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## Early Investment Project: Subsidized Childcare in Texas

Robert Sanborn

Mandi Kimball

Katie McConnell

Shay Everitt

Kellie O'Quinn

*See next page for additional authors*

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# Early Investment Project: Subsidized Childcare in Texas

## **Acknowledgements**

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This report was made possible through the generous support of the W.K. Kellogg Foundation. We appreciate their commitment to quality early education and better outcomes for families in Texas.

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## **Authors**

Robert Sanborn, Mandi Kimball, Katie McConnell, Shay Everitt, Kellie O'Quinn, and Jesus Davila

# EARLY INVESTMENT PROJECT: SUBSIDIZED CHILD CARE IN TEXAS

Best Practices. Best Policies. Best Results.



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at Risk**  
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## Research and Production Team

Robert Sanborn, Ed. D.  
*President & CEO*

Mandi Sheridan Kimball, MSW  
*Director, Public Policy and Government Affairs*

Katie McConnell, Ed. D.  
*Chief Operating Officer*

Shay Everitt, MSW  
*Assistant Director, Public Policy and Early Education*

Kellie O'Quinn, MSW  
*Assistant Director, Public Policy and Early Education*

Jesus Davila, MPP  
*Assistant Director, Center for Social Measurement and Evaluation*

With special thanks to interns Princess Adentan, Lauren Dyer, Gretchen Himsl, Carlos Villegas, Crystal Walsh, and Renata Wettermann. Editorial assistance provided by Dr. Lisa Kerber.

## Early Education Task Force

Jesse Ayala, *Greater Houston Partnership*

Lynette Benavidez, *United Way of Southern Cameron County*

Adrianna Cuellar Rojas, *United Ways of Texas*

Susan Hoff, *United Way of Metro Dallas*

Kim Kofron, *Texas Association for the Education of Young Children*

Libby McCabe, *Commit!*

Jaime Hanks Meyers, *Commit!*

Melanie Rubin, *Dallas Early Education Alliance*

Stephanie Rubin, *Texans Care for Children*

Carol Shattuck, *Collaborative for Children*

Carolyn Simpson, *Lubbock Area United Way*

Bea Vargas, *Paso Del Norte Association for the Education of Young Children*

Kara Waddell, *Child Care Associates*

## Early Education Academic Council

Dr. Nicole Andrews, *University of Houston*

Dr. David Brown, *Texas A&M Commerce*

Dr. John Gasko, *University of North Texas Dallas*

Earlene Gonzales, *University of Texas San Antonio*

Dr. Bobbie Henderson, *Texas Southern University*

Mary Clare Munger, *Amarillo College*

Dr. Margaret Owen, *University of Texas Dallas*

Dr. Lori Taylor, *Texas A&M University*

Dr. Leigh Van Horn, *University of Houston Downtown*

## EXECUTIVE SUMMARY AND POLICY RECOMMENDATIONS

### Purpose

CHILDREN AT RISK, a nonprofit and nonpartisan research organization, undertook a year-long effort to study the subsidized child care system in Texas. This included an in-depth analysis of the system's local and state partners, as well as the promotion of the study's findings and key recommendations. This report is one of the products of this effort.

The purpose of this report is twofold. One purpose is to educate parents, policy makers, and the public about the subsidized child care system in Texas. This report describes the system and challenges confronted by child care providers and those parents who need quality child care. The second purpose is to offer policy recommendations to improve the effectiveness and efficiency of the subsidized child care system on behalf of parents, taxpayers, and—most importantly—children. The recommendations emphasize coordination and cooperation among state agencies so that they can avoid duplication and maximize state investments while they serve the large population of children in the subsidized child care system.

### Methodologies Used for Study

CHILDREN AT RISK used several qualitative and quantitative methodologies to complete this study. Methodologies included: 1) a literature review of best practices for child care, parenting, and Pre-Kindergarten; 2) analysis of policies, legislation, finances, organizations, and state agencies; 3) face-to-face and phone interviews with key early education stakeholders; 4) focus groups with parents; 5) key stakeholder forums; and 6) an online survey of child care providers. Please refer to Appendix 1 for more detailed information.

### Key Findings

In Texas, there is a lack of state agency coordination regarding early education data and quality initiatives. Locally, there seems to be a lack of coordination among early education programs and school districts. Little awareness and understanding exists about how dollars are allocated to improve child care quality. Little support exists to help children transition from child care to the public Kindergarten through 12<sup>th</sup> Grade (K-12) system.

### Policy Recommendations

- To improve outcomes for children, maximize efficiency, and save taxpayer dollars, the Texas Legislature should increase coordination of child care and Pre-K data systems at the Texas Education Agency and the Texas Workforce Commission through the Early Childhood Database System.
- To increase access to quality Pre-K, support private businesses, and save taxpayer money, the Texas Legislature should increase local coordination of early education programs by supporting current efforts to develop public/private partnerships between school districts and high-quality child care providers.
- To ensure the transparent use of taxpayer dollars for high-quality child care, the Texas Workforce Commission and Local Workforce Development Boards (Local Boards) should report to parents and the Texas Legislature: 1) the number and percentage of children receiving subsidies who are in high-quality child care settings by each quality level; 2) the number of quality seats available at each quality level to children through the subsidy; and 3) the amount spent on different quality initiatives across the state.
- To facilitate a successful transition from child care to the formal K-12 system, the Texas Education Agency should create an early childhood through 3rd grade teaching certificate program. By encouraging teachers to focus on earlier grades, this certification would increase the number of teachers who are experts in teaching children during these pivotal early learning years.
- To ensure interagency coordination of parent engagement activities, the Texas Legislature should create a parent education task force to coordinate efforts by the Texas Workforce Commission and other state agencies to build stronger families and spend public dollars more efficiently.



# THE BASICS: THE SUBSIDIZED CHILD CARE SYSTEM IN TEXAS

This section describes the system, covering the various state roles and key players in the state-funded early education system in Texas with a focus on child care as the hub for early learning.

## The Federal Government’s Role in Child Care

Texas is reliant on federal funds to pay for subsidized child care. Each year, the federal government provides hundreds of millions of dollars to Texas to provide child care for low-income, working families. The Child Care and Development Block Grant (CCDBG), created in 1990, assists states in increasing access to child care for working parents and provides funds to increase the quality and supply of child care. Under this legislation, states provide child care using the Child Care and Development Fund (CCDF).<sup>1</sup>

Congress significantly strengthened the CCDBG with overwhelming bipartisan support through reauthorization in 2014.<sup>2</sup> The 2014 revision prioritized the quality of child care and the well-being of the children in care.<sup>3</sup> This shift in focus from workforce support to child well-being aligns with the national trend toward quality early education programs that promote healthy child development, educational success, and economic prosperity. This reauthorization revised the CCDF to improve the quality of child care, increase the number and percentage of low-income children in high-quality child care, maximize the options of working parents, and continue to support strong state control.<sup>4</sup>

The following new requirements of the 2014 reauthorization represent a significant shift toward quality care from the previous system:

- **Minimum Quality Spending.** States are now required to set aside funds for spending on quality initiatives at a phased-in amount of 4% to 9% over a 5-year period. States must also set aside 3% for initiatives to improve the supply and quality of infant and toddler child care. In addition to these spending requirements, states must determine measures for outcomes and evaluate the progress of quality initiatives.<sup>5</sup> This framework of quality improvement supports Texas’ commitment to school readiness and economic success.
- **Family-Friendly Eligibility Policies and Continuity of Care.** Once a family is approved for a subsidy they are approved for 12 full months, even if their income changes, as long as it does not exceed 85% of the State Median Income (SMI). Also, if a parent loses his or her job, he or she must be allowed a 3-month period to find a new job.<sup>6</sup> This is a significant move toward higher quality care, as children will have greater stability during critical years of social and emotional development, and parents will have more stable support to keep them in the workforce.

- **Engaging Parents.** States must promote meaningful parent and family engagement in child care settings. States must also empower parents to make informed child care choices by providing easily accessible information about the quality of child care providers.<sup>7</sup> Texas understands that parents are key to their child’s future—better informed and engaged parents mean better outcomes for children.<sup>8</sup> The Texas Education Agency has established a framework for family engagement in Pre-K through 12th Grade, and this policy brings continuity to education in a child’s earliest years. States are also strongly encouraged to provide incentives that promote parent choice of quality child care, which is an opportunity for Texas to leverage the investments it is making in our youngest learners.
- **Coordination of Services.** States are encouraged to coordinate with other public programs to better meet the needs of families.<sup>9</sup> This works well for a large state like Texas, where billions of dollars are being spent by multiple agencies to improve the lives of the same at-risk families.

## The State’s Role in Child Care

The subsidized child care system is part of Texas’ early education system. Three Texas agencies make up the early education system: 1) the Texas Department of Family and Protective Services (DFPS), which enforces the state’s minimal health and safety licensing standards for child care; 2) the Texas Education Agency (TEA), which provides Pre-Kindergarten to over 220,000 three- and four-year-olds in Texas; and 3) the Texas Workforce Commission (TWC), which manages the subsidized child care program. All three agencies also address some aspects of parental involvement in early education.

Child care is the hub of the state’s early education system. Multiple agencies support the child care system and the transition to the formal Kindergarten through 12th Grade (K-12) public education system. Texas has four over-arching roles in supporting child care, which are consequential to our economy and to our families. The state’s main roles are to:

- |   |
|---|
| 1. Help eligible working families secure child care and prepare the future workforce (TWC); |
| 2. Focus on the quality of child care (TWC and DFPS);                                       |
| 3. License child care programs and ensure minimal health and safety standards (DFPS); and   |
| 4. Support parental involvement in early education (TWC, TEA, and DFPS).                    |

The State of Texas touches hundreds of thousands of families of all income levels through its early education programs. Child Care Licensing in DFPS works with over 15,000 small businesses and entrepreneurs throughout the entire state, reaching over 800,000 children and their families annually. The Texas Workforce Commission provides financial assistance through child care subsidies to about 12% of all children in private child care, including approximately 60% of all child care providers.<sup>10</sup> Texas serves more children in its Pre-K program than any other state, with more than 220,000 children served each year.<sup>11</sup>

## 1. Helping Families Secure Child Care and Preparing our Future Workforce

Subsidized child care comprises nearly half of the Texas Workforce Commission’s (TWC) budget, making child care its largest expenditure. The federal government provides this funding, and TWC has been the lead agency managing the funds since the 1990s. Most other states manage this early education program through their education agency, health and human services agency, department of family and child services, or a stand-alone office of early education.<sup>12</sup>

Though TWC primarily focuses on child care as a workforce support, it is also a key educational opportunity for some of our state’s most at risk children during their most important stage of brain development. For these children, this educational program is their foundation for all future learning, so it is important that these are quality programs. However, only about 13% of the child care providers available through the subsidized program are certified as quality through the state’s quality rating system.<sup>13</sup>

Quality child care is an essential resource for working families. In Texas, 50% of children live in low-income households, or at 200% of the Federal Poverty Level (FPL).<sup>14</sup> Of all Texans, young and old, 35% live below 200% FPL. Another 29% of Texans live between 200% and 399% FPL, which indicates, on the lower end, that they are at risk of slipping into low-income status and, on the higher end, that they are closer to reaching a more secure middle-income status.<sup>15</sup> The average annual cost in Texas for child care is over \$8,700 for an infant and \$6,700 for a 4-year-old shown in Table 1 as a percentage of total income.<sup>16</sup> With child care costs nearing or exceeding the cost of college tuition, child care is out of reach for many low- and middle-income families.

The benefits of quality child care accrue to employers, families, and children:

- **Employer benefits.** Ensuring that families have consistent, stable access to quality child care helps keep parents in the workforce. Across the U.S., businesses lose \$4.4 billion a year due to employee absences as a result of child care interruptions.<sup>17</sup> Research shows that 45% of parents miss an average of four days from work in a six-month period due to child care interruptions. Low-income parents receiving child care assistance have more stability with greater access to overtime hours at work, missing fewer days at work, and making fewer schedule changes at work to accommodate child care lapses.<sup>18</sup>
- **Stronger families.** Greater stability in child care leads to stronger families. Low-income families are more likely to experience instability and have greater stresses in their daily life, which can significantly impact a child’s learning.<sup>19</sup> Providing child care assistance allows parents to cover other basic needs and gives children a predictable, stable environment. This results in stronger families and increases the likelihood that children will be school-ready.
- **Quality education and life-long outcomes.** Quality child care is quality early education, which has been proven to increase a child’s likelihood for success in school and beyond. Graduates from strong early education programs are more likely to finish high school and less likely to have behavior problems, be incarcerated, and abuse drugs or alcohol.<sup>20</sup> This has obvious benefits for our economy, but also for our military.

