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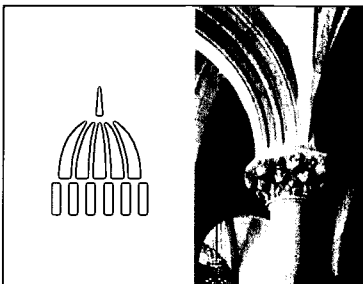
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## ABSTRACT

This book investigates the innovative ways being used to ensure and finance high quality care for children. Chapter 1, "Introduction," discusses the government's role in helping to structure, build, and finance the system, as well as financing strategies. Chapter 2, "Financing Child Care Supply," addresses center-based child care, supports for home-based child care, supports for the child care industry, and tax credits and other alternative financing strategies. Chapter 3, "Resources to Support Families," covers financing low-income child care and resources for families regardless of income. Chapter 4, "Financing Quality Care," examines the importance and key elements of quality, regulations, training and education of child care providers, accreditation, career development, compensation and benefits, and comprehensive services. The appendix provides a chart of state child care income eligibility levels. (Contains 28 references.) (MES)

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# Investing In Our Future

## A Guide to Child Care Financing

by  
Louise Stoney  
Scott Groginsky  
Julie Poppe



NATIONAL CONFERENCE of STATE LEGISLATURES

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## PREFACE AND ACKNOWLEDGMENTS

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# EXECUTIVE SUMMARY

State legislators and other policymakers focus their attention on financing early care and education because of significant, positive short- and long-term effects on children and families. These include supporting the current workforce and economy, improving children's educational opportunities and outcomes, and reducing crime. To achieve these positive results, state decisionmakers are exploring options to ensure adequate supply and financing of good quality child care services.

Although the bulk of child care funds comes from the federal government, states play an important role in financing child care and early education services. Many key decisions are made at the state level. These include directing funding streams, building service delivery linkages, setting standards, and other important financing issues. Although financing strategies and approaches will vary from state to state, this book suggests several principles to help guide these decisions and offers a range of financing options that have been implemented in states and communities across the country.

These principles include the importance of using multiple funding streams and developing policies and procedures that allow early care and education funds to be easily “layered” within a single program. Legislators also may want to consider funding both families and early childhood programs and weaving these approaches into a single, coordinated system. Through direct institutional financing to early childhood programs and portable financing to individual families, legislators can ensure that all families—regardless of income—have access to high-quality early care and education services. In addition to restructuring state policy to maximize current funds, policymakers have available many nontraditional sources for early childhood financing, including beer or cigarette taxes, developer impact fees, lottery and gambling revenues, tobacco settlement money, private funds from businesses or foundations, among others.

## Financing Supply

One of the most significant early childhood needs in many states is to increase investments in supply, including innovative ways to finance child care centers and family child care homes. Examples of how states currently help finance the cost of facility start-up, expansion and technical assistance include a range of loan, bond and tax credit strategies. State policies that help increase the number of qualified early childhood teachers also is critical to meet child care demand. States have established various initiatives aimed at improving recruitment, training and technical assistance for the early childhood workforce. These include grant programs that often are implemented through resource and referral agencies, strengthening family child care networks, and wage and benefit initiatives.

## Resources for All Families

Child care is an essential and costly support for all working families, regardless of family income. For parents whose earnings are at or close to the poverty level, however, the high cost of quality child care can be a significant barrier.

State legislators can help structure subsidy systems for low-income families in ways that promote access, affordability and quality services. These decisions include, among others, targeting funds, establishing copayment and rate policies, and paying more for better quality programs or hard-to-find care, such as services for children for special needs or care during nontraditional work hours. To guide these decisions, legislators and other policymakers examine different federal and state revenue sources. Federal funds include the Child Care and Development Block Grant (CCDBG), the Temporary Assistance to Needy Families Block Grant (TANF), Head Start, and the Social Services Block Grant. States also invest general child care funds, state preschool funds and other state funds. States increasingly seek to coordinate these systems to maximize resources, improve family access, and strengthen child development outcomes.

Supporting low-income families is only part of the issue, however, as noted earlier, the cost of high-quality child care is out of reach for most families. To this end, building a high-quality early care and education system involves financing strategies that can strengthen early learning opportunities for all children and families. One way to address this need is to develop financing strategies that focus on both programs and families, as is routinely done in other sectors such as higher education, housing and transportation. To support institutions directly, states have offered quality improvement grants, wage supplements, health care benefits for early childhood providers, and (in some states) prekindergarten funds that can be “layered” with other public and private funds and are not limited to programs that serve only low-income families. Additional supports for families at all income levels can include dependent care tax credits, paid family leave, and supports for parents who choose to stay at home with their infant or toddler.

## Financing Quality

Positive educational, economic, social and criminal justice outcomes rely on early childhood programs that are of good quality, according to recent research. For state lawmakers, regulatory policies are a starting place to protect the health and safety of children who attend early childhood programs. States also can encourage and support accreditation of early childhood programs. This encompasses a variety of quality elements, such as professional qualifications, curricula, parent involvement, physical environment, and other components.

Research has demonstrated that the training and education of early childhood providers is a crucial element in ensuring high-quality care and education. In recognition of this link, state policymakers have developed initiatives to enhance professional development opportunities and to strengthen provider wages and benefits. Comprehensive services—such as parent education, health services, and nutrition—also can improve the quality of early childhood programs, and policymakers are drawing on a variety of federal and state financing mechanisms to support these services.

As Congress and the president deliberate welfare reform reauthorization in a difficult economic climate and as research on brain development, caregiving and parental interactions continue to indicate the importance of the early years, child care funding issues will remain high on state and federal policy agendas.

# 1. INTRODUCTION

Public policy related to the care and education of young children has increased dramatically in recent years. States are looking closely at children's early years and considering carefully what they can do to support working families and help all children succeed in school and life. Some of this concern has stemmed from research that has demonstrated that the care children receive during first three years of life can have a profound effect on brain development. Others have looked at student achievement, noted that learning begins long before children enter first grade, and stressed the need to focus on promoting school readiness in the early years. Many policymakers point to the significant increase in employed mothers with young children as well as the need to expand child care as part of state welfare reform initiatives. Those who are looking carefully at economic development have begun to recognize that child care is an industry that creates jobs, generates tax dollars, and pumps money into local economies. In short, there are many reasons to support child care: it is good for children, strengthens families and supports communities.

## What Is Child Care?

As used in this publication the term *child care* means all types of education and care from birth to age 5 and is used interchangeably with terms such as *early care and education* to refer to a wide range of services and supports that provide education and care for young children, including child care centers; family child care homes; Head Start or public pre-kindergarten programs; nursery schools; and "informal" care provided by relatives, friends and neighbors. Child care also includes supports for parents who choose to stay at home with their own children and employer supports such as flex-time and other "family friendly" policies.

Child care is not considered separate from learning. High-quality early childhood programs address two policy objectives. They provide safe environments that allow parents to work without worrying about their children. At the same time, these programs can provide stimulating and nurturing settings that foster healthy child development, prepare children to succeed in school, and give them the tools they need to develop into productive adults.

Policymakers use a range of terms to mean child care and early education, including early care and education, early learning, child development, school readiness, preschool and prekindergarten.

**Whatever the motivation for improved and more comprehensive early childhood education policies, this much is certain: child care is an investment in young minds and healthy emotional development.** During the first three years of life, a child's ability to think, feel and relate to others is formed and shapes what they will become, both academically and socially. Numerous studies have demonstrated that high-quality child care not only improves children's school readiness, scholastic achievement, and school competence but also is an investment that can last a lifetime.<sup>1</sup> The Abecedarian Project, for example, followed infants from low-income families and an experimental control group to age 21. The study found that young adults who had been in high-quality early childhood programs consistently out-performed their peers on math and reading achievement tests and that more of them were in college or held high-skill jobs.<sup>2</sup> Other studies have found that high-quality early learning programs result not only in higher academic achievement but also in significant reductions in expenditures for social services, special education and arrests.<sup>3</sup>

Not surprisingly, good child care has an even more important effect on emotional development. Empathy, altruism and impulse control—the basis for moral behavior—begin to develop before age 3 and grow from the modeling and teaching of parents and other adult caregivers. Research has shown that children without these emotional skills are more likely to have problems in later life and even may become violent and display anti-social behavior as they grow into adulthood.<sup>4</sup>

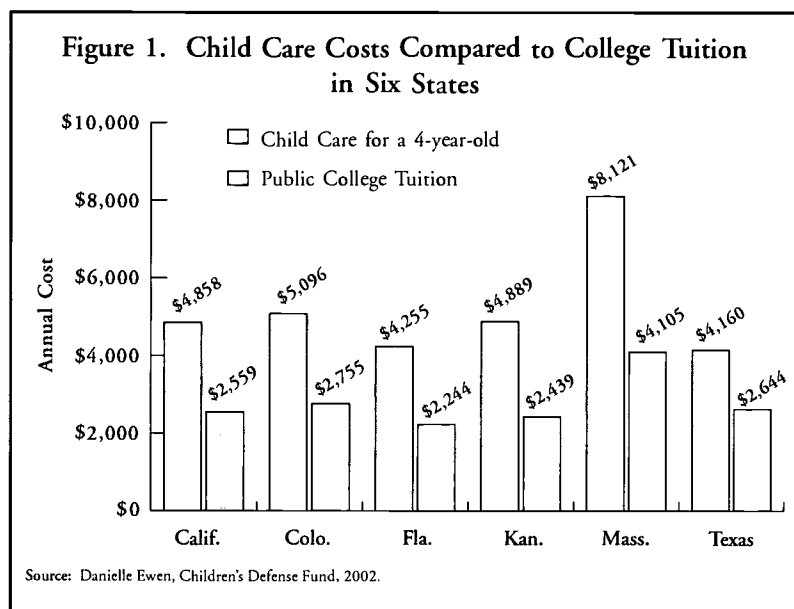
**The positive effects of quality child care includes benefits beyond the children: child care is an investment in families.** As more women enter the workforce, the need for full-time, year-round child care has increased dramatically. In 1947, only 12 percent of women with children younger than age 6 participated in the workforce. By 2000, the percentage of employed mothers with young children had increased to 60 percent.<sup>5</sup> The increase in single-parent families—from 11 percent in 1970 to nearly 27 percent in 2000—also has fueled the demand for child care.<sup>6</sup> For these families, child care is vital; they need someone to care for their children while they work. However, even parents who are able to stay at home often enroll their children in early childhood programs to help them grow socially, emotionally and intellectually. Indeed, 3.5 million preschoolers (43 percent) with a parent at home attend an early childhood program for at least part of the day. For families who need extra help—such as links to child health or dental care, developmental screenings, or other social services—child care centers can be a critical source of support and information.

**Child care is an investment in communities.** Child care is not just a workforce support, it also is an industry that creates jobs, generates tax dollars, and adds money to local economies. In some communities, the child care industry itself is a major employer.<sup>7</sup> Research in several states and cities has shown that investments in child care can pay for themselves almost immediately, in real dollars returned to the government through taxes on family earnings and on the individuals who work in child care. A return-on-investment study in San Antonio, Texas, revealed that child care subsidies more than pay for themselves through local economic stimulus and increased tax revenues. The study estimated that for every \$1 spent on child care subsidies, the city will realize \$1.46 in additional tax revenue.<sup>8</sup> In California, the licensed child care industry results in more than 209,000 jobs and enables families to earn nearly \$13 billion per year.<sup>9</sup> An examination of the benefits of child care

subsidies in North Carolina showed that a family earning \$20,000 per year received \$2,100 in child care subsidies, but returned \$3,924 to government in the form of taxes.<sup>10</sup>

### Families Pay Most Child Care Costs

Child care is expensive, and many families struggle to pay for it. In nearly every state in the nation, the price of enrolling a 4-year-old in full-time preschool is higher than the price of public college tuition (figure 1). Families can spend between \$3,000 and \$13,000 per year for each child they enroll in full-time care, depending upon the child's age, the type of care, and the location of the program.<sup>11</sup> Experts concur that the actual



*cost* (as opposed to the *price*) of a full-day, year-round, high-quality early care and education program is at least \$ 7,000 per year<sup>12</sup>

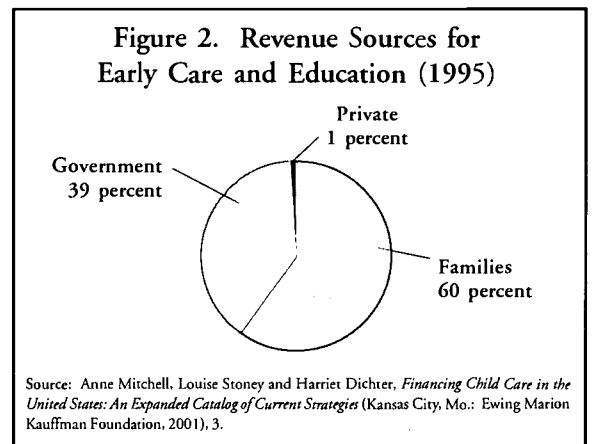
Although college is expensive, parents have years to save for their child's higher education, and all families are eligible for some help to pay college tuition. This is certainly not the case with early care and education. The price of child care comes as a shock to many young parents and typically affects them when they are just starting their careers and have little or no savings. Although some low-income families receive help paying for child care, most do not. Funding is sufficient to serve, on average, only 14 percent of families who are eligible for assistance from the federal Child Care and Development Block Grant (CCDBG).<sup>13</sup> Thousands of American families are not even eligible to apply for help, even though they may spend as much as 35 percent of their income on child care.<sup>14</sup> In some communities, employers, the United Way or local foundations are involved in subsidizing child care. Overall, however, private sector funding represents a very small portion of child care funding. It is not surprising, then, that a majority of the revenues for child care come from the pockets of parents (figure 2).

Helping low-income families pay for child care is a priority for many state legislators. To address this need, chapter 3 of this book focuses on financing and administering child care subsidies for low-income families. However, many policymakers also are concerned that moderate and middle-income families cannot afford high-quality child care, and stress that all children, regardless of family income, should be able to attend a high-quality early care and education program. To this end, chapters 2 and 4 discuss financing strategies that can help to improve both the quality and supply of child care without increasing the price for private, fee-paying families.

## Government's Role: Helping to Structure, Build and Finance the System

Government plays a key role in financing early care and education services. The federal government, which provides the bulk of all child care funds, has established several subsidy programs for low-income families, the Head Start program for very poor families, and tax credits for moderate and middle-income families. State and local governments have led the effort to fund preschool programs.

Although each of these child care initiatives plays an important role, each was developed independently and with a specific outcome in mind. Each program also has its own administrative structure and policy goals. State and federal child care funds—Child Care Development Block Grant (CCDBG), Temporary Assistance to Needy Families (TANF), and state general revenue—are focused on helping low-income families obtain jobs and stay employed. Because limited funds must be stretched to cover many families, states make tradeoffs. For example, reimbursement rates to providers often are too low to support high-quality programs that employ teachers who are trained in early childhood education. Preschool programs often employ qualified teachers but, because of insufficient funding, these programs typically are part-day and limited to 4-year-olds. Head Start has focused on increasing teacher qualifications and improving program quality and on providing comprehensive health and social services, but these funds are limited to families with incomes



at or below the poverty level. Head Start programs also are typically part-day and part-year and focus on 3- and 4-year-olds. In short, elements of a system are in place, but are not designed to fit together in a clear, cohesive manner.

Many states have begun to address this concern by developing new early care and education systems that maximize available funds, give all children access to early learning opportunities, and offer working families the full-time, year-round child care they need. Colorado legislators developed a system of local consolidated pilot projects. Georgia funded a part-day, part-year preschool program for all families and then “wrapped in” child care funds for low-income families (see page 12). Connecticut lawmakers enacted a wide-ranging school readiness initiative that added state funds for low-income preschool, established quality mechanisms and funded a loan program for facilities. North Carolina established Smart Start, a state-local partnership that supports community-determined early childhood services that address local needs. Rhode Island created comprehensive child care services networks (see page 15).

State and local leaders are discovering that there are many ways to provide early care and education. Some services are based in schools, and others are in community-based organizations or homes. Some programs are part-day and follow a school calendar, and others are open for the full working day, year round. It is important to develop a system that includes many options so that families can choose the arrangement that best meets their needs.

## Financing Strategies

In addition to developing strategies that maximize funds and coordinate services, policymakers are developing new resources to help the system grow. These financing strategies vary, based on the economic and political forces in a particular state or community. In some states, welfare-related child care funds form the core around which the system is built; in other states, education and federal Head Start funds play a central role. Some states are experimenting with tax strategies and new partnerships with the private sector. Some are creating new lotteries or surcharges on goods and services. Although financing strategies and approaches may vary from state to state, experts in early care and education finance stress several key principles that can guide the effort.<sup>15</sup> These include the following:

### Key Principles for Funding

- Funding Full-Day, Year-Round Services
- Provide Funding to Programs and Families
- Nontraditional Ways

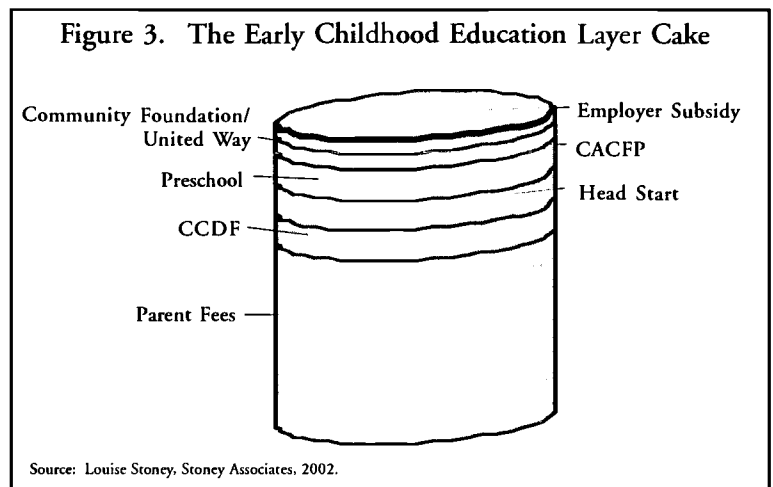
### *Funding Full-Day, Year-Round Services Typically Means Tapping Multiple Funding Streams*

It is highly unlikely that a single funding source will be able to cover the cost of a high-quality early care and education program, especially if families need full-day, year-round services. One option for state legislators and other policymakers is to establish policies that make it possible for programs to “layer” funds from multiple sources—such as the federal CCDBG, Head Start, state and federal education funds, parent fees, private sector contributions, and others—to support a program or classroom of children (see figure 3).

It is important that state policymakers take steps to ensure that these funds can be layered to form a single, cohesive program with minimal paperwork. As discussed on pages 24 and 25, some states are moving in this direction through systemic child care-preschool or Head Start partnerships. A broader option would be to establish policies that allow early care



and education programs to prepare a single budget that includes multiple funding sources, rather than requiring the program to create separate budgets, and to submit to a separate auditing and accountability process for each funding source. Policymakers could also establish common funding standards and monitoring practices across all programs and coordinate or consolidate requests for proposals, reporting requirements, and other administrative and funding policies and procedures. This kind of cross-system coordination can be challenging, given that various federal, state and local agencies are involved in financing early care and education, but it ultimately may make the state's early childhood financing more effective.

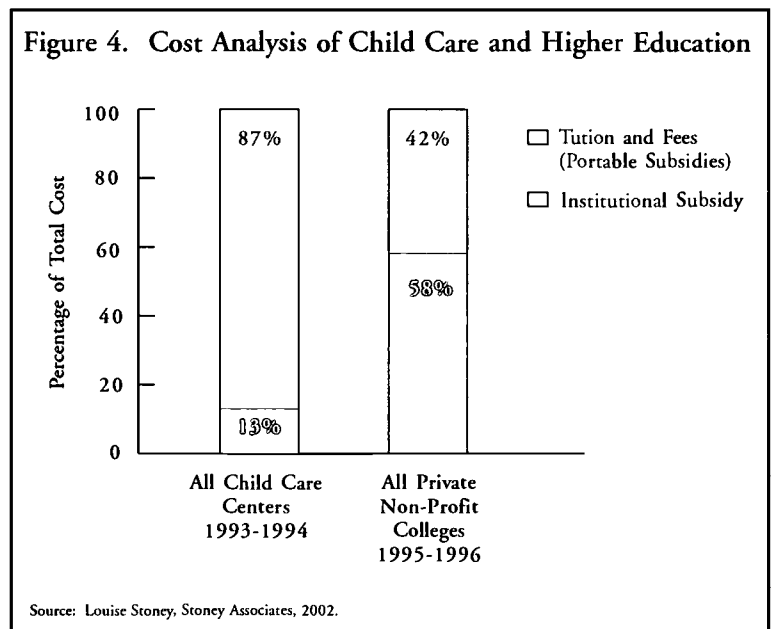


### *Funding Can Be Provided to Both Programs and Families*

There are many ways to help make child care affordable. One way is to offer portable support that is tied to a specific child or family and follows them to whatever program is selected. Child care certificates or vouchers are a form of portable assistance that is used by most states. (The use of child care certificates for low-income families is discussed in detail in chapter 3.) From the perspective of an early childhood program, this assistance helps to pay a portion of the tuition that is charged to fee-paying families. In general, portable assistance does not increase the overall revenues for a program, it simply replaces or reduces parent fees.

States also can help make child care affordable by providing direct, institutional support to early care and education providers. These funds are not tied to a specific child but, rather, are awarded directly to the program, which is required to serve a classroom or group of children. Direct support can increase overall revenues—especially if it is combined with portable aid—and give the program the funds and financial stability needed to attract more qualified staff, lower child-to-staff ratios, and make other quality improvements.

