Abt Associates Inc.

Cambridge, MA
Lexington, MA
Hadley, MA
Bethesda, MD
Washington, DC
Chicago, IL
Cairo, Egypt
Johannesburg, South Africa

National Study of Child Care for Low-Income Families

State and Community Substudy

Interim Report Executive Summary

November 2, 2000

Prepared for
Richard Jakopic
Gilda Morelli
U.S. Department of Health and Human Services
Administration for Children and Families
370 L'Enfant Promenade
7th Floor West
Washington, DC 20447

Prepared by
Jean I. Layzer, Abt Associates Inc.
Ann Collins, National Center for Children in Poverty
Columbia University

The National Study of Child Care for Low-Income Families

The National Study of Child Care for Low-Income Families, conducted by Abt Associates Inc. of Cambridge, Massachusetts, and the National Center for Children in Poverty at Columbia University's Joseph Mailman School of Public Health in New York City, is a five-year research effort in 17 states and 25 communities. The study is designed to examine: how states and communities implement policies and programs to meet the child care needs of families moving from welfare to work, as well as those of other low-income families; how policies change over time; and how the relationships between these policies and other factors, affect the type, amount, and cost of care in communities. In addition, the study is investigating the factors that shape the child care decisions of low-income families, and the role that child care subsidies play in those decisions. Finally, the study is examining, in depth and over a period of two and a half years, a group of families that use various kinds of family child care and their child care providers, to develop a better understanding of the family child care environment and to what extent the care provided in that environment meets parents' needs for care that supports their work-related needs and meets children's needs for a safe, healthy and nurturing environment.

Information for the study is collected at three levels, with nested samples of communities within states and families and providers within communities. The first level is a sample of **25 communities** in **17 states.** The communities were selected to be a nationally representative sample of counties with child poverty rates above 14 percent. At the **family level**, the study includes several samples: a **random sample of 2,500 low-income families (under 200% of poverty)** with working parents and at least one child under age thirteen for whom they use non-parental child care in the 25 communities (100 per community); a sample of **650 low-income parents who are receiving, or are eligible for, child care subsidies, and who are using family child care at the start of the study** and a sample of the **650 family child care providers linked to these 650 families.**

Background

The strong US economy provides employment opportunities for low-income parents, even those with few job skills who may be new to the labor market. For these parents, reliable and affordable child care is an essential support if they are to obtain and hold onto a job. Little is known about how the child care market works for low-income families, how they make choices about child care, and how state child care subsidy policies affect those choices.

The welfare reform legislation enacted in 1996 brought with it increased investment in child care to serve the needs of families leaving the welfare rolls as well as other low-income families, many of whom may never have received cash assistance. The Personal Responsibility and Work Opportunities Reconciliation Act (PRWORA) replaced AFDC's cash assistance entitlement with benefits and services contingent upon meeting a work requirement. It replaced the AFDC matching grant with a block grant program called Temporary Assistance to Needy Families (TANF). Under this program, states are given a fixed amount of money, determined by funding levels prior to 1996, regardless of the number of families who need assistance, and also a great deal of flexibility in determining how the money is spent.

The PRWORA also made dramatic changes in the structure of federal child care assistance programs. It combined the four major federal child care programs into a single block grant to states. The new

Child Care and Development Fund requires states to contribute funding in order to draw down a proportion of their federal allotment; an additional proportion goes to states with no accompanying requirement for a state contribution. The legislation substantially increased the level of federal funding and gave states more flexibility to decide how the funds should be spent. To encourage states to pay attention to the quality of the child care being provided, they were required to set aside a minimum of 4 percent of the grant for quality improvement. While this set-aside is a smaller percentage than that required under the Child Care and Development Block Grant, because of the substantial increase in overall funding, dollars for quality initiatives were substantially increased. In addition, in subsequent actions, the Congress earmarked funds to increase the supply of specific types of care.

The work requirements imposed by the PRWORA raised a number of policy issues related to child care, including the following:

- While the legislation allowed states the flexibility to redress the shift of subsidies from the working poor to welfare recipients that occurred during the early years of the decade, child care advocates feared that, under the pressure of the work requirements, states might allocate all or most of their child care funds to welfare families.

- Under pressure to provide assistance to an increasing number of poor families, states might change their subsidy policies in ways that would constrain parents' choice of child care to less-expensive, less-regulated care.