Currently, 75% of adults ages 17 to 24 are not eligible for military duty because they dropped out of high school, have a criminal record, or have health issues such as obesity. Military leaders across America find the solution in quality early education, which addresses all of these problems.<sup>21</sup>

**Table 1. Annual child care costs as a share of income for different types of families near or below low-income threshold.**

Family Type	100% FPL	200% FPL	250% FPL
Single mother with 1 infant	54% of income at \$16,020/year	27% of income at \$32,040/year	21% of income at \$40,050/year
Single mother with 1 infant and 1 four-year-old	76% of income at \$20,160/year	38% of income at \$40,320/year	31% of income at \$50,400/year
Two-parent family with 1 infant	43% of income at \$20,160/year	21% of income at \$40,320/year	17% of income at \$50,400/year
Two-parent family with 1 infant and 1 four-year-old	63% of income at \$24,300/year	32% of income at \$48,600	25% \$60,750/year

- **High yields for low-income children.** Quality early education has been shown to be particularly beneficial to children from low-income families, which are typically classified as earning below 200% FPL. However, those earning just above 200% FPL are often still struggling to meet their basic needs and are at risk of falling into that low-income bracket, so it is important to ensure they have enough support to move further up the income bracket and increase stability for their family. To this end, families in Texas earning up to 85% of State Median Income (SMI)—approximately 250% FPL—are eligible to receive the child care subsidy. For a family of 4, their earnings cannot exceed \$60,611 a year.<sup>22</sup> Over half of the children in Texas are in families living below 250% FPL.<sup>23</sup>
- **Many children are left behind.** Texas is serving only 16 to 17% of all of the children of working parents eligible for child care assistance.<sup>24</sup> In 2015, Texas provided child care subsidies to a little more than 100,000 children on average each day.<sup>25</sup> But without an appropriate focus on child development and learning, the state is investing in many programs that are not preparing children for success in school and beyond. Current public investment is not sufficient to provide high quality care or to keep high quality, trained teachers in the child care workforce. Improving access to quality is the challenge Texas is currently facing.

## 2. Focusing on the Quality of Child Care

Texas has long recognized that quality child care helps meet the school readiness needs of children and serves the overall economic interests of the state. The Texas Workforce Commission (TWC) and its network of 28 Local Workforce Development Boards (Local Boards) are charged with two critical roles for child care: providing child care subsidy and quality improvement. However, in 1996 when TWC became the lead agency, the primary role of child care was as a workforce support—not a quality early education program. Designating TWC as the lead agency was an appropriate choice, given TWC’s mission to support and improve Texas workers and businesses. Now is the time to recognize that TWC is as much a child care agency as a workforce development agency.

In recent years, as Texas sharpened its focus on quality child care, the Texas Legislature carried the torch for quality improvement through its legislative actions. Yet, the Texas Education Agency—the state agency responsible for quality state-funded education and child academic outcomes—has not been engaged in the shaping of child care as a school readiness program. TWC’s expertise in workforce support does not necessarily lend it to being an expert in school readiness, and state law still prioritizes parental employment over child

care quality. However, TWC is beginning to take a more active role in quality improvement with the implementation of new Texas Rising Star standards set by the Texas Legislature.

In 1991, a state workgroup developed standards that would become the basis of Texas Rising Star (TRS).<sup>26</sup> Texas Rising Star is “a voluntary, quality-based child care rating system of child care providers participating the Texas Workforce Commission’s subsidized child care program.” TWC continued to improve its quality standards for TRS from 1991 to 2013.<sup>27</sup>

The Texas Legislature strengthened its focus on quality child care in 2013 with the passage of House Bill 376, which established another workgroup to make improvements to the TRS quality certification program. The bill also increased payments for higher quality providers, set aside funds for quality initiatives, and supported providers in their pursuit of TRS certification.<sup>28</sup>

In 2013, TRS officially became the state’s Quality Rating and Improvement System (QRIS).<sup>29</sup> According to the National Center on Early Childhood Quality Assurance, a QRIS is “a systemic approach to assess, improve, and communicate the level of quality in early and school-age care and education programs.”<sup>30</sup>

Then, in February 2015, the Sunset Advisory Commission (SAC) released recommendations for improvements to TRS, prompting the Texas Legislature and TWC to make further quality improvements to the overall child care subsidy program.<sup>31</sup> SAC found the following deficiencies in TWC’s child care program:

- Inadequate measures of the effectiveness and outcomes for both children and parents;
- Inadequate processes and tools to effectively implement new TRS quality standards; and
- Inadequate technical support to Local Boards.

To address these issues, SAC made recommendations that were either addressed by the Texas Legislature with the passage of Senate Bill (SB) 208 in 2015 or left to TWC to implement without statute. SB 208 required TWC to better measure the effectiveness and outcomes of the child care subsidy program; regularly review TRS quality standards; and gather and use stakeholder input on the child care subsidy program. Without any legislative mandate, SAC directed TWC to study parent incentives to choosing quality TRS programs; internally evaluate the effectiveness of the child care program; evaluate the impacts and trends of TRS; gather feedback from Local Boards; and update the child care policies and procedures manual.<sup>32</sup>

Texas’ focus on quality will provide children with a better chance to be successful in school and beyond. However, there is a lack of transparency regarding the progress and direction of the state’s

investment in Texas Rising Star. Parents and policymakers have minimal information about whether the quality of subsidized child care is or is not improving. Key questions include:

- How many children are in TRS settings versus license-only settings?
- What are the number of TRS providers, how many subsidy seats do they have, and what are trends over time?
- What are the number of TRS providers, license-only providers, and subsidy seats for both provider types available in each Local Board area?
- What are the intended goals, strategies, and dollars dedicated to increasing the supply of quality providers across the state and in each Local Board area?
- Do the dollars being provided align well with the expected outcomes?

### 3. Ensuring Child Care Health and Safety Standards

The Texas Workforce Commission (TWC) is in charge of child care quality improvement and provides subsidized child care through approximately 60% of all child care providers in the state.<sup>33</sup> Further, TWC is providing subsidized care to over 100,000 children on average each day.<sup>34</sup> TWC should have an active interest in the minimum standards that regulate the health, safety, and well-being of these children. However, there is little coordination between TWC and the licensing regulatory agency, the Texas Department of Family and Protective Services (DFPS), which sets the minimum standards for child care health and safety.

DFPS inspects and licenses child care center and home providers using the minimum standards that providers must meet. The core purpose of licensing is to ensure child well-being, health, and safety. Yet Texas' licensing standards are very low in two key areas related to this core purpose:

- **Child Care Teacher Qualifications.** Texas has low standards for child care teacher qualifications. They must have a high school diploma and 24 hours of pre-service training to begin teaching. They must also complete 24 hours of training each year. Child care providers do not have to pass any certification or examination as part of their training.<sup>35</sup> Compare that to barbers who must completed

1500 hours of training and pass a licensing exam, or nail manicurists who must complete 1200 hours of training and pass a licensing exam.<sup>36</sup> And compare that to Kindergarten teachers who must have a four-year Bachelor's degree, specialized pre-service training, and ongoing professional development.<sup>37</sup> However, interviews from TWC's Local Boards and research on turnover in the child care field indicate that child care teachers with more education and certifications tend to leave the low-paying field of child care for higher paying jobs with better benefits and upward mobility, such as public Pre-K or Head Start programs.<sup>38</sup>

- **Child-Teacher Ratios.** For several age groups, child-to-teacher ratios are high. This is a problem because high ratios tend to lead to more safety incidences and less time for individual attention that young children need during a time of critical social and emotional growth.<sup>39</sup>

**Table 2. The number of children one child care teacher is allowed to care for by age in Texas versus recommended standards.**

Age	Texas <sup>40</sup>	Recommended (depending on group size) <sup>41</sup>
0-12 months	4	3 – 4
12-17 months	5	3 – 4
18-23 months	9	5 – 6
2 years	11	4 – 6
3 years	15	6 – 9
4 years	18	8 – 10
5 years	22	10 – 12

At the time of this report, DFPS was completing its review of minimum standards, which occurs every six years. In its review, the agency did not address these critical issues. They are concerned that raising child-to-teacher ratio requirements will increase the price of child care and drive parents to choose illegal child care settings.<sup>42</sup> However, DFPS does not know how many children per teacher are currently in each child care classroom. During inspections, DFPS licensing representatives count the number of children and caregivers in a classroom to determine whether or not minimum ratio standards are met, but they do not record the numbers. If, instead, they documented the numbers counted, they would be able to know what percentage of providers are voluntarily operating with teacher-to-student ratios better than those set by minimum standards. This small modification would allow for DFPS to have a statewide understanding of current ratio practices, determine whether or not safety issues occur more often at minimum ratio standards, determine how disruptive ratio changes would be given current practices, and use data to make informed decisions about ratio standards.<sup>43</sup>

## 4. Supporting Parental Involvement

TWC, DFPS, and TEA all have components of parental involvement. Yet none of them coordinate their programs, services, or outreach plans, despite their shared goal of improving the lives and outcomes of the same at-risk families.<sup>44</sup>

TWC's quality child care certification, Texas Rising Star (TRS), includes a component of family engagement and encourages child care providers to make parents an active participant in educational decisions of their children.<sup>45</sup> The 2014 revisions to the federal child care law also encourages bi-directional communication between parents and child care staff, so that parents are aware of the happenings of each day and they can work together to create continuity for children.<sup>46</sup>

In addition to child care licensing, DFPS provides parent education to at-risk families through its Prevention and Early Intervention (PEI) programs.<sup>47</sup> DFPS often mandates and may pay for parent education programs for families involved in the Child Protective Services system.<sup>48</sup>

Public schools that receive Title 1 funding, which is provided to schools with the most-at risk students, are required to spend a portion on family engagement.<sup>49</sup> Public Pre-K programs that are recognized as high quality by the state are also required to develop and implement a family engagement plan.<sup>50</sup>

These three agencies are supporting the same at-risk families. Interagency coordination of parent education and engagement activities would ensure that public dollars are being spent more efficiently and would help build stronger families.

### Key Partners in Child Care

Texas involves various agencies and advisors that have implementation authority and responsibility to meet the four core public policy commitments described in the previous section.

The following section discusses how the Texas Workforce Commission, Local Boards, and the Texas Department of Family and Protective Services help fulfill their child care policy commitments. These three entities have the farthest reaching roles in child care at present.

### The Texas Workforce Commission

To understand how the Texas Workforce Commission (TWC) came to manage the child care program, it is important to look back at the welfare reforms of the 1980s and 1990s, a time when more women were entering the workforce than ever before.<sup>51</sup> Child care became a necessary support for these households. Congress passed the Child Care and Development Block Grant (CCDBG) Act in 1990 to increase access to child care for low-income, working parents. It also offered some funding to improve the quality and supply of child care programs.<sup>52</sup>

The CCDBG Act has been reauthorized only twice: in 1996 and in 2014.<sup>53</sup> The 1996 reauthorization was part of the Personal Responsibility and Work Opportunity Act (PRWORA), which was a major overhaul of the welfare system.<sup>54</sup> In anticipation of the passage of PRWORA, the Texas Legislature combined ten programs, one of them being child care subsidy system, and housed them under TWC.<sup>55</sup>

Currently, TWC delegates much of this responsibility to Texas Workforce Development Boards (Local Boards). There are 28 Local Boards across the state, and the size of the Local Boards' geographic boundaries range from 1 to 26 counties. These 28 Local Board areas were established under Senate Bill (SB) 642 in 1993, which restructured the existing 34 Service Delivery Areas (SDAs). Under SB 642 the Local Board areas must meet the following criteria:

- Include at least one county;
- Be consistent with one of the 34 SDAs, a labor market area, or a metro area; and
- Have sufficient administrative capacity to effectively manage and implement workforce programs.<sup>56</sup>

This localized structure allows for flexibility at the local level with top down leadership from TWC, which is made up of three governor-appointed Commissioners representing the "public," "labor," and "employees" respectively. One of these members is appointed as the chair.<sup>57</sup>

Since TWC devolves the bulk of its responsibility for the management of child care programs and quality improvement to its 28 Local Boards, this allows for broad discretion in the design and implementation of some of the important quality initiatives that support the implementation of its key quality framework, Texas Rising Star (TRS). These implementation practices for quality improvement vary widely from Board to Board; there is no guarantee that children in each Local Board area have equal opportunity for a quality child care program.