Making it possible for programs to easily combine portable and direct assistance is an excellent way to make high-quality child care affordable for all families. This approach also has been used to finance higher education in the United States. Direct, institutional aid is provided to colleges and universities so that they can offer higher education to all families at affordable tuition. No one pays the full cost of higher education, and all families, regardless of income, benefit from direct, institutional assistance.<sup>16</sup> In addition, portable assistance is made available to low-income families (in the form of grants and scholarships) as well as to families at higher incomes (in the form of subsidized loans and savings plans and tax credits). Institutions of higher education rely on both direct





### Ways to Finance

- New Fees, Surcharges or Taxes
- Earmark Specific Revenue Sources
- Tax Credits
- Expand General Revenue Funds
- Private Funds

and portable subsidies to meet their costs and ensure that all students can afford to go to college. (Many of the options discussed in chapter 2, “Financing Child Care Supply” and chapter 4, “Financing Quality Care,” are ways to provide direct support that may be combined with the portable aid that is provided to families.)

Because current child care funding streams were developed independently rather than as components of a cohesive system, many early childhood programs struggle to combine portable and direct assistance. Some program administrators and staff are concerned about complying with the rules of each funding stream and fear that they will be penalized for “double dipping” if they combine multiple funding streams for the same child. Policymakers can help to reduce these barriers by establishing coordinated early care and education systems that clearly allow programs to blend direct and portable subsidies.

### *There Are Many Nontraditional Ways to Finance Early Care and Education Services*

An important principle in early care and education finance is to look beyond what has been done in the past and to help invent the future. State policymakers can find many different ways to finance early care and education.<sup>17</sup>

Some states are establishing new fees, surcharges, or “sin” taxes that benefit child care. Arkansas recently established a new surcharge on beer, earmarked for child care and preschool. California imposed a surcharge on cigarettes. Several California cities (including Concord, Santa Cruz and San Francisco) also have established developer surcharges or impact fees. Some cities have proposed surcharges on the sale of tickets for sporting events, with the proceeds earmarked for child care.

Other states have elected to earmark specific revenue sources for child care. Kansas, Kentucky and Maine have earmarked a portion of their tobacco settlement funds for a variety of early care and education initiatives.

Florida enacted a law that gives local governments the option of raising the local millage rate if the increase is earmarked for services to children and youth.<sup>18</sup> Georgia earmarked part of its lottery proceeds for prekindergarten. Missouri earmarked a portion of the Gaming Commission Fund for a comprehensive early care and education initiative.

Several states are exploring new kinds of tax credits. Oregon recently enacted a new tax credit to spur business investment in child care, modeled on the highly successful Low-Income Housing Tax Credit. Austin, Texas created a child care fund as a set-aside when negotiating tax abatements with new businesses. New York legislators greatly expanded the state’s Dependent Care Tax Credit so that families can receive up to \$1,584 in addition to the federal benefit.<sup>19</sup>

States are using many different strategies to expand general revenue funds for child care. Rhode Island taps into health care funds to help pay the cost of health insurance for child care providers. Eight states—California, Florida, Illinois, Kansas, Michigan, New York, Ohio and South Carolina—have a line item for child care in their state higher education budget. Connecticut uses tax-exempt bonds financing from the Connecticut Health and

Educational Facilities Authority to help build child care facilities, then allocates child care funds to underwrite a portion of the debt. Boston, New York City and the District of Columbia have used criminal justice funds to help create child care centers in court buildings. North Carolina uses criminal justice funds to help support after-school programs.<sup>20</sup>

Private funds also play an important role in the early childhood financing strategies developed by some states. Kentucky, North Carolina and South Carolina have set up public/private entities to raise and administer funds for child care. Florida established a matching grants program for employer-supported child care. New Jersey and Chicago have used a combination of private and public funds to support early childhood program accreditation. In Indiana and Pennsylvania, community foundations are helping to build child care endowment funds. Local 1199, the National Health and Human Services Employees Union, raises nearly \$9 million each year for a host of child care initiatives by pooling funds obtained through collective bargaining with 147 employers in the City of New York.<sup>21</sup> Five states—California, Hawaii, New Jersey, New York and Rhode Island—support maternity leave with funding from a statewide temporary disability program that may be jointly funded by employers and employees. Quite a few states also are exploring the feasibility of financing paid family leave with funds from unemployment insurance. (See page 37 for a more detailed discussion of this issue.)

### *New Approaches*

Many new, theoretically viable financing strategies have yet to be tried. Some community development experts are looking carefully at how the federal New Markets Tax Credit could be used to generate funds for child care. The National Community Capital Association has just established a child care fund with private sector funds. Others are considering about how employment tax credits could be used to improve child care quality. Maine's Employment Tax Increment Financing Initiative, which refunds withholding taxes to employers who create jobs and provide employee supports, is a potential model. In short, there is not one best way to finance child care. Financing options are as diverse as the system itself.

Clearly, numerous creative approaches to better funding quality child care are being tested. Giving attention to the results of these efforts, sharing the lessons learned, and implementing new strategies can build on the momentum created by states and communities to offer families and young children early care and education options.

## 2. FINANCING CHILD CARE SUPPLY

### Supports for Center-Based Child Care

Although needs and resources vary among programs and communities, center-based child care programs have many common needs. These include the following:

- Facility costs are high, and most programs cannot afford to carry debt. Many programs operate in donated space and could not afford to pay rent if they were required to do so.
- It is difficult to gain access to capital. Some child care businesses can carry debt, but these programs often do not have the equity they need to secure a loan. (Child care facilities are designed for a very specific purpose; as a result, they do not appraise well and often cannot be used as collateral for a loan.)
- Many early childhood program operators lack the necessary business skills to secure the financing they need to build or expand a facility and tap multiple sources of funding to support operating costs.
- Personnel costs are high, and early childhood programs struggle to recruit and retain the skilled workforce they need to offer high-quality services.
- Market rates, which are based on what parents can afford or are willing to pay, typically are lower than the cost of high-quality services.

As the number of employed mothers has increased, so has the demand for full-time, year-round early care and education programs. Although the supply of programs has kept up with the demand in some communities and for children of certain ages, gaps still exist in many areas. By and large, the greatest unmet needs are infant care, care during nontraditional hours (such as nights and weekends), full-time child care for children with special needs, and school-age child care. In addition to gaps in supply, states struggle with the lack of high-quality services. Thus, even when programs exist, they are frequently unable to offer services that simultaneously support both early learning and care for children while their parents work.

States can help to build and sustain a supply of high-quality early care and education services in several ways. This chapter discusses ways legislators and other policymakers can support center-based and home-based care, as well as strategies that can make it possible for parents stay at home with their children.

### Center-Based Child Care

Center-based child care takes many forms, and can include full- and part-time programs funded by child care subsidies, parent fees, and Head Start and preschool initiatives. Although programs and resources vary, center-based programs have many common concerns (see box). Legislators and other policymakers have developed a variety of strategies to help address these needs, including start-up grants, loans and loan guarantee funds; targeted technical assistance; and ongoing operating support.

#### *Start-Up Assistance*

Many state and local governments have established initiatives to help child care businesses secure the capital they need to build early childhood facilities or renovate space for an early childhood program. Some states provide these funds as grants. Louisiana, New Jersey, New York, Oklahoma and Vermont, along with other states, have established child care center start-up grant initiatives, some through legislation.

Some states—such as California, Maryland, North Carolina and Washington—make start-up funds available as loans. Others have established short-term loan programs for repairs and equipment. Florida took a unique approach when state officials established the Child Care Financial Assistance Program. This initiative, which was administered by Barnett Bank and the state's child care resource and referral agencies, made low-interest loans available to providers who needed money to expand or improve their programs. If the child care providers who borrowed these funds became accredited or reached other quality milestones within six months of loan repayment, they could receive a rebate of up to 100 percent of their principal. In other words, the loan converted to a grant if the providers could demonstrate that they had, indeed, improved the quality of their program.

Another way states can help child care providers gain access to capital is through loan guarantee programs. The Maryland legislature established a program to guarantee up to 80 percent of a loan made by a private sector lender to a child care business. Lending institutions set interest rates, usually about two points above the prime. The state has guaranteed loans as small as \$15,000 and as large as \$1.6 million. Several other states—such as Arkansas, California, North Carolina and Tennessee—have established similar initiatives, some through legislation.

Many state early childhood leaders have found that the most effective way to build and sustain child care centers is through a combination of grants, loans and ongoing operating assistance. In some cases, government leads these strategies. Connecticut legislators have made long-term, low-interest construction and renovation loans available through tax-exempt bond funding. Bonds are issued by the Connecticut Health and Educational Facilities Authority (CHEFA) and are backed by an agreement with the Connecticut Department of Social Services (DSS) to repay a portion of the debt. DSS has agreed to use child care funds to repay up to 85 percent of the debt service on these bonds. As a result, child care programs obtain the financial support they need to build and sustain new facilities, and the state maximizes its investment. Since 1998, a \$2.5 million state investment has leveraged the issuance of \$41.6 million in tax-exempt bonds and \$8.9 million in private funding. This funding financed projects at more than 22 child care centers and financed more than 3,100 child care slots, including 1,280 new ones.<sup>1</sup> Minnesota law also extends bonding authority to child care start-up, expansion or renovation initiatives sponsored by partnerships that involve Head Start, child care and special education.

Other states have chosen to base their capital investment strategies in the private sector, primarily through intermediary organizations that help to draw in funds and support from many partners. United Way initiated the Massachusetts Child Care Capital Investment Fund, which now pools money from many sources, including foundations, government, banks and insurance companies. The City of San Francisco pooled public and foundation money to seed a private sector Child Care Facilities Fund (CCFF) that is now able to leverage additional funding from the federal government and many other sources. Private sector intermediaries also led capital investment initiatives in Illinois, North Carolina and Ohio, although government is a key partner in each state.

In recent years, local school districts have begun to enter into new partnerships to finance facilities. The New York City Board of Education worked with the city's Agency for Child Development (which administers child care subsidy funds) to build four early childhood care and education centers that serve children between the ages of 2 and 5. The Fairfax County, Virginia, schools include capital funding for school-age child care programs when

they issue general obligation bonds. The county operates the programs and makes funds available to help repay the debt.

Several school districts in Maine have entered into partnership with the local Head Start agency to finance space for early childhood programs. These partnerships, spearheaded by the Kennebec Valley Community Action Program (KVCAP) in Maine, are forging new ground. They are not only involving schools, local government, banks, employers and others, but also are demonstrating that early childhood programs are a community resource. For example, the early childhood program in Hartland, Maine, is located in a community center attached to the local school. This facility, which also houses a host of community services and recreation programs, was jointly financed by Head Start, the Irving Tanning Company, local banks, the Maine Department of Economic Development, a community capital campaign, and a school district referendum.

### *Technical Assistance*

Making grant and loan programs available is only one step in the effort to expand the supply of high-quality child care. Program operators also need technical assistance. Child care center directors typically are schooled in child development—not fiscal management—and can be overwhelmed by the many tasks involved in fundraising, facility construction or renovation, and managing multiple funding streams. To address this need, several states have developed child care technical assistance and training initiatives.

Sometimes, technical assistance is linked to a start-up grant or loan program, such as North Carolina's community development financing approach. With partial funding from the state (and funding from many other sources) the Center for Community Self-Help makes low-interest loans, coupled with intensive technical assistance, to early childhood programs of all types and sizes. Self-Help has produced a detailed reference manual, *The Business Side of Child Care*, and provides help in assessing business risk, estimating revenue and planning facilities.

In many states, technical assistance on fiscal management is linked to training or a director credential. New Hampshire funded a week-long seminar—Financial and Legal Aspects of Center Management—for child care center directors. Offered by Wheelock College, the seminar allowed participants to obtain three graduate credits. At least 10 states currently are implementing child care center director credentials.<sup>2</sup>

Minnesota stakeholders took a unique approach to the development of new child care businesses. State officials agreed to explore the links between child care and economic development and currently are conducting an economic impact analysis of child care in several Minnesota counties. The goal of the study is to quantify the economic effect of child care and to identify capital needs for facility improvements and local resources for planning, development and investment in the child care industry. This work was spawned by a similar study in California, conducted by the National Economic Development and Law Center.<sup>3</sup>

## Operating Support

Helping child care programs secure the capital and technical assistance they need to build or renovate space is an important first step. However, many child care programs also require ongoing operating funds to ensure that the program remains fiscally sound.

At first, it would appear unnecessary to provide operating assistance to child care programs. Can they not simply charge parent fees, or collect child care vouchers in lieu of those fees, to cover their monthly costs? There are several reasons that child care programs require additional operating assistance.

- Most child care centers set their prices below the actual cost of providing high-quality care. Child care markets are quite competitive, and the price of child care typically is based on what families can afford or are willing to pay, not the actual cost of the service. The cost of a full-day, year-round, high-quality early care and education program (that is, one that offers opportunities for early learning as well as care while parents work) ranges from \$ 7,000 to \$12,000 per child—a huge expense even for a middle-class family.<sup>4</sup>
- In most cases, public reimbursement rates are based on the price child care programs charge, not the cost of providing high-quality care. Thus, higher, cost-based child care reimbursement cannot augment lower, market-based public fees. (Chapter 3 contains a more detailed discussion of ratesetting.)
- Only a small percentage of child care centers have access to third-party funding that can augment parent fees and allow them to offer high-quality services at affordable fees. Almost all of centers' revenue comes from user fees.<sup>5</sup>
- In most states, only a fraction of income-eligible families receive help to pay for child care.<sup>6</sup> Thus, even if public reimbursement rates are high enough to cover program costs, a child care center that is located in a low- or moderate-income neighborhood cannot be assured that the families that seek their services will indeed receive the help they need to pay for the care.

State policymakers have used a variety of strategies to provide additional operating support to child care centers. These include quality improvement grants to programs for specific expenses (facilities, staff development, accreditation, wages, etc.), school readiness or prekindergarten initiatives, and policies that help programs blend funding from the federal Head Start program and other state initiatives. State legislatures also have begun to explore new supports for the child care industry as a whole, a strategy that also can help to offset operating expenses and increase program revenues. (These industry-wide supports are discussed in more detail on pages 16 through 18.)

### Four Factors that Drive Child Care Costs

*To protect children from harm and promote learning, low staff-to-child ratios are mandated by regulation.* Child care programs cannot increase revenues by serving more children unless they also hire more staff.

*Personnel costs—often 70 percent or more—are the largest item in a child care budget.* Child care wages already are so low that programs have difficulty attracting and retaining qualified staff; therefore, cost reductions in this area are not possible.

*Occupancy costs are the second largest budget item.* Building and maintaining child care facilities are expensive. Some nonprofit child care programs reduce costs by using donated space (such as a church or community center), but many others must pay high occupancy costs.

*Most child care centers are small, so it is not possible to attain economies of scale.* The average child care center serves approximately 70 children.



### *Quality Improvement Grants*

Direct grant programs can take many forms. Quite a few states have established small, one-time quality improvement grant programs to help child care providers purchase needed equipment or pursue program accreditation.<sup>7</sup> The Wisconsin Legislature, however, took a more systemic approach and established several quality improvement grant programs that provide continued operating support to child care programs. Quality improvement and staff retention grants are made available to selected child care programs that agree to comply with the state's high-quality standards. These programs, which serve families at all income levels, receive ongoing support and technical assistance. A new Early Childhood Excellence Initiative, approved by the Legislature, will support model child care centers in low-income communities. These centers also will serve as training sites for new child care staff.

As noted earlier, policymakers in states such as Connecticut and Illinois also have allocated funds to help pay the cost of debt service for selected child care programs that borrow money to build or renovate a facility. The Connecticut facilities grants, however, are part of a larger, multi-faceted school readiness initiative (see box on this page).

### *School Readiness Initiatives*

State prekindergarten funding can be an important source of operating support for early childhood programs that seek to provide high-quality services at affordable fees. Although many state prekindergarten programs are targeted to children from low-income families or who are at-risk of school failure, this trend is changing. Georgia, for example, makes prekindergarten funds available to a wide range of public, private nonprofit and proprietary early childhood programs that serve families at all income levels. No parent fees may be charged for the prekindergarten services unless the program operates for more than six and one-half hours per day and/or more than 180 days per year. Full-day, year-round programs supplement prekindergarten funds with parent fees and child care subsidies for low-income families.

#### **The Connecticut School Readiness Initiative**

Expanding the supply of high-quality early care and education requires a multifaceted approach. The legislatively enacted Connecticut School Readiness Initiative includes several components that are designed to work together to improve the system. These include:

- Funds to help build new facilities;
- Increased operating assistance to programs (in addition to revenue from child care certificates and parent fees);
- Support for a statewide early childhood career development system;
- Support for a statewide early childhood accreditation facilitation project; and
- Funds for planning, mentoring and innovative quality improvement.

Legislators in New York and Oklahoma also have established prekindergarten initiatives that are intended to serve all families, regardless of income. New York's universal prekindergarten program has a unique community planning component that requires school districts to identify family needs in addition to all public and private early childhood programs in the area. A majority of districts are electing to contract with community-based agencies to house or administer the prekindergarten program. Many of these agencies are blending prekindergarten funds with parent fees and child care subsidies to support a high-quality, full-day, year-round program.

### *Head Start*

The federal Head Start program is another important source of operating support for early childhood programs and, like prekindergarten, can help make it possible for programs to provide high-quality services at affordable fees. Although the Head Start program targets

families with incomes at or below the poverty level and children with special needs, federal rules make it possible for states to coordinate these funds with other federal and state child care initiatives.<sup>8</sup>

A growing number of states are taking steps to encourage early childhood program operators to blend child care and Head Start funds. The Vermont Child Care Services Division enters into annual contracts with Head Start programs that offer full-day, full-year services. Programs that receive these contracts are required to share training resources with the wider early childhood community, enroll a minimum of 20 percent non-Head Start eligible children, provide comprehensive Head Start services to all enrolled children, participate in regional planning, and pursue and maintain accreditation from the National Association for the Education of Young Children.<sup>9</sup> Kansas policymakers have used Temporary Assistance to Needy Families (TANF) funds to support a unique partnership between Early Head Start and the state child care subsidy program. Although the contract terms vary widely, many other states—including Florida, Massachusetts and Nebraska—have developed shared funding strategies with Head Start.

### *Policies to Promote Blended Funding*

Effectively blending funds from Head Start, prekindergarten, child care subsidies, parent fees, and other sources can be a complex task. In addition to providing fiscal and management training and technical assistance to early childhood program directors, states can take a number of steps to ensure that funds from multiple sources can be combined. These include establishing common funding standards and monitoring practices for all early care and education funding streams and coordinating or consolidating requests for proposals and program contracts.

States that have conducted evaluations of their coordination policies have learned that there are many positive effects. Results include increased family access to early childhood services, such as more affordability, more full-day, full-year flexibility; and greater continuity of care for children. States also have learned that their collaborative policies have led to more efficient use of public funds, including less service duplication. Some states also found better quality and more comprehensive services.<sup>10</sup>

An effective way to blend funding is for all the public agencies involved in providing financial support for early care and education to agree on a cost per child for a full-day, year-round program. For example, all the relevant administrators in a particular state could agree that the annual cost per child for a full-day, year-round program that meets the state's high-quality child care/school readiness standards is \$8,000. A portion of this per-child cost will be paid by social services, a portion by education, a portion by Head Start, a portion by parent fees, and so forth. Under this approach, all the administrators agree to a common budget and monitoring process, a single reporting or accountability system, and so forth.

## **Supports for Home-Based Child Care**

Although the number of center-based child care programs is growing rapidly, in many communities and states a significant percentage of child care services is provided in private homes. These small, home-based businesses, generally run by a sole proprietor, typically care for up to 12 children. Although home-based providers also have difficulty securing the capital they need to establish or expand their programs, early childhood leaders have



learned that strategies to expand the supply of home-based child care are quite different from those used to expand center-based care. Successful strategies typically include targeted recruitment, training and technical assistance; support for family child care networks; and grant or loan programs.

### *Recruitment, Training and Technical Assistance*

State policymakers have found that one of the most effective ways to expand the supply of high-quality family child care homes is through child care resource and referral (CCR&R) services. This service includes recruiting potential family child care home providers, helping them to become regulated, and offering a range of training and technical assistance services aimed at increasing their skills as small business owners and early childhood professionals. In addition, CCR&R agencies include the family child care homes in a referral data base, making them easier to find by parents who are seeking child care.

Nearly all states contract with an outside entity to provide CCR&R services; this typically is a nonprofit, community based organization. In addition to helping to expand the supply of family child care, CCR&R agencies provide a range of quality improvement, planning and data collection services. (Chapters three and four contain more examples of these efforts.)

Some related initiatives enacted recently by state legislatures include:

#### **Supports for Family Child Care**

Although the size and regulatory status of family child care homes vary widely from state to state, these providers have common problems, which include the following.

- Most family child care providers are isolated, with little or no contact with other early childhood professionals. Because they work from their homes, they can be invisible to consumers, and parents may be unaware of the child care homes that are available in their own community.
- Family child care homes are small businesses. As a result, they are vulnerable to fluctuations in enrollment and changes in state or local child care subsidy policies. A family child care program must stay fully enrolled and receive timely payment from parents and/or the state, or it could quickly go out of business.
- Family child care providers face many business obstacles. They not only have limited access to capital (unless they use their own home as equity or a establish personal line of credit), but they also frequently have little or no experience running a business.
- Family child care providers often find it difficult to secure employee benefits such as health insurance. Most have no support for sick or vacation leave.
- Many family child care providers began their careers as mothers or as friends, neighbors or relatives who were caring for the children of working parents. Many have little or no training in child development.

