Executive Summary

Families need access to high quality care so that children can start school ready to learn and parents can work. The importance of high quality care has become increasingly clear in recent years. New studies demonstrate that children's experiences in their early years have lasting impacts on their ability to succeed in school and in life. Research on brain development and other studies show that young children need quality environments in and out of the home to promote their well-being, ensure they get a strong start, and prepare them to learn.

The availability of high quality care is even more crucial with an ever increasing number of parents relying on child care so they can go to work. Low-income parents often have no choice but to work so they can support their families. Parents receiving welfare now face strong work requirements as a result of changes in the federal welfare law passed in 1996. Among families receiving welfare cash assistance, the proportion participating in paid employment or work activities grew from 11 percent in 1996 to 33 percent in 1999. Overall, employment among low-income single mothers with young children grew from 44 percent in 1996 to 55 percent in 1999.[1] Child care costs can be a staggering burden for these working parents, consuming over a third of the income of a family in poverty.[2]

The welfare law created a new urgency to meet families' need for child care help while offering states new opportunities and resources to accomplish this task. Yet, five years later, much remains to be done. A review of state child care policies as of March 15, 2000 gives both reason for hope and cause for disappointment. Some states are moving forward to make more families eligible for child care assistance,

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[1] U.S. Department of Health and Human Services, Administration for Children and Families, Office of Planning, Research and Evaluation, *Temporary Assistance for Needy Families (TANF) Program: Third Annual Report to Congress* (Washington, D.C.: U.S. Department of Health and Human Services, August 2000).

[2] Kristin Smith, *Who's Minding the Kids? Child Care Arrangements: Fall 1995 (Current Population Reports P70-70)* (Washington, D.C.: U.S. Census Bureau, 2000).

improve administrative systems to better ensure that families who are eligible for assistance will receive it, lower parent co-payments, or raise provider reimbursement rates. The number of children and families receiving assistance has increased significantly over the past five years.[3] However, the goal of providing adequate supports for children and families remains far out of reach. In 1999, only one out of eight children eligible for child care assistance through the Child Care and Development Block Grant (CCDBG) program was receiving it.[4] In two out of five states, a family earning as little as $25,000 could not qualify for help as of March 2000. Every state's child care subsidy system falls short in important areas affecting the availability and quality of care.

A comparison of state child care subsidy policies in 2000 to policies in 1995 offers the clearest indication that states have not made sufficient progress since the welfare law was passed.[5] In 1995, many states were setting restrictive eligibility criteria, requiring high co-payments from parents, and reimbursing providers at very low rates. In 2000, the picture remained largely the same. While some states had improved their policies, a substantial number of states had failed to move forward at all or had actually taken steps backwards.

Background History on Federal Child Care Legislation

The current system of child care assistance, which is supported by a combination of federal, state, and local funds, is largely the product of federal legislative developments over the past dozen years. In 1988, the Family Support Act addressed child care assistance as an essential component of a welfare reform agenda. States, for the first time, were required to provide a child care entitlement for families on welfare who were working or enrolled in job training or education programs (JOBS child care), and for families who needed transitional child care assistance for 12 months after leaving welfare (Transitional Child Care or TCC).

Policymakers soon recognized that child care assistance was also essential to help low-income working families remain independent. As a result, two new programs—the Child Care and Development Block Grant (CCDBG) and the At-Risk Child Care Program—were enacted in 1990. These programs provided states with funds to support child care assistance for low-income working families and bolster the quality of child care. However, unlike families receiving or transitioning off welfare, low-income working families were not entitled to child care assistance.

All of these programs were significantly revised in the Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA). PRWORA eliminated the nation's guarantee of cash assistance to families with very low incomes (by eliminating the national welfare program Aid to Families with Dependent Children, or AFDC) and replaced it with a new limited program called Temporary Assistance for Needy Families (TANF). This new program placed great demands on states to move families from welfare to work. In order to avoid financial sanctions, states had to meet work participation targets that grew progressively stricter over time—from a requirement that states move 25 percent of their caseload from welfare to work by FY 1997 to a requirement of 50 percent by FY 2002.

The changes that the Act made to child care programs in some ways paralleled the changes made to the cash assistance program in that assurances of a crucial support for families needing help were eliminated while states were allowed increased flexibility.

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[3] Ann M. Collins, Jean I. Layzer, J. Lee Kreader, Alan Werner, and Fred B. Glantz, *National Study of Child Care for Low-Income Families: State and Community Substudy Interim Report* (Washington, D.C.: Abt Associates Inc., 2000).

[4] U.S. Department of Health and Human Services, "New Statistics Show Only Small Percentage of Eligible Families Receive Child Care Help" (December 6, 2000). Press release. Retrieved from the Internet at www.acf.dhhs.gov/news/ccstudy2.htm.

[5] The Children's Defense Fund last conducted a comprehensive study of child care subsidy policies in 1995.

The Act ended the entitlement to child care assistance for families receiving welfare and for those transitioning from welfare to work. It also combined various existing child care programs into a new consolidated Child Care and Development Block Grant (also referred to as the Child Care and Development Fund). This gave states the opportunity to design more effective systems for helping families attain or maintain self-sufficiency. States could make it possible for families to receive help without having to face separate programs and policies as they moved from welfare to work and without being treated differently depending on whether they were receiving welfare, had recently received it, or had never received it.

At the same time, the revisions to the child care assistance program included a significant increase in funding—an additional $4 billion for child care over five years. By FY 2000, federal funding for the CCDBG had risen to $3.55 billion, and states were required to provide an additional $1.77 billion in matching and maintenance of effort funds. The new welfare law also allowed states to transfer up to 30 percent of their TANF block grant funds to the CCDBG and to use TANF funds for child care within the TANF block grant. States have taken advantage of this provision, and by FY 2000 the amount of TANF funds states transferred to the CCDBG or spent on child care within the TANF block grant totaled $3.9 billion.[6]

An Uncertain Future

Despite significant increases in federal and state funding for child care programs over the past several years and expanded flexibility for states to design their policies to meet the needs of families, these programs often fail to fulfill their promise. Too many low-income families remain unable to receive help for a variety of reasons. They may not know help is available or the income cutoff for assistance may be too low for them to qualify. Their state may not have sufficient funds to serve them even when they are eligible, or they may simply not be able to weave their way through a confusing system. Even those families who qualify for assistance often face parent co-payments that are too high or reimbursement rates that are too low to allow them to choose a good quality provider.

The continuing shortcomings of state child care policies are particularly troubling given the extremely favorable conditions for states over the past several years—a strong economy, shrinking welfare rolls, and growing revenues. With prospects for the nation's economy uncertain, families relying on child care assistance now face a double-edged threat. If there is an economic downturn, their budgets will be squeezed even tighter while their need for help with their child care bills will intensify. States will require additional resources to meet this demand and they may be less able to depend on the TANF block grant as one of their major sources of funds for child care. In an economic downturn, states will likely need to use an increasing proportion of their TANF funds for cash assistance, leaving fewer resources available to help families with child care costs just at the point when the need for assistance may be growing.

State child care policies rest on fragile foundations that could be shattered by a weakening economy. Many low-income families maintain an equally precarious balance struggling to meet the demands of work and family. A state's child care policies can determine whether a family is able to sustain this balance and gain a more stable footing or whether this balance will be upended. If a family has access to child care assistance that enables them to afford a high quality, reliable provider, a parent can more easily find and keep a job. On the other hand, a family who loses their child care assistance because of a cumbersome eligibility redetermination process or a small increase in income could find themselves without the child care they need to work.

[6] Rachel Schumacher, Mark Greenberg, and Janellen Duffy, *The Impact of TANF Funding on State Child Care Subsidy Programs (Preliminary Report)* (Washington, D.C.: Center for Law and Social Policy, August 2001).

New Resources Are Critical

Additional federal, state, and local investments are essential not only to address the gaps in child care policies but also to prevent these gaps from widening in the wake of less favorable economic conditions. Without sufficient funding, state policy makers will continue to face unacceptable tradeoffs. Some will set very low income eligibility cutoffs, denying child care help to struggling families. Others will set higher income eligibility limits but place thousands of eligible families on waiting lists with little hope of actually receiving relief from child care costs. Some will make more working families eligible for child care assistance but exclude parents in education or training programs. Others will pay providers higher rates for higher quality care, but maintain base rates, which apply to the vast majority of providers, at sorely inadequate levels.