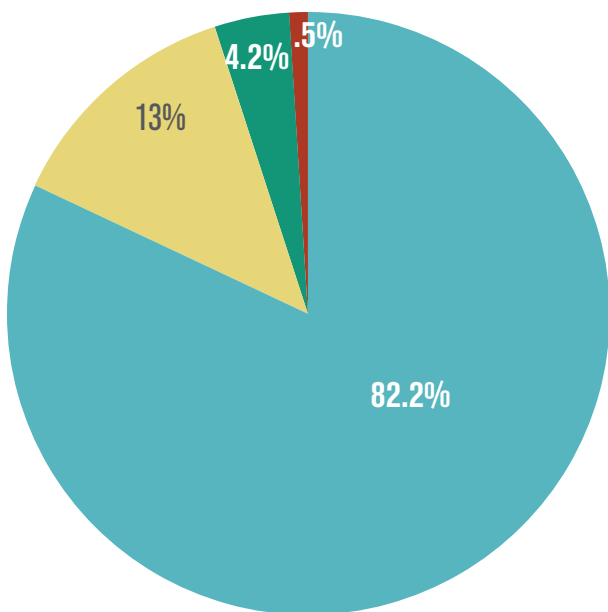
An important component of the child care subsidy program is family eligibility. TWC allocates funding to serve families that meet one of the following three criteria:

- Transitional / At-Risk Families – Parents who are transitioning from public assistance and those at risk of becoming dependent on public assistance.
- TANF Choices Families – Parents who are receiving Temporary Assistance for Needy Families (TANF) financial support and also participating in a work program, with the goal of discontinuing dependence on TANF.
- Texas Department of Family and Protective Services (DFPS) Foster Care Families – Children in protective services (either currently or within the last 6 months) or foster care. This is primarily paid for through reimbursements from TWC to DFPS.<sup>58</sup>

TWC's FY2017 operating budget is \$1.5 billion, with 82% from federal funds and the remainder from general state operating and other revenue. The largest line-item budget by far is Transitional/At-Risk Child Care, which is approximately one-third of the FY2017 budget. All child care expenditures combined account

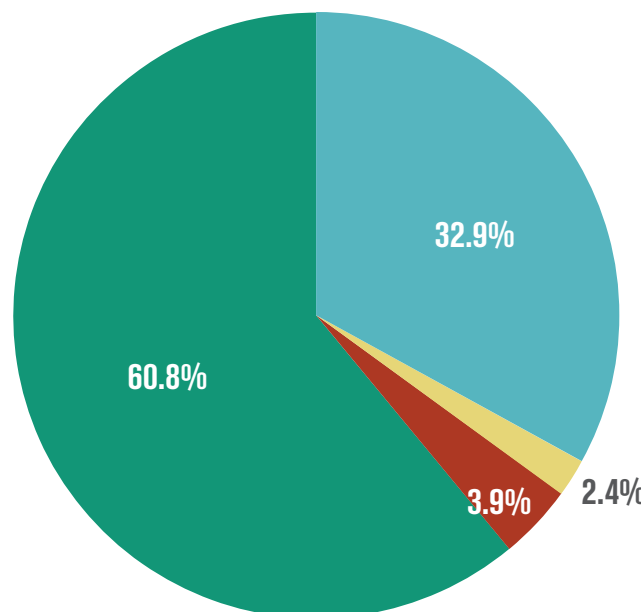
for nearly 40% of the FY2017 budget. This is down from FY2015 and FY2016, in which child care was closer to 50% of the budget. Despite the decrease in percentage to the whole, the spending for child care has increased incrementally since 2015.<sup>59</sup>

### TWC FY2017 Budget Sources Total Budget \$1,527 Million



- Federal Funds - \$1,256 MIL
- General Revenue Fund - \$199 MIL
- Other Funds - \$64 MIL
- General Revenue Dedicated - \$8 MIL

### Child Care Expenditures as a Total of TWC's FY2017 Budget Total Budget \$1,527 Million



- At-Risk/Transitional Child Care - \$502 MIL
- TANF Choices Child Care - \$37 MIL
- DFPS Child Care - \$59 MIL
- Other Workforce Programs and Expenditures - \$929 MIL<sup>60</sup>

TWC's average spending per child for 2015 (the last full fiscal year) was approximately \$5,700.<sup>61</sup> To put that in perspective, the Texas Education Agency spends \$3,500 per Pre-K student for a 3 hours/day, approximately 180 days/year program, and about \$8,600 per Kindergarten through 12th Grade student for a 7 hours/day, approximately 180 days/year program.<sup>62</sup> In contrast, the child care day is much longer since it is keyed to family working hours and is available 12 months of the year.

TWC allocates funds to its 28 Local Boards based on an objective formula using the following factors for each Local Board area: children under age 5, population below the poverty level, children under 13, and children under 13 living at less than 150% of the poverty level.<sup>63</sup>

States are required to raise their minimum quality spending requirements from 4% to 9% over five years beginning in FY2016. They are also required to set aside 3% to expand the supply of quality infant and toddler providers beginning in FY2017.<sup>64</sup> Texas meets these requirements and explains activities funded by these dollars, but it is unclear exactly

how much TWC allocates for these two quality set-aside requirements and their corresponding quality activities. While TWC is legally required to set aside these dollars for quality initiatives, this amount is not budgeted separately.

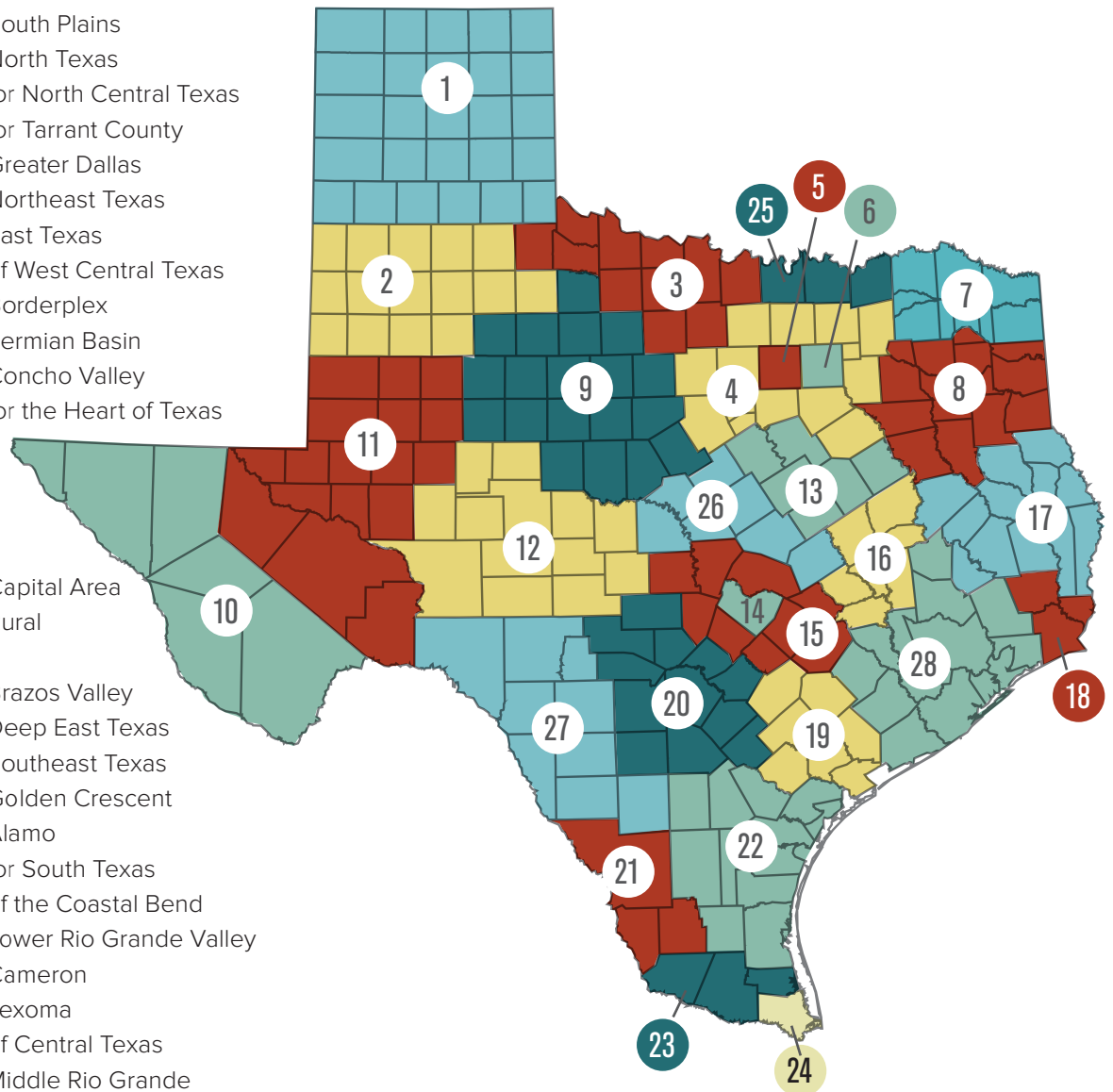
Table 3 provides an overview of TWC funding for child care, starting with the total amount of the TWC budget, followed by the total child care allocation. Between FY 2015 and FY 2017, the child care expenditure has risen at TWC from \$573 million to \$598 million, but child care has slipped as an overall percentage of the TWC budget, which has also grown during this time period. The table shows a breakdown of child care budget allocation, with the percentages relative to TWC's overall budget, by category of subsidy eligibility. While an amount for administration is noted, there is no detail provided by TWC about the quality investments described in the paragraph above. The only explanation of quality funding in TWC's budget is a 2% requirement established by Texas Government Code §2308.317(c), which is approximately \$10.7 million for FY2017.<sup>65</sup> Under this requirement, each Local Board must spend 2% of its budget for quality initiatives, prioritizing support for current or future TRS providers.

**Table 3. TWC funding for child care over the past 3 years.<sup>66</sup>**

	FY 2015 Actual (millions)	FY 2016 Estimate (millions)	FY 2017 Budget (millions)
Total TWC Funding	\$1,170	\$1,276	\$1,527
» Total Child Care	\$570 (49%)	\$607 (48%)	\$604 (40%)
• Transitional / At-Risk Child Care	\$483 (41%)	\$507 (40%)	\$502 (33%)
• TANF Choices Child Care	\$33 (3%)	\$35 (3%)	\$37 (2%)
• Child Care – DFPS	\$49 (4%)	\$59 (5%)	\$59 (4%)
• Child Care Administration	\$5 (0.4%)	\$6 (0.5%)	\$6 (0.4%)

**Map of Local Workforce Development Boards (Local Boards)**

1. Workforce Solutions Panhandle
2. Workforce Solutions South Plains
3. Workforce Solutions North Texas
4. Workforce Solutions for North Central Texas
5. Workforce Solutions for Tarrant County
6. Workforce Solutions Greater Dallas
7. Workforce Solutions Northeast Texas
8. Workforce Solutions East Texas
9. Workforce Solutions of West Central Texas
10. Workforce Solutions Borderplex
11. Workforce Solutions Permian Basin
12. Workforce Solutions Concho Valley
13. Workforce Solutions for the Heart of Texas
14. Workforce Solutions Capital Area
15. Workforce Solutions Rural Capital Area
16. Workforce Solutions Brazos Valley
17. Workforce Solutions Deep East Texas
18. Workforce Solutions Southeast Texas
19. Workforce Solutions Golden Crescent
20. Workforce Solutions Alamo
21. Workforce Solutions for South Texas
22. Workforce Solutions of the Coastal Bend
23. Workforce Solutions Lower Rio Grande Valley
24. Workforce Solutions Cameron
25. Workforce Solutions Texoma
26. Workforce Solutions of Central Texas
27. Workforce Solutions Middle Rio Grande
28. Workforce Solutions Gulf Coast



Source: Texas Workforce Commission. (2016). *Workforce development boards' websites*. Retrieved from <http://www.twc.state.tx.us/partners/workforce-development-boards-websites>

## Local Workforce Development Boards (Local Boards)

Local Boards primarily support job seekers and employers. They provide job seekers with career counseling, job placement, and financial assistance. Local Boards also help employers find qualified applicants.<sup>67</sup>

As part of their financial assistance to job seekers, Local Boards administer the child care subsidy program, working with local child care providers and families in need of child care. Their dual mission includes helping low-income, working families receive assistance in paying for child care, along with determining and executing child care quality improvement responsibilities.

Local Boards are the operating entities for child care assistance and quality initiatives. They have significant authority in their day-to-day operations and development of policies that impact operations. As a general matter, Local Boards exercise independent policy authority in key areas—within modest state parameters—and implement all programs for which they are responsible.

TWC is generally responsible for setting statewide policies. The agency ensures, that Local Boards are operating within their parameters, ensures that the state operates within federal guidelines, monitors accountability and enforcement of activities, and provides support to Local Boards when needed.

This arrangement between TWC and its Local Boards allows for significant local control, which has some positive aspects for program operation. In a state as large and diverse as Texas, regional hubs are important to vest local leadership and partnerships. It also makes sense geographically for businesses, considering the variety of industries across the state. Lastly, it can provide opportunity for local innovation within programs and partnerships.