- Extension of the California Child Care Initiative Project, a public-private partnership that funds child care resource and referral agencies to recruit and train new family child care providers.
- Minnesota's law that allows child care service development grants to be used for resource and referral programs, start-up of child care facilities, and family child care technical assistance.
- Expansion of Montana's resource and referral grant program to improve the availability of quality child care and school-age care.<sup>11</sup>

Early childhood leaders also have developed innovative strategies that link family child care training, technical assistance and program assessment. An Alaska initiative, for example, offers mini-grants to providers who complete specialized infant/toddler training. A portion of the grant is released early to pay for the training. A second grant payment, awarded after the training is completed, can be used to help pay for needed supplies and equipment. The third and final payment is released after the provider enrolls a new infant or toddler. Policymakers in Iowa have developed an Infant Mentor Center that links registered family child care homes to a center-based program for enhanced training and support. In 2001, the Texas Legislature re-

quired a pilot program to focus on recruitment, training and mentoring of family child care home providers. The Florida Legislature established an initiative called Caring For Kids. One project of this initiative involves securing resource vans to visit family child care homes and distribute training materials and supplies.<sup>12</sup>

### *Family Child Care Networks*

Another way to expand the supply and strengthen the quality of family child care is through family child care networks.<sup>13</sup> A family child care network is a group of family child care providers organized by a child care center, provider association, child care resource and referral agency, employer, or other proprietary or nonprofit organization. Family child care homes that join the network receive many support services, such as:

- Access to the USDA child care food program;
- Help with billing, fiscal management and fee collection;
- Parent referrals;
- Training and technical assistance;
- Grants or loans for equipment;
- Access to group purchasing plans for supplies and/or employee benefits; and
- Assistance in meeting state and local regulations.

Legislators and other policymakers have taken steps to encourage and support family child care networks. Mississippi policymakers established a pilot project to increase the number of family child care homes that provide infant/toddler care and participate in a formal child care network. Providers who meet these criteria are eligible for a higher rate of reimbursement. Policymakers in Florida provided a grant to the Florida Family Child Care Home Association to 1) increase the number of providers, with a special emphasis on those that serve infants; 2) offer training and technical assistance; and 3) contribute to retention through a variety of support services. The District of Columbia's City Council allocated funds to support family child care networks and satellite family child care systems that recruit and train providers and also offer technical assistance.<sup>14</sup>

The Rhode Island Department of Human Services currently has a pilot program for a family child care substitute initiative in one of its family child care networks. When the provider is ill or needs to take a day off, funds are made available to support substitutes in family child care homes that participate in the network.

Sometimes the agencies that sponsor family child care networks also provide financial assistance to the programs (in addition to the revenue they collect from families and/or receive from child care certificates) to cover the cost of meeting higher quality standards or providing additional services.<sup>15</sup> The New York Legislature and policymakers in Illinois and Massachusetts allocated funds to support family child care networks.

### *Access to Capital*

Many state legislatures support mini grant initiatives that make funds available to help start new family child care homes or improve the quality of an existing home. The New York Legislature has established such an initiative. The program, administered by local organizations (primarily CCR&R agencies), makes available grants of up to \$500 for the

purchase of the equipment, toys and supplies needed to open a family child care home or to improve an existing home.

Like child care centers, family child care providers who need to borrow money to renovate space for child care often find it difficult to obtain a loan. To address this need, several states have developed loan programs that target family child care providers. Although these programs are sometimes administered by the state—such as the Special Child Care Revolving Loan Fund that is administered by the Maryland Department of Business and Economic Development—in most cases, states elect to have a nonprofit entity administer the funds. The Child Care Facilities Fund (CCFF) in San Francisco, which is administered by the nonprofit Low-Income Housing Fund, has a family child care assistance program in addition to several other loan and grant products for child care businesses. Licensed family child care home providers may borrow up to \$10,000 to meet one-time capital expenses. CCFF also provides one-on-one technical assistance on facility development and business management.

Family child care providers located in low-income neighborhoods face unique barriers. Many of them provide care in rented space and may be unable to adapt the space so that it is suitable for a family child care home unless their landlord agrees to make the changes. To help address this need, several state leaders have begun to work with low-income housing experts to explore the feasibility of combining supports for housing and child care. One example is the Enterprise Child Care pilot home ownership program in Los Angeles, California. Through a unique funding partnership involving the city of Los Angeles, Freddie Mac, local banks and foundations, family child care providers have been given the opportunity to purchase homes that were built or renovated to include space for family child care. In addition to financial support, participating providers receive training, technical assistance and one-on-one financing counseling.

Helping family child care providers repair their homes is another way to expand the supply of home-based care. Some agencies that administer loan programs to child care providers (such as the San Francisco Child Care Facilities Fund and Enterprise Child Care) also have developed repair initiatives.

## Supports for the Child Care Industry

Effectively expanding the supply of high-quality child care often requires that state legislatures develop a range of strategies to address the unique needs of center- and home-based providers. Some concerns are common to the field as a whole, however, and may be addressed collectively. Common concerns include the shortage of qualified teachers, high staff turnover, low wages and benefits, and limited involvement from the private sector. Policymakers are learning that these issues can be addressed through broader initiatives that seek to increase investment in the child care industry as a whole. Some of these initiatives are described below.

### *Wage and Benefit Initiatives*

By far, the largest expense in an early childhood program is personnel, and the most troubling problem faced by early childhood program directors is attracting and retaining the qualified staff they need to ensure high-quality care and education. To address this need, a growing number of state legislatures have begun to establish early childhood wage and

benefit initiatives that offer ongoing operating support. Perhaps the most well known initiative is North Carolina's WAGE\$ Project, which was initiated by the legislature in 1994. WAGE\$ provides stipends directly to qualified teachers and directors who work in regulated child care programs, thereby improving the quality of teachers without raising program costs or fees. Staff in both child care centers and family child care homes are eligible to participate in WAGE\$. Illinois, New York, Oklahoma and Wisconsin policymakers have implemented initiatives modeled on WAGE\$. Other states, such as California and Washington, have established initiatives that seek a similar outcome but award funds to the early childhood program rather than directly to the staff person.

The Rhode Island legislature recognized that employee benefits can be as important as wages. To this end, it enacted legislation that makes fully paid health care coverage available to center- and home-based child care programs that serve a minimum percentage of low-income children. The coverage is provided through RItE Care, the state's publicly funded health insurance program for the uninsured. A North Carolina initiative also subsidizes the cost of health care coverage for child care programs that participate in the T.E.A.C.H. Early Childhood® associate or bachelor degree scholarship programs. As noted in chapter 4, the North Carolina T.E.A.C.H. initiative has succeeded in reducing provider turnover.

### *Building the Workforce for Early Care and Education*

Early education is rooted in relationships. Through close relationships with skilled teachers and caregivers, young children develop the social, emotional and pre-academic skills they need to succeed.<sup>16</sup> Several years ago, a task force that was established by the Carnegie Foundation to focus on early learning reported that helping teachers master effective practices was one of the best investments taxpayers could make in children's learning.<sup>17</sup> In sum, good teachers are key to good early childhood programs.

Child care programs struggle to recruit and retain skilled early childhood teachers. Wage and benefit initiatives are an important support, but so are professional development initiatives aimed at building a career lattice and articulated training and education system for early childhood practitioners, increasing the number of colleges and universities that offer early childhood degrees, targeting scholarship and loan forgiveness initiatives to encourage early childhood majors, and rewarding staff who attain early childhood credentials. (These efforts are discussed in more detail in chapter 4, "Financing Quality Child Care.")

Some states have begun to develop public education and incentive packages aimed at recruiting new early childhood teachers. New Jersey, for example, recently established a \$5 million package of incentives to recruit preschool teachers for the Abbott Preschool Program. The package includes a first-year cash recruitment bonus, non-cash rewards that will be given over four years to teachers who remain in the program, and laptop computers for all newly recruited teachers.

## **Tax Credits and Other Alternative Financing Strategies**

As the demand for child care assistance grows, so does the strain on state budgets, making it more difficult to secure additional direct appropriations for child care programs. As a result, states have begun to test the feasibility of using tax credits to help support the child care industry.

### *Employer Tax Credits*

Employer tax credits are the most common. According to the National Women's Law Center (NWLC), 27 states provide some sort of tax assistance to employers that provide or subsidize child care.<sup>18</sup> Research conducted by NWLC has revealed that in most states very few employers have claimed these credits. In 16 of the 20 states for which data are available, five or fewer corporations claimed the credit out of tens of thousands of corporations that filed state tax returns.<sup>19</sup>

The experiences in two states—Colorado and Georgia—suggest that tax credits might be a successful way to encourage private sector investment in child care if the benefits are large enough and/or the credit is expanded to include contributions made by all taxpayers, not only employers. Based on the number of inquiries received by the state Department of Revenue, it appears that interest in the Georgia employer child care tax credit increased when it was raised to allow companies to claim a credit of 75 percent of their investment in employer-sponsored care and 100 percent of the investment if they construct an on-site facility. (Prior to the change, which took effect in January 2000, the credit was 50 percent for both types of expenses.)<sup>20</sup>

Colorado has established a child care contribution credit that is available to any individual or corporation that makes a monetary contribution to promote child care in the state. The credit, equal to 50 percent of the contribution, is limited to \$100,000 per taxpayer. An NWLC analysis found that, although utilization data for this credit are not available, data from an earlier, more restrictive version of the credit suggests that it has attracted more claimants than similar credits limited to employers. However, NWLC also found that the average contribution is relatively small—\$2,000 per claimant, which is a fraction of the cost to a provider of making large-scale improvements.<sup>21</sup>

Use of employer child care tax credits may increase now that Congress has passed a new law that establishes a federal child care credit. Beginning in tax year 2002, employers may claim a credit on their federal income taxes equal to 25 percent of expenses to acquire, renovate or operate a child care center or to contract with a child care facility to provide child care services for their employees, or 10 percent of expenses for child care resource and referral services. The maximum credit that can be claimed is \$150,000 per year. The combined benefits of a state and federal tax credit might convince more businesses to help their employees pay for child care.<sup>22</sup>

### *Investment Tax Credits*

Employer tax credits are designed to encourage businesses to invest in child care on behalf of their own employees. However, legislators also can develop tax policy that encourages investment in the child care industry as a whole. In 2001, the Oregon legislature took this approach when it enacted the Pilot Corporate Child Care Tax Credit, a new initiative modeled after the success of the federal Low-Income Housing Tax Credit (LIHTC). Like the LIHTC, the child care pilot program allows businesses to receive a significant financial return on their investment. Under the Oregon program, businesses may use the funds they invest in the child care industry to purchase tax credits that have a value greater than their initial investment.<sup>23</sup>

### 3. RESOURCES TO SUPPORT FAMILIES

Because of the high cost and limited availability of good quality child care, state governments' roles in supporting families has become increasingly critical. Child care is an essential and costly support for all working families, regardless of family income. For parents whose earnings are at or close to the poverty level, however, the high cost of quality child care can be a significant barrier.

#### Two Approaches to Help Families Pay for Early Care and Education

- Make Portable Assistance Available Directly to Families
- Provide Direct Institutional Assistance

This chapter highlights state policy options and examples to help families pay for early care and education, whether in a child care center, a family child care home, a relative's home or the parent's own home. The first part of the chapter covers state issues and policies that specifically address low-income families' child care needs. The second part of the chapter discusses state policy choices that can support early care and education for families of all incomes.

State legislatures can help families pay for early care and education through two primary approaches—by making portable assistance available directly to families or by providing direct, institutional assistance to child care programs. Portable assistance typically is linked to a specific child or family and can follow the child to whatever program the parent selects. Examples of portable subsidies include child care certificates or vouchers for low-income families and tax credits for families at all income levels. Direct, institutional assistance typically is linked to a specific program, that is required to serve a group or classroom of children. Head Start, state prekindergarten initiatives, and grant or contract-based child care or school-readiness initiatives are examples of direct, institutional assistance.

States can use both portable and direct aid to help families gain access to affordable early care and education, and most federal or state child care and early education funds can be used for either type of aid. Some states are beginning to explore innovative ways to combine portable and direct assistance in a single program. Not only does this combined approach make it easier to serve families at all income levels in a single site, it also helps to stabilize program quality and supply.

#### Financing Low-Income Child Care

A two-parent family with both parents working full time at minimum wage earns just \$21,400 before taxes. In 1998, one of three families with children younger than age 6 earned less than \$25,000.<sup>1</sup> If these families had to pay the market price for child care



(which averages between \$4,000 and \$6,000 per year per child and can be much higher in some urban areas), it would consume a sizable portion of their take-home pay. Indeed, policymakers have long understood the need to help this population.

Key questions surround the specifics of the subsidy programs, including:

- What funds should the state use for low-income child care?
- How much funding should the state make available?
- What income levels should be served or prioritized?
- What percent of eligible families does a state serve by the funds available?
- How much of a financial contribution (copayment) should the state require from a parent?
- How much should the state pay for the child care services?

Decisions for these and other child care subsidy issues are in the hands of state policymakers and legislators in particular. Legislators in many states are largely responsible for deciding funding amounts, which funds should be used, how funds are directed, and requirements for publicly funded programs. A federal law provision, known as the Brown Amendment, authorizes state legislatures to make spending decisions about child care and welfare funds.

An important consideration in supplying early care and education resources is how much spending will be necessary to meet a state's demand. Most states are only able to serve a fraction of eligible, low-income families. The primary reason for these low utilization rates is that resources are insufficient to cover all eligible families. Despite the challenges states face in meeting demand, in recent years they have steadily increased funding directed to low-income child care, according to a U.S. General Accounting Office (GAO) report and a 17-state study conducted by Abt Associates.<sup>2</sup>

### *Revenue Sources*

A variety of federal and state funding streams can be used to help low-income families pay for child care. The next section describes the two largest current sources of funds for child care services, the Child Care and Development Block Grant and the Temporary Assistance for Needy Families block grant.

#### *Child Care and Development Block Grant (CCDBG)*

The Child Care and Development Block Grant (CCDBG), also known as the Child Care and Development Fund (CCDF) is a federal/state funding partnership that is the primary public funding stream for child care services. The CCDBG has an upper income eligibility limit of 85 percent of the state median income (SMI), which ranges from about \$31,000 to \$54,000 per year, depending on the state. In FY 2002, the federal government funded the CCDBG at \$4.8 billion, and states are estimated to spend approximately \$2 billion because of their maintenance of effort and matching requirements under this funding stream.

States use CCDBG funds to help pay for child care services to eligible families. Federal law requires states to set aside a minimum of 4 percent of the total CCDBG allocation for quality improvements, although states may spend more than 4 percent—and many do. The federal government also has set aside a small amount of funds for infant and toddler care and for child care resource and referral (CCR&R) services and school-age programs. (Chapters two and four discuss ways that states have used CCDBG funds to expand supply

and improve the quality of child care programs.) The specific amounts and percentages of these set-asides may change with reauthorization in 2002.

The CCDBG has several specific components. Under current rules, states receive discretionary funding from the federal government, which requires no state match. States also receive “mandatory” and “matching” CCDBG funds. To receive these funds, states must maintain a minimum level of spending, which was set in the first year of implementation (1997 in most states). The CCDBG allows states two years to decide how to obligate their CCDBG funds before they are reallocated to other states. Again, these specific rules may change with reauthorization in 2002.

#### *Temporary Assistance to Needy Families (TANF)*

The federal Temporary Assistance for Needy Families (TANF) Block Grant, established in 1996, provides a fixed amount of federal funds for state-designed, time-limited and work-conditioned support services for low-income families. These federal “welfare” funds are not limited to cash assistance for families on welfare. States may use their TANF block grant for a wide range of services for low-income families, including subsidized child care.

Federal law allows states to use TANF funds for child care in two ways:

1. They may transfer up to 30 percent of their current year TANF allocation to the Child Care and Development Block Grant (CCDBG); and
2. They may spend an unlimited amount of TANF funds directly for child care.

Because transferred funds become subject to CCDBG rules, they may be used for families with incomes up to 85 percent of the SMI as well as for quality initiatives. A recent report found that states transfer a median amount of about 20 percent of their TANF funds to child care, although the range actually is from 0 to 30 percent. Although direct TANF expenditures must follow TANF rules (with some exceptions), a growing number of states are expanding child care subsidy programs by using this option.<sup>4</sup> States have one year to obligate TANF and two additional years to spend this money. If a state does not obligate TANF funds within one year, that state must spend the funds on “assistance,” defined as cash, food or housing.

With the thriving economy during the late 1990s, welfare caseloads dropped significantly—by 57 percent since the federal welfare law’s enactment in 1996—freeing up funds that otherwise may have gone for cash assistance. Many states chose to redirect these funds to child care, either by transferring TANF funds to the CCDBG or by directly spending TANF on child care services. Several national reports have noted that child care not only has received the biggest redirection of TANF funding—about 25 percent of the total fed-

#### CCDBG or CCDF

The Child Care and Development Block Grant (CCDBG) is also known as the Child Care and Development Fund (CCDF). The words are interchangeable; policymakers in some states use CCDBG, while others use CCDF. This guide uses CCDBG, which is comprised of three main parts that are described below. Overall, federal CCDBG funding in FY 2002 is estimated to total \$4.8 billion, with an additional \$2 billion in state matching and maintenance of effort (MOE) funds, for a total of approximately \$6.8 billion. Funding for each component of the CCDBG is detailed below.

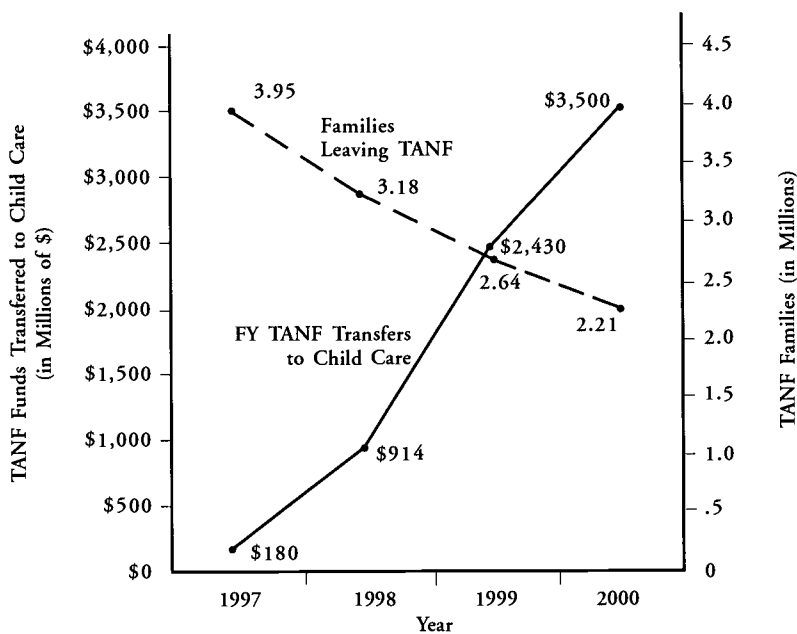
- **Discretionary Funding**—This is the annual amount appropriated by Congress to the states, subject to annual change. In FY 2002, Congress appropriated \$2.1 billion to states.
- **Mandatory Funding**—Each state is guaranteed a base allocation each year based on the allocation the state received in 1994 or 1995. The federal government allocated about \$2.7 billion to the states in mandatory funds in FY 2002. About \$1.2 billion of this amount is the base funding and about \$1.5 billion is available to states through a match (see below).
- **Matching Funding**—To be eligible for matching funds, a state must obligate its base allocation by the end of the fiscal year and meet maintenance of effort requirements. This means that a state must maintain 100 percent of its child care spending for either 1994 or 1995, whichever is higher. States can access these funds at their Medicaid matching rate. In FY 2002, the states are expected to spend about \$1.2 billion in total to match federal money, and the states must spend nearly \$900 million in total for their maintenance of effort requirement.<sup>3</sup>



eral allocation—but that most of the recent state expansions in child care assistance have been financed with TANF funds. The TANF amounts that states spent on child care more than tripled in one year from FY 1998 to FY 1999; in FY 2000, states again increased TANF spending for child care for an annual total of approximately \$3.9 billion.<sup>5</sup>

State spending of TANF funds for child care also reflects a growing need for child care funding for low-income working families that have either left welfare or never were on it. The number of states spending TANF funds for child care for parents who are not receiving TANF doubled in FY 2000. In FY 2000, 77 percent of TANF funds went to families for nonassistance, meaning at least one parent is employed or the child care is short-term.<sup>6</sup>

**Figure 5. Increase in TANF Spending on Child Care Relative to Decline in TANF Families from 1997 to 2000**



Source: Andrea Wilkins, *Child Care Experiences of Former TANF Recipients* (Denver: National Conference of State Legislatures, 2002).

TANF fund expenditures are not limited to child care subsidies; they may be used for a wide range of services. State policymakers have shown substantial creativity in using these funds for early childhood services. Some examples are described in the sidebar below.

### *Social Services Block Grant*

In FY 2002, Congress allocated \$1.7 billion to the Social Services Block Grant (SSBG). Based on population data, the federal government allocates funds from the SSBG to states, which have the authority to direct the funds to child care, family planning services, foster care and other services necessary to support children and families. In 1999, 54 percent—or 6.8 million—of those who received services supported by SSBG funds were children. Child care accounted for 13 percent—\$224 million—of total SSBG funds in FY 2000. Forty-three states have reported spending SSBG funds to provide at least some financial support for child care services and, combined, have served more than 2.6 million children.<sup>8</sup>

### Ways that States Increased Low-Income Families' Access Through Using TANF for Child Care

- Sixteen of the 25 highest transfer states eliminated or prevented a waiting list through TANF spending.
- Eleven states increased income eligibility.
- Three states and the District of Columbia lowered copayments.
- Fifteen states increased reimbursement rates; some states increased differential rates.
- Twenty states improved quality.
- Five states and the District of Columbia collaborated on or expanded a prekindergarten or Head Start program.<sup>7</sup>

### *State Funds*

In addition to using federal funds for early childhood services, states spend their own funds to supplement Head Start, preschool and child care. States direct their funds to serve more families and to support child care quality improvements, such as facilities improvements, provider training and early education initiatives. Precise data on the total amount states spend for early care and education programs are not available. Some ex-

perts estimated, however, that in federal FY 2000, state contributions totaled about \$6.6 billion (see figure 6).