States may also make tradeoffs by establishing different policies for different groups of families. Under pressure to meet TANF requirements to move families from welfare to work, states may target limited child care funds on TANF families. Although this approach is understandable, it leaves many low-income families who do not receive TANF unable to afford the care they need to work and stay off welfare. Families may also become confused by the differences in policies for different families. In some cases, a disjointed system can actually cause a family to lose their child care subsidies when they move from welfare to work and become subject to a new set of rules.

If children are to succeed in school and parents are to be able to get and keep a job, they must have easy access to supportive and stable child care. Meeting this need will require a significant increase in federal investments in the Child Care and Development Block Grant along with sustained high funding levels for TANF, now a crucial funding source for child care. It will also require increased state, local, and private investments. Only with expanded resources will it be possible for states to apply good policies to *all* families who need help paying for care.

State Child Care Assistance Policies as of March 2000: Key Findings

While there are some signs of promise in states' efforts to help families afford good child care, low-income families struggling to find and pay for care still face many barriers.

- ***Income Eligibility Criteria:*** The income cutoff is below $25,000 a year for a family of three in two out of five states. This includes seven states where even a family of three earning $20,000 a year would not be eligible for assistance.
- ***Availability of Assistance:*** One-third of the states are not able to serve all eligible families who apply for assistance. These states have waiting lists or freeze intake.
- ***Accessibility of Assistance:*** Even in states that currently serve all eligible families who apply for assistance, there are still many families who qualify for help but are not receiving it. Two-fifths of all states report that most families do not know they could receive assistance. Only four states feel that they could serve all eligible families. A significant increase in resources would be needed to meet the new demand.
- ***Other Limits on Eligibility:*** Most states allow parents to qualify for assistance while searching for a job, going to school, or participating in a training program; but there are often limits on how long they can participate in these activities, requirements that they be working simultaneously, or other restrictions.

- ***Maintaining Eligibility:*** Once families qualify for assistance, they often face obstacles to maintaining their eligibility. Over two-thirds of the states require families to recertify their continued eligibility for help at least every six months. Families moving from welfare to work may have their services disrupted due to communication breakdowns between agencies responsible for child care assistance for families receiving welfare and agencies responsible for assistance for working families.
- ***Parent Fees:*** Two-thirds of the states require families at 150 percent of poverty ($21,225 a year for a family of three) to pay more than 7 percent of their income in fees, or do not even allow a family at this income level to qualify for assistance. This includes 11 states that charge fees equaling more than 10 percent of family income. In two-thirds of states, providers are allowed to charge additional fees beyond the required co-payment.
- ***Reimbursement Rates:*** Nearly half of the states set their provider reimbursement rates at levels below the 75th percentile of the market rate—the rate that gives families access to 75 percent of the providers in their community—or base reimbursement rates on outdated market rate surveys.
- ***Other Reimbursement Policies:*** In addition to low reimbursement rates, a number of other state policies make it difficult for providers to receive adequate reimbursement. Many states limit the number of days for which they will provide reimbursement while a child is absent. In addition, some states pay by the hour, reimbursing providers only for the actual hours the child was in attendance, rather than paying a daily, weekly, or monthly rate for full-time care as is typically required of parents paying out of their own pocket.
- ***Differential Rates:*** A number of states are making efforts to increase the availability of high quality and hard-to-find care by offering incentives in the form of higher reimbursement rates. Twenty-two states offer higher reimbursement rates for higher quality care and 13 states offer higher rates for care during nontraditional hours. Yet these rates are often insufficient to compensate for low base rates.
- ***Payment Processes:*** Only three states pay providers in advance for all families, rather than through reimbursement after the care is provided. Providers generally have to wait two to three weeks after they submit their bill to receive payment and often even longer to work out discrepancies with the state and receive payment in full.
- ***Contracts and Certificates:*** Only about two out of five states use contracts, despite the fact that this payment approach offers providers the benefit of a dependable source of income, which is particularly important for those in low-income neighborhoods struggling to keep their doors open. States primarily pay providers through certificates (or vouchers), which offer less reliability since they are dependent on an individual family choosing and remaining with the provider for their child's care and maintaining their eligibility for child care assistance.
- ***Special Populations:*** Many states provide more generous eligibility standards, fees, and rates for children and families with special circumstances, such as children with disabilities or developmental delays, children in protective services, and teen parents. Yet some states make few if any extra efforts to ensure that these families receive assistance and find the specialized care they need.
- ***Comparison of 1995 and 2000 Policies:*** Many states have either failed to improve their policies since 1995 or have actually implemented more restrictive policies. Over *half* of the states' income limits declined or remained virtually flat as a percentage of state median income. In two out of five states, the co-payment amount for a family of three with one child in care and with an income at the poverty level ($12,320 a year in 1994-1995 and $14,150 a year in 2000-2001) increased as a percentage of income from 1995 to 2000.

Major State Child Care Assistance Policies

This report examines state policy choices concerning important features of their child care assistance programs. These decisions affect who is able to receive assistance, how easy it is for them to access assistance, how much parents must contribute towards the cost of care, how much providers who serve children receiving assistance are reimbursed, how providers are paid, and how states administer their programs.

Eligibility Criteria for Child Care Assistance

Eligibility criteria determine which families are allowed to receive assistance. To qualify for assistance, families generally must have incomes below a certain designated level, and they must justify their need for child care. Acceptable reasons for needing care may include employment and participation in activities that lead to employment or an improvement in employment status, such as searching for work, attending school, or receiving job training. Many states set restrictive eligibility criteria that deny help to a large proportion of low-income families.

One way in which states limit eligibility is by setting extremely low income cutoffs for working families.

- Only four states allow families with incomes up to the maximum level allowed under federal law (85 percent of state median income) to qualify for assistance.
- In two-fifths of the states, a family of three earning $25,000 a year cannot qualify for help.
- In three states, a family of three earning $18,400 a year (130 percent of poverty) cannot qualify for help.

States also restrict eligibility by limiting the activities that qualify a family for assistance. A number of states only allow parents to receive help while working, but not while searching for work or participating in education or training programs (although these activities are often necessary to get a job, or to move to a new job that could enable a parent to earn enough so that they would not need child care assistance). Even when a family is eligible for help while looking for a job, attending school, or receiving training, states often restrict when and how families participating in these activities can qualify.

Four out of five states continue to provide child care help to low-income families while they search for a new job if they were already receiving assistance when they lost their previous job. However, only 16 states allow low-income families to qualify initially for assistance while searching for a job if they are not already working. This makes it very difficult for these parents to find a job. They are not likely to be able to afford child care so that they can go through job listings, prepare and submit their job applications, and go to job interviews. In addition, it prevents them from making child care arrangements before getting their job. This leaves them to worry that they will not be able to find adequate care once they receive a job offer. It also forces them to scurry to arrange child care and fill out required paperwork for assistance immediately after they have found employment so they can start working as soon as possible.

Forty-six states allow low-income parents to qualify for help while attending college, and 48 states allow parents to qualify while participating in job training. However, states often set limitations that make it difficult for parents in college or training to actually receive this assistance.

- A number of states give low priority to helping parents in education or training programs, so they are unlikely to receive assistance if these states have waiting lists.
- In 10 states, parents must work while attending college to be eligible for assistance—for example, Illinois and South Dakota require parents to work 10 hours a week while going to school, and Pennsylvania requires 25 hours a week of work.

- Twenty-five states limit how long families can receive assistance while in school and 16 limit the amount of time parents can receive help while in training. For example, job training is limited to 12 months in Georgia and Louisiana.[7]

These additional requirements can deny parents the opportunity to receive the education and training that are often critical links to improved job prospects and future earning power.

