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ABSTRACT

The recent overhaul of the federal welfare system gives states new flexibility to set child care policies, develop child care programs, and fund new initiatives. The Child Care Action Campaign (CCAC) conducted an audioconference on July 31, 1997, to examine key elements of new state plans and to take a close look at how one state, Illinois, made decisions on interrelated issues such as eligibility, parent co-payments, and state reimbursement rates for child care. Featured presenters were Joan Lombardi, Associate Commissioner of the U.S. Child Care Bureau, and Michele Piel, manager of the Office of Child Care and Development, Illinois Department of Human Services. This issue brief summarizes information from the audioconference. The brief covers the following topics: (1) how states will administer the new programs; (2) determining eligibility and prioritizing service; (3) income-based eligibility and Illinois; (4) parent co-payments and state rates; (5) quality; and (6) increasing funding. (EV)

CCAC

ISSUE BRIEF

A First Look at State TANF Child Care Plans

#7

Child Care Action Campaign

Overview

The recent overhaul of the federal welfare system gives states new flexibility to set child care policies, develop child care programs, and fund new initiatives. As required by law, states submitted child care plans to the Administration for Children and Families (ACF) in July 1997. These plans mark a new era in child care. The decisions made by states today will shape future job support for working families across the country and determine the quality of learning environments for millions of young children. It is a critical period for advocacy, for action, and for results.

Participants in the CCAC Audioconference

Presenters:

Joan Lombardi
U.S. Child Care Bureau

Michele Piel
Illinois Department of Human Services

Moderator

Laurie Miller
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Issue Brief

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The Child Care Action Campaign (CCAC) conducted an audioconference on July 31, 1997, to examine key elements of new state plans and to take a close look at how one state, Illinois, made decisions on interrelated issues such as eligibility, parent co-payments, and state reimbursement rates for child care. Featured presenters were Joan Lombardi, Associate Commissioner of the U.S. Child Care Bureau, and Michele Piel, Manager of the Office of Child Care and Development, Illinois Department of Human Services. The conference was moderated by Laurie Miller of the Child Care Action Campaign, and featured questions sent in advance by conference participants.

In addition to tackling the fundamental issues of income eligibility, parent co-payments, and quality enhancement in their plans, states had to determine priorities for those receiving child care subsidies and make decisions about how new programs would be administered. Of particular interest is the experience of states in which advocates successfully pushed for changes that turned welfare reform into an opportunity to expand and improve their state's child care systems.

How States Will Administer the New Programs

Joan Lombardi provided an overview of state plans based on a preliminary analysis by ACF. She emphasized that many states had eagerly embraced the opportunity to create innovative new child care programs to better serve the needs of the low-income families.

Lead Agencies. As required by Federal law, each state specified a single lead agency responsible for implementing its child care plan. The vast majority of states--87 percent--designated social service or human service agencies. Another 10 percent put agencies related to workforce development in charge.

Lombardi noted with approval the high level of coordination in the planning process. "We were particularly happy to see that 90 percent of the states had some coordination with Head Start over the last year, and planned to do more," she said. In the future, the Child Care Bureau may require lead agencies to coordinate with other agencies integrally related to child care, such as public health, education, workforce and employment services, and the agency in charge of Temporary Assistance to Needy Families (TANF), the federal cash assistance program.

Expansion. In developing their child care plans, many states relied primarily on federal dollars, including transfers from TANF, to fund their programs. In contrast, some states committed new state money to child care as well as using federal money. Striking examples of an expanded commitment of state revenues to providing child care for low-income families are found in Wisconsin, Minnesota, and Illinois.

Wisconsin, using federal and state funds, will increase its annual child care funding from $48 million to $158 million in 1997, and to $180 million in 1998. This expansion is intended to provide child care support to all families with children under the age of 13 that meet income requirements and participate in state-approved work or training activities.

For fiscal year 1998-99, the Minnesota legislature increased the combined total of federal and state funding for the Basic Sliding Fee Scale child care subsidy program for low-income working families by 56.4 percent and allocated $92.5 million for this purpose. Federal and state child care funding for TANF recipients rose 53.9%, to $99.2 million. The total child care budget, including $7.7 million set aside for building capacity and improving quality, is approximately $200 million.

Determining Eligibility and Prioritizing Service

Illinois' child care budget for FY 1998 totals $380.6 million, a $100 million increase over the previous year. Of that, $159 million comes from federal grants ($134 million from the Child Care and Development Fund and $25 million from the Social Services Block Grant, Title XX), and $221 million is from the state. There is no TANF money in the plan. These increases will allow Illinois to offer child care subsidies to all working families earning up to 50 percent of the state median income (SMI).

In developing their plans, states based eligibility ceilings, co-payments, and reimbursement rates on the amount of state and federal funding available for child care programs and on projected child care need. As a result, states varied greatly in how they dealt with these issues.