**Figure 6. State Funding for Child Care, FY 2000 (in millions of dollars)**

State Preschool Program and/or Supplement to Head Start	\$2,520*
Child Care and Development Fund Match	728#
Child Care and Development Fund MOE	1,028+
Child Care Optional State Funds (over CCDF match and MOE)	1,735‡
State Child and Dependent Care Tax Credits	590†
State Employer Tax Credits	7.5±
Total	\$6,608.5

Notes:

\* A. Mitchell *Prekindergarten Programs in the States: Trends and Issues. Early Childhood Policy Research, 2001.* (Copies available at [nccic.org](http://nccic.org).)

# This represents state matching funds minus those for prekindergarten or from the private sector, from Child Care Bureau allocations data. <http://www.acf.dhhs.gov/programs/ccb/research/00acf696/00acf696.xls>

+ This represents state MOE in FFY 2000, as reported in Child Care Bureau data, <http://www.acf.dhhs.gov/programs/ccb/research/00acf696/00acf696.xls>, minus funds for prekindergarten.

‡ This number represents the sum of the following: —Total expenditures of state dollars for child care TANF MOE in excess of CCDF MOE (\$843.01), as reported in table 6, pg.16 of R. Schumacher, M. Greenberg & J. Duffy, *The Impact of TANF Funding on State Child Care Subsidy Programs*, (Washington, D.C.: The Center for Law and Social Policy.

-- Total state "optional" expenditures (general fund and child protective services) for the 16 states that participated in the 2001 updated Abt/NCCP study of low-income child care (\$891.97). These states include Alabama, California, Illinois, Indiana, Louisiana, Massachusetts, Michigan, Minnesota, New Jersey, New Mexico, North Carolina, Ohio, Tennessee, Texas, Virginia and Washington.

† Elisabeth Hirschhorn Donohue and Nancy Duff Campbell, *Making Care Less Taxing: Improving State Child and Dependent Care Tax Provisions*, (Washington, D.C.: National Women's Law Center, 2002), 13. Update to this report: *Recent Changes in State Child and Dependent Care Tax Provisions: Tax Year 2001*, January 2001.

± Christina Smith FitzPatrick and Emily Martin, *The Little Engine That Hasn't: The Poor Performance of Employer Tax Credits for Child Care*, (National Women's Law Center, forthcoming).

(The tax credit totals are based on most recent data as of FY 2000).

State policymakers are developing innovative strategies to finance early education programs. Such strategies include local contributions, tobacco settlement money, lottery funds, and beer and tobacco taxes. At least seven states—Arkansas, Nebraska, New York, South Carolina, Texas, Virginia and Wisconsin—require a local contribution to the state child care or early childhood education program, and local matches in three other states—Kentucky, Maryland and Massachusetts—constitute a large portion of program funds. Kansas, Kentucky, Maine and Missouri use tobacco settlement funds for early education programs. In 1998, Kentucky legislators developed the Motor Vehicle Registration Child Care Assistance Account to support costs associated with subsidized child care and for working families whose incomes exceed child care assistance eligibility guidelines. Massachusetts uses fees from license plates for child care provider training and other quality improvements.<sup>9</sup>

In 1998, California voters approved a 50-cent tobacco tax, which raises about \$600 million annually. In Missouri, the Early Childhood Development, Education and Care Fund was appropriated \$21 million in FY 1999-2000 from the Gaming Commission Fund. These funds are directed toward start-up, improvement and expansion of preschools, child care subsidies for low-income families, and an at-home tax credit for families with children under age 3. In 2001, Arkansas legislators directed a tax on alcoholic beverages to preschool and low-income child care. Initiated by state legislation several years ago, a volun-

tary income tax check-off in Colorado has raised more than \$230,000 for preschool and child care.<sup>10</sup>

The Florida Legislature enacted the Florida Child Care Executive Partnership (CCEP) in 1996 to develop a financing mechanism for low-income child care. A business that is interested in providing child care for its low-income, eligible employees may contribute to the fund directly, or it may contribute via a community purchasing pool that combines funds from various sources (including United Way, local government, private fundraisers, and so forth.) Under the law, the state matches the business and community contributions dollar-to-dollar. Families with an income at or below 200 percent of the federal poverty level (FPL) are eligible to receive subsidies from the CCEP. In FY 2002, the Florida Legislature appropriated \$15 million to match \$15 million spent by the business community.<sup>11</sup>

### *Preschool and Head Start Funds*

State legislators and other policymakers are recognizing that a system of early care and education that draws on and coordinates funds from a variety of sources—including child care, preschool and Head Start funds—can improve access and quality. Because the target populations and early learning goals of these initiatives are so similar, a growing number of providers now are offering comprehensive, community-based child development programs that offer full- and part-day services for children of many ages. This approach allows early childhood programs to offer high-quality services by “layering” funds from child care, Head Start, prekindergarten, the private sector, parent fees, and other sources. State legislators can implement policies to encourage this coordinated approach to financing and service provision. Indeed, in a 2001 survey, NCSL found that three-quarters of the states have laws that provide in some way for child care–preschool coordination.<sup>12</sup> In addition to these laws, state and local governments are establishing a wide array of coordination policies that have helped stretch early childhood funds.

States can encourage “layered” funding in two ways:

1. By establishing policies that allow programs to easily combine portable child care assistance with direct prekindergarten or Head Start funds; and/or
2. By awarding direct “wrap around” child care grants that can be used to lengthen a part-day preschool or Head Start program.

Both strategies are effective ways to offer children opportunities for early learning, provide family support, and meet the needs of working parents. In addition to legislative support for a layered approach to finance, both strategies require that states or local governments establish common policies and procedures so that program operators who blend funds from multiple sources do not have to struggle with conflicting regulatory, administrative or fiscal requirements.

Preschool funding sources which vary by state, include general funds, school district formula funds, and unique origins in some states, such as a lottery in Georgia and riverboat gambling in Missouri. Head Start funds flow from the federal government directly to local grantees. Each state also has a Head Start collaboration office that can help to strengthen coordination between this federal program and state preschool and child care efforts. Some states have enacted additional laws or policies that:

- Require a child care program that receives state funding to collaborate with preschool and/or Head Start programs and vice versa, including blending funding, standardizing regulatory requirements, or co-locating facilities. (Alabama, Arizona, Colorado, Connecticut, Florida, Hawaii, Iowa, Indiana, Louisiana, Maryland, Massachusetts, Michigan, New Jersey, New York, Ohio, Oregon, Rhode Island, Tennessee, Texas, Virginia and Wisconsin).
- Create a single state agency to administer or coordinate all early childhood funds, programs and services in the state. (Arkansas, California, Florida, Hawaii, Kansas, Kentucky, Maryland, Michigan, Mississippi, Nebraska, New Jersey, South Carolina, Texas, Washington and West Virginia).
- Require or encourage existing state agencies to plan and conduct collaboration policies. (Alabama, Connecticut, Florida, Minnesota, Nebraska, Oregon, Texas, Virginia and Vermont).
- Evaluate coordination policies and make recommendations. (Arkansas, Colorado, Florida, Hawaii, Iowa, Kentucky, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Oregon, South Carolina, Texas and Washington).
- Streamline definitions to help merge the two systems. (California, Iowa, New Hampshire, North Dakota, Tennessee and Wyoming).<sup>13</sup>

### *Expanding Access and Affordability*

State efforts to increase funds for low-income child care directly affect parents' access to child care services. More public resources translate into greater state options to expand and improve child care assistance policies. These options often include some or all of the following:

- More families being served,
- Greater affordability for parents, and
- Better quality services.

### *Eligibility Levels and Policies*

For a family to receive child care assistance under the CCDBG, federal law requires the family to earn less than 85 percent of the state median income (SMI.) The annual income reflected by this percentage varies by state. On average, 85 percent of the SMI roughly translates to about \$40,000 per year, but state median income levels vary significantly. Some states set their income eligibility as a percentage of the federal poverty level (FPL). (Each state's eligibility level, reflected in terms of SMI and FPL, is shown on the 50-state chart in the appendix on pages 55-59. The FPL numbers are from 2001, when research for this book was conducted.)

Because child care funds are limited, most states have elected to establish income eligibility ceilings that are lower than the federal maximum. In fact, only four states have set their state upper income eligibility limits at the federal maximum. Most state income eligibility levels vary between about 50 percent and 60 percent of the SMI. Only about a quarter of the states have income eligibility limits above \$30,000 per year for a family of three. To help stretch limited funds without raising the eligibility ceiling, 10 states have established

“exit” income eligibility levels that are higher than the “entry” levels, so families can gradually make the transition from child care assistance as their earnings increase. Two states—Colorado and Texas—allow local governments to establish local eligibility levels. Only Virginia sets different eligibility limits for different regions of the state.<sup>14</sup>

Due to the strong economy and increased availability of TANF funds in the late 1990s, state leaders took steps to serve more families in their child care subsidy systems. One direct strategy to accomplish this goal was to increase eligibility limits. This was done in

#### Waiting Lists

Income eligibility ceilings mean very little if a state lacks the funds to serve all the families that are eligible. Based on December 2001 data from the Children’s Defense Fund (CDF), 20 states have insufficient funds in their child care system to serve all eligible families, resulting in a waiting list or a freeze on intake of new applicants.<sup>19</sup> A recent GAO report noted that both California and Texas have established income eligibility limits of 75 percent and 85 percent of SMI, respectively, but spend only enough to serve families earning up to 50 percent of the SMI. Because of insufficient funding in both states, each has a waiting list.<sup>20</sup> CDF reports that California’s waiting list totaled 280,000 eligible children, and Texas’s list consisted of nearly 37,000 eligible children. Other states routinely keep waiting lists of eligible families. Numbers of children on waiting lists as of December 2001 include about 46,800 in Florida, 25,000 in North Carolina and 18,000 in Massachusetts.<sup>21</sup>

21 states in the past two years, either through legislation or administrative changes.<sup>15</sup> Nearly a quarter of the states expanded their income eligibility limits specifically using TANF funds in the past two years.<sup>16</sup> Wisconsin planned to increase the state’s eligibility ceiling from 165 percent to 185 percent of the FPL in 1999-2000, using \$350 million in carryover TANF funds. The state allows families to remain eligible until their incomes reach 200 percent of the FPL.<sup>17</sup> In 2001, Virginia legislators enacted a law requiring the state Department of Social Services to re-

port on strategies for increasing child care services to families with incomes at or below 185 percent of the FPL.<sup>18</sup>

#### *Assuring Child Care for Some Families*

As noted above, states have used a range of funds—CCDBG, TANF, SSBG, Head Start, prekindergarten, state general revenues, and other innovative sources—to expand low-income families’ access to early childhood services. In most cases, however, these funds still were insufficient to serve all eligible families. To address this concern, many state policymakers decided to target funds to specific populations. These groups included families just leaving welfare, families at-risk of welfare, families with very low incomes, children with special needs or who need protective services, teen parents, and parents who are working full time.

**Families on Welfare.** Although some states have elected to use TANF and CCDBG funds to ensure that all income-eligible families received help to pay for child care, most states still focus on welfare status when determining top priority for ensuring child care assistance. A federal report on state plans found that 29 states and the District of Columbia guarantee child care to TANF recipients who are employed, in job training or in a welfare reform activity.<sup>22</sup> The document reported that 18 states give TANF recipients first priority and families transitioning off of welfare second priority. GAO found that more than half the states made TANF or former TANF recipients the first or second priority for child care assistance.<sup>23</sup> Officials in all seven states that GAO studied closely said that the state had spent sufficient funds to serve all children from TANF or former TANF families, but were uncertain that it would cover all eligible families.<sup>24</sup> Since 1996, legislatures in several states have codified such a provision in statute. Recent examples include the following.

- A 2000 West Virginia law requires welfare responsibility contracts to include assurance of proper child care.

- A 2001 Maine act requires the state to provide child care to TANF-eligible parents when care is necessary for the parents' participation in the state's welfare reform program.
- A 2001 Connecticut bill proposed to excuse TANF families from failing to participate in work activities due to unavailability or inaccessibility of safe and adequate child care or the state's inability to guarantee payment of care. Recent state regulations provide for this exemption.<sup>25</sup>

**Families Leaving Welfare.** A recent U.S. Health and Human Services (HHS) study of 25 communities found that, although most states prioritized TANF families, non-TANF families comprised the largest proportion of subsidized families. Some of these families may be former TANF recipients.<sup>26</sup> As mentioned above, states generally identify welfare leavers as the second child care priority, just behind welfare recipients. Twenty-eight states and the District of Columbia have a child care guarantee for transitioners, as long as their incomes are below the state's eligibility ceiling.<sup>27</sup> A former federal law required states to give a one-year entitlement of child care assistance to families that were making the transition from welfare, but Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) eliminated this requirement, leaving states the authority to guarantee care to these families. Recent state laws reflect this priority in some states. Some examples include the following.

- A 1998 California law gives former welfare recipients child care for 24 months after they leave cash assistance.
- In 1999, Iowa legislators required that child care assistance be made available to families leaving welfare until their income eligibility expires.
- In 2000, Minnesota lawmakers allowed former welfare recipients to be eligible for transitional child care if they left welfare, regardless of increased earnings.
- In 2000, Virginia legislators required a study of low-income families'—including former TANF recipients—child care needs to ensure that these families receive adequate child care assistance.<sup>28</sup>

Recent national and state analyses have revealed that most people who have left TANF have done so for jobs. In fact, more than 1 million mothers have entered the workforce since PRWORA was enacted in 1996.<sup>29</sup> It is critical to note key trends among these families that have left welfare ("leavers"), including the following.

- Most leavers' earnings remain below the poverty line, continuing their reliance on a subsidy to afford child care services.
- Welfare leavers who are working often cite child care problems as the most significant barriers to work. Others point to it as a contributing factor.
- Many former welfare recipients are unaware that they have access to child care subsidies; this may contribute to low child care assistance usage rates.<sup>30</sup>

For state legislators, these findings raise many important policy implications. Because families that have left welfare tend to earn less, lawmakers may want to focus on this eco-



nominally fragile population to ensure accessible and affordable state supports such as child care assistance. With child care subsidy usage rates among leavers below 50 percent in all states and below 30 percent in most states, legislators may want to examine and establish state policies that inform families of child care availability or improve access.<sup>31</sup> (See page 34 for options). Another aspect of this issue that has major policy implications is that many welfare leavers work in jobs during nontraditional hours, such as nights or weekends. State policies that help poor families pay for child care during these off-peak work shifts, as well as other expensive or rare forms of child care (special needs care, infant care, high-quality care) can help pave the road to self-sufficiency (see page 33 for more information).

**Families that Are Income Eligible.** In most states, income-eligible families (that is, those with no connection to the welfare system) receive lower priority status when applying for child care assistance. The federal report of state plans documented that 22 states prioritize non-TANF families third behind TANF families and those making the transition from TANF. Connecticut places non-TANF families fifth behind teen parents and children with special needs.

Some policymakers believe, however, that families should not be required or encouraged to apply for welfare in order to receive help paying for child care. To address this concern, these leaders have enacted laws and policies and set funding levels that assure child care subsidies to families with incomes below a specific income level, regardless of whether the family was on welfare. Legislatures in several states have been particularly instrumental in appropriating funds to implement this policy. Of the seven states that the GAO examined closely, three—Michigan, Oregon and Wisconsin—used income as a priority, regardless of welfare status.<sup>32</sup> Several other states also have taken this approach.

- Rhode Island established a legal entitlement to child care assistance for all families below 225 percent of the FPL (about \$31,200 for a family of three).
- Illinois lawmakers appropriated \$100 million in state funds in FY 1998 to be able to serve all eligible families earning below 50 percent of the SMI (currently \$24,243 for a family of three) and established this assurance in statute.
- In 2000, Vermont legislators reinstated a prohibition on capping the child care budget to serve all eligible families<sup>33</sup> (Families of three are eligible if they earn \$31,032 or less).

**Families that Are in Education or Training.** Since the enactment of PWRORA, state policymakers have had more decision-making authority over who is eligible or prioritized for child care services. Among populations that state leaders consider for child care eligibility are parents in training or education. Recognizing the contribution that child care makes to helping these families find jobs and succeed in the workforce, a former federal program directed subsidies to this group. Since 1996, some state legislatures have specified whether these families receive child care assistance and, if so, what their priority is. Some recent legislative examples follow.

- A 2000 Iowa law established state child care assistance to families that are in approved training.

- In 1999, Illinois legislators allocated \$7.5 million for a test program that provides child care assistance to income-eligible, non-TANF families that need care to participate in education or training programs.
- In 2000, the Minnesota Legislature made welfare reform participants eligible for child care if they are in an approved employment and training services activity. The law also provides child care assistance to parents without a high school degree so that they can participate in an education program.<sup>34</sup>

### *Copayments*

A federal CCDBG rule requires that parent copayments are affordable and will help ensure equal access to child care for low-income families. The rule specifically suggests that these parent fees consume no more than 10 percent of a family's income. HHS reported that state copayments vary from 4 percent to 17 percent of families' incomes.<sup>35</sup> A recent Children Defense Fund (CDF) report found that two-thirds of the states require either a copayment of 7 percent of income from a family of three earning below \$21,225 per year or that these states cut off income eligibility at or below this level.<sup>36</sup>

For state policymakers, parent fees represent important considerations and tradeoffs in the subsidy system. To ensure affordability, supply and fiscal accountability, it is important that copayment policy reach a balance between payments that are small enough to remain affordable for low-income families and large enough to pay a portion of the price of the care. Copayments that are too high can make it difficult for families to participate in the subsidy system or can limit parental choice.

Although state legislation rarely covers the details of copayments, lawmakers sometimes examine their states' parent fees when reviewing policies to improve low-income child care systems. Most states require a fee from families with incomes at the FPL, although it is generally a small percentage of a family's income. In 40 percent of the states, a family at the poverty level is required to pay at least 5 percent of its income.<sup>37</sup>

State legislators and other policy leaders can contribute to the discussion of appropriate and affordable copayment levels. Missouri agency officials, for example, consider child care affordable if the price parents pay for care does not exceed 10 percent of their income, less medical expenses. At least two other states—Washington and West Virginia—have studied copayment levels. In West Virginia, administrators specifically investigated the parent fee to ensure affordability, access to more families, and availability of providers.<sup>38</sup>

Affordable copayments can help to reinforce the notion that child care is a shared expense and also can help to prepare families that are coming to the end of a subsidy and will soon have to pay the full price themselves. A CCDBG rule recommends that states avoid a sliding fee scale schedule that attaches a large fee increase to a small increase in parents' wages. Typically, states increase parent fees as a percentage of income as incomes rise, starting sometimes at \$5 to \$10 per month up to the full price of the care.

According to CDF, 10 states reduced or eliminated copayments overall or for particular populations in 2000. Three states—Maine, North Dakota and Ohio—implemented caps of 10 percent of family income. Two states—Alabama and West Virginia—added or increased copayments, and Florida now requires that parents of children in prekindergarten programs pay a copayment. These numbers were similar to CDF findings in 1999.



Some states focused on eliminating or reducing parent fees for families living in near poverty. In 2000, Arkansas eliminated all copayments for families earning up to 156 percent of the FPL. Wyoming reduced copayments for families earning between 115 percent of the FPL and 133 percent of the FPL.<sup>39</sup> Oregon officials reduced the state's parent fees with child care funds that had been budgeted for payments but were redirected because of application overestimates. Wisconsin officials reduced copayments during the past two years by using some of the state's \$350 million in carryover TANF funds.<sup>40</sup> Two other states and the District of Columbia used TANF funds to reduce copayments.<sup>41</sup> Texas leaves copayment policy decisions to local workforce boards, although the state recommends between a fee of between 9 percent and 15 percent of family income.<sup>42</sup>

**Using the Cost or Price of Care to Determine the Copayment.** Although 80 percent of the states base copayments on the percentage of a family's income, several states use other means to formulate the parent fee.<sup>43</sup> Five states base parent fees on a percentage of the price of care, and six states base it on a percentage of the public reimbursement rate, which is based on the price of care. Under these policies, a family pays more for child care if it is more expensive.

Linking copayments to the price of care—rather than to family income—can be a problem for low-income families. If the price of care is very high (which it is typically is for child care that is in high demand, such as care for infants and toddlers; in “prime” locations near places of employment; and in many high-quality programs that offer opportunities for early learning) families that receive a subsidy still may be unable to afford to purchase the early care and education services their children need.

More than two-thirds of the states allow providers to charge parents an additional fee—based on the difference between the state's reimbursement rate to the provider and the provider's regular rate—that can be more than the amount the state will pay.<sup>44</sup>

### *Reimbursement Rates and Policies*

The reimbursement rate ceilings established by a state can greatly affect both the quality and supply of low-income child care services. All states use a market rate survey to establish rate ceilings, and PRWORA requires states to conduct market rate surveys at least every two years. CCDBG regulations require that subsidized families have equal access to the same range of child care services non-subsidized children receive, parent choice, and dissemination to parents of informed child care choices. Adequate reimbursement rates are central to achieving these objectives.

**Conducting Market Rate Surveys.** The market-based approach to rate-setting recognizes that the child care delivery system in the United States is primarily a private, fee-for-service system in which parents act as consumers by purchasing care for their children. By setting public reimbursement rates on the basis of the price of care in the market, government can (at least in theory) ensure that low-income families are able to purchase care that is at least comparable to that available to families that do not receive public subsidy.<sup>45</sup> In some cases, this approach works. Unfortunately however, child care markets are far from perfect, and in many cases the price that parents pay for child care does not cover the full cost of providing the service.