Differences in Eligibility Criteria for TANF and Transitioning Families

While some states apply the same eligibility policies to all families regardless of whether they are receiving welfare, transitioning from welfare, or not connected with the welfare system, most states have at least some differences among policies for each of the groups. These differences result from a number of factors. For example, in some states, child care policies that require TANF parents to meet stricter work requirements than other parents to qualify for child care assistance flow from broader TANF policies that push families to move towards work. In other states, income eligibility criteria are more generous for families transitioning off welfare in order to make it easier for them to get assistance as they first enter the workforce and try to stabilize their employment and financial situation. States may also have different policies for different families because they simply do not have the resources to serve all families and must make choices about which groups they will focus on serving.

Most states set the same income criteria for low-income families and transitioning families, but there are exceptions:

- Five states allow transitioning families to qualify for assistance without any regard to income for at least a portion of the transitional period.
- Five states allow transitioning families to qualify with higher incomes than allowed for other low-income families.

States also differ as to which families can qualify for assistance while participating in various activities. For example:

- Delaware allows families to qualify for child care assistance while attending college if they are receiving TANF or are transitioning from TANF and had already started their college program while on TANF, but does not provide child care assistance to other low-income families in college.
- In contrast, low-income, non-TANF families in Indiana are eligible for assistance while participating in education and training up to a four-year undergraduate degree, but TANF and transitioning families are limited to 12 months of education and training.

Although states may have legitimate reasons for applying separate policies to separate groups of families, these differences can make it difficult for a parent transitioning from one category to another to understand and comply with these policies. It is particularly challenging for parents since they must simultaneously cope with additional stresses: trying to find or holding down a job, paying the rent and other bills on a limited budget, and locating a safe and supportive child care provider.

Eligibility of Families with Special Circumstances

In addition to serving families receiving TANF, families transitioning off TANF, and low-income families with parents who are working, in training, or in school, states often provide help to other groups of families who may need child care for specific purposes or whose circumstances warrant special consideration. These may include children in protective services, foster families, families in crisis, teen-parent families, families whose children have disabilities or other special needs, and seasonal migrant workers. Many states use different eligibility criteria or have completely separate programs for these families.

[7] Louisiana allows assistance for families in job training to be extended to 18 months in special circumstances.

- Over two-thirds of the states have child care programs that give distinct consideration to children with difficult family situations, including children at risk of abuse and neglect, either through a separate program or priority consideration within the general child care program. The large majority of states waive any requirements that a parent be working, in training, or in school if their family is receiving protective services. Instead, their eligibility for help is generally determined by the family's protective services caseworker. This is because the main purpose of the care in these cases is not to enable a parent to work or participate in activities that lead to work, but rather to help a child receive the therapeutic care they may need as a result of being abused or neglected, to allow a parent the opportunity to attend parenting classes or therapy, or to give a parent respite. Two-thirds of the states also make it easier for families receiving protective services to access child care assistance by waiving income eligibility requirements for them in some or all cases.
- Nearly one-third of the states have a separate program to serve teen parents or give them very high priority in the state's general child care program. States typically provide child care assistance to teen parents with the primary goal of encouraging and enabling them to complete high school or obtain their GED.
- Forty-eight states permit children with special needs to remain eligible up to age 18 or 19 (rather than the usual age limit of 13), recognizing that they often continue to need supervision into their teenage years.

Access to Assistance for Eligible Families

Even if a family is eligible for child care help, they may not necessarily receive it because states do not allocate sufficient resources to serve them. A number of states have waiting lists and turn away many eligible low-income families who apply for assistance. Yet these waiting lists tell only part of the story. They do not include families who do not bother applying for assistance because they know it is futile to expect to get to the top of the waiting list. These lists also fail to include families who do not know that child care assistance programs exist. In addition, few states that currently serve all eligible families who apply make any explicit commitment to continue serving them. Most states, if faced with an increase in demand or new resource constraints, have nothing to prevent them from placing families on waiting lists. In fact, several states that did not have waiting lists at the time the data in this report were collected now have them.

Waiting Lists

While waiting lists do not demonstrate the full extent of the unmet need for child care assistance, they do serve as one clear indicator that many families are denied the help for which they are eligible.

- As of March 2000, one-third of the states (17) had waiting lists or frozen intake because they were unable to serve all eligible families who applied.
- Some of these waiting lists were extremely long; 34,000 children were on the waiting list in Florida, 31,450 children in Texas, 17,500 children in Massachusetts, and 7,300 children in Alabama.

It is important to consider these waiting lists in conjunction with the eligibility criteria described earlier because many of the states with higher income eligibility cutoffs have waiting lists. As a result, families in these states appear to have greater access to assistance but have no greater likelihood of actually receiving it.

Guarantees and Entitlements

The families on waiting lists are mainly low-income families not receiving TANF or transitioning from TANF. Most states do not offer these families any assurances that they will receive assistance, even though they may need help paying for child care to keep them from going on welfare as much as TANF families need assistance to leave welfare. Only a few states have acted to ensure that all eligible families who apply will have access to assistance, regardless of whether or not they are receiving welfare. These states are the exception rather than the rule.

- Rhode Island has established a legal entitlement to child care assistance for all eligible families.
- Oregon has provisions in its regulations indicating that working families who are eligible cannot be placed on waiting lists.
- Vermont's budget language requires the agency responsible for the child care subsidy program to seek additional funds from the legislature before capping any services.
- Other states such as Illinois and Wisconsin, while not adopting any formal measures, have publicly stated their commitment to serving all eligible families who apply for assistance and budget sufficient funds to fulfill their promise.

States generally avoid placing TANF families on waiting lists because they do not want the lack of child care to prevent a family from complying with work participation requirements. States increase the probability that TANF families will receive child care help by providing them with a legal entitlement to assistance, guaranteeing that sufficient funds will be available to serve them, or giving them top priority for receiving assistance. Many states take similar steps to prevent families transitioning from welfare from falling onto a waiting list.

Families Unaware of Assistance

While a sizable number of states already have long waiting lists, the waiting lists would be even longer and many additional states would have to turn to them if more families knew they could get help. States reported that many eligible families are not sufficiently informed about child care assistance.

- Two-fifths of the states acknowledged that eligible families are often unaware that they could receive help paying for care. If more families were informed about the availability of child care assistance and applied for it, it is highly unlikely the demand could be met, even in states that currently have no waiting lists.
- Only four states indicated that they could serve all eligible families. Many states responded that they could not meet the need without a significant increase in funds.

Meeting the Need as More Families Move from Welfare to Work

States reported that it will become increasingly difficult to meet the demand for child care assistance as stricter work requirements of the welfare law become effective. States that currently have waiting lists foresee longer waiting lists. Those without waiting lists may have to start them. States predict that they may need to divert more of their funds to serve families trying to move from welfare to work, leaving fewer dollars for low-income families struggling to keep the jobs they already have. California and North Carolina, which currently have long waiting lists for working families, are not even sure whether they will be able to continue to serve all TANF families. Other states commented that meeting the increased demand for child care subsidies might also limit the resources available for ensuring an adequate level of benefits for each family receiving assistance—for example, states would have little room to increase their provider reimbursement rates.

Barriers to Maintaining Eligibility for Assistance

If a family does manage to qualify for and begin receiving child care assistance, the challenges they face hardly end there. Numerous obstacles may prevent a family from retaining eligibility for child care help. When a family loses their assistance, they may be forced to change their child care arrangement. This not only jeopardizes a parent's job but also disrupts their child's relationship with his/her provider.

To maintain eligibility for assistance, families must verify that they continue to meet the income and other criteria for child care assistance on a regular basis. Over two-thirds of the states require families to go through a recertification process at least every six months. In most cases, families must also notify the state immediately following any changes in their job, income, or other circumstances. Requiring frequent recertification whether or not there have been any changes in the family's situation, and immediate notification when there is a change, places a tremendous burden on parents who are struggling to balance the demands of work and family. These parents have little time to fill out forms, gather required documentation, and contact their child care worker.

Ten states make the process particularly difficult for low-income families by requiring in-person recertification in many or all cases, rather than allowing families to recertify by mail or phone. This creates an unreasonable burden for parents just entering the workforce and likely to be employed in low-wage jobs with inflexible schedules. They often cannot take time off from work to visit their local child care agency without jeopardizing their already fragile connection to the workforce.