- Increased demand for child care might create shortages in some types of care, particularly infant and school-age care or care for parents with atypical work schedules.

To address these and other policy issues, the federal government funded a five-year study of child care for low-income families that would examine the impact of federal and state welfare and child care policies on communities and on low-income parents and children in those communities.

The State and Community Substudy

This report presents findings from the first year of data collection for the State and Community Substudy. It addresses the following questions:

- How did state spending on child care change in the first three years of the CCDF?

- How did states allocate child care subsidy funds to meet the needs of low-income families?

- How are states implementing subsidy policies and what are the challenges they face?

- What types of child care are being purchased with subsidies?

- How has growth in the use of subsidies affected the supply of child care?

- How are states using their quality improvement funds?

Sources of information for the report included: state planning documents, budgets and administrative data; Census and Current Population Survey (CPS) data; and interviews with 8 to 15 key informants at state and community levels. In the summer and fall of 1999, after reviewing state plans and other documents, two-person teams of Abt and NCCP study staff visited the 17 states and 25 communities to conduct interviews with agency staff and other key informants. After the site visits, states were asked to review, correct and complete financial and administrative data on child care subsidy use. State staff reviewed the draft report and were given the opportunity to correct factual errors and to register their disagreement with our interpretation of the information.

State Spending on Child Care after PRWORA

Spending by most states in the study grew dramatically during the Child Care and Development Fund's first three years. In response to mounting demand for child care subsidies, expenditures grew in every study state between federal fiscal years 1997 and 1999. The median increase in child care spending in the study states over the three-year period was 78 percent. When differences in the costs of child care and the number of low-income children in the states, are accounted for, ***the median adjusted spending per federally-eligible child nearly doubled in the study states.***

Putting to rest initial fears that many states would not take advantage of all available CCDF funding, ***the majority of the study states spent sufficient state dollars to draw down virtually their full allocations of federal CCDF dollars. Beyond the dedicated child care funds from the CCDF, states made increasing use of optional federal and state funds not earmarked for child care.*** Median child care spending from all federal and state optional sources as a percentage of total expenditures for child care more than doubled between 1997 and 1999, going from 16 to 40 percent of total expenditures.

States' willingness to expend their own optional funds on child care was unaffected by the influx of additional federal funds. Of the 11 states that reported using optional general revenue for child care in 1997, ten reported continued and increased use of optional state funds in 1999. On the other hand, the five states that spent no optional state money in 1997 also spent none in 1999.

The federal TANF block grants became the prime new source of optional child care funding during these years. In 1997, only three of the 16 reporting states used TANF funds for child care; all 16 did so in 1999. In 1997 just one state drew more than 20 percent of child care expenditures from its TANF Block Grant; in 1999, 12 states did so.[1]

Growth in state spending on quality activities kept pace with growth in total child care spending. The median increase in spending on quality activities was 85 percent, slightly higher than the median increase in overall spending. Between 1997 and 1999, the median adjusted quality spending per child of employed parents more than doubled in the study states. Of the 16 states reporting, 11 in 1997 and 14 in 1999 exceeded the 4 percent quality spending required.

[1] It is important to note that during this period, states had a unique opportunity to transfer prior-year TANF funds to the CCDF. Transfers after FY 1999 may not equal these earlier one-time transfers.

Meeting the Demand for Child Care Subsidies

In the three-year period after the PRWORA, states provided child care subsidies to many more children. Twelve of the 15 states that reported data for both 1997 and 1999 experienced over 30 percent growth in the number of children receiving subsidies. ***Despite the great increase in the number of children receiving subsidies, states in the study served only 15 to 20 percent of federally-eligible children in 1999, and no state served more than 25 percent, with funds from all federal and state sources.*** There were waiting lists of families who requested but did not receive subsidies in 12 of the 17 states.

States were able to meet the demand for child care for families who were receiving TANF. Over the three-year period following welfare reform, an increased proportion of children receiving TANF received child care subsidies.[2] Additionally, in all 17 states, TANF families were either guaranteed subsidies or had a high priority for them after they left TANF, if their incomes remained low enough to make them eligible.

Most of the growth in child care subsidies was accounted for by children in families who had left TANF or who had never received it. While it is impossible to differentiate between families who had received cash assistance in the past and those who never received it, it is clear that, in 1999, a larger proportion of families that were not current TANF recipients used subsidies than in 1997.