When the price/cost gap becomes too large, child care providers have three choices: elect to serve only families that can pay high prices, reduce costs, or seek some form of third-party funding that can supplement the reimbursement rate. The easiest choice is the first. Programs that are located in areas where they can attract fee-paying families often refuse to serve subsidized children. A 2000 study of 17 states found that reimbursement rates were too low in many states. As a result, families in these states lacked child care access because there were too few providers of subsidized care.<sup>47</sup> However, providers that are located in low-income communities cannot make this choice. Many providers in higher-income areas are committed to serving a diverse group of children. These providers face a difficult choice: reduce costs or find other funding. Reducing costs typically means lowering the quality or quantity of staff in the program (personnel costs comprise the bulk of a child care program budget). Securing third-party funds may be extremely difficult because funds are scarce and program operators fear they will be accused of “double dipping” if they combine funding sources.

Policymakers who want to assure good use of public funds by setting a fair rate for the services can use market rate surveys to guide policymaking. Effective market rate surveys are timely, have a large response rate from a wide range of child care providers, are based on small jurisdictions, and accurately reflect the price of child care. (Detailed information about how to conduct effective market rate surveys is available from the Child Care Bureau and the National Child Care Information Center—[www.nccic.org](http://www.nccic.org).)

#### Market Rate Surveys and the Cost of Care

Market rate surveys reflect the price of care: that is, what non-subsidized families pay for child care. Because child care is a labor-intensive service, the price charged often is lower than the actual cost of providing the service. The price charged may not reflect actual costs of child care services, such as special needs of a child; social service referrals; and the cost to meet higher standards, including higher staff qualifications or national accreditation.<sup>46</sup> Surveys gather data on the price of care in a variety of settings (including centers, family child care homes, group child care homes and relative care) and categories (nonprofit and for-profit).

**Setting Rate Policies.** Market rate surveys provide data about the price of child care in local markets in a state. Policymakers then use these data to guide them in establishing rate ceilings and other rate policies and procedures. Federal regulations suggest that an effective way to ensure equal access to child care is for states to cap rates at no lower than the 75<sup>th</sup> percentile of the local market rate, by type of care and age of child. Capping rates at the 75<sup>th</sup> percentile means that the maximum rate paid by the state would not exceed the price charged by at least 75 percent of the providers in a particular category of care and rate area. At least 27 states cap rates at the 75<sup>th</sup> percentile; the remainder cap rates at lower levels. An exception is California, which uses a 1.5 standard deviation from the median rate for certificate care. This translates into approximately the 93<sup>rd</sup> percentile of the market rate.<sup>48</sup> A growing number of states are recognizing that child care providers may be inadequately reimbursed in general, which can hinder the supply and quality of care provided to children from low-income families. During the past two years, 40 states have increased their child care reimbursement rates, ranging from increases of 3 percent to 14 percent.<sup>49</sup> Most of these actions were accomplished outside the legislature, usually through state administrative rule. Some exceptions include the following.

- A 2000 North Carolina law directed TANF funds for rate increases.
- Vermont’s 1999 appropriation of \$2 million for a rate increase for licensed and registered providers.

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- A 1997 Ohio law that eliminated the maximum state reimbursement rate partly to take into account unique market conditions.<sup>50</sup>

Updating or enhancing old market rate surveys is another way to make rates more reflective of the cost—or at least the price—of care. In 1999, New Jersey added a cost of living adjustment to the reimbursement rate, and in 1997, Ohio legislators required an annual market survey.<sup>51</sup>

**Differential or Tiered Rates.** A significant trend among state policymakers is to use the child care reimbursement rate structure to encourage good quality care or hard-to-find care. This means adding an amount or percentage to the reimbursement rate for higher quality child care—that typically is defined as child care that meets a higher program standard, such as accreditation, or employs staff with higher qualifications, such as early childhood degrees or child development associate credentials—or for hard-to-find child

care—such as care for children with special needs, protective services cases, or night and weekend care. It is important to note that differential rates usually cannot make up for inadequate levels of reimbursement when the initial base reimbursement rates are low.

#### Higher Reimbursement for Low-Income Care

Several states have structured their reimbursement rates to support providers that serve a disproportionate number of low-income children.

- In 2001, Missouri began offering a 30 percent increase over the base reimbursement rate for centers that serve a disproportionate share of children from low-income families.
- In 1999, Massachusetts established a \$5.2 million reimbursement reserve to increase supply in two low-income regions.
- In 1996, Iowa legislators required the state to examine higher rates to providers when at least 75 percent of children in their care are subsidized.
- North Carolina agency policy recommends bonuses to providers whose private rates are less than market rates so that providers in low-income communities with relatively low rates can improve quality.<sup>52</sup>

Some states have established tiered systems that include three to five reimbursement rate levels, with the highest rates for providers that meet higher quality standards. North Carolina's and Oklahoma's star programs and New Mexico's "Aim High" system are examples of this approach. Other state laws reflect the legislature's intent to assess the need for—and the effect of—dif-

ferential rates. For example, Maryland legislators enacted a law in 2000 that authorized a special early childhood commission to examine tiered child care reimbursement rates.<sup>53</sup>

At least 22 states and the District of Columbia have implemented tiered reimbursement rate systems for higher quality care.<sup>54</sup> A majority of these states have used national accreditation as a quality benchmark, although some states have set higher rates for care that meets stricter regulatory standards, including higher teacher qualifications and child-to-staff ratios. A study by researchers at the Georgetown University found a significant correlation between states with substantial differential rates for accredited care and the number of applications for accreditation. The study specifically found this to be true when the rate differential was at least 15 percent higher than the regular rates.<sup>55</sup> (For a more detailed discussion about accreditation and other quality standards and policies see chapter 4 on pages 44 and 45.)

To address hard-to-find care—which often results in more expensive care—state policymakers have focused on several areas. These include child care during nontraditional hours (mostly nights and weekends), care for children with special needs, infant or toddler care, and care in rural communities. Unlike other rate issues, legislatures often are involved in enacting laws that require differential child care reimbursement rate increases. At least a dozen state legislatures established such policies in the past four years, and several others initiated this

process beginning in the early 1990s. Recent examples are listed in the box.

### *Use of Informal Child Care: Implications for State Policy*

Many parents elect to employ a friend, neighbor or relative to care for their children while they work. This choice, which is often referred to as “informal child care,” may be an appropriate form of care for parents who work nontraditional hours (e.g., nights, weekends or swing shifts, when formal child care programs are closed) or those who are seeking care for infants. It is important to ensure, however, that low-income families have a range of formal and informal child care options available to them, in settings that are nurturing and stable and that offer the early learning opportunities that are so vital to future success.

Although the precise definition of informal child care varies from state to state, these caregivers often are exempt from state regulatory structure, and thus may not comply with minimum health and safety standards. In an effort to reflect these lower standards and to encourage providers to seek regulation, states such as North Carolina and Wisconsin have established lower reimbursement rates for license-exempt programs.<sup>58</sup>

Research indicates that, in some cases, informal arrangements may be the only child care option available to families with limited incomes. A national study of child care arrangements found that, nationally, children from low-income families are less likely to be in centers than children from higher-income families (26 percent, compared to 35 percent) and are more likely to be in relative care (28 percent, compared to 20 percent) and parent care (28 percent, compared to 21 percent).<sup>59</sup> These numbers vary by states, according to the report, so it is important to check each state individually. GAO found that a majority of families that are receiving a CCDBG subsidy used centers, but also found great variability. In fact in four of the seven states that GAO investigated, only 19 percent to 37 percent of families with a CCDBG subsidy used centers.<sup>60</sup>

The high use of informal care among families may prompt state policymakers to take steps to improve the quality of this care. Most recently enacted state legislation in this area has required background checks for license-exempt homes or centers, including laws in Arizona, Missouri and Virginia.<sup>61</sup> Another policy option is to provide voluntary training for

#### **State Differential Reimbursement Rates for Accreditation**

- A 2001 Maine law allows the state to pay a differential rate to providers who are making substantial progress toward accreditation.
- A 2001 New Mexico law requires accreditation for a provider to receive the highest state reimbursement rate.
- A 2001 Minnesota law requires state reimbursement to early childhood programs that covers half of the cost of accreditation.
- In 1998, Nebraska lawmakers authorized a higher reimbursement rate (above the 75<sup>th</sup> percentile) for providers who meet national accreditation standards.
- A 1999 Vermont law provides bonuses at 15 percent above the regular rate for providers who receive a degree and for accredited providers.
- A 2000 Kentucky law requires a subsidy payment increase and one-time award for child care programs tied to a quality rating.<sup>56</sup>

#### **Addressing Hard-to-Find or Expensive Care**

Recent legislative examples and other state actions on differential reimbursement rates designed to encourage hard-to-find care are listed below.

**Nontraditional Hour Care**—At least 13 states have increased reimbursement rates for providers that operate during nights or weekends, some in the form of a bonus. Legislators in Ohio and Oklahoma enacted these policies.

**Infant/Toddler Care**—At least nine states have increased reimbursement rates for providers that serve children under age 3. Maine and Oklahoma legislatures established these differential rates in statute.

**Children with Special Needs**—At least 12 states have higher reimbursement rates for children with special needs or disabilities. Ohio and Oklahoma lawmakers enacted such provisions.

**Regional Differences**—North Carolina established a special rate policy for rural child care by applying a market rate ceiling to counties with less than 75 providers, which helps ensure equal access. Iowa legislators required the state to set reimbursement rate alternatives on a regional or county basis.<sup>57</sup>

relative and friend care providers. (For more information, see pages 41 and 42 in chapter 4). Legislators and other policymakers also may want to explore ways to link families that use informal child care to other early learning opportunities—such as Head Start, Early Head Start, prekindergarten, or home visiting programs that could augment this care.

### *Parent Outreach*

A recent multi-state study reported that limited state or local outreach efforts to parents to inform them of their child care eligibility and how to access services may contribute to low use of subsidies, especially for non-TANF families.<sup>62</sup> Several states have enacted laws to improve this process.

In 1999, the Illinois legislature approved a law requiring state outreach about child care assistance to families that are receiving welfare. Some programs, such as the “Quality Counts” initiative, reaches out to all families that are eligible for a child care subsidy, not only TANF families. This program educates parents about child care resources and financing strategies available to them through home visits, public services announcements, resource and referral agencies, and a toll-free hotline. Providers are given information about early childhood development and education. Illinois currently is serving 89,000 families and 221,000 children and does not have a waiting list.<sup>63</sup>

Rhode Island’s welfare reform program, the Family Independence Program, focuses on TANF families and those that are making the transition from welfare. Conducting outreach to specific families has allowed Rhode Island to maximize resources for services to those families that are most in need. State officials assure families that are making the transition from welfare that they will remain eligible for child care assistance if their wages increase.<sup>64</sup>

A 1997 study found key outreach methods—such as timing and repetition—led to better awareness and use of child care assistance in Georgia and New Jersey. The study presented several successful parent outreach strategies, including efforts in Massachusetts that led to greater child care utilization rates among families that are making the transition from welfare.<sup>65</sup>

## **Resources for Families Regardless of Income**

This chapter has focused primarily on policy options that can address the unique needs of low-income families. It is important to remember, however, that all families, regardless of income, struggle to find high-quality early care and education services. As noted throughout this book, good quality programs—those that offer both loving care and opportunities for early learning—are expensive. In many communities, even moderate-income families cannot afford these programs. There are ways to help, however, especially if policymakers explore innovative strategies that combine direct, institutional assistance to child care programs with portable assistance to families. Both approaches are discussed in more detail below.

### *Direct, Institutional Assistance: Helping Families by Helping Programs*

One way to ensure that all families have access to affordable, high-quality child care is to invest in the industry itself. This is the strategy used by the United States government to



ensure that all families can afford to send their children to college. Public funds are made available to colleges and universities (both public and private) so that they can offer students a good quality higher education at an affordable price. All students—even those who pay full tuition—are heavily subsidized. (On average, higher education generates only 35 percent of its revenue from tuition.)

A similar strategy could be used to ensure that early care and education is affordable for all families. Direct, institutional assistance could be made available to early childhood programs that meet specific quality standards. A portion of the cost of the service would be covered by this direct assistance, and the balance would be paid with user fees, including tuition from private, fee-paying families; portable child care certificates; or scholarships for low-income families. A host of funding sources could be used to finance scholarships for a range of families, as is currently the case in the financial aid system that has been developed for college.

Existing forms of direct assistance—such as state prekindergarten funds—can be adapted to this model. Some comprehensive early childhood programs in Georgia and New York combine funds from their state’s universal prekindergarten initiative with child care subsidies, parent fees, Head Start, and other sources. Low-income families receive care that is almost fully subsidized; higher income families pay the full fee, but the price is affordable because the actual cost of the service is offset by state funds.

Some state legislatures have developed new forms of direct assistance. Wisconsin has taken several approaches. In 1995, the Wisconsin Quality Improvement Grants program was established to provide ongoing, competitive grants to programs that met the state’s high-quality standards. Programs could combine these grants with other funding sources, including child care certificates for low-income families, parent fees, United Way, employer subsidies and so forth. In the spring of 2001, Wisconsin launched REWARDS (Rewarding Education with Wages And Respect for Dedication), a new program designed to help early childhood programs attract and retain qualified staff. The REWARDS initiative provides stipends to teachers who attain specialized degrees and training in early childhood care and education. These stipends are another form of direct assistance; they make it possible for early childhood programs to secure qualified staff without charging higher fees to cover the additional staff costs.

A legislative initiative in California also combines both approaches, but in a single initiative, California CARES (Compensation And Retention Encourage Stability). CARES offers direct, quality improvement grants to programs to help them improve staff retention. In addition, stipends are provided to members of the Child Development Corps—practitioners who have agreed to pursue early childhood education and continue to work in an early childhood program.

Policymakers in North Carolina have developed a host of new direct assistance strategies as part of their statewide Smart Start effort. These include the T.E.A.C.H.® (Teacher Education and Compensation Helps) Early Childhood, an effort that combines scholarships, stipends and program support aimed at improving the qualifications and retention of staff in early childhood programs; and Child Care WAGES®, a staff retention initiative that served as a model for California and Wisconsin and for similar initiatives in Illinois, Kansas, New York, Oklahoma and Washington.

Providing resources for employee benefits is another form of direct subsidy. Legislators in Rhode Island elected to make fully paid health insurance coverage available to certain center- and home-based child care providers and their children. The coverage is provided through RIte Care, the state's publicly funded health insurance program for the uninsured. North Carolina policymakers took a similar approach, but supported the effort with CCDBG funds and linked it to the T.E.A.C.H.® program.

### *Portable Assistance to Families*

It is also possible to use portable assistance to make high-quality early care and education services available to families with a wide range of incomes. Again, the higher education system, which has generated a host of tax incentives, can serve as a model.

Policymakers in several states have developed two types of tax strategies to help families care for young children: 1) state dependent care tax credits, and 2) employer-linked disability and/or unemployment insurance that can be used for family leave.

### *Dependent Care Tax Credits*

Individual income taxes are the largest source of revenue for the 42 states that use this form of taxation. Twenty-seven of these states have created some form of tax benefit to help families pay for child care, and 10 allow the credit to be refundable; families who owe no taxes can claim the credit.<sup>66</sup>

Nearly all states link their child care tax provisions to the federal tax credit.<sup>67</sup> However, the percentage of the federal credit that may be applied at the state level varies widely. Louisiana, for example, permits families to claim 10 percent of the federal credit, up to a maximum of \$25. New York permits families with adjusted gross incomes of \$50,000 or less to claim between 100 percent and 110 percent of the federal credit, on a sliding scale, up to a maximum of \$792 for one child and \$1,584 for two children. New York also has made the credit refundable, funded with TANF money.<sup>68</sup>

Two states—Maine and Arkansas—permit taxpayers who use higher quality programs (defined as programs that have achieved national accreditation or a state quality assessment) to claim a higher credit. Minnesota extends the child care credit to families who stay at home to care for an infant child and family child care providers that also care for their own children. Oregon has established a second “working families” child care tax credit that provides additional tax benefits to families with adjusted gross incomes below 250 percent of the poverty level. This credit will be refundable in 2003.<sup>69</sup>

### *Family Leave*

Helping mothers and fathers to stay at home with their own children, especially during the first few months of life, is a very important child care support. Unfortunately, many families need two incomes in order to make ends meet, and only a handful of businesses provide paid parental leave. There are, however, several ways that states can help these families.

**Temporary Disability Insurance.** One way to help fund paid maternity leave is through Temporary Disability Insurance (TDI). When an employer makes a disability insurance plan available to his or her employees, it must, by federal law, cover a “pregnancy-related disability.” Five states—California, Hawaii, New Jersey, New York and Rhode Island—and Puerto Rico have enacted laws that require all employers to offer TDI. These states



typically have a statewide TDI program that the employers can use if they do not wish to purchase insurance privately. Each state has a different financing plan—some finance with a 50 percent employer and 50 percent employee contribution and others with a 100 percent employee contribution.<sup>70</sup>

New Jersey funds TDI with a 50/50 split. Employees with annual incomes of \$18,000 or higher pay \$90 per year and the employer matches this amount. The maximum benefit per employee per year is \$8,814 for 26 weeks, although pregnancy-related claims are rarely that high.

#### How States Can Help

- Temporary Disability Insurance
- Unemployment Compensation
- Benefits Insurance
- State-Subsidized Leave

One limitation of TDI is that it covers only women who actually give birth. To address this concern, legislation was introduced in New Jersey to extend TDI coverage to provide family leave that can be used as replacement income for family members who must temporarily leave employment to care for a newborn, a newly adopted child or a seriously ill family member. Several other states have explored the feasibility of expanding TDI to cover family leave. A California study found that expanding the state's disability program to allow for paid family leave would result in a maximum weekly cost per covered employee of only 88 cents. A New Hampshire study reported the weekly cost in that state would be \$1.83 per covered employee.<sup>71</sup>

**Unemployment Compensation.** Many states are exploring the feasibility of using the unemployment insurance (UI) program to replace wages during family leave. At least 14 states considered such proposals in 2001. This approach is popular in states that have a well-funded unemployment trust fund, but could prove more difficult to achieve in states with smaller jobless fund reserves. In 2000, Vermont legislators nearly passed a bill that would extend UI to cover family leave. The Urban Institute estimated that the proposal would cost \$2 million per year, which represents less than one percent of the state's unemployment insurance trust fund balance. In 2000, Massachusetts passed legislation to provide paid parental leave by making new parents eligible for unemployment insurance, but the bill was vetoed by the former governor.<sup>72</sup>

**Benefits Insurance.** Policymakers in several states are exploring a family and medical leave benefits insurance system. Legislators in Washington have designed a payroll-based Family Leave Insurance Fund that would offer a flat weekly payment of \$250 for up to five weeks of family leave. The fund which would cost employers and employees about 38 cents per week, would raise more than \$72 million a year. A Massachusetts bill proposes a pilot program, the New Families Trust, to provide up to 12 weeks of paid leave at 50 percent of average weekly earnings. The expected cost of the pilot program, which is limited to low-income families, is \$70 million per year. Legislation that subsidizes voluntary, employer-provided paid leave was introduced in both houses of the Minnesota Legislature in 2001. The cost would have been shared equally by the state general fund, employers, and employees. Benefits would have ranged from a weekly minimum of \$100 to a maximum of \$250. The estimated annual cost to the state would have been \$15.6 million.<sup>73</sup>

**State-Subsidized Leave.** Some states support family leave by adapting a child care subsidy program to allow parents who stay home to qualify for the subsidy that otherwise would have been paid to a child care center or home providers. The Minnesota At-Home Infant Child Care Program provides a monthly stipend, equal to 90 percent of the hourly infant rate in the county, to low-income families that elect to stay at home with a child who is younger than age 1. The income eligibility ceiling is \$42,000 for a family of three, and the

average monthly stipend is \$277. Montana established a similar program in 2001, funded by state welfare money, for parents with a child under age 2 whose earnings are below 150 percent of the FPL. Missouri recently set aside funds for an initiative to support parents who choose to stay at home with their own children, but the state has not yet determined how the program will be administered.

A few states have explored other state-subsidized leave options. Ohio serves as a model employer by offering up to four weeks of paid leave at 70 percent wage replacement for the birth or adoption of a child. In 2001, Vermont legislators proposed a bill to use general funds for paid parental leave.<sup>74</sup>

## 4. FINANCING QUALITY CARE

Policymakers are recognizing that good early childhood policies can contribute to better economic, educational, social and criminal justice outcomes, both in the short- and long-term. A recent national scientific report, *From Neurons to Neighborhoods: The Science of Early Childhood Development*, confirmed that the effect of child care derives “... not from its use or nonuse, but from the quality of experiences it provides to young children.”<sup>1</sup> For legislators, these findings have great implications for other policy areas, such as supporting the current and future workforce, connecting welfare to work, cultivating good health in babies, promoting learning and academic success, and producing positive social behaviors that help children avoid crime. This chapter examines state policy options and legislative examples that promote quality child care and enhance the well-being of children. Specifically, highlighted are state initiatives that finance and improve child care quality through:

- Better regulations,
- Training and education,
- Accreditation,
- Career development,
- Provider compensation, and
- Comprehensive services for children from birth to age 5 and their families.

