended a $800 million dollar increase in the CCDBG to increase the health, safety and learning environment of child care programs.

Impact Analysis:
The proposal recognizes that the real issue in child care is whether *each community* has an adequate supply of quality care. These funds would improve the safety, health and learning of young children in child care by allowing up to 1000 communities to craft solutions that meet their specific needs.

North Carolina's Smart Start program demonstrates the impact that the community grants would have. One Smart Start county has expanded supply by 3,578 spaces in licensed programs. In another, every child care center and 50 percent of the family child care programs are participating Smart Start programs to improve the quality of care, which affects 1,234 young children in the county. In North Carolina's most populous county, 7000 children were enrolled in programs that received enhancements through the county's Smart Start grant. In other North Carolina communities, 1400 children received health and developmental screenings as a result of the Smart Start grants.

Pros:
- Gives flexibility to communities to tailor funds to their specific needs.
- Focuses on results by requiring communities to meet

benchmarks and report on outcomes.

- Targets young children, especially infants and toddlers, who are the most vulnerable children in care.
- Allows communities to build supply and fill gaps in their system of care.

- Meets the President's challenge to find a way to replicate successful child care models across the country.
- Uses Federal money to leverage State and local public and private sector funds.

Cons:

- Limits State flexibility to determine the use of funds.
- Targets only one age group.

HHS Submission

Child Care Provider Education and Training

Child care provider training is one of a number of allowable activities under the Child Care and Development Block Grant set-aside for quality activities, but only a small portion of the set-aside is spent for that purpose. The funds that do go to training are often spread very thin and cover only basic workshops which don't lead to credentials or degrees.

OPTION 1: Establish the Child Care Provider Scholarship Fund announced by the President at the White House Conference. States will administer scholarship funds to providers for either pre-service on in-service coursework as part of a degree or credential program. The provider and the sponsoring child care program must also bear a portion of the cost. The provider, who will receive increased compensation after the coursework is complete, must commit to remaining in the field for at least one year for each year of assistance received.

Interaction with the Current Program: These funds are targeted specifically to providers who are enrolled in a degree or certificate program, unlike current expenditures for training. In addition, these scholarships are tied to an increase in compensation.

Cost Estimate:
The Secretary's proposal recommends an investment of $150 million in scholarship funds to provide training and support.

Impact Analysis:
The scholarships will reach approximately 150,000 providers and increase the quality and supply of child care for about 1.5 million children.

Pros:

- Targets training of providers, which is a proven effective approach to build warm and responsive interactions between the provider and the child. These interactions, while often the most difficult aspect of quality to measure, have been found in recent studies to be one of the most powerful predictors of children's healthy development in child care.
- Requires an investment from several stakeholders including the provider and the sponsoring child care program.
- Impacts potentially scores of children with each scholarship, because each provider reaches many children.

Cons:

- Cannot guarantee that the recipient will stay in the field beyond the one year commitment. However, child care workers have an average turnover of over 30%, but programs like T.E.A.C.H. in North Carolina have shown that education reduces turnover. In North Carolina, staff turnover is only 10% for people who participate in the program, compared to 42% overall.

HHS Submission

National Leadership for Consumer Education, Research, and Technology

The Child Care and Development Block Grant (CCDBG) currently contains a 4% set-aside for quality activities, under which consumer education is an allowable cost. However, quality set-aside funds only meet a small portion of the need for consumer education. In addition, the law provides a small set-aside for technical assistance, which amounts to about $8 million per year.

OPTION 1: Establish a new fund for activities related to consumer education, technology development and utilization, and data and research to help redefine the future of child care in America. The fund would support a national child care hotline and a consumer education campaign to help parents select safe and healthy care for their children, a project to increase the use of distance learning technologies for rural and home-based providers, and a National Center on Child Care Statistics, along with research and demonstration projects.

Interaction with the Current Program: These funds will go to initiatives which will lead the field of child care into the twenty first century. Although some States are investing some of their quality set-aside in consumer education, these limited efforts are scattered around the country and provide inadequate coverage even within States. No funds are targeted to child care data and research on a national level. A few States and academic institutions are undertaking research, which primarily consists of studies with small sample sizes. Currently there is no framework to provide leadership to coordinate consumer education, technology development and utilization, and research of a national scope. The fund for consumer education, research and technology will fill that gap.

Cost Estimate: The various components of this effort total $50 million.