Administering Child Care Subsidy Systems after PRWORA

By 1999, almost all of the study states had consolidated the administration of child care subsidies into one state agency. Only California maintained separate systems within two state agencies.

In the majority of study counties, access to the subsidy system was through a single agency. In 11 of the 25 counties, families not on TANF as well as TANF families were required to apply for subsidies at the TANF agency. Of those 11 counties, a small number made the process easier for non-TANF families by allowing application and reapplication by mail, rather than in person at the TANF agency. In ten other counties with a unified local system, access to subsidies for all families was through a private organization, a choice that reduced potential barriers for non-TANF families but that may have added complexity to the lives of TANF families, who would have to deal with the TANF office for benefits other than child care. In the remaining four counties, access to child care subsidies was divided according to TANF status, posing challenges for families moving from one eligibility status to another.

In most counties, staff responsible for determining eligibility for subsidies were child care specialists rather than social workers. Ideally, this should mean that staff have the skills and knowledge necessary to help low-income families make informed child care choices. However, these specialists were not equally knowledgeable about child care, especially in some TANF offices where social service staff were simply reassigned as child care specialists.

The rapid expansion of child care subsidies initially made it difficult for states (or counties) to predict demand accurately and to allocate funds appropriately. In states that maintained separate

[2] Declines in the overall TANF caseloads meant that, in many states, the *absolute number* of children on TANF who received subsidies was less than expected.

budgets for families in different eligibility categories, the inability to transfer funds across program categories exacerbated the problem. In some states with a unified budget, after two years of experience with the new welfare law, key informants reported increasing ability to distribute funds to counties in ways that reflected more accurately the pattern of demand for subsidies.

At both state and community levels, the growth in subsidy programs has greatly strained administrative capacity to administer them. Some states and communities experienced severe staffing cuts just as subsidy programs expanded, which impeded their ability to administer subsidies efficiently. The effects of insufficient staff were sometimes compounded by systems that were inadequately automated.

Providers and Subsidies

The types of care purchased with subsidies differed across the states. In 1999, in some states, less than 5 percent of children who received subsidies were in relative care compared with more than 30 percent in other states. The proportion of subsidized children in center care ranged from 70 percent in five states to less than 40 percent in five other states.

In the period following the passage of the PRWORA, there was no substantial increase in the use of informal care. Changes in the proportions of subsidized children in different types of care did not occur in a uniform pattern across states. For instance, five of the 13 states that reported sufficient data experienced a decrease in the proportion of subsidized children cared for by relatives, five experienced increases and three experienced no change. In many of these states, the proportion of subsidized children in center care remained the same over the three-year period.

Although families have legal access to virtually all types of child care, the extent of the requirements imposed on providers differs by state and community. Many states placed significant restrictions on access to non-relative child care in the child's own home. As a result, in half of the states in the study, less than 1 percent of subsidized care occurred in the child's home. Requirements for small family child care homes, relative caregivers, and in-home care (where it is allowed) vary in stringency.

In 11 of the 17 states, payment rates for child care were last adjusted in 1998 or between January and June 1999; these rate changes were often, but not always, based on market rate surveys that took place within 12 months of the rate change. Payment rates for relative care, which are more difficult to set because such care is not part of the market in the same way as other child care, were at least 80 percent of the full-time family child care rate in 10 of the 17 states.

Child Care Supply and Quality

While state and community informants believed that parents entering the workforce were generally able to find child care and did not see the anticipated effects of welfare reform on the supply of regulated care, in many instances they reported long-standing shortages in supply. Reported shortages were often in low-income neighborhoods or in types of care used more heavily by low-income families. Informants adduced indirect evidence (e.g., that TANF clients were not being exempted from work requirements because of inability to find child care), rather than direct evidence gathered from parents, to support their conclusion that the supply of child care had been adequate to meet the increased demand. Shortages in the supply of regulated care were reported, especially in low-income neighborhoods, for specific populations (e.g., infants and toddlers, children with special needs), and to accommodate unorthodox work schedules.

Pressures created by a strong economy, rather than those exerted by welfare reform, were blamed for shortages in the supply of child care. In at least four major urban counties, jobs created by a strong economy placed dual pressures on supply, by drawing child care providers into better-paying jobs while simultaneously increasing the demand for child care on the part of families at all income levels.