ACF recommended that states establish the income eligibility ceiling at 85 percent of the state median income: yet half of the states permit families earning above that level to qualify for child care subsidies. These states, however, do not fully fund their systems; families in low-income categories get virtually all of the available funding. In contrast, some states have set both their priority and eligibility limit at similar family-income levels, around 50 percent of the SMI, thus making it possible to serve virtually all those who fall within the eligibility guidelines.

While many states give priority to low-income families, some states are targeting specific populations, such as teens or families needing protective services. Fewer than ten states are targeting only TANF clients. Further analysis is needed, but most states appear to be moving from welfare-based systems to income-based systems.

Income-Based Eligibility and Illinois

Illinois, for example, will use income, not present or former welfare status, to determine eligibility for child care subsidies. A recently passed Illinois law requires the state to prioritize the families it wants to serve and then serve all eligible families that apply for assistance. Illinois' current priority is to serve all families earning under 50% of the SMI, and the necessary funds have been appropriated for Fiscal Year 1997-98. However, if Illinois wants to serve more families in the future, the legislature must appropriate more money. If the state decides to spend less in subsequent fiscal years, a lower income ceiling must be established to reduce the number of eligible families.

To determine the child care eligibility limit, the legislature first set a budget. Then the Illinois child care agency staff, working within the budgetary limit, estimated various utilization rates and examined various levels of parent co-payments to determine how many children they could serve under different scenarios. "We have $380.6 million for fiscal year 1998, so it appears that we will be able to serve all children under 50 percent of the state median [approximately $22,000 for a family of three], explained Michele Piel. "Lowering the ceiling means that everyone up to that level will get care."

"Most of us around the country have had income ceilings that have been higher than 50%, but we've also had waiting lists for subsidies and we've had some disparities depending on how the system was set up," Piel continued. For example, in the past, parents receiving AFDC while working or going to school were entitled to receive a child care subsidy. They were also entitled to Transitional Child Care (TCC) for a year after working their way off welfare. Once the TCC benefit expired, these families generally qualified for Title XX child care but usually ended up on a long waiting list for it, while families at the higher end of the income-eligibility scale received Title XX child care assistance for years. Title XX was not an entitlement and was so underfunded that the waiting list grew to 30,000 families. Illinois "made a decision to get rid of that system and to fund the new child care program as far as we could to serve everyone up to an established level. That's what the new law says we must do."

Parent Co-Payments and State Rates

Decisions on state reimbursement rates to providers and co-payment rates for parents have a tremendous impact on a state's ability to expand the supply of providers caring for low-income children as well as a parent's ability to afford good quality child care. Federal law requires that states provide "equal access" to child care for families receiving subsidies compared to families that do not receive subsidies. Equal access is loosely defined as allowing parents to choose from a full range of providers. It depends on setting reimbursement rates for providers that are based on a fair market rate, and establishing parent co-payments that are affordable. When a state's reimbursement rate to providers falls significantly below the market rate, child care providers who offer better quality care--and charge correspondingly higher fees--are discouraged from providing care for children receiving subsidies. When a state rate approaches providers' regular rates, more providers are willing and able to serve low-income families.

In the past, market rate surveys were the vehicle that states used to determine reimbursement rates, and a rate set at the 75th percentile of market rate was considered suffcient to promote equal access. Ninety percent of states reported that they are continuing to use market rate surveys to establish rates, and many states are continuing to set rates at 75% of the market price of child care, Lombardi reported. However, ACF analysis of state plans showed that most of these states were using outdated surveys that do not accurately reflect current market rates. If these states want to reimburse providers at the 75th percentile of current market price, they will need to conduct new market rate studies.

Initial information about parent co-payments showed that 15 to 20 percent of states are not requiring co-payments for any families below poverty. In addition, four states are waiving co-payments for some families below poverty. Another 15 to 20 percent of states are requiring a co-payment for families that are below poverty. It is important to keep in mind that these rates have not been finalized and are subject to change. The ACF will release an administrative data book with final rate charts, parent co-payments, and income eligibility levels in late fall.

Illinois' new child care law mandates that a market rate survey be conducted by July 1, 1998. In addition, there is a new co-payment for all families in Illinois, including those that receive TANF. In the past, families on welfare were required to make co-payments ranging from $0 to $0.25 per week, while Title XX recipients could pay as much as $200 per week. Although it was obvious to administrators, legislators, the governor, and advocates that this co-payment system needed to be equalized, Piel said that developing a method to do so was difficult. Illinois policymakers went through "a very painful, laborious process of looking at the current co-payments, comparing them to co-payments that other states had, knowing that we wanted co-payments to be no more than 10 percent of people's income, and coming up with a co-payment scale that would bring in some additional revenue to enable us to serve 50,000 more kids." The state initially proposed three different co-payment scales. Ultimately, the deciding factor in selecting a co-payment scale was how much revenue it would generate. In order to meet the state's goal of serving all families up to 50 percent of the SMI, which would provide an additional 50,000 children with child care subsidies, the highest proposed fee scale was selected. The new scale assesses parents' co-payments based on income alone and does not distinguish between low-income working families that receive TANF and those that do not. A family of three earning 10 percent or less of the SMI ($4,564) will pay $1 per week for one child in care, and $2 per week for two children in care (1-2 percent of their income). A family of three at 50 percent of the SMI ($21,819) will pay $31 per week for one child in care, and $54 per week for two children in care (7-13 percent of their income).