Families moving from welfare to work can find it especially challenging to hold on to child care assistance. Many states continue to have separate programs and separate program administration for welfare, transitioning, and low-income families. A family may be required to reapply for assistance at a different agency as they transition off welfare, or as their transitional period ends. In the process, confusion and miscommunication can result in them losing their child care assistance. Some states have attempted to address these problems by consolidating their programs for different groups of families, or at least transferring a family automatically from one category to another. For example, Vermont administers its child care assistance program for all families through community child care support agencies, a statewide network of private, nonprofit agencies that also offer resource and referral and often other family and child services.

Parent Co-payments

Families that are fortunate enough to receive assistance may still find child care unaffordable due to burdensome co-payment policies. All states require families receiving assistance to contribute toward the cost of care based on a sliding fee scale. Sliding fee scales should be structured to increase parent fees very gradually as a family's income rises so that they do not lose all of the benefits of a wage increase to higher co-payments. Fees should also be kept down in order give families an opportunity to gain financial stability. Many states fail to meet these goals.

- A number of states charge relatively high fees to families earning half the poverty level ($7,075 a year for a family of three in 2000), even though there is scarcely room in their budgets for the most minimal charge. Thirty-five states require families at this income level to pay a fee. In nine states, a family at this income level with one child in care pays fees above 5 percent of income.

- Forty-six states require families at the poverty line ($14,150 a year for a family of three) to pay a fee.[8] In two-fifths of the states, a family at this income level would be required to pay 5 percent or more of their income in fees. Arkansas' fees are 11 percent of income for a family at the poverty line, and North Dakota's fees are 15 percent of income.
- In two-thirds of the states, a family of three earning just $21,225 a year (150 percent of poverty) with one child in care would be required to pay more than 7 percent of their income in fees or would not even be eligible for help. In comparison, families nationwide at all income levels only pay an average of 7 percent of income for care.[9] Fees are particularly high in some states. In Oregon, a family at this income level would pay 16 percent of income; in Nevada, they would pay 17 percent; and in South Dakota, 19 percent.

Co-payments for Additional Children

In some states, families can face particularly high fees if they have more than one child in care. While the majority of states charge reduced fees or no fees at all for additional children in care, 15 states charge the same per-child fee for each child, regardless of the number of children in care. In these states, families may try to avoid unaffordable co-payments by leaving their school-age children to care for themselves when they are not in school rather than using supervised after-school care that can offer enrichment activities.

Co-payments Based on the Cost of Care

In addition to the *amount* of the fee at each income level, the *design* of the fee scale also has an important impact on children and families. Most states charge fees based on income, with the amount of the fee increasing incrementally as income rises or with the fee calculated as a percentage of income. However, 10 states charge fees based on the cost of care the family uses. This approach is problematic because it gives families an incentive to use lower cost, often lower quality, care in order to minimize their fees.

Differences in Co-payments for TANF and Transitioning Families

A number of states have co-payment policies for TANF and/or transitioning families that differ from those for low-income families. In 17 states, a family with an income at 50 percent of poverty ($7,075 a year for a family of three) would have to pay a fee if they were not receiving TANF, but would be exempt from the fee if they were receiving TANF. Three states exempt all transitioning families from fees for at least a certain period of time.

While such policies can help families struggling to move from welfare to work, they can be unfair to families who are trying just as hard to stay off welfare and having difficulty affording co-payments. If a particular level of income is considered too low for a family to contribute toward the cost of care, it is too low for all families, regardless of whether or not they are receiving welfare.

Provider Reimbursement Rates

Adequate reimbursement rates are needed to ensure that providers are willing to accept children with subsidies and have enough resources to support quality care. Otherwise, parents will not have a real choice of providers and low-income children will not have access to care that supports their healthy development. Federal regulations require states to set rates that give children receiving subsidies as

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[8] A few of these states exempt families up to the poverty line from fees, but were still using the 1999 federal poverty level as of March 2000 and did not adjust their sliding fee scale to the updated poverty level until later in the year. As a result, a family with an income at 100 percent of the 2000 poverty level would not meet the state's income cutoff to qualify for the fee exemption (100 percent of the 1999 poverty level) and would be subject to a co-payment.

[9] Kristin Smith, *Who's Minding the Kids? Child Care Arrangements: Fall 1995 (Current Population Reports P70-70)* (Washington, D.C.: U.S. Census Bureau, 2000).

much access to providers as children who are not receiving subsidies. However, the regulations do not specify a particular level at which rates must be set. The preamble to the regulations only recommends that states set rates no less than the 75^{th} percentile of the current market rate—the rate that allows parents access to 75 percent of their community's providers.[10]

Nearly half of the states fail to meet the recommended benchmark, setting their rates below the 75^{th} percentile of the market rate or based on outdated market rate surveys. Rates are extremely low in some of these states. For example:

- Connecticut's reimbursement rate is at the 75^{th} percentile of the 1991 market rate.
- Missouri sets its reimbursement rate *below* the 75^{th} percentile of the 1996 market rate. The state's reimbursement rate for a four-year-old in a center is \$7.70 a day (\$167 a month) lower than the 75^{th} percentile of these outdated rates.

With such low rates, providers may require parents to make up the difference between the state's rate and the provider's—on top of the parent's required fee—or may refuse to serve their children altogether. Over two-thirds of the states allow providers to ask parents to pay the difference between the state's rate and the provider's rate. This may make providers more willing to serve families receiving subsidies despite the low state rates. However, it also places an additional demand on families already stretched to their limits.

States' reimbursement rates are deficient in other ways as well, as they often fail to reflect market realities. For example, providers generally expect private-paying parents to pay in full even if their child is absent for a few days, because the provider still has to operate their program on those days and pay their staff. The provider relies on that expected income and cannot just temporarily fill the slot with another child. While most states reimburse providers for some absent days, all but seven place some limits on the number of absent days per month or per year they will reimburse providers.

Differential Rates

A number of states offer higher reimbursement rates to cover more expensive care, such as special needs or higher quality care, or to give providers an incentive to offer care that is in short supply, such as odd-hour care.

- Forty-one states offer higher rates for at least some providers serving children with special needs.
- Twenty-two states have differential rates for higher quality care. Depending on the state, providers may have to be accredited or meet other standards in order to qualify for the rate.
- Thirteen states use higher rates for care offered during nontraditional times, such as evening, overnight, or weekend hours.

While differential rates are extremely important for encouraging providers to offer the high quality care that is essential for children's successful development and the specialized care that many children and families need, they are no substitute for adequate base rates. In many states, the differential is relatively small and not enough to compensate for low state reimbursement rates. As a result, total rates, even with the differential, fall below market rates. For example, New Jersey's reimbursement rate for accredited center-based care for a four-year-old is \$504 a month, which is higher than the standard rate for non-accredited care (\$480 a month), but still lower than the 75^{th} percentile of 1997 rates (\$585 a month). Only the combined strategies of sufficient base rates and significant differential rates can produce an effective reimbursement rate structure.

[10] The regulations also require states to conduct a market rate survey every other year, but states are not obligated to implement rate adjustments based on the new data.

Payment Approaches

Certificates (or vouchers) are the primary method by which states pay providers. These are payments made to or on behalf of an individual child or family. Parents are allowed to use the certificate to purchase the care of their choice, whether it is provided by a child care center, family child care home, relative, or neighbor. Through the certificate approach, providers are generally paid on a reimbursement basis after they have provided care—only three states pay in advance. Paying on a reimbursement basis can present a challenge for providers, who must cover the cost of care upfront. Providers often experience delays in receiving reimbursement, which strains their budgets even further and discourages them from offering care to children with subsidies.

Contracts are the second method states use to pay providers. A contract is generally an agreement that the state will obligate funds to a particular provider to serve a certain number of eligible children over a specified period of time. By designating slots, contracts offer providers a stable, predictable source of income. Despite the advantages of contracts, they are only available in 20 states, and these states generally use them on a very limited basis. For example, in Illinois, contracts account for less than 15 percent of the care, and there has not been an expansion in three years.