Texas government values local control. Key policy decisions are reserved for Local Boards, and there seems to be varying degrees of Local Boards' understanding of policies and policy authority. (For a table outlining local authority, see Appendix 2.) These policies impact the types of quality opportunities available to child care providers, the supply and quality of providers available to families, accessibility to and understanding of information for parents, the allocation of funds to decrease the burden on parents or to increase incentives for quality providers, and more.

Management practices for the child care subsidy program vary greatly from Board to Board, and there is no guarantee of equal access for parents and children across the state. Depending on the Local Board area, there can be anywhere from 6% to 30% of providers accepting subsidies that have received the quality Texas Rising Star certification.<sup>68</sup> And in small businesses, the state-funded opportunities for child care providers to improve quality also vary widely.

## Texas Department of Family and Protective Services

Though the child care subsidy program is administered through the Texas Workforce Commission (TWC), the licensing and regulation of child care providers are housed in another state agency—the Texas Department of Family and Protective Services (DFPS). There are three main types of providers regulated by DFPS in Texas:

- **Licensed child care centers** that care for at least 7 children for more no more than 24 hours a day, of which there are 9,439 in Texas.
- **Licensed child care homes** that care for 7 to 12 children for less than 24 hours a day, though the total number allowed varies by ages of the children. There are 1,720 licensed child care homes in Texas.
- **Registered child care homes** where the primary caregiver cares for no more than 6 of their own children, and may care for no more than 6 additional elementary school children only during after-school hours. The number of children in the home may not exceed 12 children, though the total number depends on the ages of the children. There are 4,678 registered homes in Texas.<sup>69</sup>

Licensed child care centers and licensed child care homes must follow minimum standards set by the state, including cleared background checks and passing inspection at least once a year. Registered homes receive a registration certificate, are inspected every 1-2 years, and follow different minimum standards than licensed homes.<sup>70</sup> The minimum standards are reviewed by DFPS every six years, most recently in 2016.<sup>71</sup>

DFPS also manages a significant portion of state-funded parent education programs through its division of Prevention and Early Intervention (PEI).<sup>72</sup> PEI contracts with local organizations to offer these parent education programs across Texas, which is divided into 9 regions by DFPS—as opposed to the 28 regions for TWC or the 20 regions for the Texas Education Agency (TEA).<sup>73</sup> These parent education programs are targeted to at-risk families, many of the same families served by TEA and TWC, but none of these agencies currently work together in the administration of these PEI services.



## Key Components of the Child Care Subsidy System in Texas

The following section describes the key components of this program. It incorporates activities from other agencies that support the priorities of the Texas Workforce Commission’s (TWC) child care program. The key components have been categorized into those that primarily impact children in the subsidy system, TWC’s operational practices, parents in the subsidy system, and child care providers in the subsidy system.

### Regarding Children in the Child Care Subsidy System

Out of all of the children in private child care settings in Texas, TWC serves approximately 12% of them through subsidies. However, out of all children eligible for subsidies, it serves only 16-17% due to funding constraints.<sup>74</sup> TWC measures the number of children it serves based on average daily attendance. Using this measurement, TWC serves just over 100,000 children each day.<sup>75</sup>

It is unclear how many individual children participate in the subsidy program annually. This is due to high turnover in the subsidy system when children can no longer participate because of issues associated with their family, such as failure to re-verify eligibility or parents encountering problems with other welfare program requirements.<sup>76</sup> This continual disruption of care is harmful to children during a critical period in their development.<sup>77</sup>

The number of children each Local Board must serve on average each day is set by the state’s Legislative Budget Board. The Legislative Budget Board is a permanent committee of the Texas Legislature that evaluates the efficiency of state programs, develops budget recommendations for legislative appropriations, and analyzes the fiscal notes for proposed legislation.<sup>78</sup> This target number impacts the Local Board’s ability to allocate funds to other priorities, such as provider quality initiatives, parent outreach,

parent share of cost, and provider reimbursement rates. The target number for each board is based on the following criteria:

- Allocation of funds to the board;
- Funds needed to pay administrative costs, rather than child care costs;
- Mix of cases (age of children, half-day or full-day care, type of provider, and TANF Choices or transitional/at-risk); and
- Local Board’s reimbursement rates to providers.<sup>79</sup>

Children derive great benefits from participating in a high quality program.<sup>80</sup> According to TWC, approximately 25% of children receiving subsidized care were at a Texas Rising Star (TRS) provider as of December 2015.<sup>81</sup> This amounts to approximately 25,000 children. In December 2015, there were 1,011 providers certified as TRS (427 two-star, 234 three-star, and 350 four-star).<sup>82</sup> This amounts to about 13% of all providers contracting with Local Boards to serve subsidized children.<sup>83</sup> Using these numbers, TRS providers on average were each able to accept about 25 children on the subsidy. However, it is unclear how many children were in Level 2, 3, and 4 TRS providers. Not all quality levels within TRS are the same: The difference in quality varies from Level 2 to Level 4, and the number of seats each TRS provider allows for subsidized children is a measurement that is not disclosed by TWC.

The most recent public data of the characteristics of families receiving subsidy are from FY2014, made available by the U.S. Office of Child Care. It shows that 95% of subsidized children in Texas are cared for in licensed child care centers and 5% in licensed or registered child care homes.

Two-thirds of Texas children in subsidized care are birth to age 6, as shown in Table 4 below. This is especially significant in showing the need to focus on quality programs to increase school readiness. It is also clear that children, especially those under age 5, are in child care for at least the equivalent of a full public school day.

**Table 4. Ages of children in subsidized child care and time spent in care.**

Age	Average Monthly % of Children in Subsidized Care in Texas <sup>84</sup>	Average Monthly Hours Spent in Center-Based Care for Children in the U.S. <sup>85</sup>
Less than 1 year	6%	155 or approx. 7.0 hours/workday
1 - < 2 years	11%	162 or approx. 7.4 hours/workday
2 - <3 years	13%	163 or approx. 7.4 hours/workday
3 - <4 years	14%	162 or approx. 7.4 hours/workday
4 - < 5 years	13%	158 or approx. 7.2 hours/workday
5 - <6 years	10%	137 or approx. 6.2 hours/workday
6 - <12 years	33%	111 or approx. 5 hours/workday

## Regarding TWC Practices and Collaboration in the Child Care Subsidy System

Collaboration has been recognized as an asset to early education in Texas for more than a decade. Texas law has allowed for, while not requiring, collaboration between the Texas Education Agency (TEA), Head Start, The Texas Workforce Commission (TWC), and TWC Local Boards. The law also provides for partnerships with Head Start or licensed child care centers to collaborate in the delivery of public Pre-K programs through the sharing of services, resources, data, and classrooms.<sup>86</sup>

This section outlines the three primary roles of collaboration:

1. Ensuring successful transition from early education into the Kindergarten through 12th Grade (K-12) public school system.
2. Giving parents the tools they need to support their child's academic achievement through partnerships with their child's education provider.
3. Building stronger families through quality parent education programs.

### 1. Successful Transition into the K-12 System

Early education settings and the K-12 system are currently very different. The K-12 system is widely accepted and has had many decades to evolve into a strong organizational structure with many evidence-based components that benefit children. On the other hand, early education settings are siloed, follow different rules, vary widely in practices like curriculum and family engagement, and vary in the quality of standards to which they are held accountable. Parents of children in the K-12 system benefit from full-day care of their children. Unfortunately, when parents most need full-day care is when children are too young to care for or transport themselves. Full-day care is not an accepted part of our state-funded Pre-K programs, which stifles parental ability to provide for their family and contribute to the state's economy. We cannot expect all children—especially those who are at risk—to go from one setting to another and succeed without a supportive transition.

To this end, Local Boards in Texas may leverage public-private partnerships with school districts (ISDs) or Head Start to increase the supply and quality of child care services in the area. However, little collaboration at this level is occurring in Texas. At the time of data collection, only 6 of the 28 Local Boards formally coordinate with ISDs—combining professional development trainings, aligning curriculums, sharing staff, or even providing child care during the hours that public Pre-K is not available in order to give parents full day care. At least 9 Local Boards have similar partnerships with Head Start.

While a few Local Boards have made attempts at these partnerships, there were still several Local Boards that did not know they were able to collaborate with ISDs or Head Start. This variation in practice and knowledge among Local Boards affirms the need to improve efficiencies in order to ensure that all parents and children have equal opportunity in the subsidized child care program.

To encourage more partnerships, TWC and TEA announced in September 2016 a new collaboration opportunity for local ISDs and Level 4 Texas Rising Star (TRS) providers to expand public Pre-K to 3- and 4-year-olds.<sup>87</sup> This is meant to increase access to high quality Pre-K programs, which are a key component in preparing children for academic and workforce success. This is also an opportunity to incentivize child care providers to reach TRS Level 4, in order to leverage a new funding stream from state Pre-K dollars.

The coordination and alignment of transitions between settings can also be achieved through aspects of data sharing. School districts have expressed the desire to have information about the child care experiences of their incoming elementary students. Child care centers—especially those that have invested in the TRS certification—want and need more information about how to best prepare the children in their care for later school success.

Public Pre-K providers benefit from historical data on incoming students, including where students have attended programs and basic demographic information.<sup>88</sup> The Early Childhood Data System, developed by TEA in 2014, is a database to collect early childhood data on the effectiveness of Pre-K programs in preparing children for success in Kindergarten and beyond. Currently, licensed child care providers are able to enter in demographic and general program data into the system.<sup>89</sup> However, the process is extremely complex and time-consuming. After this system had been open for over a year, only one child care provider among the thousands across Texas had completed this process.<sup>90</sup>

Fortunately, TWC is already collecting this same demographic and program data in its own database, The Workforce Information System of Texas (TWIST). This is a timely opportunity for TEA and TWC to coordinate this aspect of their data programs to assist with the transition into K-12. It also ensures that taxpayer dollars invested in early education are spent efficiently and providing meaningful outcomes.

This would not be the first time TEA and TWC have coordinated data efforts. Those two agencies, along with Texas Higher Education Coordinating Board (THECB), work together to create the Texas P-20 Public Education Information Resource, which is a longitudinal data warehouse that links students from Pre-K through enrollment and graduation from Texas colleges (P-20).<sup>91</sup> Further, in early 2016, Governor Greg Abbott established the Tri-Agency Workforce Initiative to bring TEA, TWC, and THECB

together to identify innovative strategies to meet workforce needs, study workforce challenges and opportunities, and evaluate local economic activity. TWC and TEA also began partnering in the summer of 2016 to hold professional development conferences for the early education workforce, which is a great step toward recognizing TWC's role in early learning.

## 2. Family Engagement

Family engagement is a partnership between the professionals in a certain setting, such as a school or child care provider, and the families they serve. The Children's Bureau defines the term as a "family-centered and strengths-based approach to partnering with families in making decisions, setting goals, and achieving desired outcomes."<sup>92</sup> Meaningful parent involvement leads to better outcomes for children—they are more likely to do better in school, to graduate, and to enroll in higher education programs.<sup>93</sup>

TWC's quality rating system, Texas Rising Star (TRS), includes requirements around family engagement and encourages child care providers to make parents an active participant in educational decisions of their children.<sup>94</sup> The 2014 revisions to federal child care standards also encourage bi-directional communication between parents and child care staff, so that parents are aware of the happenings of each day and they can work together to create continuity for children.<sup>95</sup>

Similarly, the public education system has long recognized the important role parents have in their child's education. Public schools that receive Title 1 funding, which is provided to schools with the most at-risk students, are required to spend a portion on family engagement.<sup>96</sup> Also, Texas school districts that receive funding from the High Quality Pre-K Grant Program administered by TEA are required to develop and implement a family engagement plan.<sup>97</sup>

There are proven family engagement models that provide meaningful partnerships between parents and the professionals at their child's educational setting.<sup>98</sup> This is an opportunity for child care providers and school districts in Texas to share resources and best practices for family engagement. The sooner parents are engaged in their child's learning, the better opportunity our state's at-risk children have for educational success.

## 3. Parent Education

While family engagement is more about partnerships between parents and their child's educators, parent education is focused specifically on improving a parent's knowledge, skills, and behaviors. With stronger families and better equipped parents, children are more likely to succeed in academics and beyond.<sup>99</sup> Investing in parents is a smart use of state funds, and TWC could play a pivotal role in the outcomes of these programs.

Currently, in addition to child care licensing, the Texas

Department of Family and Protective Services (DFPS) funds and manages a large portion of state-funded parent education programs through their Prevention and Early Intervention (PEI) division.<sup>100</sup> More than half of the programs currently offered through PEI in Texas are not supported by sufficient research that show them to be effective and worth the investment.<sup>101</sup> However, this will begin to change significantly in 2017 when many contracts are ending and new requirements from recent legislation are implemented. PEI is now required to allocate at least 75% of its parent education funds toward evidence-based programs, with the remaining funds spent on promising practice programs.<sup>102</sup>

PEI contracts with local providers to offer these programs.