Impact Analysis: The Secretary's proposal provides sufficient funds for a consumer education initiative, which will reach millions of households with information for parents on how to find and select safe, healthy care. The quality of care for thousands of children, particularly rural children, will be enhanced by the training of providers, made possible by distance learning technologies. The National Center for Child Care Statistics and competitive research and demonstration projects will help policymakers, community leaders, and program developers find solutions to the lack of safe, healthy, affordable, and accessible care.

Pros:
- Targets funds directly to consumer education to assist parents in choosing care that will protect the health and safety of their children.
- Will potentially build the supply of quality care by

creating demand for quality care

- Provides funds specifically for data and research to help policy makers and community leaders better understand how to build the supply of affordable, quality care.

Cons:

- Does not directly increase the supply of care
- Does not directly make care more affordable

Education Submission

Expanding School-Age Care Through 21st Century Community Learning Centers

Description of Policy Option

The Department of Education proposes to expand the existing 21st Century Community Learning Centers program to provide start-up funds to school-community partnerships to establish before- and after-school programs for school-age children at public schools. The proposal responds to surveys showing strong parental support for keeping schools open during non-school hours and complements existing and proposed funding from HHS by enabling communities with under-utilized school facilities to apply for 21st Century funding and enabling other communities to apply for funding from HHS. The expanded 21st Century funding would provide up to 1 million school children per year with safe, drug-free, low-cost, and accessible programming combining learning, enrichment and recreational activities.

Description of Current Programs and Interaction of Proposal with Current Programs

This proposal would expand the existing 21st Century Community Learning Centers program that was sponsored by Senator Jeffords in 1994. The program has won strong bipartisan support in Congress, which increased its funding from $1 million in FY97 to $40 million in FY98 with particularly strong support from Rep. Nita Lowey. The program was designed to expand the use of school facilities during non-school hours.

In expanding the current program, the Department proposes to better target funding to high-need communities, further focus it on enriching after-school programming for children, and require an increasing local match to make sure programs become self-sustaining after receiving start-up funding. As now, schools would be required to partner with community, business, or educational organizations and programming could be provided by these partners in the schools.

Schools can currently use Title I, Safe and Drug-Free Schools and other federal funding for after-school programming, but these dollars are already committed and stretched thin. An expanded 21st Century Schools program would enable high-need schools to start before- and after-school programs linked to other federally funded activities, further benefit from federal school-based nutrition programs, and provide a catalyst for the schools to partner with community organizations and businesses.

The Education Department has also generated interest from a private foundation to supplement the 21st Century Community Learning Centers by developing training, technical assistance and networking capacity among participating sites. This private funding would further help the education and child care communities work effectively together in providing after-school care.

Impact Analysis

A $400 million per year 21st Century program would reach up to 1 million school children per year. While the current law limits eligibility to "inner city and rural" schools, the Department proposes to retarget the program to *high-need* urban, rural, and suburban communities using the same eligibility as used for the President's Title V Teacher Recruitment proposal. Thus, 4,300 high-need communities serving approximately a third of the nation's school children and 60 percent of the nation's poor children would be eligible for funding.

Pros of Expanding 21st Century Community Learning Centers

- Increases the supply of after-school programs in a cost-effective manner by establishing or expanding programs at underutilized school buildings.
- Compliments HHS funding by allowing communities to choose between school-based and non-school based options.
- Responds to surveys showing strong parental and educator support for school-based after-school programs. Parents often prefer school-based programs because they do not require transportation from school to the after-school program and they trust their school officials to care for their children and provide appropriate activities.
- Enables linkages between after-school activities and school-day activities and learning.
- Provides start-up funding not requiring on-going funding after five years.
- 21st Century Schools has a proven record of support in this Congress.
- Does not require the creation of a new federal program.

Cons of Expanding 21st Century Community Learning Centers

- Some schools operate in an isolated manner and do not broadly engage parents or community organizations in their programs. However, schools are increasingly interested in partnering with community organizations and this funding would provide a catalyst for them to do so. Schools would be *required* to partner with outside organizations.
- Some are concerned that any school-based after-school program could lead to a divisive debate over vouchers. However, 21st Century Schools has won bipartisan support in this Congress and did not engender a debate over vouchers because it is premised on taking advantage of underutilized school facilities.

Cost of Proposal

The Department of Education proposes to expand 21st Century funding from $40 million to $400 million per year, serving up to 1 million children per year, assuming a one-to-one local match and an average cost of $800 per child. Each program would set its hours to meet the community's needs but would operate for the equivalent of 3-4 hours each school day.