A third payment option that some states offer to parents is the child care disregard. The disregard allows parents to discount part of their earnings when determining their eligibility for TANF and the amount of their cash assistance grant. The amount disregarded depends on the family's spending on child care, up to a certain limit. This approach has serious drawbacks. Due to the numerous calculations involved in determining the family's cash assistance amount, the actual increase in benefits is considerably smaller than the disregard amount. In addition, while the disregard can allow a family to remain eligible for TANF for a longer period of time than they would be if their income was counted in full, this is not very helpful given that they are still subject to the strict time limits for TANF. Only 16 states offer the disregard, and most of these states have few families opting to use it.

Types of Care Used by Families Receiving Assistance

Patterns in the types of care used by families receiving child care assistance vary significantly from state to state. These variations may stem from differences in policies, circumstances, traditions, and other characteristics specific to each state. For example, a state may have a large proportion of its families in center care because the state emphasizes this type of care through contracts and other policy tools. Meanwhile, another state may have a significant proportion of its families using informal care because it is dominated by rural areas where the population is not dense enough to support centers.[11]

- Center care is the most frequently used type of care in 29 states, including 23 states where it accounts for over half of the care used.
- In eight states, family child care is used most often.
- Relative care accounts for only a small percentage of care in many states, but in 11 states at least 20 percent of the care used by families receiving assistance is provided by relatives.
- Most states report that only a very minimal percentage of families use care provided in the child's own home, although there are exceptions.

Since passage of the welfare law in 1996, the types of care used by families receiving assistance have not changed in consistent ways across states. In some states, the use of informal care has increased because it offers the flexibility to respond to the particular needs of low-income families. For example, many parents, pressured to leave welfare

[11] Several states were unable to provide data on the types of care used by families receiving subsidies.

and start working, needed to make arrangements for their children as quickly as possible. Informal care was the only option on short notice. Informal care may also be the only alternative for families who work nontraditional hours, such as evenings, nights, or weekends, when formal care may not be available. In other states, the use of formal care, including licensed centers and family child care homes, has actually risen as states have taken deliberate steps to increase the supply of this care to meet the expected growth in demand. As stricter welfare work requirements become effective, these and other expanded efforts to invest in the supply of child care will become even more essential to meeting further increases in demand.

Administration

In most cases, policies are set at the state level and implemented at the local level. The local entity carrying out the program—determining eligibility, making payments to providers, and handling other responsibilities—is typically a public agency, such as the county department of social services, that is the local counterpart of the state agency supervising the program. However, a number of states use private, nonprofit organizations such as child care resource and referral agencies (CCR&Rs) to implement the program. Giving administrative responsibility to CCR&Rs can benefit families because it allows them to obtain information about both finding care and getting help to pay for it at the same location. CCR&Rs are also available to all families, not just welfare or low-income families, so parents may feel more comfortable going to the agency for help.

Three states—Colorado, New York, and Texas—have locally supervised and locally administered child care subsidy programs, where policy decisions are primarily made at the local level. These states still set some parameters for localities in determining their policies, and generally retain some oversight responsibility at the state level. However, localities are given great discretion in deciding about most or all aspects of their child care subsidy policies. This allows communities to assess the needs of their children and families and tailor policies to those needs. Yet, it can result in inequities unless states set certain standards for eligibility, parent fees, and payment rates to ensure that all families, regardless of where they live, have access to at least a basic level of services. For example, in Texas, localities have the flexibility to set their own income eligibility limits. While some have taken advantage of the opportunity to set their cutoffs at 85 percent of state median income, the maximum allowed under federal law, half set their cutoffs at 55 percent of state median income ($22,179 per year for a family of three) or lower.

Coordination of Child Care, Head Start, and Prekindergarten Policies

States are beginning to make some efforts to coordinate their child care assistance programs with other early childhood programs such as Head Start and prekindergarten in order to help families who use multiple programs. Many parents working full time want their children to benefit from a comprehensive Head Start or prekindergarten program, but these programs often operate on part-day schedules. As a result, parents must rely on child care for the remaining hours of their workday. By aligning their child care policies with Head Start and prekindergarten policies, states can make it easier for families to combine programs to meet their needs and help to ensure that children are in stable, secure environments.

- Eight states allow children in some or all Head Start or prekindergarten programs to remain eligible for the full Head Start or prekindergarten year without having to recertify. This enables children to remain in one stable setting regardless of fluctuations in their family situation.
- Fifteen states help Head Start and prekindergarten programs provide full-day care by allowing at least some programs to receive a full-day rate for wrap-around care or through other reimbursement policies.

A few states have contracts targeted specifically to Head Start programs to make it easier for Head Start to meet the needs of working families. For example:

- Vermont has some contracts with Head Start programs for full-day, full-year services.
- Ohio contracts with Head Start for wrap-around care on a slot basis. In contrast to certificates, which only provide reimbursement for a limited number of absent days, these slots allow programs to have an average vacancy rate of up to 25 percent (as a result of absences or temporarily unfilled slots) and still receive full reimbursement.
- Iowa makes grants available to Head Start providers for wrap-around child care. These grants allow programs to receive full-year funding at the beginning of the grant period, rather than having to wait for reimbursement after providing care.

Policy Changes Over Time: Insufficient Progress

A comparison between state child care assistance policies in 2000 and policies in 1995, before the new welfare law was enacted, shows that while there has been progress, many states have failed to improve their policies or have actually implemented more restrictive policies in certain areas.[12] A number of states have made it more difficult for families to qualify for care or have reduced the amount of help to families who do qualify.

Changes in Income Eligibility Criteria

A number of states have made their income eligibility criteria more generous over time; but in many states, income eligibility criteria are stricter than in 1995:

- Most state income eligibility cutoffs for child care assistance have increased over the past five years, when considered as a straight dollar amount (unadjusted for inflation). Yet, eight states have actually *decreased* their income cutoffs (Idaho, Illinois,[13] Indiana, Montana, Pennsylvania, South Carolina, Virginia, and Wisconsin). These decreases are particularly troubling since they are in absolute dollars, before accounting for increases in the cost of living.
- When considered as a percentage of the federal poverty line (which is adjusted each year), income cutoffs have declined in nearly two out of five states. This includes 10 states where the income cutoff as a percentage of the federal poverty level decreased by at least 25 percentage points.[14]
- Over *half* of the states' income limits declined as a percentage of state median income (also adjusted each year) or remained virtually flat. This includes nine states where the income cutoff as a percentage of state median income decreased by at least 15 percentage points.

[12] The District of Columbia's child care assistance policies, while addressed throughout the remainder of the report, are not included in the analysis in this section. This is because data are only available for the District's policies in 2000 and not its policies in 1995.

[13] Although Illinois lowered its income eligibility cutoff between 1995 and 2000, it also eliminated waiting lists so that all families who are eligible can receive help and increased the total number of children served. In addition, when the income cutoff was lowered, families who met the previous income guidelines but exceeded the new guidelines were allowed to remain eligible for a certain period of time.

[14] In a few states, the decline was much smaller and may have resulted from the state not adjusting its cutoffs for the updated 2000 federal poverty level as of March 2000. However, this still means that these state income cutoffs remained nearly flat as a percentage of the federal poverty level.