Currently, there are significant gaps in service delivery and access:

- 1. Population.** PEI programs target "at-risk" families and youth, and it is estimated that they currently serve less than 1% of people in Texas.<sup>103</sup> PEI programs only reach a fraction of our state's vulnerable families.
- 2. Provider type.** Of the 77 unique partners delivering these programs across Texas, 53 partners are community-based nonprofits, 14 are in healthcare settings, 7 are in local government agencies, and only 3 are through education partners.<sup>104</sup> The concentration of program delivery primarily in one type of provider may limit parent access—only parents already in contact with or referred directly to those community-based nonprofits are likely to access their services.
- 3. Outcomes.** The evidence-based programs currently funded are primarily targeted to deliver only two of the nine potential outcomes: improved social-emotional development of children and improved parenting skills. This leaves out seven key outcomes, including increased school-readiness of children and improved family economic self-sufficiency.<sup>105</sup>

Collaboration between TWC, DFPS, and TEA could fill these gaps. By working together, these crucial PEI evidence-based parent education programs could be offered to more than 1% of the state's population. By collaborating with public schools, child care providers, and TWC's Local Boards, more at-risk families will be aware of and able to access beneficial programs that are proven to create stronger, healthier families.

## Regarding Parents in the Child Care Subsidy System

In this section we address several key issues around parental access to child care through the subsidy system, focusing on eligibility, priority groups, waiting lists, co-payments, and parent choice.

### Eligibility

Generally, to be eligible for the child care subsidy program the child must be under 13 years old, the parent must be

working or in an educational program, the child must be a legal resident, and the family must make less than the Local Board's established income limit. The federal law states that initial income eligibility for families must not exceed the minimum 85% State Median Income (SMI); most states provide far below that.<sup>106</sup> However, income eligibility can be waived for children in Child Protective Services.

The 28 Local Boards can set their own income eligibility limit at or below 85% SMI. Most Local Boards choose to set it at the highest limit of 85%, which is \$5,051 per month for a family of 4.<sup>107</sup>

For Local Boards that have chosen to lower their limits, most did so in order to serve the neediest families. At least 5 Local Boards intentionally chose 85% SMI to serve the most people possible. However, it is concerning that 10 Local Boards reported choosing 85% because it was the limit TWC suggested or that was the limit chosen years ago. Thinking intentionally about eligibility limits and understanding that they can be changed is important to managing subsidy waiting lists and ensuring state dollars are being spent most effectively and efficiently.<sup>108</sup>

Due to new federal requirements, families are accepted into the program for 12 months before re-determining eligibility.<sup>109</sup> This is a significant move toward higher quality care, as children will have greater stability during critical years of social and emotional development and parents will have more stable support to keep them in the workforce. Prior to this 12-month rule, parent eligibility, and thus child eligibility, was re-determined every 6 or 9 months.<sup>110</sup>

The income level for redetermination is required by federal law to be set at tiered levels that are still below 85% SMI, so families can make more money while continuing to receive child care. Then they are gradually phased out of the subsidy. Texas is exempt from this requirement because they allow Local Boards to set initial eligibility at 85% SMI.<sup>111</sup>

## Priority Groups

TWC directs each Local Board to prioritize two groups of applicants for child care services:

- 1. The First Priority Group** must be served and includes parents who are: in the Choices program (applicants, recipients, non-recipient parents, and former recipients of Temporary Assistance for Needy Families [TANF] cash assistance); a TANF applicant; participants in the Supplemental Nutrition Assistance Program Employment and Training (SNAP E&T) services; or eligible for Transitional child care services.
- 2. The Second Priority Group** is subject to the availability of funds and includes children: in Child Protective Services, of veteran parent(s), of a foster youth, of parents on military deployment, of teen parents, or with disabilities.<sup>112</sup>

Local Boards can establish a third priority group up to their discretion to be served after the previous two groups.<sup>113</sup> This is primarily applicable to Local Boards that have waiting lists, of which 15 did at the time of data collection. Out of the 28 Local Boards, 22 were able to tell us if they had a third priority group. Twelve Local Boards did not have a third group, of which 5 did not understand that they had this policy authority.

Ten Local Boards did designate a third group. Most of them prioritized participants in other Workforce programs or siblings of children already receiving a child care subsidy. A few Local Boards prioritized children of eligible college students. One Local Board prioritized children in Pre-K or Head Start, so that the child care subsidy could provide care in the afternoon or evening hours for parents who had to work. Since many low income families are more likely to be transient and have less stable housing, one Local Board prioritized parents who just moved into their Local Board area but had been receiving child care subsidies in another Local Board area. This allowed for greater continuity of care for those families.

## Waiting List

If a Local Board cannot serve all parents that apply due to lack of funding or lack of child care providers, the Local Board must maintain a waiting list. The Local Board has discretion regarding its policies for managing the waiting list.<sup>114</sup> If a parent is on a waiting list, they may be prevented from working if they are unable to obtain child care or they may work reduced hours to accommodate what care they are able to arrange.

In Texas, over half of the Local Boards maintained waiting lists in the fall of 2015. Some reported consistently high numbers on their waiting lists, while other Local Boards have a difficult time spending money or finding enough children to serve. It was also reported that there are "seasons" during which enrollment is high or low, but these vary across Local Boards. By mid-year 2016, one Local Board with a large waiting list and high/low "seasons" was able to reduce their waiting list by 85% and stabilize it by implementing new processes to monitor the waiting list and analyze trends. Implementing more efficient waiting list practices would better serve parents and children, and be a more efficient management of state funds.

Local Board policies vary widely regarding waiting list maintenance. Many Local Boards require parents to call in every 30 or 60 days to keep their names on the list. As mentioned earlier, some Local Boards require parents to be pre-screened for eligibility prior to joining the waiting list. At least one Local Board refers parents to Head Start when they have a waiting list.

In early 2015, there were approximately 17,000 children on waiting lists across Texas.<sup>115</sup> Near the end of 2015 the number was up to 27,000.<sup>116</sup> Depending on the Local Board area, children can spend a few weeks or up to five months on a waiting list.

Children can be on a waiting list for a variety of reasons. Typically, there are not enough subsidy spots available in the Local Board area and the child is not part of one of the priority groups. In some cases, there may be enough open subsidy spots available, but it takes time to process applications.

Sometimes TWC places a freeze on enrollment. In August 2016, TWC imposed a freeze because they anticipated an increase in the number of children on waiting lists once the 12 month eligibility rule became effective in September 2016.<sup>117</sup> By late-October 2016, some Local Boards were already experiencing significant growth in their waiting lists.<sup>118</sup> With the possibility of larger waiting lists and longer wait times, it will be crucial for Local Board policies around waiting list management to be family friendly and efficient.

### Parent Share of Cost (or Co-Pay)

As a partnership for payment of these child care services, parents pay a portion and the state pays a larger share. The costs of child care services in the free market are huge relative to family income, so this model makes child care accessible to low-income, working families.

The co-pay is a sliding scale fee based on family income and family size. Federal requirements state that parents must help pay for child care on a sliding scale, but this can be waived at a state's discretion if the child's family falls below the poverty guidelines or is in foster or protective care. In Texas, parents must pay this co-pay unless they are in the Temporary Assistance for Needy Families (TANF) work programs (also called "TANF Choices"), in the Supplemental Nutrition Assistance Program Employment and Training (SNAP E&T) program, or with children receiving protective services. Local Boards have the discretion to reduce the fee under extenuating circumstances.<sup>119</sup> Local Boards may appeal to make changes to the sliding scale fee, depending on their budget and other priorities.<sup>120</sup>

Federal recommendations state that no more than 7% of parental income be used to pay for childcare for eligible parents. State calculations for co-pay affordability should either include this benchmark or justify why families can afford to spend a higher portion of their income on child care.<sup>121</sup> Only about one-third of Local Boards were able to express their co-pays in terms of parent income. These Local Boards reported that co-pays ranged from 7% to 16% of income, though most hovered in the 9% to 11% range.

For parents in Texas earning 0-20% SMI, the monthly cost for their first child ranges from \$15 to \$70 depending on the Local Board area in which the parent resides. For parents earning close to 85% SMI, the monthly cost is \$172 to \$443 depending on the Local Board. As a percentage of income, this can range from 1% to 13% for a single-parent or two-parent family with one or two children. (For an analysis of this, see Appendix 3.)

However, co-pays are higher for single parents as a share of their income. In almost every income range, co-pays rose by

1% to 2% for a single parent. Even just 1% more can mean an extra \$15-40 per month, a significant amount for a low-income family that does not often have extra cash. Typically, the cost for a second child is less than the first, but that difference varies for each Local Board area and the costs for single parents are still higher than two-parent households.<sup>122</sup>

These co-pays and costs as a share of income do not account for some of the Local Boards that allow providers to independently charge parents an amount on top of the co-pay. This amount would be the difference between the maximum reimbursement rate paid to a provider and the provider's private pay rate. This difference cannot be charged to TANF Choices parents or SNAP E&T families. Local Boards are allowed to create policies prohibiting providers in their area from charging the difference, however they are not mandated to create such a policy.<sup>123</sup> At least 4 Local Boards allow providers in their area to charge this difference. One Local Board reported that half of the Boards follow this practice, but that could not be confirmed. A primary reason for this practice is to keep quality providers in the subsidy program, since the subsidy rate is typically lower than a private pay rate. However, it is unclear exactly how many Local Boards allow this practice and how much it costs parents.

### Average Number of Children Served per Day

As stated earlier, each local board is mandated by the state's Legislative Budget Board (LBB) to serve a target number of children. TWC tends to serve slightly more children than is required by the LBB. Across Texas, the average number of children served per day in FY2015 was 100,244.<sup>124</sup> Their target number was 98,795.<sup>125</sup> The target number for BCY (Board Contract Year) 2016 was 97,607.<sup>126</sup> At the time of this publication, the target number for BCY2017 was not yet released, but there has been discussion to lower it in preparation for the 12 month eligibility requirement.<sup>127</sup>

### Parent Choice and Consumer Education

Parent choice is a key component of the child care subsidy program and aligns with Texas' preference toward less government involvement.

When speaking with each Local Board, the concept of parent choice almost always came up around the context of informing parents of quality certified child care providers. The clear message was that Local Boards are not allowed to explicitly refer to one provider over another, and many Local Boards said they must be careful when emphasizing Texas Rising Star (TRS) quality certified providers. Local Boards typically provide parents with pamphlets about quality and offer at least some information on their website, but they do not explicitly recommend that parents choose TRS providers. Once a parent chooses a provider, there is no conversation about the quality of that provider.

However, this is contradictory to the federal law that regulates the child care subsidy program. As part of parent choice, the federal law requires that states “help parents make informed consumer choices.” New provisions require states to provide information about quality child care. They also urge states to provide incentives that encourage parents to select higher quality child care. For example, a type of incentive could include lower co-pays for higher quality providers. As long as the quality child care providers offer a range of settings and options, the federal authority does not believe this precludes parent choice. Instead, it is meant to remove challenges many parents face when choosing quality child care programs.<sup>128</sup>

Some Local Boards have been creative in their messaging to parents, recognizing that quality is in the best interest of the children. For example, if a parent asks for a list of providers in their area, one Board will list them in order of quality.<sup>129</sup> Prioritizing quality in consumer information helps parents make informed decisions and leverages the investments the state is making in our youngest learners.

Another challenge with parent choice in Texas is that many parents do not have access to simple, clear information about quality. There are many websites with disjointed information, making it difficult for low-income, working parents to navigate the system. Local Boards see that many of their parents still do not understand what quality is and why it is important. If the facility looks clean and the people are friendly, then that is often good enough. One Local Board representative explained their frustration with parent choice this way:

“It takes more effort and time than many of these parents have to pursue quality. When a parent says ‘This isn’t good enough for my child,’ then the industry will change. If you stop at a dry cleaner with a sign that says ‘We do the minimum,’ that’s what parents are doing with their children every day.”

Parents lacking a clear understanding of quality and their child care options is one hurdle TWC must address. However, that still leaves a few key barriers parents have to choosing quality programs for their children. Parents have to choose providers that are close to their home, work, or family because there is no transportation for their children. There are simply not enough quality providers that accept subsidies with open spots in order to meet parent needs. Further, many of the highest quality providers do not accept subsidies.

Parents also have to choose providers based on price, as some Local Boards allow providers to charge parents the difference between their published rates and what the subsidy will pay. This is done to keep high quality providers from losing money on subsidies, but it also makes it more difficult for a parent to access these quality programs.