HHS submission

The Supply and Quality of School-Age Care

Experts estimate that nearly 5 million school-age children spend time without adult supervision during a typical week. However, only about 1.7 million children in kindergarten through grade 8 were enrolled in formal before- and after-school 49,500 programs in 1991, according to the National Study of Before and After School Programs. School-age children are currently served by the Child Care and Development Block Grant (CCDBG) subsidy program. Approximately one-third of the subsidies go to school-age children (i.e. approximately $1 billion).

OPTION 1: Establish a fund distributed to the States according to the CCDBG formula to provide grants to increase the supply and quality of school-age care. States would be required to match the Federal money and to set benchmarks to measure their progress. At least 85% of funds would go directly to communities, with 50% targeted to areas with high concentrations of poverty. The new money would allow communities to create new programs and link already-existing community resources such as schools, libraries, parks, and recreation centers to build the supply of school-age care and improve quality.

Interaction with the Current Program: Money would be targeted to school-age children, unlike the CCDBG funds. Rather than funding slots through the subsidy program, the new money would build supply and quality through partnerships in communities. Decisions would be made at the community level, rather than the State level, to allow communities to fill their own local needs.

Cost Estimate: The Secretary has recommended a $300 million dollar increase in the CCDBG to improve the supply and quality of care school-age children.

Impact Analysis:
An increase in funding for this program would affect school-age children from a variety of economic backgrounds by allowing them to have safe and productive ways to spend their before and after-school time. The funds would provide up to 500 community grants to expand current promising programs and create new, comprehensive services. The proposal is modeled after the Making the Most of Out of School Time (M.O.S.T.) projects, underway in three American cities. The following are examples of what the Seattle M.O.S.T. project accomplished in its first two years: provided training for 560 school-age caregivers, served 250 low-income children in free summer programs, served an additional 500 low-income children by establishing three new programs and expanding seven existing ones, and created a database of school-age programs that was used by 2000 families in a nine-month period.

Pros:
- Targets school-age care, which is lacking in many communities.

- Builds on existing community resources to maximize the impact of the investment.
- Prevents children's exposure to violence and substance abuse during the hours that studies show they are most likely to experience those risks.
- Enhances academic performance through academic enrichment and homework supervision and support.
- Allows communities to fill the gaps that they identify in their school-age care systems.
- Uses a community approach to reach a broader range of families than CCDBG subsidy.
- Meets the President's challenge to find a way to replicate successful child care models across the country.

Cons:
- Limits State flexibility.
- Targets only one age group.

Treasury Submission

Child Care Infrastructure Act of 1997 (S.82)

Description of Proposal

Senator Kohl has introduced a bill (S. 82) that would provide a tax credit to businesses that incur costs related to providing child care services to their employees. Qualifying expenses would include those a business incurs to build or expand a child care facility, operate an existing facility, train child care workers, reserve slots at a child care facility for employees, or provide child care resource and referral services to employees. The credit would be for 50 percent of qualified costs incurred, but not to exceed $150,000 per year.

Current Law and Interaction

The costs of child and dependent care services provided by an employer are currently deductible compensation. An employer that builds a structure for use as a child care facility would normally depreciate the associated capital costs. Under the proposal, many taxpayers will see it to their advantage to take the tax credit for expenses that they would otherwise have deducted or depreciated.

Impact Analysis

In general, low-wage workers are less likely to receive employer-provided fringe benefits than middle- and higher-wage workers. Therefore, the proposed credit is likely to disproportionately benefit middle- and higher-wage workers.

Pros

- The proposal could increase the availability of child care services by giving businesses an incentive to provide those services to their employees.
- The proposal addresses concerns about the quality of child care by requiring that qualifying expenditures be taken with regard to a licensed child care facility and by allowing training and continuing education costs for child care employees to qualify for the proposed credit.

Cons

- The proposal will not necessarily increase the number of quality child care placements or improve the quality of existing facilities. Instead, it will provide a subsidy to businesses that take the credit for expenses that they would have made -- and deducted or depreciated -- in the absence of the credit.
- Because the proposed credit is likely to disproportionately benefit middle- and higher-wage workers, it is not the most efficient use of scarce Federal resources to support child care.
- A tax credit for employers will not benefit the nearly 30 percent of the labor force whose employers are non-taxable (governments, non-profit organizations, etc.).

Cost of Proposal

JCT has estimated the proposal to cost $2.6 billion over five years.