### Importance and Key Elements of Quality

Unfortunately, good quality child care and early education programs remain the exception, while most children experience mediocre to poor services. Several key factors—including staff training and education, child-to-staff ratios, health and safety standards, and parent involvement—are measurements of quality. Access to good, affordable early childhood services is a challenge for many families, especially low-income families for whom quality is crucially important.<sup>2</sup>

#### Child Care Quality: Does It Matter and Does It Need to Be Improved?

Policymakers recognize that investing funds now in quality early childhood services can achieve positive results and save money later. A recent study—*Child Care Quality: Does It Matter and Does It Need to Be Improved?*—reinforces this notion. It examined the economic perspective of improving child care through public intervention and found that high quality child care with well-trained providers can improve children’s school readiness by 50 percent. The study also revealed that child care centers save more money by investing in staff and improving quality of care because, over time, provider turnover costs more than pay for the costs of training and better salaries. As mentioned earlier, a growing body of research has documented that good quality care costs more and, because quality is essential to positive outcomes, this reality has major implications for state policymakers.

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## Regulations

Regulating child care centers and family child care homes is a responsibility of state governments. Requirements vary from state to state. All 50 states regulate child care centers and at least some sizes of family child care homes. A few states use a form of regulation for family child care settings called registration or certification, which is usually less stringent. Some states exempt from regulation certain early childhood programs, which each state defines differently. Regulatory requirements represent the state's minimal standards to protect children's health and safety. Such standards include child-to-staff ratios, group sizes, child care provider training and education requirements, equipment and furnishings, background checks, inspections and monitoring, curricula, immunizations and smoking policies.

The Cost, Quality and Child Outcomes in Child Care Centers (CQO) study found that states with stricter licensing standards had fewer poor quality centers. The report recommended that states implement higher licensing standards as one of the key steps to reducing poor quality child care centers. A 1999 update of the CQO report also recommended regulatory improvements as a key strategy to improving quality, particularly in teacher preparation, child care provider training and credentialing.<sup>3</sup> Sixteen states require that regulated family child care providers attend pre-service training, and at least 22 states require pre-service training for center teachers.<sup>4</sup> Another important aspect of quality regulations is ensuring that state licensing officials are well-qualified and trained. According to a 2000 GAO report that examined states' efforts to enforce health and safety requirements, only four states invest in adequate training for licensing staff, and only 11 states have licensing caseloads at or below recommended levels.<sup>5</sup>

### *State Policy and Legislative Regulatory Examples*

State legislatures across the country are bolstering state child care regulations by enacting laws that strengthen existing requirements. Many of these laws tighten regulations in order to improve quality. In 2001, more than half of the states enacted legislation regarding regulation and licensing of child care facilities. The legislation addressed, among other areas, safety requirements, monitoring, access to records, types of regulated care and background checks.

Some state legislatures have allocated state funds for regulating child care, including monitoring and enforcement. In recent years, several state legislatures—including Colorado and Oklahoma—have increased state funding to expand the number of licensors in order to improve monitoring and enforcement.

- New York lawmakers enacted a 2000 bill that expands the state's child care regulations, including doubling the current annual training requirements from 15 hours to 30 hours for family child care providers. The law requires criminal background checks for child care center operators, employees, assistants and volunteers. The law also disallows child care providers from caring for children if they have been convicted of a violent or sex offense felony, a felony against a child or a drug-related felony.
- The Tennessee legislature enacted legislation in 2001 that tightened child-to-staff ratios, increased annual training requirements for both directors and teachers, and required all early childhood education staff be fingerprinted by the FBI.

- Children’s Defense Fund reported that Alabama revised its child care licensing standards to increase training requirements and other safety regulations, including child-to-staff ratios and background checks.<sup>6</sup>

### *Federal Funding for Quality Child Care Regulations*

States are using CCDBG and TANF to improve child care regulatory requirements. The federal CCDBG supports states in strengthening their quality improvement efforts. Federal law requires that at least 4 percent of the CCDBG funds be spent on quality initiatives, including monitoring and compliance with licensing and regulatory requirements, grants or loans to assist providers in meeting state and local standards, training and technical assistance, child care provider compensation, infant and toddler care, school-aged child care, resource and referral programs, comprehensive consumer education, and other activities that increase parental choice and improve quality and availability. A recent report of state plans revealed that at least 14 states spent beyond the 4 percent federal requirement and used CCDBG money to lower caseloads for licensing staff, expand training opportunities for licensing staff, and create cross-system regulatory and technical assistance licensing staff teams. According to the report, several states also examined how to better link their regulatory policies with their career development and reimbursement policies.<sup>7</sup>

States can transfer up to 30 percent of TANF to the CCDBG or use TANF funds directly for child care services, including promoting quality child care (see chapter 3). A recent CLASP report that examined the effects of TANF funding on child care subsidies notes that, when states transfer TANF funds to CCDBG, states must direct more money to quality initiatives because the 4 percent quality amount applies to the larger CCDBG total. At least 20 states used or transferred TANF for quality initiatives, to improve licensing standards and outreach efforts and fund resource and referral agencies.<sup>8</sup>

### *Improving Quality with License-Exempt Child Care Providers*

State policymakers are recognizing the need to improve the quality of license-exempt child care, which usually includes relative care, care by friends, care by neighbors, in-home care and family child care homes that are regulated in some states but are unlicensed in other states due to variations in states’ definitions of family child care.<sup>9</sup> At least 38 states legally exempt certain providers from regulation, and three states do not license family child care.<sup>10</sup> State policies regarding license-exempt care apply to families from all income groups. A variety of studies indicates that income levels are not the dominant factor in choosing this type of care. A recent study also highlights policy recommendations for state decision makers to consider when supporting quality for license-exempt child care, including using the federal Child and Adult Care Food Program (CACFP) to monitor quality (see pages 53 and 54 for more information).

According to the federal report of state plans, state child care agencies have policies in place to ensure the health and safety of children who receive child care subsidies and are served in license-exempt child care programs. The report also revealed that at least seven states are developing new training and technical assistance for legally exempt providers.<sup>11</sup> Recently, some state legislatures—Arizona, Missouri, Tennessee and Virginia—enacted background check legislation for license-exempt homes or centers. Other state license-exempt quality examples follow.

- Through a community-based partnership, Delaware uses CCDBG funds to train, mentor and provide technical assistance to relative caregivers on providing safe and developmentally appropriate quality child care, including child development and behavior, conflict resolution and other specific relative child care provider issues.<sup>12</sup>
- The California Trustline is a registry that lists license-exempt, in-home child care providers who have cleared criminal and registry background checks.
- To improve unregulated child care quality, Colorado's child care and health agencies are collaboratively working to certify legally exempt family child care homes through the federal Child Adult Care Food Program (CACFP). The legally exempt homes that participate in the project have access to state financial and technical assistance.<sup>13</sup>

## Training and Education of Child Care Providers

State policymakers can strengthen child care and early childhood education quality by expanding good training and education opportunities for child care providers and teachers beyond that required by state regulatory requirements. Research has shown that good training and education lead to better outcomes for children later in life. However, more than half the states do not require providers to have any early childhood training before they can care for children in center and home settings.<sup>14</sup>

Some state legislatures have financed or increased financing for training and education of child care providers to promote quality child care. In recent years, some state legislatures—including Connecticut, Illinois, New York and Texas—enacted laws requiring more child care training requirements. In 2001, laws in several states—Arkansas, Louisiana and Texas—supported broader professional development activities for child care providers. According to the CLASP report on using TANF for child care, at least 12 states and the District of Columbia used TANF to fund professional development activities, including training programs, teacher recruitment, compensation, and other child care and early childhood education scholarship programs.<sup>15</sup>

### *Recent State Training and Education Laws*

- The Maine Legislature increased the training supplement for child care providers to nearly \$400,000 in order to implement Maine Roads to Quality, the state's child care and early education career development center. The state also increased funding for its 11 CCR&R agencies in order to coordinate the curriculum and provide supports to child care providers who are seeking to advance their education.
- New York legislators established the Quality Child Care Protection Fund, which provides grants to child care providers for health and safety purposes, provider training, retention, and professional development.
- The New Jersey Legislature established a commission on early childhood education to advise the state on the appropriate staff credentials and standards for early childhood education and programs and the development of those standards and on funding levels necessary to support high-quality early education programs, including certified, well-trained early childhood teachers.<sup>16</sup>

### *Public/Private Financing Strategies that Support Quality Child Care*

- Connecticut recently expanded its Charts-A-Course program, which is a public/private partnership professional development program. Almost 4,000 informal and licensed family and center-based child care providers have been trained in this program.
- California's public/private partnership trains family child care providers. Since 1985, the project has raised \$9.7 million from 419 public and private sector funders, including an annual commitment of up to \$250,000 in matching funds from the Legislature.
- Maryland's Child Care Resource Network, a statewide public/private partnership comprised of 13 regional resource and referral agencies, helps families find child care and expands the supply of child care. The network has helped nearly 166,000 families locate child care, increased the supply of both child care homes and centers by almost 32,000 slots, trained child care providers and educated parents on parenting skills.<sup>17</sup>

### *Other Innovative State Financing Mechanisms for Training and Education*

- The 1997 Arkansas legislature authorized funds for training scholarships from the state's child care facilities and loan guarantee program. In 2001, the legislature expanded the initiative by allowing the use of any interest available at the end of a fiscal year that exceeds the amount necessary to cover loan defaults. This funding, which averages about \$18,000 to \$20,000 per year, can be used to support professional development and quality improvement activities and grants.<sup>18</sup>
- In 1996, the Massachusetts legislature established the "Invest in Your Child" license plate program, which has raised more than \$125,000 for early childhood teacher training and accrediting providers.
- In 1998, Alabama legislators directed a percentage of tobacco funds toward funding child care programs with quality indicators such as licensing and training.
- In Colorado, a legislatively established state income tax check-off generated at least \$237,000 in FY1998-1999. Funds from the check-off support professional development activities and training for child care providers and accreditation.
- New Hampshire enacted a 1999 law that requires the state to issue a credential to any child care and early childhood professional who has satisfied the state's education and training licensing requirements.
- At least 13 states use CCDBG funds for T.E.A.C.H., which encourages training and education of providers through wage incentives.<sup>19</sup>

Some states consider child care provider training and technical assistance as part of a broader career development approach that can be linked to training strategies in other systems, such as Head Start, prekindergarten and early intervention. At least 22 states report that their training and technical assistance efforts are part of a statewide early childhood career development strategy<sup>20</sup> (see pages 45 and 46 for more information).



## Accreditation

Accreditation is a process of adhering to standards that exceed licensing regulations, which include a variety of factors. Although participating in accreditation is voluntary, currently at least 10,000 U.S. child care and early childhood programs are accredited.<sup>21</sup> States are developing policies that encourage, support and reward child care programs that participate in and complete that accreditation process. (see box on this page for more details.) Several national organizations—e.g., the National Association for the Education of Young Children (NAEYC) and the National Association for Family Child Care (NAFCC)—accredit child care programs, including child care centers, family child care homes, prekindergarten programs and before- and after-school programs. The National Child Care Association has a National Early Childhood Program Accreditation that accredits any licensed child care or preschool program. The Council on Accreditation Services for Families and Children Inc. accredits center-based child care programs—as well as group and family child care programs—that are operated by social service organizations. Some state legislation authorizes only accreditation issued by a specific entity—such as NAEYC—while others permit a range of national organizations to issue the accreditation.

### Ten Key Characteristics of Accreditation

- Professional qualifications and development
- Health and safety
- Administration
- Staffing structure
- Staff-child interactions
- Parent involvement
- Curriculum
- Physical environment
- Nutrition and food services
- Evaluation<sup>22</sup>

Studies show that accreditation is linked to higher quality child care services. A 1996 study revealed that accredited center-based programs consistently demonstrated better quality child care for children. A 1997 Center for the Child Care Workforce (CCW) study found that child care centers that achieved accreditation showed higher overall classroom quality, including better improvements in child-to-staff ratios and teacher sensitivity (two indicators for predicting better outcomes in children) than do centers that started the process but did not complete it. The

study also indicated that centers that achieve accreditation experienced less staff turnover than centers that began but never completed the accreditation process.<sup>23</sup> The Cost, Quality and Child Outcomes study also found that accredited programs typically provide higher quality services.

### *State Financing Strategies to Support Accreditation*

At least 19 states provide funding, usually through quality enhancement grants, to assist child care centers or family homes to gain accreditation.<sup>24</sup> Connecticut's 1997 school readiness law included a statewide accreditation facilitation project. A 2001 Minnesota law requires state reimbursement to early childhood programs that covers half of the cost of accreditation. Massachusetts legislators in 1996 established the "Invest in Children" license plate program, which targets funds to accrediting child care providers. A 1998 Oklahoma law authorized an employer tax credit for 20 percent of eligible expenses for qualifying accredited child care services and a 20 percent tax credit to businesses that provide child care services and that incur expenses for their programs to become accredited.

### *Accreditation Linked to Higher Reimbursement*

At least 21 states and the District of Columbia have linked accreditation to differential reimbursement rates for providers.<sup>25</sup> Several state legislatures in 2001—Maine, Nebraska and New Mexico—enacted laws that allow the state to pay a differential rate to providers who have achieved, or are making substantial progress toward, accreditation (see pages 32

and 33 for more information about differential reimbursement rates).

Some states have developed higher reimbursement for early childhood standards that resemble accreditation, but actually are distinct state quality standards. A 2000 Kentucky law requires a subsidy payment increase and one-time award for child care programs tied to a quality rating. Similar to national accreditation standards, the Kentucky quality voluntary rating system components include child-to-staff ratios, provider training, and curriculum and regulatory compliance.<sup>26</sup>

## Career Development

State decisionmakers also are recognizing the need for skilled early childhood teachers. Achieving this goal typically means helping child care providers and early childhood teachers to continue to advance their knowledge and experience and build professional careers. To this end, many states have helped to fund a career development system, that includes licenses or credentials for providers, career opportunities, apprenticeships and mentoring, college admissions, core knowledge and competencies. A handful of states are using their licensing regulations to promote a systematic career development approach. Several states operate apprenticeship programs. At least five states use CCDF funds to support director credentialing and/or child care director management training.<sup>27</sup>

Many state legislatures and policymakers have been leaders in enacting career development laws, including some of the same accomplishments that the Wheelock survey found (see box).

- A 1997 North Carolina law requires a credential for child care staff and administrators based on education levels.
- A 1999 New Hampshire law required a credential for child care, preschool and Head Start personnel.
- Connecticut's 1997 school readiness law invests funds in a career ladder program for early childhood providers.

### Promoting and Improving Quality through Accreditation

Many states have incorporated NAEYC principles into their state's policies. Legislators will want to consider the following key policy accreditation options in developing and implementing effective accreditation policies that promote and improve quality.

- Accreditation policies should not replace state regulations, but should complement them.
- Policies should promote public awareness about accreditation and mandatory regulations in supporting children's healthy development and learning.
- Accreditation criteria should be based on research about program quality and be periodically reviewed, evaluated and updated.
- Policies promoting program accreditation should ensure that financial incentives are linked with public and private funding initiatives. These may include grants, loans, higher reimbursement rates and tax credits.
- Accreditation policies should make resources available to teachers, directors, parents and other people who are interested in seeking accreditation.
- Accreditation should be linked to an overall plan for supporting a highly qualified, stable, early childhood professional work force, including education, training, professional development and compensation incentives.
- Accreditation policies should promote a plan to improve the state system of care and education and outcomes for children and families and should use accreditation as one of many benchmarks to help track progress.

Source: NAEYC, March 1999.

### Career Development Survey Indicates State Accomplishments

Legislators in some states have joined other policymakers in constructing a systematic career development approach that increases access to education and training; promotes higher child care provider compensation and retention; and encourages long-term career paths for teachers, supervisors and directors in the early childhood field. The Wheelock College Institute for Leadership and Career Initiatives recently surveyed states about their career development strategies. Most indicated major accomplishments of their current career development initiatives. These included:

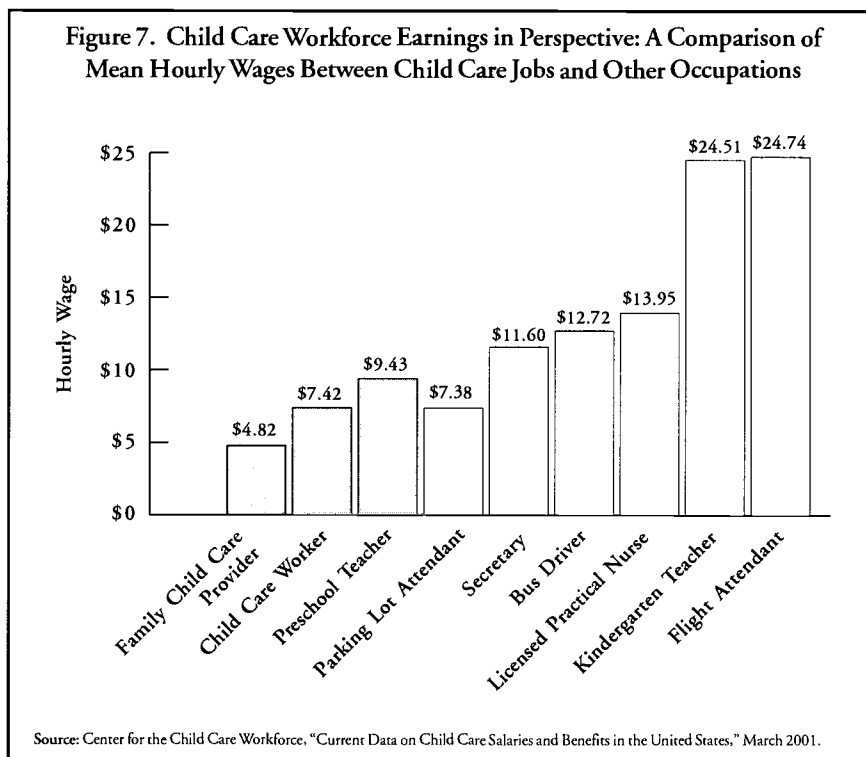
- Strengthened career development systems, including career lattices,
- Registered apprenticeship programs,
- Agreements among colleges to accept transferred credit and/or credit for prior learning,
- Core knowledge or core competencies,
- Training registry or other records,
- Higher education requirement for state-sponsored early childhood program,
- Wage incentive initiatives and other scholarship programs, and
- Recruitment/retention bonuses for professional growth advising systems.<sup>28</sup>

- Rhode Island lawmakers in 1998 appropriated funds for mentoring, training and technical assistance for providers.
- In 1999, the Iowa legislature required a multi-agency council to establish an articulation process to give academic credit for training. The law also requires that the state identify core competencies for child care providers and administrators that may be incorporated into professional standards.
- A 1997 Minnesota law requires the state to make recommendations on several quality issues, including core competencies based on the age of children served and type of provider. The state recommended a basic set of skills and knowledge for providers.<sup>29</sup>
- The Arkansas Child Care Facilities Loan Guarantee program helps finance professional development in the state (see page 9).
- Oklahoma recently established the Center for Early Childhood Professional Development to plan and coordinate training linked to the state's career development system. The center administers a tuition/fee scholarship program, provides training for the state's child care career series and other training workshops and conferences, oversees a statewide pool of training consultants, maintains a video lending library, and coordinates the a statewide professional development team.<sup>30</sup>

## Compensation and Benefits

Low wages have caused high turnover in the child care field, according to a recent study by the Center for the Child Care Workforce (CCW). The mean hourly wage is \$4.82 for family child care providers, \$7.42 for staff in child care centers and \$9.43 for preschool teachers (figure 7). According to recent data collected by CCW, service station attendants, tree trimmers and food service workers earn higher wages than child care workers. Last year, job turnover was 30 percent for child care workers. In addition, when child care teachers and administrators leave their jobs, only half continue to work in the child care field.<sup>31</sup> High job turnover and difficulty in finding qualified teaching staff can lead to problems of inconsistent care, understaffing and the potential for unsafe conditions for children.

A recent GAO report on the U.S. military child care system showed that quality and compensation can be linked successfully.<sup>32</sup> Policymakers are increasingly aware that adequate compensation is key to recruiting and retaining trained child care providers and teachers. A recent report offers strategies for policymakers to consider when improving child care workforce compensation,



including directly increasing public funds for early childhood programs that include compensation initiatives, raising wages, and affecting wages indirectly through public awareness and outreach.<sup>33</sup> Most state policies to improve compensation link increased education and training to higher wages.

Some state legislatures are directing funds to support child care provider and teacher compensation and retention. North Carolina lawmakers recently enacted the WAGE\$@ program, an initiative that provides funds to supplement child care provider wages for those who have early childhood education credentials. In 2000, three states—California, Illinois and New York—enacted similar initiatives, ranging from a \$3 million to a \$40 million investment.<sup>34</sup> Eight states described using CCDF funds to support grant programs aimed at improving wages for child care providers. Two states—California and Minnesota—use CCDF to fund their mentor teacher initiatives to increase compensation for child care staff.<sup>35</sup> Other recent state legislative compensation and retention examples include the following.