According to many Local Boards, parents tend to know where they want their child to go when they apply for the child care subsidy. Local Boards are not allowed to point out that the provider the parent chooses is not quality certified, nor are they allowed to encourage parents to look at other quality providers instead. The intersection of parent choice and lack of information does not serve children well. Until parents know what quality is and why it is important, they cannot take it into consideration.

## Regarding Providers in the Child Care Subsidy System

In this section we address several key issues affecting child care providers participating in the subsidy system, focusing on child care as a business, provider payments, maximum reimbursement rates, enhanced reimbursement rates, and Texas Rising Star.

### Child Care as a Business

Texas Workforce Commission (TWC) was chosen to run the child care program in the 1990s at a time when child care was understood to be primarily a work support to families. TWC’s approach as a workforce support is hurting one critical workforce sector—child care. Child care providers do not typically have training or expertise in financial management, and this is a significant barrier to reaching sustainable, systemic, high quality standards.

Providers tend to suffer from two major financial issues: bad debt and inefficient enrollment.<sup>130</sup>

- Bad debt occurs when payment is not collected from parents. This is a common problem for child care providers, especially those that serve low- and middle-income families.<sup>131</sup>
- As a provider’s enrollment increases, certain administrative costs decrease. Ensuring full enrollment is possible when enrolling private-pay parents because they typically pay for a period of time (i.e. a week or a month). But for subsidy parents it is impossible to plan for and achieve full enrollment, since providers in Texas are paid by attendance.<sup>132</sup>

Another key business practice for child care providers is determining their cost per child, which is primarily impacted by teacher-child ratios.<sup>133</sup> In Texas, age groups for the Department of Family and Protective Services (DFPS) Child Care Licensing ratios are not aligned with TWC’s age groups for reimbursement rates.<sup>134</sup> The TWC reimbursement rates are broken down by

types of providers (licensed centers, licensed homes, or registered homes), length of care (half-day or full-day), and age of child. These age cutoffs are different from the DFPS Child Care Licensing ratio cutoffs, which poses an interesting problem to child care providers: If they do not know the cost and price per child, then they cannot fully understand how to manage costs versus revenue and run efficiently as a small business.

TWC Age Groups for Payment <sup>135</sup>
Infants age 0 to 17 months
Toddlers age 18 to 35 months (1 year 6 months – 2 years 10 months)
Preschool children age 36 to 71 months (2 years 11 months – 5 years 11 months)
School children age 72 months and older (6 years and over)

DFPS Age Groups for Teacher-Child Ratio and Class Size <sup>136</sup>
0 – 11 months
12 – 17 months
18 – 23 months
2 years
3 years
4 years
5 years
6 – 8 years
9 – 13 years

Cost per child is also impacted by the variation in the ages of children served. Intentionally mixing ages—more expensive infant care with less expensive preschool care—is a best practice in determining revenues and costs. Also, a provider can potentially increase revenue by intentionally mixing subsidized children and private-pay children.<sup>137</sup>

Lastly, there are unique opportunities for combining funding for child care with Head Start and public Pre-K. For example, the Texas Education Agency announced in September 2016 a grant opportunity for Texas Rising Star (TRS) Level 4 providers to partner with local school districts to offer state-funded half-day Pre-K in addition to child care.<sup>138</sup>

These financial complexities coupled with a lack of business training mean these small businesses are not making the best use of the state’s investments. Less than half of Local Boards reported providing director training for management or leadership skills. While this is a great start for providers in those Local Board

areas, these intermittent trainings do not address the strategic financial best practices for child care providers that lead to long-term changes, such as being able to pay teachers a higher wage.

Each Local Board has a network of businesses in their area, yet no Local Board was able to identify any collaboration with these businesses to improve the business operations of their child care program. Leveraging skills from these local business leaders might be one unique opportunity for TWC to capitalize on its workforce focus. With greater support from TWC—using resources that are unique to the agency—child care providers can maximize their resources by sharing services with other child care providers, such as payroll, insurance, training, collection of bad debt, hiring, routine licensing compliance activities, and monitoring of business practices that affect finances such as each-child ratios and child age-mix.

### Paying Providers

States must set rates for child care providers, and the federal law provides some direction. A central tenet of the subsidized child care program is that parents who use these services should receive the same type of quality and care as parents who pay for child care on their own. This means that the subsidy payment rate to providers should be similar to what other child care providers in the market charge to parents. However, if subsidy payments are much lower than the market, the supply and quality of providers will be lower and parents using the subsidy system will not have equal access.

To determine pricing, the federal government asks states to conduct a survey of child care providers—typically called a Market Rate Survey (MRS)—that is statistically valid and reliable. States also have the option to use an alternative methodology, such as a cost estimation model, to account for the difference in cost among providers at different quality levels. The MRS or alternative methodology must be conducted every two years to determine the price of child care providers are charging.<sup>139</sup> In Texas, the MRS is conducted every 15 months.<sup>140</sup>

The Market Rate Survey’s validity—how well the prices in the survey reflect actual price practices in the community—is extremely important because it influences the state’s allocation of resources and affects the access of low-income families to quality child care in their community.<sup>141</sup> Since 2003, the Child and Family Research Institute and the Ray Marshall Center for the Study of Human Resources at the University of Texas at Austin has contracted with TWC to conduct the Market Rate Survey.<sup>142</sup> TWC spent over \$300,000 on the survey for FY2016.<sup>143</sup>

One significant problem with this method is that rates are broken down by geographic areas that have no meaning in the child care market. The survey identifies a set of reimbursement rates for each of the 28 Local Board areas.<sup>144</sup> The size of each Local Board area ranges from 1 to 26 counties.<sup>145</sup> The price of child care within some board areas can vary widely, and

assigning one set of rates to an economically diverse board area is misleading. Methods of solving this issue include setting reimbursement rates based on county or clustering rates across the state by zip codes for areas with similar prices.

Further, over half of the Local Boards mentioned that current rates were not reflective of actual pricing in their area. They did not understand the methodology, and many expressed an interest in being part of the data collection in an effort to improve accuracy. Almost all Local Boards reported that their rates decreased from 2014 to 2015. Yet, it is unlikely that providers across Texas are actually charging less year to year. The Market Rate Survey attempts to mitigate the effects of this by also taking a larger statewide sample. However, other methods exist that may prove to be more statistically reliable. It is possible that the Market Rate Survey sampling size or method contributes to the disconnection of rates reported across Texas.

Currently, Texas uses an expensive method for data collection—a survey via telephone. There are less expensive alternatives that prove to be equally or more valid, such as mail surveys with follow-up phone calls or administrative data entry through DFPS Child Care Licensing.<sup>146</sup> For example, DFPS could collect payment rates when they inspect providers for licensing each year.

The federal government suggests that the states establish a baseline payment of the 75th percentile of the market rate, so that on average the ceiling payment for families is on par with three out of the four providers who respond to the survey.<sup>147</sup> However, states do not have to follow this practice. In Texas' largest Local Board, which includes Houston in its 13 county region, rates range from the 15<sup>th</sup> to the 57<sup>th</sup> percentile, well below the federal recommendation.<sup>148</sup>

In Texas, payment to providers is based on attendance tracking. Parents must swipe a card each time they drop off and pick up children.<sup>149</sup> Several Local Boards mentioned that this was an inefficient practice. When parents forgot their card, the provider does not get paid. If a parent swiped the card but it failed to go through, the provider does not get paid. Some providers try to mitigate this by having a staff person monitoring the card swipe, but this takes away from the minimal staff with which they are operating.<sup>150</sup>

In contrast, providers receive payment from private-pay parents based on enrollment, typically a month in advance, regardless of whether the child attends the program every day since providers incur the same costs regardless of whether the child is present.<sup>151</sup> In contrast, TWC only pays for the days that the child attended. This is not how the child care system operates in the free market. Receiving payments only for certain days disrupts the provider's anticipated income, and the state ends up actually paying child care providers less than they would receive from private-pay parents.

### Maximum Reimbursement Rates

Based on factors including the Market Rate Survey (MRS), the Local Board's budget, and the Local Board's target number of

children to serve, TWC recommends a set of reimbursement rates for each Local Board area.<sup>152</sup> The rates vary depending on the age of the child, type of provider (licensed center, licensed home, or registered home), and full- or part-day care.<sup>153</sup> Most Local Boards use a calculation tool created by TWC and the Market Rate Survey (MRS) for guidance in determining reimbursement rates. Two Local Boards do not use the MRS, although for very different reasons. One believes the MRS rates are much higher than the Local Board could ever afford to pay, so there is no point in using them. The other Local Board points to the lower and presumably less accurate rates from the 2015 MRS—a problem outlined in the previous section—as the reason they choose not to use the MRS.

If there is any room in a Local Board's budget, Local Boards choose how to allocate their extra funds. Some prioritize payment to providers because they are being paid at such low rates. Some Local Boards prioritize reducing parent share of cost in different ways. Other Local Boards decide to pay Texas Rising Star quality providers at higher rates, while other Local Boards decide to serve more children.

Local Boards can request these changes, as long as they stay within budget and continue to meet their target number of children to serve per day.<sup>154</sup> These changes must be approved by the Local Board's board of directors and by TWC, a process which usually takes a few months.<sup>155</sup>

### Enhanced Reimbursement Rates

Local Boards must reimburse providers at enhanced rates if they meet certain quality standards. For the three levels of Texas Rising Star (TRS) providers, Local Boards must increase their reimbursement by these minimum percentages:

- 5% for a 2-Star TRS provider;
- 7% for a 3-Star TRS provider; and
- 9% for a 4-Star TRS provider.

Local Boards can reimburse TRS providers at rates higher than these, however the difference between each star level must be at least 2%.<sup>156</sup>

Unfortunately, it is unclear whether these amounts actually cover the cost to improve quality at the different TRS levels. Local Boards offer incentives to offset some of the costs associated with improving quality, such as free professional development trainings, scholarships for teachers to earn certifications, wage supplements to keep teachers at the child care facility, scholarships for classroom technology improvements, and more. The types of incentives and reimbursement rates vary by Local Board area.

One Local Board, Workforce Solutions for Tarrant County, is working with their contractor to create a "cost estimation model," which will determine how much it costs the providers to achieve each level of quality. This model has been used in other states and is the first attempt in Texas to quantify the costs incurred by providers to achieve the three levels of Texas Rising Star quality



certification. This will inform whether the reimbursement rates combined with quality incentives are adequate to cover the provider's costs. Two of Texas' largest Local Boards have expressed an interest in pursuing this model as well.

Fifteen Local Boards reimburse at this minimum 5/7/9% rate, and the remaining 13 Local Boards reimburse at higher rates. At least 2 Boards did not know they had the option of increasing these rates above the 5/7/9% set by TWC.

## Texas Rising Star

After major changes were approved in 2013 and 2014 to improve the quality standards of Texas Rising Star (TRS), TWC began implementation of these improvements in 2015. While this is a positive step toward providing children with higher quality programs during their most critical learning years, there are four broad issues with the TRS system:

### 1. Lack of information about TWC's quality investments.

There is little public information about Texas Rising Star progress and its outcomes. TWC is spending a significant amount of state funds on TRS, but it is unclear how these dollars are being spent. New reporting of quality would offer a chance for TWC to explain the impact these state dollars have on the children in their programs. Additional information could include: how quality dollars are being spent in each Local Board area; the number of children in TRS providers and licensed-only providers, and for how long; the number of seats available in each Local Board area for the 3 levels of TRS providers; the number of TRS providers over time; and reporting of intended goals, strategies, and dollars dedicated to increasing the supply of quality providers.

### 2. Need for data-sharing to aid in the Kindergarten through 12th Grade transition.

Providers who are investing time and money into TRS want to know whether their programs are working, yet they have no way of knowing if their children are leaving their setting ready for school. The Texas Education Agency opened up their Early Childhood Data System to child care providers for 3- and 4-year-old children, but very few child care providers have utilized this database. TWC already collects this basic information and streamlining the two systems could help address both the first and second issues in this list.

**3. Low standards of quality.** TRS standards are still quite low, particularly for Level 2. Most of the standards focus on environment and very little on the most important factor—teacher-child interaction. For Level 2 providers, teacher-child interaction is not measured. Further, some of the environmental standards for Level 2 are extremely low. For example, the group size and ratio standards are set at minimum licensing standards. Also, the group size and ratios are determined based on the median age for the child, instead of the youngest child in the room.<sup>157</sup> The argument behind

low Level 2 standards is that it will get providers in the door to eventually increase their standards to Level 3 or 4.<sup>158</sup>

### 4. Financial barriers to increasing the supply of TRS providers.

There are significant financial barriers to bringing all providers into TRS. First, the state does not have enough funding to assist and incentivize all providers into the system. Second, the child care industry is operating with very little financial flexibility to pay teachers more as they improve their quality.