While there is wide variation in states' investments in child care, those investments, and states' discretionary spending on quality and supply enhancement, increased substantially over the last two years. While states with the highest per child spending spent five times as much as states with the lowest, even those states with the lowest per child spending had more than doubled their investment in quality enhancement initiatives over the period 1997–1999.

In most states, funds for quality initiatives are allocated at the state level, and are used for a wide variety of programs and activities, most of them small in scope. With the exception of some statewide efforts to improve licensing and monitoring activities, or to support the work of CCR&Rs, quality enhancement funds are used to address a variety of needs identified by specific communities, and often fund quite small efforts. There was little evidence of their use to put into effect a centralized strategy to attack problems of supply and quality.

Few initiatives were identified that targeted child care used by low-income families. Quality monies are broadly rather than narrowly-targeted and only occasionally aimed at increasing supply in low-income communities specifically, or targeting the license-exempt providers used disproportionately by low-income families[3].

Efforts to stimulate supply may not result in increased supply, but may simply counterbalance attrition cause by strong market forces, particularly among family child care providers. It was unusual for states or communities to have evidence of an increase in supply that took into account the corresponding attrition. Where this evidence was available, it suggested that efforts to increase supply may simply succeed in maintaining constant the number of child care slots available.

Implications of the Findings

Use of TANF Funds to Support Subsidy Growth

The study documented dramatic growth in funding for child care subsidies over the first three years of the Personal Responsibility and Work Opportunity Reconciliation Act. Increases in state child care spending came, primarily, from two sources: expanded funding available through the Child Care and Development Fund and from states' TANF block grant funds that were not spent on direct cash assistance. As TANF caseloads fell much faster than was anticipated, study states looked to unspent TANF funds as a means to expand their child care subsidy spending and to help meet additional

[3] This is in keeping with federal law, in that the quality set-aside funds are intended to increase the supply and improve the quality of care in general and not specifically directed toward care for low-income families.

demand from low-income working families—those who had never received TANF, as well as former recipients.

Although TANF funds have contributed significantly to states' expansion in child care spending, reliance on them to sustain this growth creates potential problems. Future TANF funding levels may be lower than the current levels. Even a mild recession could result in higher TANF caseloads. Singly, or in combination, these events are likely to reduce the amount of TANF funds available for child care. States would be faced with the choice of replacing federal dollars with state dollars to maintain the current high spending levels, or of cutting subsidies for many low-income families.

During this period, nearly two-thirds of the study states tapped a third source of funds i.e., optional state funding to expand child care spending. The general expansion in spending supported by CCDF and TANF funds did not fundamentally change study states' inclinations to spend or not to spend optional state funds. States that, in earlier years, allocated state money in addition to the amounts required to draw down their federal allocations typically increased their optional child care spending. States without such a history, however, did not start spending additional state dollars. In a period of continuing prosperity, states that historically supported subsidies with their own money might be disposed to make up a reduction in federal funds. However, this does not afford us insight into states' likely response to a reduction in federal support, if it is accompanied by an economic downturn that reduces state revenues and creates additional pressure on state support for needy families.

Growth in the Use of Child Care Subsidies

While there was dramatic growth in the use of child care subsidies over the three-year period, the evidence suggests that there remains a significant unmet demand for subsidies. In those states that made a commitment, either formal or informal, to serve every eligible family that requested subsidies, the rate of growth in the use of subsidies did not suggest that demand was leveling off. In other states that had no such commitment, waiting lists indicated that more families applied for subsidies than could be served. In no state did more than 25 percent of eligible children receive child care subsidies, and, in most states, the percentage of eligible children served by subsidies was less than 20 percent.

Administrative Pressures

Our site visits took place after two years of unprecedented growth in funding for and use of subsidies. In nearly every state where there was significant growth in subsidies, there was also evidence of great pressure on states' administrative and automated systems to meet the needs of families demanding subsidies. The administrative pressure that accompanies expansion in services appeared to be exacerbated by the fact that, in most cases, there was no concomitant expansion of state or local government staffs. Indeed, several states and communities had experienced significant staffing reductions just before the expansion. In many states, child care administrators were making the needed "fixes" to the system to accommodate current and future levels of subsidy use.

In addition to the administrative challenges, child care administrators had many additional demands placed upon them. They were required to be responsive to community representatives and the general public, as well as to governors' offices and state legislative bodies, both of which have, in the past few years, showed greater interest in subsidy administration and a desire for more influence on related policy decisions.