- Illinois legislators created the Great Start Program, which provides wage supplements or bonuses to child care providers based on their educational achievements. The law also requires the state to coordinate with the state's child care provider scholarship program, which links higher education and training to increased compensation.
- Louisiana lawmakers enacted a law that requires professional development for teachers in the state's early childhood development care classes in public schools and specifies minimum staff salary amounts.
- The Connecticut legislature enacted a law that requires the state to develop child care wage and education initiatives, including those that increase provider compensation with further education and help establish a provider apprenticeship program.
- California legislators established a program—Compensation And Retention Encourage Stability (CARES)—that provides state child care funds to support efforts to retain qualified employees in state-subsidized child care centers.
- In 2001, the Texas Legislature enacted a law to establish a pilot TEACH-like program in certain areas in the state.<sup>37</sup>

Apprenticeship is another initiative developed in some states that helps link professional development to compensation. These programs combine on-the-job training and related college-level instruction where workers learn the practical and theoretical aspects of a highly skilled occupation. The U.S. Department of Labor, Office of Apprenticeship Training, Employer and Labor Services, has awarded grants to 20 states and the District of Columbia to develop registered apprenticeship programs to train early childhood professionals. Be-

#### Recent Changes in Child Care Staffing

A recent national study from the Center for the Child Care Workforce confirms previous concerns about the instability of the child care workforce and the effects on the quality of center-based child care. The study revealed that child care centers—and the child care industry as a whole—are losing well-educated teaching staff and administrators at an alarming rate and hiring replacements who have less training and education. Despite recognition that higher wages contribute to greater staff stability, the study showed compensation for the majority of teaching staff has not kept pace with the cost of living. Teaching staff and directors reported that high turnover among their colleagues negatively affected their ability to do their jobs, including, for some, that it contributed to their decision to leave. Centers that employed highly trained teachers were more likely to sustain a high level of quality over time. These findings are especially troubling because they are derived from a sample of relatively high-quality child care centers. This is the first longitudinal study based on quality observations in the same child care centers at three different points in time over a six-year period—1994, 1996 and 2000.<sup>36</sup>

### State Initiatives to Promote Retention and Compensation

A July 2001 comparison of seven state retention and compensation initiatives provides a view of key aspects of each state's program. To improve quality, these programs reward early childhood providers with higher compensation if they achieve a specified level of education or training. The document examines programs in California, Illinois, New York, North Carolina, Oklahoma, Washington and Wisconsin.

**Funding amount:** Funding ranges from \$1 million per year in Wisconsin to \$40 million per year in New York. Four of the other five states fund their programs at between \$1.6 million and \$6.3 million per year.

**Funding source:** Five of the seven states use CCDBG funds for their compensation and retention initiatives. In three states, TANF funds some of the activities, TANF funds fully supports the New York program. Three states also use state funds. Oklahoma used Title XX funds, as well.

**Educational achievements:** States usually require eligible practitioners to provide evidence that they have achieved an early childhood credential or degree. These include an early childhood credential, certificate or diploma; the Child Development Associate (CDA); a bachelor's, associate's or master's degree; or state-specific training hours or courses.

**Award amounts:** Some of the awards are in the form of salary increases and some are in the form of a bonus. State awards for credentials, certificates or the CDA range from several hundred dollars to more than \$1,000 per provider per year. States tend to award between \$1,000 and \$4,000 per provider per year to providers who earn higher degrees.

Source: Anne Mitchell, *Comparison of Current Publicly Funded State Initiatives for Compensation and Retention*, July 2001.

fore this initiative, states such as Maine, Minnesota and West Virginia, already were operating apprenticeship programs.<sup>38</sup>

### *Child Care Provider Student Loan Assistance and Scholarships*

Education and training costs and college admissions can discourage child care or early childhood teachers from seeking advanced degrees or professional development. To address this need, legislatures generally have taken two policy approaches, including forgiving student loans and funding scholarship programs. At least five state legislatures have created laws that authorize the state to forgive or assume a student loan for someone who is choosing to earn a child development associate or other educational credit. Since the legislative inception of Pennsylvania's loan forgiveness program in 1993, nearly 500 child care teachers from across the state have participated to date. Minnesota's program has provided loan forgiveness awards to more than 250 child care providers.<sup>39</sup>

- In 2000, Kentucky legislators established legislative intent to create a seamless professional development system, including scholarship and monetary incentives to encourage provider education and training. The law sets eligibility for scholarships and requires the state to encourage scholarship participation. The law also requires revenues from regulatory noncompliance penalties to go to a special early childhood scholarship fund and established the Early Childhood Professional Development Council to help develop a credential and professional development system.

- Maine lawmakers recently expanded eligibility for the state child care education scholarship fund to include residents enrolled in courses at institutions with articulated agreements (agreements among colleges to accept transferred credit and/or credit for prior learning) with accredited higher education institutions.
- In 1999, the Texas Legislature enacted a law that created a student loan repayment program for child care workers who agree to work in the field for at least two years. Another Texas law funded a scholarship program for child care providers for training expenses and for obtaining a Child Development Associate (CDA) credential.<sup>40</sup>

### *Benefits*

In addition to low wages, having no health care or retirement benefits can be a disincentive for individuals to enter the field of early childhood education. In 1996, Rhode Island lawmakers addressed the issue of the lack of benefits for child care providers by enacting legislation that requires health care coverage for family child care providers who care for



subsidized children. Legislators expanded the law two years later to cover center-based providers who care for a minimum percentage of subsidized children. Currently, center-based staff must care for at least 30 percent of children who meet low-income guidelines to obtain health insurance coverage.

Similarly, North Carolina launched the T.E.A.C.H. Early Childhood® Health Insurance Program to help child care programs with the costs of providing basic health insurance for their employees. Through this statewide initiative, child care programs with participants in selected T.E.A.C.H.-funded scholarship models are eligible for reimbursement for one-third of the costs associated with providing staff with health insurance.<sup>41</sup>

In the 2001 legislative session, Connecticut lawmakers proposed a bill requiring child care centers that do not provide health or retirement benefits to provide a higher wage to each hourly rate employee who does not receive benefits. The bill also proposed that early childhood care and education providers be eligible to purchase health insurance coverage on a sliding scale. In 1999, the Florida Legislature enacted a law that required the state to conduct a study regarding how to make affordable health insurance available. That same year, Florida legislators also exempted high-quality child care programs from sales taxes on educational materials if they provide health insurance to their employees.<sup>42</sup>

## Comprehensive Services

State policymakers are aware of the everyday pressures and challenges that children and their families face, including violence and crime, domestic violence, child abuse and neglect, teenage pregnancy, lack of adequate nutrition and health care, family conflict and divorce. Comprehensive child care programs that address the health, mental health and social services needs of children and their families can lead to better quality programs that have long-term positive outcomes for children.<sup>44</sup> Comprehensive services usually include parent education, home visitation, job placement, health and social services, counseling, mental health services, links to needed early intervention services, housing and transportation services.<sup>44</sup> Some states are augmenting child care with comprehensive health and social services to make these resources more accessible for families. Some states also are finding that child care programs can be an excellent place to identify and serve children who may need health and mental health services and to strengthen early care providers' capacity to address children's challenging behaviors in ways that foster healthy development and growth.

### *Funding Comprehensive Services*

Many state lawmakers and other policymakers use federal and state programs to establish an infrastructure and funding mechanisms to link child care and other early childhood

#### **T.E.A.C.H. Early Childhood® Project**

Several states have developed wage and retention initiatives to help retain qualified staff in child care programs. The T.E.A.C.H. (Teacher Education and Compensation Helps) Early Childhood® Project, which was first implemented in North Carolina in 1990, provides scholarships linked to compensation for early childhood teachers, directors and family child care providers to expand their education and career opportunities. Providers must remain in the child care field for a set time in exchange for scholarship and compensation incentives. In FY 2001-2002 an expected \$25 million is budgeted for T.E.A.C.H. Early Childhood® projects across the country. Seventy-five percent of the funding for these projects comes from CCDBG or TANF funds.

Currently, at least 19 states have T.E.A.C.H. Eight states in 2000 either initiated or expanded their T.E.A.C.H. programs. Nebraska is implementing the program during the first semester in 2002. Seven states reported in their state plans using CCDF funds to support T.E.A.C.H. programs. Georgia's T.E.A.C.H. program evaluation results from 1998 showed a reduced child care provider turnover rate and an increase in provider wages. Oklahoma and South Carolina each awarded almost 1,000 T.E.A.C.H. scholarships in the first nine months of their programs' operation.

- In 2000, the North Carolina legislature increased funding for T.E.A.C.H. by \$400,000 bringing the total state funding to \$2.5 million.
- In FY 2000-2001, Pennsylvania increased the funding for T.E.A.C.H. by \$1 million, to fund the program at \$1.5 million.
- In 2000, Illinois legislators required that the state's wage supplement program coordinate with the state's T.E.A.C.H. program.<sup>43</sup>

services to comprehensive services. According to a 2000 National Center for Children in Poverty report, most of the state spending increases were financed by federal TANF funds, tobacco funds, lottery funds, gambling fees, cigarette taxes or other dedicated funds. This report found that states are funding four major types of family support and child development programs:

- Family resource centers,
- Family support home visiting programs,
- School-linked parent education and involvement programs, and
- Block grants or flexible funds to support early childhood programming.<sup>45</sup>

### *Family Resource Centers and School-Linked Services*

Some state legislatures have identified the need to provide a variety of programs that support families of young children. Family resource centers provide a single access point for families to obtain a range of services, information about community resources, and referrals to outside professionals. Family support programs can include parent education, home visiting programs, job training, literacy tutoring, screenings, information and referral, family activities, advocacy, crisis intervention, family counseling and child care. Centers also can help parents with career opportunities, such as teaching job skills, helping with resumes, and providing job search services. Recent research has indicated benefits of family support programs, including positive outcomes for both children and their parents.<sup>46</sup>

Some states have used federal TANF money to fund family resource centers that provide welfare-to-work services, including child care, job skills training and Medicaid coverage information. Some school-based services use neighborhood school facilities during non-school hours and can assist teen parents to complete high school. West Virginia funds family resource centers in schools or neighborhood settings that offer child development, parent education, health nutrition and family support services to families with young children under age 5. Vermont uses neighborhood parent-child centers throughout the state to provide families with young children services, including child care, home visiting, parent education, and referral information services. These parent-child centers often serve a role in the state's welfare-to work plan and also as a hub for mobilizing community involvement.<sup>47</sup> Other recent legislative examples are listed below.

- In 2001, Colorado legislators enacted a law that created a family resource centers program to provide integrated state and community-based services to vulnerable families and children to help families achieve self-sufficiency.
- In 2001, Hawaii appropriated general revenues to establish new parent-community networking centers and to further develop existing networking centers.
- Kentucky lawmakers in 2000 enacted a law that requires family resource centers and child care and referral agencies to form local community early childhood councils and coordinate with other state councils.
- Rhode Island's 1998 legislated Starting Right initiative provides a network of comprehensive child care services, including health care and mental health services, social and nutritional services, and parent involvement for young children and their families. In



FY 2001, Starting Right funding supported comprehensive child care services to approximately 460 additional unserved or under-served children.<sup>48</sup>

### *Parent Education*

Many state legislatures have focused on the importance of good parenting to enhance child development by supporting parent education and home visiting programs for families with newborns. According to a recent national report, at least 550,000 children are enrolled today in home visiting programs that serve pregnant women and families with young children. Home visiting program goals include providing good parenting skills, prevention of child abuse and neglect, promotion of healthy child development and school readiness, and improvement of the mothers' lives.<sup>49</sup> Other states have raised public awareness about the importance of the earliest years. Some states provide parent education through child care programs. Recent state legislative actions aimed at supporting families with young children include the following.

- A Texas law directs the state to develop a voluntary, community-based early parenting skills program for expectant parents and parents with very young children.
- The New Hampshire legislature appropriated funds to expand the Parents as Teachers program, an early childhood parent education and family support program.
- A Maine law encouraged the state to study ways to support parents as their children's first teachers and to develop a funding plan for the expansion of state child and family support services.

### *Health Services*

Child care and early childhood services are an appropriate and logical setting in which to coordinate and provide health services for young children and their parents. Some policymakers are encouraging child care programs to link with several key federal health programs for young children and their families. In 1996, the federal Child Care Bureau and the Maternal and Child Health Bureau funded the Healthy Child Care America Campaign, which is administered by the American Academy of Pediatrics. The campaign provides grants to states for enhancing children's health in a child care setting, including access to health, dental and developmental screenings; immunizations; health and mental health consultation; and health, nutrition and safety education for children in child care, their families and child care providers.<sup>51</sup>

#### **Child Care and Early Childhood Programs that Enhance Young Children's Health**

Child care and early childhood programs can enhance a children's physical health by:

- Requiring that children be properly immunized and making immunizations accessible and affordable;
- Conducting vision, hearing and developmental screenings;
- Serving nutritious meals;
- Educating parents about nutrition, safety and other preventive health care; and
- Linking children and parents to health care services.<sup>50</sup>

State policymakers are promoting health and safety in child care by providing health consultation and training to child care programs and practitioners. To help train health consultants, the U.S. Maternal and Child Health Bureau funded the National Training Institute for Child Care Health Consultants, in which 39 states participated in 2001.<sup>52</sup>

- North Carolina combines child care funds with maternal and child health funds to improve health and safety for infant and toddler care by hiring health consultants throughout the state, providing grants for health and safety improvement, and offering Web-based training and health consultation.
- In Washington state, a network of more than 90 health consultants work with child care providers across the state.<sup>53</sup>

Recently, state and federal policymakers joined forces to ensure that every low-income child has access to health insurance through the federal State Children's Health Insurance Program (SCHIP). A recent NCSL study, which examined SCHIP and Head Start linkages, found that coordinating SCHIP and Head Start may have potential benefits, including identifying more eligible hard-to-reach children, streamlining the enrollment process and saving on administrative and outreach costs. The study identified that Alaska, Guam, North Dakota, Virginia and Utah are using the federal Head Start program to reach out to SCHIP-eligible children.<sup>54</sup>

### *Linking Children, Families and Child Care Providers with Mental Health Services*

An emerging issue for state legislators across the country is ensuring that young children's mental health needs are addressed. Policymakers are faced with the challenge of making sure that every child is physically, socially and emotionally ready to begin school. The U.S. surgeon general recently reported that at least 20 percent of all young children are affected by emotional and behavioral problems.<sup>55</sup> The National Center for Children in Poverty (NCCP) recently published a report focusing on the critical early childhood-mental health linkages that promote healthy early childhood development and support emotional and mental readiness for school, such as a mental health consultants' home visitation program in early childhood settings.

States can use a variety of federal funds for mental health/child care linkages, including Medicaid, TANF, the Individuals with Disabilities Education Act (IDEA), the CCDBG and Head Start. A forthcoming NCCP report examines the financing of early childhood mental health services with five case studies. Head Start is mandated to meet the mental health needs of preschool children from low-income families and includes these services in early childhood programs. States can work with local agencies and programs to encourage collaborative financial resources and planning.

Some state legislatures are creatively funding initiatives that offer mental health consultation and other services to young children in early childhood settings. Several states including Colorado, Michigan, Nevada and Vermont have taken this approach.<sup>56</sup>

Child care providers, who typically care for a group of children at one time, often struggle to meet the needs of a child who is behaviorally or emotionally challenged. Some states fund higher provider rates for

#### **Colorado Supports Children's Mental Health Needs**

A recent children's mental health survey of more than 1,000 Colorado early childhood care and education providers found that 84 percent of respondents put mental health at the very top of their list of concerns for young children. The survey also indicated that at least 15 percent of Colorado young children had emotional or behavioral problems serious enough to disrupt child care or early childhood classroom settings. In an average month, the providers surveyed serve more than 26,000 Colorado children from birth to age 8. The Colorado legislature recently funded a pilot early intervention program that provides on-site early childhood mental health specialists to consult and work directly with children. Results from the two sites showed reduced child expulsion from classrooms and increased capabilities of teachers and assistants to handle problematic behaviors, making for more manageable classroom settings. It has been recommended that the legislature expand this mental health consultation program.<sup>57</sup>

special needs child care programs that have lower child-to-staff ratios. Other states are enhancing child care provider skills by offering mental health training or on-site mental health consultants to work with children and providers (see box for more information). Oklahoma held a two-day conference on mental health issues in child care that attracted 600 participants.<sup>58</sup>

### *Early Head Start*

Created in 1995, the federal Early Head Start Program, currently funded at \$558 million, provides comprehensive services, including health, education, and family support services through home-based and center-based programs to low-income families with infants and toddlers. A recent study found that, after a year, children enrolled in Early Head Start measured better in cognitive and socio-emotional development and language skills compared with children who did not participate in the program (see the lower box on this page for more details). Since its inception, Early Head Start has grown nearly tenfold to more than 600 community-based programs serving 45,000 children.<sup>60</sup> Similar to the federal Head Start program, Early Head Start funds flow directly from the federal government to local grantees; most programs are part-day and follow a school calendar.

States have begun to invest in Early Head Start expansion. According to the National Center for Children in Poverty, six states—including Kansas, Missouri, North Carolina, North Dakota, Oklahoma and Minnesota use either state dollars or federal welfare funds to supplement Early Head Start for extended-day, full-day or full-year services. Kansas and Missouri legislatures each invested \$5 million in Early Head Start.<sup>61</sup> Missouri policymakers combine TANF funds, Child Care Development Block Grant funds and gaming fee revenues to expand the state's Early Head Start program through linkages with family child care homes and centers. In 2000, the Iowa legislature appropriated TANF funds for two years for community empowerment programs for children from birth to age 5, including enhancing links between Early Head Start and Head Start.

### *Nutrition (CACFP)*

Appropriate nutrition is important for the proper physical growth of children. Most

#### **What Early Childhood Mental Health Consultants Do in Early Care and Learning Settings**

Mental health consultants carry out a range of tasks to enhance the emotional and behavioral well-being of children, families and early childhood providers. These include:

- Help early childhood staff observe and understand behavior.
- Team with early childhood staff to design classroom interventions to promote emotional strengths and strong relationship, including social skill building.
- Provide information about what to expect in infants, toddlers and preschoolers and the importance of early relationships for them.
- Increase staff competencies in dealing with children with challenging behaviors or problematic emotional development.
- Help staff work more effectively with families individually or through parent support groups.
- Help staff know when children or families need more specialized help.
- Help staff address cultural or other work-place tensions.
- Help children, staff, programs and communities respond to community or family violence or other crises.<sup>59</sup>

#### **Early Head Start Findings**

Findings from the preliminary Early Head Start evaluation of 2-year-old children showed that children and families benefit from involvement in the federal Early Head Start program. Positive effects included stronger cognitive, language and social-emotional skills among children who participated compared with those who did not participate. Other highlights of the research findings include:

- Only one-third of Early Head Start children were found to be at risk of slower developmental learning, compared with 40 percent of the non-Early Head Start children.
- Parents in Early Head Start demonstrated more positive parenting behavior and provided more help for their children to learn at home.
- Toddlers scored higher on standardized tests of early development, which included reports of larger vocabulary and the ability to speak in more complex sentences.

The evaluation studied approximately 3,000 children and families in 17 sites across the country during the first two years of the children's lives. The final report, following children through age 3, will be published in 2003.

Source: *Building Their Futures: How Early Head Start Programs Are Enhancing the Lives of Infants and Toddlers in Low-Income Families: Summary Report* (January 2001), prepared by the Mathematica Policy Research Inc. and Columbia University's Center for Children and Families, in collaboration with the Early Head Start Research Consortium.

states use the federal Child and Adult Care Food Program (CACFP), which can play a role in improving the quality and affordability of child care. The program is designed for children who receive care in family child care homes, child care and Head Start centers, and before- and after-school programs. All children enrolled in qualified child care programs can participate, including all licensed or approved nonprofit child centers and homes. For-profit child care centers that serve at least 25 percent low-income children who are eligible for free or reduced price meals under the national school lunch program or whose child care fees are paid for by Social Services Block Grant (SSBG) funds, also are eligible to participate in CACFP. In FY 1999, CACFP funds supported meals for more than 2.6 million children, and Congress funded the program at \$1.7 billion in FY 2002. In child care centers, CACFP reimbursement rates are based on the family's income. Family child care providers are reimbursed at a rate based on the average family income level of all children for whom they provide child care. In addition to meal and snack reimbursements, CACFP funds can be used to support training in children's nutritional needs and food safety, as well as the cost of administering the program in family child care homes.<sup>62</sup>

- The Alabama Legislature enacted a 2000 law that requires the state's Office of School Readiness to coordinate with the Child Care Licensing Division for administering CACFP, and requires coordination among early education, child care and family support programs.
- Several states use CACFP as a support for license-exempt care (see page 41 for more information). Colorado's child care agency and health department are collaboratively working on the Colorado CACFP Legally-Exempt Homes Expansion Project. The legally-exempt homes that participate in the project are allowed access to financial and technical assistance and are able to participate in the state's certification process through the state's CCR&R system. In Alaska, both exempt and licensed child care providers are able to participate in the CACFP.<sup>63</sup>

## Conclusion

Whether legislators are examining early care and education policies to increase supply, assist low-income families, or to improve quality, the issue of finding resources to pay for these services is essential. Legislators and other policymakers increasingly understand the importance of quality child care programs to both the current and future workforce. This book offers state policymakers a guide to use when they consider a wide variety of early childhood financing approaches, sources and purposes. As state leaders establish comprehensive strategies, children and their families throughout the country realize the benefits.