As described earlier, Texas Rising Star (TRS) standards were improved and implemented beginning in 2015. At the time of this report TWC is still adapting the quality system and continuing to implement changes, so advocates are hopeful that the participation in and quality of TRS will continue to improve.

Reactions to the new TRS standards from the Local Boards were mixed. Some were excited about the changes, framing it as an opportunity for more resources for providers and better care for children. The few Local Boards that had been focusing on quality on their own for a number of years were enthusiastic and felt like it was not a huge change. However, a few Local Boards thought the increased quality standards were too stringent, making them unattainable for providers.

For a large part of 2015, Local Boards were not allowed to certify new TRS providers. They had to reassess current TRS providers under the new standards. Across the state, many TRS providers who were Level 4 under the previous standards, dropped to Level 2 under the new standards. Understandably, this brought discontent to some providers. Other providers dropped out completely because they felt the standards were too high and expensive, there was too much paperwork, or they did not have enough subsidy children to make a difference.

However, Local Boards reported that the greatest technical barrier to TRS certification has been licensing deficiencies:

- Providers interested in TRS are prohibited from beginning the quality improvement process if they have licensing deficiencies. The most common licensing deficiency mentioned was the provider failing to run staff background checks in a timely manner.
- Once a child care provider is certified TRS, some are dropped from the program if they forget to perform a staff background check in time. This is causing a lot of turnover, especially for Level 2 TRS providers.

While this issue is potentially very dangerous for children, it is the result of a complicated, multi-step process that has proven to be too cumbersome for providers.<sup>159</sup> In addition to losing or not being able to pursue a TRS certification, providers can receive daily fines from DFPS Licensing.<sup>160</sup> This system must be improved to make it more user-friendly and accessible for child care providers.

## KEY FINDINGS

### 1. Lack of Coordination among State Agencies regarding Early Education Quality Initiatives

#### ISSUES

##### Early Education Data

School districts have expressed the desire to have better information about the child care experiences of their incoming elementary students. Child care centers, especially those that have invested in the Texas Rising Star certification, want to know if their programs are adequately preparing children for school.<sup>161</sup>

In the past decade, collaboration has been found to be an asset to early education in Texas. Texas law has allowed for, but does not require, collaboration among the Texas Education Agency (TEA), Head Start, the Texas Workforce Commission (TWC), and TWC Local Boards.<sup>162</sup>

Public schools often analyze their feeder schools and benefit from historical data on incoming students, such as basic demographic information and past participation in other programs. The Early Childhood Data System, developed by TEA in 2014, collects early childhood data and can measure the effectiveness of Pre-K programs in preparing children for success in Kindergarten. Currently, licensed child care providers are able to enter demographic and general program data into the system.<sup>163</sup> However, very few child care providers have utilized the Early Childhood Data System; after the system had been open for a year only one child care provider in the entire state had completed this process.<sup>164</sup>

##### Quality Initiatives

Multiple agencies are involved in publicly-funded early education, and they often serve the same children. Although there are examples of collaboration around education, Texas does not have a history of robust partnership among state agencies serving young children:

- In early 2016 Governor Greg Abbott established the Tri-Agency Workforce Initiative to bring the Texas Education Agency (TEA), the Texas Workforce Commission (TWC), and the Texas Higher Education Coordinating Board (THECB) together to identify innovative strategies to meet workforce needs, study workforce challenges and opportunities, and evaluate local economic activity.<sup>165</sup> Child care—an essential component of workforce success making up half of TWC's budget—has been absent from that initiative. However, TWC and TEA partnered in the summer of 2016 to hold professional development conferences for the early education workforce, which is a great step toward recognizing TWC's role in early learning.<sup>166</sup>
- TWC provides funding to and is charged with quality

improvement for approximately 60% of all child care providers in Texas, and all regulated providers are licensed by Department of Family and Protective Services (DFPS).<sup>167</sup> Despite this overlap, TWC and DFPS have little to no formalized coordination. Since child care is a critical part of early education, TEA should also be a part of this conversation to ensure children are ready for school. However, for the most part, these three agencies work in siloes.<sup>168</sup>

- TEA recently released recommended ratios for public Pre-K classrooms for 4-year-olds—a maximum of 11 students per one teacher and a maximum class size of 22, or a maximum class size of 15 with one teacher for all 15 students.<sup>169</sup> Though these recommendations are not yet mandated, they are a step in the right direction for young learners. Unfortunately, the ratios for 4-year-olds in child care are still very high, and there have been no official recommendations or movement from DFPS to improving the standards. Further, TWC's Level 2 Texas Rising Star quality standards allow for these very high ratios. In a child care center, one teacher is allowed for 18 4-year-olds with a maximum group size of 35.<sup>170</sup> All children, regardless of their state-funded education setting, should be able to benefit from lower ratios. Lower ratios reduce the chance of safety incidences and allow more time for quality teacher-child interactions.<sup>171</sup>

These agencies have the power and responsibility to do more toward building stronger families and a stronger economy. There needs to be an increased focus on coordinating efforts in early education amongst state agencies. Support for purposeful spending on early childhood education now comes from military leaders, law enforcement, educators, and others. Democrat and Republican policymakers across the state recognize that early childhood can be effective in increasing high school graduation rates, decreasing mental health and behavior issues, and producing an effective workforce.

#### POLICY RECOMMENDATION

The Texas Legislature should increase coordination of the subsidized child care and public Pre-K data systems between the Texas Workforce Commission and Texas Education Agency through the Early Childhood Database System to improve outcomes for children and maximize efficiency of taxpayer dollars.

Fortunately, TWC is already collecting this same demographic and program data in its own database, The Workforce Information System of Texas (TWIST).<sup>172</sup> This is a timely opportunity for TEA and TWC to coordinate this aspect of their data programs to assist with the transition into the formal Kindergarten through 12th grade (K-12) public school system. Coordination also ensures that taxpayer dollars invested in early education are spent efficiently and providing meaningful outcomes.

## 2. Lack of Local Coordination among Early Education Programs

### ISSUES

Texas law allows partnerships with Head Start and licensed child care centers to collaborate in the delivery of public Pre-K programs through the sharing of services, resources, data, and classrooms.<sup>173</sup> At the local level, some coordination occurs in a handful of Local Board areas to align subsidized child care programs with the local school district or Head Start providers. The goal of the coordination is to improve school readiness and increase access to quality early education. However, this coordination is inconsistent across the state and completely absent in nearly half of the Local Board areas.<sup>174</sup>

TEA and TWC have taken a step toward sharing best practices with their September 2016 announcement of a grant opportunity for Texas Rising Star Level 4 providers to partner with local school districts to offer state-funded half-day Pre-K in addition to child care.<sup>175</sup> This kind of innovative solution provides children with higher quality education and working parents with care for a full day.

### POLICY RECOMMENDATION

The Texas Legislature should increase local coordination of early education programs by supporting public/private partnerships between school districts and high-quality child care centers. Such a policy will increase access to quality Pre-K programs, support private businesses, and save taxpayer money.

## 3. Need for Increased Understanding of how Dollars are Allocated to Improve Child Care Quality

### ISSUES

The child care subsidy program is the single largest expenditure in the Texas Workforce Commission's (TWC) budget at \$537 million a year, comprising nearly 50% of the agency's total expenditure.<sup>176</sup> These mostly federal dollars support more than 8,000 private, faith-based, and nonprofit child care providers to serve over 100,000 children.<sup>177</sup>

In recent years, state and federal legislation have moved the child care subsidy system toward a greater focus on quality. The state adopted Texas Rising Star (TRS) as its Quality Rating and Improvement System, which certifies child care providers that meet certain quality standards and pays providers at higher rates as they move up the quality scale. This increased focus on quality will provide children with a better chance to be successful in school and beyond. However, there is a lack of

transparency regarding the progress and direction of the state's investment in Texas Rising Star. Parents and policymakers have minimal information about whether or not the quality of subsidized child care is improving and how public dollars are being spent on quality initiatives across the state.

### POLICY RECOMMENDATION

To ensure the transparent use of taxpayer dollars for high-quality child care, the Texas Workforce Commission and Local Boards should report to parents and policymakers 1) the number and percentage of children receiving subsidies who are in high-quality child care (TRS) settings by each quality level; 2) the number of quality seats available at each quality level to children through the subsidy; and 3) the amount spent on different quality initiatives across the state.

## 4. Little Support to Help Children Transition from Child Care to the K-12 System

### ISSUES

Texas needs a continuum of quality and success. Early education settings and the the formal Kindergarten through 12th Grade (K-12) public school system are currently very different. The K-12 system is widely accepted and, over several decades, has evolved into a strong organizational structure with many evidence-based components that benefit children. On the other hand, early education settings are siloed, follow different rules, vary widely in practices like curriculum and family engagement, and vary in the quality of standards to which they are held accountable.

Parents of children in the public K-12 system benefit from full-day care of their children. Parents with younger children do not. The state only funds half-day care for Pre-K students, though about half of school districts pull from other funds to provide full-day because it is beneficial to parents and children. Less than full-day care can stifle parental ability to provide for their family and contribute to the state's economy. We cannot expect all children, especially those who are at risk, to go from one setting to another and succeed without a supportive transition.

During those critical transition years from child care and Pre-K to Kindergarten through 3rd Grade, children are most at risk of falling behind academically with little to no chance of catching up. This gap is especially significant for our lowest-income learners. The most critical component to student achievement is teacher-child interactions, and teacher skills are informed by training they receive to meet the needs of children in their care. Currently, these teachers are required to receive an early childhood through 6th Grade certification. The training and exam for this certification is often geared toward the older grades. Further, the needs of 4- and 8-year-olds are very different from the needs of 11-year-

olds. By encouraging teachers to focus on earlier grades, this certification would increase the number of teachers who are experts in teaching children during these pivotal early learning years.

## POLICY RECOMMENDATION

The Texas Education Agency should create an early childhood through 3rd grade teaching certificate. Through this certificate program, more teachers can become experts in the early elementary grades. With such training, teachers and schools can better prepare our youngest learners. The formalized training will also give our children a greater chance to succeed academically and become contributing members of the Texas workforce.

The task force and better coordination among the child care agencies could also improve outcomes for the many at-risk children served by these programs. With stronger families and better equipped parents, children are more likely to succeed in academics and in life. Investing in parents and honoring their role in their child's education is a smart use of state funds.

## 5. Lack of Agency Coordination around Parent Engagement and Education

### ISSUES

Investing in parents is a smart move toward building stronger families and more efficiently spending public dollars. Better equipped and engaged parents often lead to better academic and developmental outcomes for children.<sup>178</sup> There are two primary approaches to this: parent engagement models and parent education programs.

Parent engagement is a partnership between parents and the professionals educating their children. TWC's quality rating system, Texas Rising Star (TRS), encourages parent engagement between child care providers and the parents of the children in their care. Unfortunately, the quality of these efforts vary across providers and across the state. The same is true for parent engagement in the public K-12 system.<sup>179</sup>

Parent education focuses on a parent's skills and behaviors. Currently, the Texas Department of Family and Protective Services (DFPS) funds and manages a large portion of state-funded parent education programs through its Prevention and Early Intervention (PEI) division. However, there are multiple gaps in these programs, which ultimately decrease access for the state's most at-risk families. These gaps could be closed with coordination of efforts and services meant to improve the lives of the same at-risk families served by TWC, TEA, and DFPS.

### POLICY RECOMMENDATION

To ensure interagency coordination of parent engagement and education activities, the Texas Legislature should create a parent education task force to coordinate efforts by TWC, TEA, and DFPS. A task force and better coordination at the local and state levels would support the agencies' efforts to build stronger families and spend public dollars more efficiently.

## APPENDICES

### APPENDIX 1: METHODOLOGY

This study incorporated four data components: 1) literature review; 2) policy analysis; 3) qualitative data from agency leadership, parents, and early education stakeholders; and 4) quantitative program assessments.

#### Literature Review

CHILDREN AT RISK conducted a review of the literature on best practices for child care, parenting, and Pre-Kindergarten in Texas and across the country. We focused on the role child care, parenting, and Pre-Kindergarten plays in the development of children. We documented and reviewed best practices for each of these three components of early childhood across the country. During the literature review, we prioritized studies that used a random control or quasi-experimental design.

#### Analysis of Policies and Legislation

CHILDREN AT RISK's research team examined the most relevant federal, state, and local policies governing each component of publicly-funded early childhood, noting the operation and allowances of each policy. This included state and federal legislation from the 1990s through 2015, along with state agency documents as current as September 2016. We compared the policies and implementation of policies across several states to identify trials, successes, and failures. Legislation guides actions of all early education providers and organizations. To understand these actions, the team analyzed state and federal legislation that dictate the course of our early education system.