Income Eligibility Cutoffs to Qualify for Child Care Assistance: Comparison of 1995 and 2000 Policies

	Income eligibility cutoff for a family of three (a single mother with two children), as an annual dollar amount			Income eligibility cutoff for a family of three (a single mother with two children), as a percent of the federal poverty level			Income eligibility cutoff for a family of three (a single mother with two children), as a percent of state median income		
State	January 1995	March 2000	Change (1995 to 2000)	January 1995 (as percent of 1994 federal poverty level)	March 2000 (as percent of 2000 federal poverty level)*	Percentage point change (1995 to 2000)	January 1995 (as percent of 1994 state median income)	March 2000 (as percent of 2000 state median income)*	Percentage point change (1995 to 2000)
Alabama	$14,484	$18,048	$3,564	118%	128%	10%	46%	45%	-1%
Alaska**	$23,700	$44,328	$20,628	192%	313%	121%	57%	92%	35%
Arizona*	$17,544	$22,908	$5,364	142%	162%	20%	53%	58%	5%
Arkansas	$17,421	$19,601	$2,180	141%	139%	-3%	60%	60%	0%
California	$25,788	$33,852	$8,064	209%	239%	30%	66%	73%	7%
Colorado***	$17,820	$18,044 to $25,668	$224 to $7,848	145%	128% to 181%	-17% to 37%	49%	36% to 52%	-13% to 3%
Connecticut	$34,680	$45,805	$11,125	281%	324%	42%	76%	75%	-1%
Delaware	$19,096	$27,768	$8,672	155%	196%	41%	47%	52%	5%
Florida	$18,479	$20,820	$2,341	150%	147%	-3%	54%	50%	-5%
Georgia	$19,999	$24,278	$4,279	162%	172%	9%	58%	56%	-2%
Hawaii**	$44,292	$46,035	$1,743	359%	325%	-34%	107%	94%	-13%
Idaho	$22,188	$20,472	-$1,716	180%	145%	-35%	72%	53%	-19%
Illinois	$26,230	$24,243	-$1,987	213%	171%	-42%	68%	50%	-18%
Indiana*	$23,916	$19,848	-$4,068	194%	140%	-54%	68%	44%	-24%
Iowa*	$12,324	$19,432	$7,108	100%	137%	37%	37%	45%	8%
Kansas*	$22,812	$25,680	$2,868	185%	181%	-4%	67%	58%	-9%
Kentucky*	$18,272	$22,208	$3,936	148%	157%	9%	60%	57%	-3%
Louisiana	$18,816	$29,040	$10,224	153%	205%	53%	62%	75%	13%
Maine	$25,358	$34,303	$8,945	206%	242%	37%	75%	85%	10%
Maryland	$18,409	$22,463	$4,054	149%	159%	9%	43%	40%	-3%
Massachusetts	$23,172	$27,312	$4,140	188%	193%	5%	54%	50%	-4%
Michigan	$26,064	$26,064	$0	211%	184%	-27%	70%	54%	-16%
Minnesota*	$29,309	$38,169	$8,860	238%	270%	32%	78%	75%	-3%
Mississippi*	$17,999	$27,999	$10,000	146%	198%	52%	63%	79%	16%
Missouri	$17,784	$17,784	$0	144%	126%	-19%	53%	41%	-12%
Montana*	$21,348	$20,820	-$528	173%	147%	-26%	70%	57%	-14%
Nebraska	$13,080	$25,260	$12,180	106%	179%	72%	39%	56%	17%
Nevada	$29,064	$33,576	$4,512	236%	237%	1%	82%	75%	-7%
New Hampshire	$23,412	$26,376	$2,964	190%	186%	-4%	58%	52%	-6%
New Jersey	$26,206	$28,300	$2,094	213%	200%	-13%	57%	50%	-7%

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Income Eligibility Cutoffs to Qualify for Child Care Assistance: Comparison of 1995 and 2000 Policies (continued)

	Income eligibility cutoff for a family of three (a single mother with two children), as an annual dollar amount			Income eligibility cutoff for a family of three (a single mother with two children), as a percent of the federal poverty level			Income eligibility cutoff for a family of three (a single mother with two children), as a percent of state median income		
State	**January 1995**	**March 2000**	**Change (1995 to 2000)**	**January 1995 (as percent of 1994 federal poverty level)**	**March 2000 (as percent of 2000 federal poverty level)***	**Percentage point change (1995 to 2000)**	**January 1995 (as percent of 1994 state median income)**	**March 2000 (as percent of 2000 state median income)***	**Percentage point change (1995 to 2000)**
New Mexico	$19,836	$28,300	$8,464	161%	200%	39%	68%	84%	16%
New York	$25,536	$28,644	$3,108	207%	202%	-5%	65%	61%	-4%
North Carolina	$14,184	$32,628	$18,444	115%	231%	115%	42%	75%	33%
North Dakota	$16,548	$29,340	$12,792	134%	207%	73%	53%	74%	21%
Ohio*	$15,816	$25,680	$9,864	128%	181%	53%	45%	55%	10%
Oklahoma	$19,080	$29,040	$9,960	155%	205%	50%	63%	78%	15%
Oregon	$24,948	$25,680	$732	202%	181%	-21%	74%	56%	-17%
Pennsylvania	$28,951	$28,300	-$651	235%	200%	-35%	80%	61%	-19%
Rhode Island*	$21,405	$31,230	$9,825	174%	221%	47%	55%	60%	5%
South Carolina*	$25,675	$17,350	-$8,325	208%	123%	-86%	78%	42%	-37%
South Dakota	$18,468	$22,113	$3,645	150%	156%	6%	60%	56%	-4%
Tennessee	$17,580	$24,324	$6,744	143%	172%	29%	54%	60%	6%
Texas***	$18,480	$21,225 to $34,272	$2,745 to $15,792	150%	150% to 242%	0% to 92%	56%	53% to 85%	-3% to 29%
Utah	$12,324	$23,928	$11,604	100%	169%	69%	37%	56%	19%
Vermont	$22,032	$31,032	$9,000	179%	219%	41%	63%	71%	9%
Virginia****	$28,032	$21,228, $22,632, or $26,172,	-$6,804 -$5,400, or -$1,860	227%	150%, 160%, or 185%	-77%, -67%, or -42%	75%	44%, 47%, or 55%	-31%, -28%, or -20%
Washington*	$20,436	$31,236	$10,800	166%	221%	55%	55%	65%	9%
West Virginia	$14,988	$20,820	$5,832	122%	147%	26%	51%	57%	6%
Wisconsin*	$27,996	$25,680	-$2,316	227%	181%	-46%	78%	53%	-25%
Wyoming	$17,844	$18,828	$984	145%	133%	-12%	53%	46%	-7%

Table shows the maximum income a family could have when initially qualifying for assistance. Some states allow a family already receiving assistance to continue receiving it up to a higher income level.

Income cutoffs shown in the table take into account deductions that some states use in calculating family income and, in effect, allow families to earn higher incomes than the published income cutoff and still meet eligibility guidelines.

Percentage point changes in income cutoffs as a percentage of the federal poverty level and state median income from 1995 to 2000 were calculated from raw data. As a result, these data may differ from changes calculated using the rounded income cutoff figures shown in the table.

Data on income cutoffs for January 1995 were compared to the 1994 federal poverty level because the 1995 federal poverty guidelines were not released until February. For consistency, the 1995 income cutoffs were also compared to the state median income cutoffs from 1994.

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*States were asked to report their income eligibility cutoff for 2000 as a dollar amount. Those dollar figures were calculated by CDF as a percentage of the 2000 federal poverty level (an annual income of $14,150 for a family of three) and the 2000 state median income. This allowed for comparability across states. However, note that the percentages in this table may differ from those used by states in their own materials because they may have still been using the 1999 federal poverty level or 1999 state median income as a reference point for their March 2000 income cutoff. Also note that a number of states that set their income cutoffs as a percentage of the federal poverty level or state median income adjusted their income cutoffs based on updated guidelines after March 15, 2000; our data do not reflect such changes. States that reported having annual adjustments that fell later in the year include Arizona, Indiana, Iowa, Kansas, Kentucky, Mississippi, Montana, Ohio, Rhode Island, South Carolina, Washington, and Wisconsin. This situation may occur in other states as well. (Minnesota is one state in which the timing of the adjustment had the opposite effect; as of January 1995, it had already updated its income cutoff to reflect the 1995 state median income. Thus, while the state's income cutoff was at 75 percent of the 1995 state median income, it was at 78 percent of the 1994 state median income used as the benchmark for this chart.)