## APPENDIX. STATE CHILD CARE INCOME ELIGIBILITY LEVELS

State/Jurisdiction	State Median Income (SMI)	Child Care Eligibility	Eligibility by Percentage of State Median Income	Eligibility by Percentage of Federal Poverty Level
Alabama	\$42,971	Families with incomes at or below \$18,048 for a family of three are eligible for child care assistance. (Families can continue to receive assistance until income reaches \$27,756.)	42% to 65%	123% to 190%
Alaska	50,170	Families with incomes at or below \$44,328 for a family of three are eligible for child care assistance.	88%	242%
Arizona	41,493	Families with incomes at or below \$22,908 for a family of three are eligible for child care assistance.	55%	157%
Arkansas	37,356	Families with incomes at or below \$23,523 for a family of three are eligible for child care assistance. (Includes a \$100 monthly deduction for each working parent.)	63%	161%
California	46,376	Families with incomes at or below \$33,852 are eligible for child care assistance. (Families can continue to receive assistance until income reaches \$45,132.)	73% to 97%	231% to 308%
Colorado	53,280	Families with incomes at or below \$19,020 to \$32,916 for a family of three are eligible for child care assistance. (Localities set their own cutoffs within the range of these state guidelines.)	36% to 62%	130% to 225%
Connecticut	63,449	Families with incomes at or below \$47,568 for a family of three are eligible for child care assistance.	75%	325%
Delaware	54,732	Families with incomes at or below \$27,768 for a family of three are eligible for child care assistance.	51%	190%

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### Appendix. State Child Care Income Eligibility Levels (continued)

State/Jurisdiction	State Median Income (SMI)	Child Care Eligibility	Eligibility by Percentage of State Median Income	Eligibility by Percentage of Federal Poverty Level
Florida	\$44,168	Families with incomes at or below \$20,820 for a family of three are eligible for child care assistance. (Families with incomes up to \$25,678 can continue to receive assistance. The income cutoff for the Executive Partnership Program is \$27,760.)	47% to 58%	142% to 176%
Georgia	47,031	Families with incomes at or below \$24,278 for a family of three are eligible for child care assistance.	52%	166%
Hawaii	51,944	Families with incomes at or below \$46,035 for a family of three are eligible for child care assistance. (Eligibility cutoff includes a 20 percent income deduction.)	89%	274%
Idaho	41,306	Families with incomes at or below \$20,472 for a family of three, are eligible for child care assistance.	50%	140%
Illinois	51,804	Families with incomes at or below \$24,243 for a family of three are eligible for child care assistance. (Eligibility cutoff includes a 10 percent earned income deduction.)	47%	166%
Indiana	46,439	Families with incomes at or below \$19,848 for a family of three are eligible for child care assistance. (Families can continue to receive assistance until income reaches \$25,128.)	43% to 54%	136%
Iowa	44,713	Families with incomes at or below \$19,428 for a family of three are eligible for child care assistance.	43%	133%
Kansas	46,486	Families with incomes at or below \$25,680 for a family of three are eligible for child care assistance.	55%	176%
Kentucky	41,251	Families with incomes at or below \$23,346 for a family of three are eligible for child care assistance.	57%	160%
Louisiana	41,191	Families with incomes at or below \$29,040 for a family of three are eligible for child care assistance	71%	199%
Maine	42,890	Families with incomes at or below \$35,456 for a family of three are eligible for child care assistance.	83%	242%

Appendix. State Child Care Income Eligibility Levels (continued)				
State/Jurisdiction	State Median Income (SMI)	Child Care Eligibility	Eligibility by Percentage of State Median Income	Eligibility by Percentage of Federal Poverty Level
Maryland	\$59,979	Families with incomes at or below \$22,463 for a family of three are eligible for child care assistance.	37%	154%
Massachusetts	57,925	Families with incomes at or below \$27,312 for a family of three are eligible for child care assistance. (Families can continue to receive assistance until income reaches \$46,428.)	47% to 80%	187% to 317%
Michigan	49,576	Families with incomes at or below \$26,064 for a family of three are eligible for child care assistance.	53%	178%
Minnesota	56,398	Families with incomes at or below \$43,890 for a family of three are eligible for child care assistance.	78%	300%
Mississippi	36,882	Families with incomes at or below \$27,999 for a family of three are eligible for child care assistance.	76%	191%
Missouri	45,520	Families with incomes at or below \$17,784 for a family of three are eligible for child care assistance.	39%	122%
Montana	37,579	Families with incomes at or below \$21,948 for a family of three are eligible for child care assistance.	58%	150%
Nebraska	47,621	Families with incomes at or below \$27,797 for a family of three are eligible for child care assistance.	58%	190%
Nevada	44,565	Families with incomes at or below \$33,576 for a family of three are eligible for child care assistance.	75%	230%
New Hampshire	51,252	Families with incomes at or below \$26,376 for a family of three are eligible for child care assistance.	51%	180%
New Jersey	59,626	Families with incomes at or below \$29,260 for a family of three are eligible for child care assistance. (Families can continue to receive assistance until income reaches \$36,575.)	49% to 61%	200% to 250%
New Mexico	36,816	Families with incomes at or below \$14,630 for a family of three are eligible for child care assistance and continue to be eligible up to \$29,260.	40% to 79%	100% to-200%



**Appendix. State Child Care Income Eligibility Levels (continued)**

State/Jurisdiction	State Median Income (SMI)	Child Care Eligibility	Eligibility by Percentage of State Median Income	Eligibility by Percentage of Federal Poverty Level
New York	\$47,999	Families with incomes at or below \$28,644 for a family of three are eligible for child care assistance.	60%	196%
North Carolina	45,638	Families with incomes at or below \$32,628 for a family of three are eligible for child care assistance.	71%	223%
North Dakota	42,842	Families with incomes at or below \$29,340 for a family of three are eligible for child care assistance.	68%	201%
Ohio	50,542	Families with incomes at or below \$27,066 for a family of three are eligible for child care assistance.	54%	185%
Oklahoma	39,846	Families with incomes at or below \$29,040 for a family of three are eligible for child care assistance. (Eligibility cutoff includes a 20 percent earned income deduction.)	73%	198%
Oregon	46,949	Families with incomes at or below \$25,680 for a family of three are eligible for child care assistance.	55%	176%
Pennsylvania	49,146	Families with incomes at or below \$28,300 for a family of three are eligible for child care assistance. (Families can continue to receive assistance until income reaches \$33,253.)	58% to 68%	193% to 227%
Rhode Island	52,365	Families with incomes at or below \$31,230 for a family of three are eligible for child care assistance.	60%	213%
South Carolina	43,773	Families with incomes at or below \$17,350 for a family of three are eligible for child care assistance. (Families can continue to receive assistance until income reaches \$24,290.)	40% to 55%	119% to 166%
South Dakota	41,750	Families with incomes at or below \$22,113 for a family of three are eligible for child care assistance. (Eligibility cutoff includes a 4 percent earned income deduction.)	53%	151%
Tennessee	42,260	Families with incomes at or below \$23,016 for a family of three are eligible for child care assistance.	42% to 51%	157%

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### Appendix. State Child Care Income Eligibility Levels (continued)

State/Jurisdiction	State Median Income (SMI)	Child Care Eligibility	Eligibility by Percentage of State Median Income	Eligibility by Percentage of Federal Poverty Level
Texas	\$42,964	Depending on the locality, families with incomes at or below \$23,630 to \$36,519 for a family of three are eligible for child care assistance. (Localities set their own income cutoffs within state guidelines.)	61%	16% to 250%
Utah	45,777	Families with incomes at or below \$23,928 for a family of three are eligible for child care assistance. (Eligibility cutoff includes a \$100 monthly work deduction and a \$100 monthly standard deduction.)	78%	164%
Vermont	45,100	Families with incomes at or below \$31,032 for a family of three are eligible for child care assistance.	56% to 60%	212%
Virginia	51,122	Depending upon the region, families with incomes at or below \$21,228 to \$26,172 for a family of three are eligible for child care assistance. (Cutoffs vary by region of state.)	44%	145% to 179%
Washington	51,290	Families with incomes at or below \$31,236 for a family of three are eligible for child care assistance.	54%	214%
West Virginia	36,321	Families with incomes at or below \$28,296 for a family of three are eligible for child care assistance.	55% to 85%	193%
Wisconsin	48,628	Families with incomes at or below \$27,060 for a family of three are eligible for child care assistance. (Families can continue to receive assistance until income reaches \$29,256.)	52%	185% to 200%
Wyoming	42,831	Families with incomes at or below \$18,828 for a family of three are eligible for child care assistance.	69%	129%
District of Columbia	50,966	Families with incomes at or below \$27,921 for a family of three are eligible for child care assistance. (Eligibility cutoff includes a deduction of \$3,000 per child.)	55%	191%

Source: Reprinted with permission from *Digest of Early Childhood Funders Collaborative*, October 2001. These data are based on the 2001 Federal Poverty Level, which was set at \$14,630 for a family of three.

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# NOTES

## 1. Introduction

1. W. Steven Barnett, "Long-Term Effects of Early Childhood Programs on Cognitive and School Outcomes." *The Future of Children* 3, no. 5 (1995): 25-50.

2. Frances A. Campbell et al., (in press). Early Childhood Education: Young Adult Outcomes from the Abecedarian Project. *Applied Developmental Science*.

3. Lawrence J. Schweinhart, Helen V. Barnes, and David P. Weikart, *Significant Benefits: The High/Scope Perry Preschool Study Through Age 27* (Ypsilanti, Mich.: High/Scope Press, 1993), 233-235. A more recent analysis, conducted by Steven Barnett and included in the Winter 1995 issue of *The Future of Children*, argues that Perry Preschool data do not stand alone and estimates the national cost of failing to providing early care and education at \$100,000 for each child born into poverty.

4. Robin Karr-Morse and Meredith S. Wiley, *Ghosts from the Nursery: Tracing the Roots of Violence* (New York: The Atlantic Monthly Press, 1997), 38, 200-202.

5. U.S. Department of Labor, *Report on the American Workforce* (Washington, D.C.: U.S. Department of Labor, 2001), 126, table 5.

6. U.S. Census Bureau, *Population Profile of the United States: 2000* (Internet Release). (Washington, D.C.: U.S. Census Bureau, 2000), 6-2.

7. For example, San Mateo County, Calif., learned that direct child care employment in their area was comparable in size to the motion picture and air transportation industries (National Economic Development Law Center, 1998).

8. Texas Perspectives Inc., *Public Funding of Childcare Services* (San Antonio, Texas: Texas Perspectives Inc., 2000).

9. Steven Moss, *The Economic Impact of the Child Care Industry in California* (Oakland, Calif.: National Economic Development and Law Center, 2001), 10, 12.

10. Monica H. Rohacek and Susan D. Russell, *Child Care Subsidy: An Investment Strategy for North Carolina* (Chapel Hill, N.C.: Day Care Services Association, December 1996), 4.

11. Karen Schulman, *The High Cost of Child Care Puts Quality Care Out of Reach for Many Families*, (Washington, D.C.: Children's Defense Fund, 2000), A-3, A-4.

12. These estimates are based on school-readiness program expenditures in Connecticut, New Jersey and Oregon and on research conducted by Rick Brandon and Lynn Kagan. Brandon and Kagan have found a wide variance in costs, primarily as a result of local labor costs for teachers and other staff.

13. Calculations by the Children's Defense Fund, using data on the number of children served from U.S. Department of Health and Human Services, *FY 2003 Budget in Brief*, February 2002, and data on the number of children eligible from the Department of Health and Human Services, Office of the Assistant Secretary for Planning and Evaluation, as presented by Julie B. Isaacs at the State Administrators Meeting in Washington, D.C., Aug. 13, 2001.

14. U.S. Census Bureau, "Who's Minding the Kids?" *Current Population Report* (2000), 70-70, Table 14.

15. Louise Stoney, "Financing Early Care and Education: Key Issues," *State Education Leader* 19, 2, 3, 4 (2001).

16. On average, only 35 percent of the revenue of all colleges and universities is derived from tuition. It is important to note, moreover, that this practice is not limited to public universities. Tuition accounts for only 42 percent of revenue in private colleges. Anne Mitchell, Louise Stoney and Harriet Dichter, *Financing Child Care in the United States: An Expanded Catalog of Current Strategies, 2001 Edition* (Kansas City, Mo.: Ewing Marion Kauffman Foundation, 2001), 3-4.

17. Mitchell, Stoney and Dichter, *Financing Child Care in the United States, 2001 Edition*, and Anne Mitchell, Louise Stoney and Harriet Dichter, *Financing Child Care in the United States: An Illustrative Catalog of Current Strategies* (Kansas City, Mo.: Ewing Marion Kauffman Foundation and The Pew Charitable Trusts, 1997). Both are available at [www.earlychildhoodfinance.org](http://www.earlychildhoodfinance.org).

18. Mitchell, Stoney and Dichter, *Financing Child Care in the United States, 2001 Edition*, 15-18.

19. *Ibid.*, 31-32.

20. *Ibid.*, 96, 100-101.

21. *Ibid.*, 118-127, 144-147.

## 2. Financing Child Care Supply

1. Jeff Asher, Connecticut Health and Educational Facilities Authority, e-mail correspondence with author, Feb. 1, 2002.

2. These states include California, Georgia, Indiana, Minnesota, Michigan, New Hampshire, New York, Utah, Wisconsin and Wyoming (Wheelock College Institute for

Leadership and Career Initiatives, Preliminary Data on Status of Career Development System Components, June 2001).

3. Steven Moss, *The Economic Impact of the Child Care Industry in California*, 10, 12.
4. These estimates are based on school-readiness program expenditures in Connecticut, New Jersey and Oregon and on research conducted by Rick Brandon and Lynn Kagan. Brandon and Kagan have found a wide variance in costs, primarily as a result of local labor costs for teachers and other staff.
5. Cost, Quality and Child Outcomes Study Team, *Cost, Quality and Child Outcomes in Child Care Centers Public Report* (Denver, Colo.: University of Colorado at Denver, 1995), 51-52.
6. On average, only 14 percent of families that are eligible for assistance from the federal Child Care and Development Block Grant receive it. The funding can be higher if using other funds, but it still is short.
7. States or jurisdictions that have taken this approach include Arkansas, Colorado, Delaware, Kansas, Mississippi, New York, Ohio, Oregon and the District of Columbia; U.S. Department of Health and Human Services, Administration for Children and Families, Child Care Bureau, *Child Care and Development Fund: Report of State Plans for the Period 10/01/99 to 9/30/01* (Washington, D.C.: U. S. Department of Health and Human Services, April 2001), 86-87, 95-96.
8. ACF Program Instruction issued on July 29, 1999, clarifies that families who receive benefits or services funded under TANF may be considered eligible for Head Start. Subsidized child care is included in the list of services that would be considered as TANF benefits. (ACYF-PI-HS-99-06); Head Start rules allow 10 percent of a program's enrollees to earn more than the poverty level if a child has a special need.
9. Helen Blank, Andrea Behr and Karen Schulman, *State Developments in Child Care, Early Education, and School-Age Care 2000* (Washington, D.C.: Children's Defense Fund, March 2001), 91; Kim Keiser, Vermont Department of Human Services, phone conversation with author, May 24, 2001.
10. These findings are derived from 1990-2002 reports on Colorado, Connecticut, Florida, Georgia Hawaii, Kentucky, Massachusetts, Minnesota, Missouri, Ohio, Oregon and Vermont.
11. 1995 Cal. Stats, Chap. 298; 1997 Minn. Laws, Chap. 162; 1997 Mont. Acts, Chap. 318.
12. HHS, *Child Care and Development Fund: Report of State Plans* 85; 2001 Tex. Laws, SB 1732, Chap. 627.
13. Family child care networks are sometimes referred to as family child care "satellite" programs.

14. HHS, *Child Care and Development Fund: Report of State Plans*, 86-87, 99.
15. For more information about these collaborative financing strategies, see Nicole Poersch and Helen Blank, *Working Together for Children: Head Start and Child Care Partnerships* (Washington, D.C.: Children's Defense Fund, January 1996).
16. Rima Shore, *Rethinking the Brain: New Insights into Early Development* (New York, N.Y.: Families and Work Institute, 1997).
17. Carnegie Task Force on Learning in the Primary Grades, *Years of Promise* (New York: Carnegie Corporation, September 1996), 89.
18. These states include Arizona, Arkansas, California, Colorado, Connecticut, Florida, Georgia, Illinois, Kansas, Maine, Maryland, Michigan, Mississippi, Montana, Nebraska, Nevada, New Jersey, New Mexico, Ohio, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas and Virginia.
19. Christina Smith FitzPatrick and Emily J. Martin, *The Little Engine That Hasn't: The Poor Performance of Employer Tax Credits for Child Care* (Washington, D.C.: National Women's Law Center, forthcoming).
20. Anthony Jackson, Georgia Department of Revenue, personal communication with author, Nov. 15, 2001.
21. Christina Smith FitzPatrick, National Women's Law Center, e-mail communication with author, March 20, 2002.
22. FitzPatrick and Martin, *The Little Engine That Hasn't* (forthcoming).
23. 2001 Or. Laws, HB 2676, Chap. 674.

### 3. Resources to Support Families

1. U.S. Census Bureau, *Money and Income in the United States: 1998*, Current Population Reports, P60-206 (Washington, D.C.: U.S. Government Printing Office, September 1999).
2. U.S. General Accounting Office, *Child Care: States Increased Spending on Low-Income Families* (Washington, D.C.: U.S. GAO, February 2001), 13-14; Jean Layzer and Ann Collins, *National Study of Child Care for Low-Income Families: State and Community Substudy, Interim Report Executive Summary* (Cambridge, Mass: Abt Associates Inc., November 2000), 18, 36. The 17-state Abt report found that 15 percent to 20 percent of eligible families received child care subsidies in those states and in no state served more than 25 percent. A U.S. HHS report found that, on average, 14 percent of eligible families received child care assistance under the federal Child Care and Development Block Grant.
3. [www.acf.dhhs.gov/programs/ccb/policy1/current/im0201/finall02.htm](http://www.acf.dhhs.gov/programs/ccb/policy1/current/im0201/finall02.htm).
4. Rachel Schumacher, Mark Greenberg, and Janellen Duffy, *The Impact of TANF Funding on State Child Care Subsidy Programs, Policy Brief*, (Washington, D.C.: Center for

Law and Social Policy, September 2001), 7. This publication includes detailed information about how TANF direct expenditures may be used for child care. For TANF funds transferred to the CCDBG, states have the year of the TANF transfer and the subsequent year to obligate the funds.

5. Layzer and Collins, *National Study of Child Care for Low-Income Families*, 18-19; Schumacher, Greenberg and Duffy, *The Impact of TANF Funding on State Child Care Subsidy Programs, Policy Brief*, 5, 7.

6. Schumacher, Greenberg and Duffy, *The Impact of TANF Funding on State Child Care Subsidy Programs, Policy Brief*, 11-12.

7. Ibid., 10.

8. [www.acf.dhhs.gov/programs/ocs/ssbg/docs/rtoc99.htm](http://www.acf.dhhs.gov/programs/ocs/ssbg/docs/rtoc99.htm).

9. Karen Schulman, Helen Blank and Danielle Ewen, *Seeds of Success: State Prekindergarten Initiatives 1998-99* (Washington, D.C.: Children's Defense Fund, September 1999), 36; 1999 S.C. Acts, Act 99; Scott Groginsky, Julie Poppe and Jenna Davis, *Financing Child Care* (Denver, Colo.: National Conference of State Legislatures, June 2000), 9, 14.

10. Mitchell, Stoney and Dichter, *Financing Child Care in the United States, 2001 Edition*, 28, 48; Nicole Kasabian, California Children and Family Commission, phone conversation with author, Nov. 27, 2001.

11. Evelyn Perkins, Florida Partnership for School Readiness, phone conversation with author, March 4, 2002; Phyllis Kalifeh, Florida Children's Forum, e-mail correspondence with author, March 22, 2002.

12. Scott Groginsky, *Child Care and Early Education Coordination in the States: A Statutory Overview*, (Denver, Colo.: National Conference of State Legislatures, April 2002), 2.

13. Ibid., 3-4.

14. Anne Mitchell and Louise Stoney, *Digest of Early Care and Education Policy in the States*, (White Plains, N.Y.: Early Childhood Funders Collaborative, A.L. Mailman Family Foundation, unpublished).

15. Blank, Behr and Schulman, *State Developments 2000*, 19; Helen Blank and Nicole Oxendine Poersch, *State Developments in Child Care, Early Education, and School-Age Care 1999* (Washington, D.C.: Children's Defense Fund, February 2000), 16.

16. Schumacher, Greenberg and Duffy, *The Impact of TANF Funding on State Child Care Subsidy Programs, Policy Brief*, 10.

17. GAO, *Child Care: States Increased Spending on Low-Income Families*, 15.

18. 2001 Va. Acts, SB 1008, Chap. 184.



19. Danielle Ewen et al., *State Developments in Child Care, Early Education and School-Age Care 2001* (Washington D.C.: Children's Defense Fund, April 2002), 32-33.
20. GAO, *Child Care: States Increased Spending on Low-Income Families*, 21.
21. Ewen et al., *State Developments 2001*, 32-33.
22. HHS, *Child Care and Development Fund: Report of State Plans*, 64.
23. HHS, *Child Care and Development Fund: Report of State Plans*, 64; GAO, *Child Care: States Increased Spending on Low-Income Families*, 6.
24. GAO, *Child Care: States Increased Spending on Low-Income Families*, 6.
25. 2000 W. Va. Acts, SB 577, Chap. 140; 2001 Me. Public Laws, LD 1033, Chap. 338; 2001 Conn. HB 6939.
26. GAO, *Child Care: States Increased Spending on Low-Income Families*, 20.
27. HHS, *Child Care and Development Fund: Report of State Plans*, 65.
28. 1999 Iowa Acts, Chap. 192; 2000 Minn. Laws, HF 3800, Chap. 489; 1998 Cal. Stats., Chap 329; 2000 Va. Acts, HJ 200ER.
29. Schumacher, Greenberg and Duffy, *The Impact of TANF Funding on State Child Care Subsidy Programs, Policy Brief*, 6.
30. Andrea Wilkins, *Child Care Experiences of Former TANF Recipients*, (Denver, Colo.: National Conference of State Legislatures, August 2001), [www.ncsl.org/statefed/welfare/CC2001.htm](http://www.ncsl.org/statefed/welfare/CC2001.htm).
31. Rachel Schumacher and Mark Greenberg, *Child Care After Leaving Welfare: Early Evidence From State Studies* (Washington, D.C.: Center for Law and Social Policy, October 1999), i.; Wilkins, *Child Care Experiences of Former TANF Recipients*.
32. GAO, *Child Care: States Increased Spending on Low-Income Families*, 20.
33. Blank, Behr and Schulman, *State Developments 2000*, 22.
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