Quality

The federal government requires that states set aside at least 4 percent of the federal money and state matching funds in their child care budgets for quality improvement programs. Preliminary analysis of state plans reveals that 12 states plan to exceed that requirement, setting aside as much as 10 percent for this purpose.

States are spending their quality funds in a variety of different ways. "States are spending on consumer education, on training, on the full gamut of what you would expect states could spend their quality and supply building money on," Lombardi noted. "One thing that is different from the past is that more states are doing something about compensation. We think this has something to do with the TEACH program in North Carolina." TEACH (Teacher Education and Compensation Helps) seeks to improve the quality of care children receive by providing early childhood professionals with scholarships to earn an associate's and/or bachelor's degree in early childhood education and child development. Upon completing coursework, providers receive raises or bonuses from their employers and make a commitment to stay in their current job for a year and in the field for two years. The program, which has expanded to three other states, has dramatically decreased turnover among participating providers.

Illinois must spend $7 million per year on quality improvements to meet the federal requirement, but its FY 1998 budget permits expenditures of up to $18 million. "Many of us would love to be able to spend as much as $18 million on improving quality and expanding supply, but it's going to depend on whether 50,000 new kids appear on our doorstep in the next three months, all of whom are eligible, or whether we'll see a slower uptake," Piel explained. If parents do not sign up for child care as quickly as the state anticipates, Illinois will give one-time quality enhancement grants to providers until the money is needed for direct service. In addition, Illinois is instituting the TEACH program to raise the level of teacher education and help increase teacher salaries.

Increasing Funding: How the Illinois Plan Came to Be

When Illinois advocates and administrators formed a partnership to reform the state's child care system so that all families up to a certain income level would be served, they agreed to keep their message simple: all children need child care. Advocates conducted a massive grassroots campaign in nearly every legislative district, convincing the governor and legislature to provide $70 million of new state money for the child care budget. Keeping the message simple was key to winning bi-partisan support. "Once we put aside the complexities of the message and just said all children need child care, how many children can we serve in a fair way, the idea was embraced across the board," said Piel.

Piel noted that advocates need to continue their work for better rates for child care. "It's going to take some fairly succinct messages, particularly to policy makers who may not understand how the market works," she said. "This is the time to really figure out what we have to say about rates, because even in a place like Illinois where there is a requirement for a market rate study, there aren't any guarantees that everyone will understand what that means." In addition, now that the governor and legislature have reformed the child care subsidy system in Illinois, advocates can send messages about all the other issues that need to be addressed. As time progresses, advocates should continue their grassroots campaign for more money to include more children, set better rates, and set aside more money for quality.

While there is no guarantee of future funding increases for the Illinois plan, and only time will tell whether it will be able to meet its goal, the idea of serving both TANF and non-TANF families up to a certain income level and eliminating the waiting list are steps in the right direction. Piel noted, "There has been a concern that states would now revert to serving only TANF clients. In my way of thinking, that would create an unfortunate competition, something between the 'deserving' working poor and the 'less deserving' working poor. I am very hopeful about what we've done here and I hope it can spread to other parts of the country. In a world where there is a five-year lifetime limit to welfare, we don't have to make distinctions among the working poor. If everyone is going to be working, then everyone needs child care."

About CCAC's Audioconferences on Child Care and Welfare Reform

Child Care Action Campaign (CCAC) is a national nonprofit advocacy organization whose goal is to improve the lives of children and their families by expanding the supply of good quality, affordable child care. Assisted by a panel of advisors in every state, CCAC's 1997 audioconference series on child care and welfare reform has convened policymakers, government officials, state administrators, and child care leaders and advocates across the nation. Through this series, CCAC has worked to get the message out that good quality child care is a crucial component of any welfare-to-work strategy, and to work with state leaders to ensure that low-income families have access to child care benefits.

Acknowledgments

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Joan Lombardi, Child Care Information Center (CCIC), 800-616-2242. CCIC has information on the state child care plans.

Michele Piel, Illinois Department of Human Services, 312-793-3610.

Additional copies of this issue brief are available for $3.00 each prepaid. To order, or for information about CCAC's publications and programs, contact:

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