**The income cutoffs for Alaska and Hawaii were calculated as a percentage of the federal poverty level that applies to the 48 contiguous states for purposes of comparison in this chart, but the federal government uses separate, higher poverty levels for each state because they have significantly higher costs of living. In 2000, the poverty line for a family of three was $17,690 for Alaska and $16,270 for Hawaii. Compared to these guidelines, Alaska's cutoff was 251 percent of poverty and Hawaii's cutoff was 283 percent of poverty in 2000. Also note that the income cutoffs in Alaska and Hawaii are higher than 85 percent of state median income. In Alaska, there is substantial variation in the cost of living across the state, with some areas having particularly high costs. To help account for this, the state uses the latest available projections for state median income as soon as they are available, rather than using the 2000 state median income as a reference point for its cutoff. In Hawaii, the published income cutoff is at 85 percent of state median income; but the state uses adjusted income to determine eligibility, so a family's gross income could actually exceed this published cutoff.

***In Colorado and Texas, income eligibility cutoffs were determined at the local level, within state parameters, in 2000.

****Virginia used different income cutoffs for each of three different regions, reflecting variations in cost of living, in 2000.

Changes in Co-payments

An analysis of co-payments in 1995 and 2000 yields a mixed picture—some states reduced co-payments, some kept them at relatively the same level, and some increased them. Three out of five states (32) raised the co-payment amount for a family of three with one child in care and with an income at the poverty level ($12,320 a year in 1995 and $14,150 a year in 2000) from 1995 to 2000. Co-payments rose significantly in several states.

- In Wisconsin, a family at the poverty line had no fee in 1995 but a $74-a-month fee in 2000.
- Indiana and Iowa, neither of which had fees for a family at this income level in 1995, set their fees at $22 a month in 2000.
- In Illinois, fees rose from $1 a month to $65 a month for a family at the poverty line.

In two out of five states, the co-payment amount also rose as a percentage of income. This includes nine states where the percentage rose by at least 3 points.

Child Care Co-payments for a Family of Three at the Poverty Line: Comparison of 1995 and 2000 Policies

State	Monthly fee for a family of three at 100 percent of poverty and one child in care*			Monthly fee as a percent of income		
	January 1995	March 2000	Change (1995 to 2000)	January 1995	March 2000	Change (1995 to 2000)
Alabama	$43	$65	$22	4%	6%	1%
Alaska	$14	$14	$0	1%	1%	0%
Arizona*	$242	$66	-$176	24%	6%	-18%
Arkansas	$71	$133	$62	7%	11%	4%
California	$0	$0	$0	0%	0%	0%
Colorado	$109	$96	-$13	11%	8%	-2%
Connecticut	$41	$47	$6	4%	4%	0%
Delaware	$45	$78	$33	4%	7%	3%
Florida	$64	$69	$5	6%	6%	0%
Georgia	$91	$56	-$35	9%	5%	-4%
Hawaii	$0	$0	$0	0%	0%	0%
Idaho	$232	$65	-$167	23%	6%	-17%
Illinois	$1	$65	$64	<1%	6%	5%
Indiana	$0	$22	$22	0%	2%	2%
Iowa	$0	$22	$22	0%	2%	2%
Kansas*	$24	$58	$34	2%	5%	3%
Kentucky	$49	$87	$38	5%	7%	3%
Louisiana	$22	$49	$27	2%	4%	2%
Maine	$62	$71	$9	6%	6%	0%
Maryland	$45	$90	$45	4%	8%	3%
Massachusetts	$78	$78	$0	8%	7%	-1%
Michigan	$23	$24	$1	2%	2%	0%
Minnesota	$0	$5	$5	0%	<1%	0%
Mississippi	$25	$47	$22	2%	4%	2%
Missouri	$22	$43	$21	2%	4%	2%
Montana*	$21	$47	$26	2%	4%	2%
Nebraska	$157	$18	-$139	15%	2%	-14%
Nevada*	N/A	$108	N/A	N/A	9%	N/A
New Hampshire	$1	$1	$0	<1%	<1%	0%
New Jersey	$67	$71	$4	7%	6%	-1%
New Mexico	$25	$48	$23	2%	4%	2%
New York	$4	$4	$0	<1%	<1%	0%
North Carolina	$65	$106	$41	6%	9%	3%
North Dakota	$186	$180	-$6	18%	15%	-3%
Ohio	$27	$28	$1	3%	2%	0%
Oklahoma	$76	$44	-$32	7%	4%	-4%
Oregon	$81	$82	$1	8%	7%	-1%
Pennsylvania	$22	$65	$43	2%	6%	3%
Rhode Island	$22	$0	-$22	2%	0%	-2%
South Carolina	$22	$30	$8	2%	3%	0.4%

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Child Care Co-payments for a Family of Three at the Poverty Line: Comparison of 1995 and 2000 Policies (continued)

State	Monthly fee for a family of three at 100 percent of poverty and one child in care*: January 1995	March 2000	Change (1995 to 2000)	Monthly fee as a percent of income: January 1995	March 2000	Change (1995 to 2000)
South Dakota	$29	$0	-$29	3%	0%	-3%
Tennessee	$22	$39	$17	2%	3%	1%
Texas	$92	$106	$14	9%	9%	0%
Utah	$32	$36	$4	3%	3%	0%
Vermont	$18	$0	-$18	2%	0%	-2%
Virginia	$103	$118	$15	10%	10%	0%
Washington	$1	$20	$19	<1%	2%	2%
West Virginia	$33	$49	$16	3%	4%	1%
Wisconsin	$0	$74	$74	0%	6%	6%
Wyoming	$108	$11	-$97	11%	1%	-10%

Monthly fees were calculated from hourly, daily, and weekly fees assuming child care was provided 9 hours a day, 5 days a week, 4.33 weeks a month.
For states basing their parent co-payments on the cost of care, the co-payments in this table were calculated assuming that the family had a four-year-old in a licensed, non-accredited center charging a rate equal to the maximum state rate.
Changes in the fee as a percentage of income were calculated using raw percentages rather than the rounded figures shown in the chart.
The federal poverty level was $12,320 a year ($1,027 a month) in January 1995 and $14,150 a year ($1,179 a month) in March 2000.

*For comparability of data, all states were asked to report the co-payment for a family of three with an income at a certain dollar amount—$1,179 a month ($14,150 a year) in 2000, or 100 percent of the 2000 federal poverty line. Some states that used the federal poverty level as a guideline for their sliding fee scales adjusted their fee scales for the 2000 poverty level after March 15, 2000. These adjustments would not be reflected in the above data. In some cases, this may have had a large impact on the co-payments that applied as of March. For example, a state may charge minimal fees to families at or below the poverty line, but much higher fees to families just above the poverty line. If the state had not adjusted its sliding fee scale and was still using the 1999 federal poverty level, a family with an income at the 2000 poverty level of $14,150 a year would actually fall above the poverty line used by the state and as a result would be subject to the higher fees. A family at that income level would have had their co-payment adjusted downward after the state updated its fee scales. This issue affected several states, including Arizona, Kansas, Montana, and Nevada, and may have had an impact on other states as well.

Changes in Reimbursement Rates

Many states have updated their reimbursement rates since 1995, but not always enough to keep pace with rising market rates. As a result, the proportion of states paying rates that reflect the current cost of care has not moved much since 1995. In 1995, about half of the states for which we have data set their rates at the 75th percentile of an up-to-date market rate (from at least 1993). In 2000, rates were still set at the 75th percentile of the current market rate (from at least 1998) in only a little more than half of the states. Note that the states that set adequate rates in 1995 were not all the same as the states that set adequate rates in 2000, indicating that while some states improved their rates, other states lost ground.