At the local level, growth in child care subsidy staffs did not always keep pace with the growth in numbers served in many communities. There were two solutions used to meet the additional demand.

In those states and communities where subsidies were delivered through the TANF agency, there was a tendency to reassign TANF staff who were no longer needed in that role because of TANF caseload declines. In other states, subsidy administration was privatized, in part to allow more freedom to increase staffing to more appropriate levels.

Staffing issues were not the only problems. Many states found that existing systems, adequate for subsidy administration when there were fewer cases to manage, were inadequate to cope with a much larger caseload and expanded federal reporting requirements. This seemed to be especially true in states that had a longer tradition of providing subsidies, and, as a consequence, older computer systems. Many states, in the spring of 1999, were in the midst of implementing new administrative and computer systems to help deal with the expansion in subsidies.

The pressure to accommodate quick growth seemed to be a factor in states' decisions about the privatization of subsidy administration. Growth also influenced states and communities to re-evaluate the balance between local flexibility and state control, particularly in those places where subsidies were administered by a private agency. With the additional freedom that resulted from the consolidation of previous subsidy programs, states and communities made differing decisions about ways to serve families who were receiving TANF general assistance and those who were not receiving TANF. No one model of subsidy delivery seemed to work equally well for all families; some models made application and eligibility determination more convenient for TANF families, others made application easier for non-TANF families but added complexity for TANF families.

Pressures on the Supply of Child Care

Almost universally, key informants[4] reported that the growth in subsidies did not put the expected pressures on the supply of child care, and did not, by itself, cause or exacerbate scarcities in regulated care. For many of the states in the study, the data on the proportions of types of care purchased with child care subsidies supports these perceptions. If there were a general scarcity of regulated care, one might expect that a greater number of families would turn to unregulated forms, such as care by relatives and license-exempt family child care providers. The data, however, do not reveal such a pattern. In the three-year period 1997-1999, the proportion of subsidized children in relative care rose in approximately one-third of the states, but in the same number of states the proportion dropped. Overall, in most of the states, there were few shifts in the proportions of the types of care purchased with subsidies during the period of growth.

While key informants almost uniformly reported that the growth in child care subsidies did not have the anticipated effect of squeezing the supply of care, some were still very concerned about supply, particularly in those areas of the country where the level of regulation meant that new regulated child care providers could not enter the market easily. There were also rising concerns in large urban areas that the economic boom and tight labor markets were drawing providers away from child care and into better-paying jobs, as well as creating increasing demand. Eventually, these pressures may draw away many of the relatives who currently meet parents' needs for off-hours care and care for infants. Throughout virtually all 25 communities, there were also concerns about specific types of care - including care for infants and toddlers, children with special needs, families working non-traditional hours, and, in some locations, school-age child care. These concerns were rarely based on information gathered about demand and did not always take into account some parents' preferences for relative and in-home care in some circumstances, such as for very young children, and for non-traditional hours.

[4] These included staff involved in the administration of subsidies, CCR and R agency staff, and welfare agency staff.

Efforts to Increase the Supply and Quality of Child Care

Many key informants in areas where there were tight labor markets and relatively high levels of regulation felt that efforts to increase the supply of care were fighting against a tide of larger market forces. Their efforts sometimes meant that they were able to slow or stave off the shrinkage in supply rather than increase the quantity of regulated care. While there were some success stories, there were no clearly successful strategies that would lead states and communities to concentrate their efforts rather than trying many different approaches.

For the most part, the use of quality set-aside funds reflected no clear strategy. With few exceptions, quality monies funded many small, local projects, none of them large enough, by themselves, to make a noticeable difference in the amount and quality of child care available in the community, although they may make a significant difference to individual providers. While this funding strategy reflects a respect for the ability of communities to define their own needs, it makes it almost impossible to evaluate whether the considerable increase in the amount of funds devoted to quality improvement has had any measurable impact and on whom.

Quality initiatives only occasionally targeted caregivers in low-income communities or the informal care arrangements that many low-income families use. This is in accordance with the intent of the quality set-aside, which is directed at the improvement of child care generally. However, if we believe, as research suggests, that the quality of the early childhood experience is most likely to affect children living in or close to poverty, the result of this dispersion of effort is that some of those most likely to benefit from improved quality may not experience it.