#### Analysis of Organizations and State Agencies

Many state agencies share common goals and there is some collaboration, yet most operate in siloes. CHILDREN AT RISK conducted a constant comparative method of analysis of interviews, publicly available reports, budgets, and legislation from agencies including the Texas Workforce Commission, the Texas Department of Family and Protective Services, the Texas Education Agency, the Sunset Advisory Commission, the Legislative Budget Board, and the Texas Office of Head Start Collaboration. This included a high-level overview of large agencies and initiatives across Texas. This led us to identify commonalities and opportunities to support improved collaboration and efficiency.

#### Financial Analysis

CHILDREN AT RISK analyzed funding streams used to provide early education services. Sources included publicly-available budgets, appropriations requests, and planning reports from the aforementioned agencies. We also examined how funding is dispersed across the state and for what purposes. CHILDREN AT RISK conducted an analysis of the programs delivered across Texas looking at the proportion of programs per region compared to the risk factors and need displayed by each individual region.

#### Interviews

From June 2015 to August 2016, CHILDREN AT RISK conducted semi-structured interviews with key early education stakeholders. Topics included standard processes, structures, service delivery and outreach, funding sources, and perceptions and strategies regarding various aspects of these topics. When possible, these interviews were conducted in person, though some were conducted over the phone. Interviewees included: agency leaders from Texas Workforce Commission, Texas Education Agency, Department of Family and Protective Services, the Texas Head Start State Collaboration Office, and the U.S. Office of Child Care; academic researchers and nonprofit leaders across Texas; other state and national leaders in early education; and managers of early education programs in other states.

The team also conducted semi-structured interviews with members from all of TWC's 28 Local Workforce Development Boards (Local Boards), each initial interview lasting about one hour. The majority were phone interviews, and some were conducted in person at the interviewee's office. Participants in the interviews held positions including the director of the Local Board, the manager of the child care program, the child care contractor, or a combination of people in those three roles. As needed, we followed up with interviewees via email and phone throughout the year-long study.

Participant anonymity was guaranteed during these interviews, and participant identity was masked if specific quotes were used to ensure continued anonymity. The majority of these meetings were recorded, some were transcribed, and all had lengthy notes taken by the CHILDREN AT RISK team. For the 28 Local Board interviews, those transcriptions were coded and analyzed to identify trends.

#### Focus Groups with Parents

CHILDREN AT RISK convened groups of parents with children currently or recently receiving subsidized child care in El Paso, Houston, Austin, and San Antonio. Data collected from the focus groups enhanced findings from interviews described previously

in this section. These focus groups lasted from one to two hours, and were recruited from Local Boards or specific high quality child care centers serving low-income parents through the subsidy. Only one group received incentives for participation. Discussion topics included perceptions of quality child care and needs involving parent education. These sessions were recorded. Based on recordings and extensive notes taken during interviews, parent comments were coded and analyzed for trends.

## Survey of Child Care Providers

CHILDREN AT RISK administered an electronic survey via email to child care providers available from February 4 to May 10, 2016, using contact information publicly available from the Texas Department of Family and Protective Service's (DFPS) Child Care Search website. We received responses from 64 randomly selected child care centers that were listed as receiving subsidies from the DFPS website. We analyzed their responses to identify trends, which were used to corroborate previously collected qualitative data. Topics included: perception of the child care subsidy system, perception of quality child care, and their needs as child care providers and business owners. The survey allowed us to further understand the child care system from the ground level.

## Discussions with Key Education Stakeholders

### Advisory Councils

CHILDREN AT RISK convened two councils: Early Education Academic Council and Early Education Task Force. The Academic Council included early education practitioners and experts from academia from across Texas. The Early Education Task Force incorporated early education policy experts and advocates from across Texas. Information collected from council members helped guide the project and expand CHILDREN AT RISK's network of early education stakeholders in Texas.

### Roundtable Discussions

Through collaboration with local stakeholders, CHILDREN ATRISK convened local leaders in early education from around the state to analyze and discuss their experiences with the public systems of subsidized child care, Pre-K, and parenting education. They identified policy priorities, as well as challenges and opportunities with these statewide systems. The roundtable discussions allowed us to identify factors impacting various local efforts uncovering consistent barriers and unique replicable practices. The roundtable discussions involved over 150 people and were held in Fort Worth, Dallas, San Antonio, El Paso, Brownsville, Lubbock, and Amarillo. Extensive notes were taken during each of these sessions, which were analyzed for trends.

## Limitations

There were some limitations related to the interview process with agency leaders and stakeholders. TWC's commissioner was unable to participate in an interview, limiting information accessible around the higher level operations and future plans. Local Board interviews were conducted with Executive Directors or proxies they identified, often the child care program or contracts manager. Additional interviews were conducted with the child care contractor. All questions that the Local Board representative was unable to answer were pursued via follow-up emails and calls. Almost all Local Boards provided answers to all the questions. We recognize that some knowledge from Local Board representatives may be limited. However, we made every attempt to follow-up for clarification and dig deeper, particularly when an answer was unusual or surprising.

Another limitation of this study was the limited number of participants in the parent focus groups and provider surveys. Therefore, this data was used only as a supplementation to primary findings, not as a stand-alone source for trends. A wider sample would provide additional data, although the data collected was adequate to support findings.

Quantitative data was compiled by CHILDREN AT RISK. The limited availability of some public data narrowed the scope of the analysis.

## Appendix 2: Local Authority in the Child Care Subsidy System

This table outlines key policies under the authority of the Texas Workforce Commission (TWC) and its 28 Local Boards using information provided in the 2016-2018 CCDF Texas Plan and from stakeholder interviews conducted by CHILDREN AT RISK.

Key Area	Local Decision	Administering Entity
<p><b>Eligibility for Child Care Assistance</b></p>	<ul style="list-style-type: none"> <li>Family income limits, which may not exceed the state’s maximum family income rule (85% SMI)</li> <li>Provision of child care services to a child with disabilities up to the age of 19</li> <li>Minimum activity requirements for parents as long as they are higher than the state’s minimum activity requirements</li> <li>Time limits for the provision of child care while the parent is attending an educational program</li> <li>Identification of priority groups for participation in the child care assistance/subsidy program</li> <li>Attendance standards and procedures that must be in compliance with the state rules</li> <li>Procedures for imposing sanctions when a parent fails to comply with the provisions of the Parent Responsibility Agreement (PRA)</li> <li>Mandatory waiting period for reapplying or being placed on the waiting list for child care services</li> <li>Documentation required to prove eligibility, such as the PRA regarding child support.</li> <li>Procedures for managing a waitlist, should the board have one.</li> </ul>	<p>Local Board determines eligibility either directly or through contractors</p>
<p><b>Parent Share of Cost</b></p>	<ul style="list-style-type: none"> <li>Set the parent share of cost for child care based on the family’s size and gross monthly income; may also consider the number of children in care.</li> </ul>	<p>Local Board</p>
<p><b>Payments to Providers</b></p>	<ul style="list-style-type: none"> <li>Set payment rates based on local factors, including a market rate survey provided by TWC.</li> <li>Establish maximum reimbursement rate for child care subsidies to ensure that the rates provide equal access to child care in the local market and in a manner consistent with state and federal statutes and regulations governing child care.</li> <li>Additionally, payment rates must allow the Local Board to meet performance targets for the number of children served, as determined by statewide targets established by the Texas Legislative Budget Board.</li> <li>TWC reviews Local Board performance for the number of children served, as well as the percentage of providers in the state that serve subsidized children.</li> <li>Local Boards develop procedures for payment practices that include frequency of payments and selecting the entity that issues the payments.</li> </ul>	<p>Local Board issues payments to providers either directly or through contractors.</p>
<p><b>Programs and Quality Initiatives</b></p>	<ul style="list-style-type: none"> <li>Local Boards have high levels of flexibility in other areas, including how they provide families with information about quality child care (depth, breadth of information), strategies for improving quality and how the resources are invested, and how they approach and invest in professional development for child care providers.</li> </ul>	<p>TWC decides how they will meet federal guidelines in their State Plan and Local Boards have flexibility in their implementation of those activities.</p>

### Appendix 3: Subsidized Child Care Parent Co-Pays as a Share of Income.

The recommended level for subsidized child care costs as a percentage of income is 7%. Some Local Boards keep their parent share of cost low because they allow providers to charge parents on top of the co-pay. Even just 1% more as a share of income can mean an extra \$15-40 per month for the co-pay, a significant amount for a low-income family that does not often have extra cash. The differences across Boards and even between Boards at different income levels varies greatly. This data used in this analysis was from FY 2015, which was the most recently available parent share of cost reported for each Local Board area. Most Local Boards set their income brackets based on State Median Income (SMI), while other Local Boards use Federal Poverty Guidelines (FPG).

Households with 1 Child in Subsidized Child Care						
LOCAL BOARD REGIONS	Lowest Earners (20% SMI or 50% FPG)		Middle Earners (60% SMI or 150% FPG)		Highest Earners (85% SMI)	
	two parents % of Income	single parent % of Income	two parents % of Income	single parent % of Income	two parents % of Income	single parent % of Income
1	3%	4%	7%	8%	7%	9%
2	7%	9%	8%	9%	8%	10%
3*	3%	4%	7%	8%	8%	10%
4†	2%	2%	6%	8%	7%	9%
5†	4%	5%	7%	9%	7%	9%
6†	3%	4%	7%	9%	7%	9%
7	6%	8%	8%	9%	9%	11%
8	2%	2%	6%	8%	8%	9%
9	2%	2%	6%	8%	8%	9%
10† ‡	3%	4%	6%	8%	7%	9%
11	2%	2%	5%	6%	7%	8%
12	2%	2%	8%	10%	8%	10%
13	3%	4%	6%	8%	7%	8%
14	5%	6%	5%	7%	5%	7%
15†	4%	5%	7%	9%	8%	10%
16	3%	3%	4%	5%	5%	6%
17	2%	2%	8%	9%	10%	12%
18†	3%	4%	4%	5%	4%	5%
19†	2%	2%	6%	8%	7%	9%
20	4%	5%	6%	7%	7%	9%
21	5%	6%	9%	11%	10%	12%
22	4%	5%	6%	8%	7%	9%
23†	5%	7%	7%	9%	8%	9%
24	4%	5%	7%	9%	8%	9%
25†	2%	3%	6%	7%	6%	7%
26†	7%	9%	9%	11%	11%	13%
27	6%	7%	7%	8%	8%	10%
28†	1%	2%	9%	11%	9%	11%

\* The highest range in this Local Board area is 80%.

† These Local Boards use FPG for all brackets, except for their highest bracket, which is 85% SMI.

‡ The highest bracket for this board area is 185% FPG.



Households with 2 Children in Subsidized Child Care						
LOCAL BOARD REGIONS	Lowest Earners (20% SMI or 50% FPG)		Middle Earners (60% SMI or 150% FPG)		Highest Earners (85% SMI)	
	two parents % of Income	single parent % of Income	two parents % of Income	single parent % of Income	two parents % of Income	single parent % of Income
1	4%	5%	7%	9%	8%	10%
2	7%	8%	8%	9%	8%	10%
3*	4%	5%	8%	9%	9%	11%
4†	3%	3%	8%	10%	9%	11%
5†	5%	6%	8%	10%	9%	10%
6†	3%	4%	8%	10%	8%	10%
7	7%	8%	8%	10%	10%	12%
8	4%	5%	8%	10%	9%	11%
9	3%	4%	8%	10%	9%	11%
10† ‡	3%	4%	7%	9%	8%	10%
11	2%	2%	5%	6%	7%	9%
12	2%	3%	9%	11%	10%	12%
13	3%	4%	8%	9%	9%	10%
14	6%	7%	7%	8%	7%	8%
15†	5%	6%	9%	11%	10%	11%
16	3%	4%	5%	6%	6%	7%
17	2%	2%	9%	10%	11%	13%
18†	3%	4%	4%	5%	4%	5%
19†	3%	3%	8%	10%	9%	10%
20	3%	4%	6%	8%	10%	11%
21	6%	7%	9%	11%	10%	12%
22	5%	6%	8%	10%	10%	12%
23†	6%	7%	9%	10%	9%	11%
24	4%	5%	7%	9%	8%	9%
25†	3%	3%	7%	8%	7%	8%
26†	8%	10%	9%	11%	11%	13%
27	6%	8%	8%	9%	9%	11%
28†	2%	2%	10%	12%	10%	12%

\* The highest range in this Local Board area is 80%.

† These Local Boards use FPG for all brackets, except for their highest bracket, which is 85% SMI.

‡ The highest bracket for this board area is 185% FPG.

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**Kellie O'Quinn, MSW**  
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Assistant Director, Center for  
Social Measurement and Evaluation

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