Maximum Reimbursement Rates for a Four-Year-Old in a Licensed, Non-Accredited Center: Comparison of 1995 and 2000 Policies

	1995 State Reimbursement Rates		2000 State Reimbursement Rates	
State	**Did the state set its maximum reimbursement rate at least at the 75th percentile of the current market rate?**	**Relationship of state's maximum reimbursement rate to the 75th percentile of the market rate**	**Does the state set its maximum reimbursement rate at least at the 75th percentile of the current market rate?**	**Relationship of state's maximum reimbursement rate to the 75th percentile of the market rate**
Alabama	Yes	75th percentile of 1993 rates	Yes	75th percentile of 1999 rates
Alaska	Yes	75th percentile of 1994 rates	Yes	75th percentile of 1998 rates
Arizona	No	75th percentile of 1990 rates	No	75th percentile of 1996 rates ($113 per month below the 75th percentile of 1998 rates)
Arkansas	Yes	75th percentile of 1994 rates	Yes	75th percentile of 1998 rates
California	Yes	1.5 standard deviations above the mean local market rate for CCDBG and the 75th percentile for At-Risk child care	Yes	1.5 standard deviations above the mean of 1999 market rates for the region
Colorado	Varied by county	State implemented a statewide limit but allowed the use of the 75th percentile to set rates in counties with rates above the statewide limit at the time of implementation	Varies by county (at least some counties set rates below the 75th percentile of the current market rate)	Varies by county
Connecticut*	No	75th percentile of 1991 rates	No	75th percentile of 1991 rates
Delaware	No	Statewide limit set below the 75th percentile of the market rate (did not indicate year of rates)	No	$124 per month below the 75th percentile of 1998 rates
Florida	Yes	75th percentile of 1994 rates	Yes	75th percentile of 1999 rates
Georgia	Cannot be determined from data available	Statewide limit set at a rate equal to the 75th percentile of the market rate (did not indicate year of rates)	No	$126 per month below the 75th percentile of 1998 rates
Hawaii	No	75th percentile of 1992 rates	No	$41 per month below the 75th percentile of 1999 rates
Idaho	Yes	75th percentile of 1993 rates	Yes	75th percentile of 1998 rates
Illinois	Cannot be determined from data available	Rate set using a combination of market rate survey data and audited costs of existing subsidized programs	No	$109 per month below the 75th percentile of 1998 rates
Indiana	Yes	75th percentile of 1994 rates	Yes	75th percentile of 1998 rates
Iowa	No	75th percentile of 1991 rates	Yes	75th percentile of 1998 rates

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Maximum Reimbursement Rates for a Four-Year-Old in a Licensed, Non-Accredited Center: Comparison of 1995 and 2000 Policies (continued)

	1995 State Reimbursement Rates		2000 State Reimbursement Rates	
State	**Did the state set its maximum reimbursement rate at least at the 75th percentile of the current market rate?**	**Relationship of state's maximum reimbursement rate to the 75th percentile of the market rate**	**Does the state set its maximum reimbursement rate at least at the 75th percentile of the current market rate?**	**Relationship of state's maximum reimbursement rate to the 75th percentile of the market rate**
Kansas	No	65th percentile of 1993 rates for children over 18 months; 60th percentile for children under 18 months	No	65th percentile of 1998 rates for children over 18 months of age (the 65th percentile is $29 per month below the 75th percentile of 1998 rates); 70th percentile for children under 18 months of age
Kentucky	No	75th percentile of 1992 rates	Yes	75th percentile of 1998 rates
Louisiana	No	75th percentile of 1991 rates	Yes	75th percentile of 1999 infant care rates (the infant care rate exceeds the 75th percentile of rates for four-year-olds by $22 per month)
Maine	Yes	75th percentile of 1994 rates	Yes	75th percentile of 2000 rates
Maryland	No	Statewide limit set below the 75th percentile of the market rate (did not indicate year of rates)	Yes	75th percentile of 1999 rates (weighted average by region)
Massachusetts	No	Negotiated rates lower than the 75th percentile of 1990 rates	No	$172 per month below the 75th percentile of 2000 rates
Michigan	Yes	75th percentile of 1993 rates	No	$58 per month below the 75th percentile of 1999 rates
Minnesota	Yes	75th percentile of 1994 rates	Yes	75th percentile of 1999 rates
Mississippi	Yes	75th percentile of 1994 rates	Yes	75th percentile of 1999 rates
Missouri	No	75th percentile of 1990 rates	No	$167 per month below the 75th percentile of 1996 rates
Montana	Yes	75th percentile of 1994 rates	Yes	75th percentile of 1998 rates
Nebraska	No	75th percentile of 1991 rates	No	75th percentile of 1997 rates
Nevada	Cannot be determined from data available	75th percentile of the market rate (did not indicate year of rates)	Yes	75th percentile of 1998 rates

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Maximum Reimbursement Rates for a Four-Year-Old in a Licensed, Non-Accredited Center: Comparison of 1995 and 2000 Policies (continued)

	1995 State Reimbursement Rates		2000 State Reimbursement Rates	
State	**Did the state set its maximum reimbursement rate at least at the 75th percentile of the current market rate?**	**Relationship of state's maximum reimbursement rate to the 75th percentile of the market rate**	**Does the state set its maximum reimbursement rate at least at the 75th percentile of the current market rate?**	**Relationship of state's maximum reimbursement rate to the 75th percentile of the market rate**
New Hampshire**	Cannot be determined from data available	Approximately at the 75th percentile of the market rate (did not indicate year of rates)	No	$44 per month below the 75th percentile of 1994 rates for non-contracted care; equal to the 75th percentile of 1994 rates for contracted care
New Jersey	No	Statewide limit set below the 75th percentile of 1992 rates	No	$105 per month below the 75th percentile of 1997 rates
New Mexico***	No	75th percentile of 1991 rates	No	Mean of 1999 rates (equal to $91 per month below the 75th percentile of 1999 rates) (Level 1 centers)
New York	Yes	75th percentile of 1995 rates	Yes	75th percentile of 1999 rates
North Carolina***	Yes	75th percentile of 1994 rates used for category B providers, and higher rates allowed for category A providers	No	75th percentile of 1997 rates (one-star centers)
North Dakota	No	75th percentile of 1991 rates	Yes	75th percentile of 1999 rates
Ohio	Cannot be determined from data available	75th percentile of the market rate (did not indicate year of rates)	Yes	75th percentile of 1998 rates
Oklahoma***	No	Statewide limit set below the 75th percentile of 1994 rates	No	$143 per month below the 75th percentile of 1999 rates (one-star centers)
Oregon	No	75th percentile of 1990 rates	No	$67 per month below the 75th percentile of 1999 rates
Pennsylvania	Yes	75th percentile of 1994 rates	Yes	75th percentile of 1998 rates
Rhode Island	No	Statewide limit set below the 75th percentile of the market rate (did not indicate year of rates)	Yes	75th percentile of 1998 rates
South Carolina***	Yes	75th percentile of 1993 rates, at a minimum	Yes	75th percentile of 1998 rates
South Dakota	Yes	75th percentile of 1994 rates	Yes	75th percentile of 1999 rates
Tennessee	No	75th percentile of 1992 rates	No	$13 per month below the 75th percentile of 1998 rates

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Maximum Reimbursement Rates for a Four-Year-Old in a Licensed, Non-Accredited Center: Comparison of 1995 and 2000 Policies (continued)

	1995 State Reimbursement Rates		2000 State Reimbursement Rates	
State	**Did the state set its maximum reimbursement rate at least at the 75th percentile of the current market rate?**	**Relationship of state's maximum reimbursement rate to the 75th percentile of the market rate**	**Does the state set its maximum reimbursement rate at least at the 75th percentile of the current market rate?**	**Relationship of state's maximum reimbursement rate to the 75th percentile of the market rate**
Texas	Cannot be determined from data available	75th percentile of the market rate (did not indicate year of rates)	Yes	75th percentile of 1999 rates
Utah	Yes	Statewide limit set above the 75th percentile of the market rate	Yes	75th percentile of 1998 rates
Vermont	No	Statewide limit set below the 75th percentile of the market rate (did not indicate year of rates)	No	$153 per month below the 75th percentile of 2000 rates
Virginia	Yes	75th percentile of 1993 rates	No	75th percentile of 1997 rates
Washington	No	75th percentile of 1992 rates	No	$6 per month below the 75th percentile of 1998 rates
West Virginia	No	Statewide limit set below the 75th percentile of the market rate (did not indicate year of rates)	Yes	75th percentile of 1999 rates
Wisconsin	Yes	75th percentile of 1994 rates	Yes	75th percentile of 1999 rates
Wyoming	Yes	75th percentile of 1993 rates	Yes	75th percentile of 1999 rates

Monthly rates were calculated from hourly, daily, and weekly rates reported by the states assuming that children were in care 9 hours a day, 5 days a week, 4.33 weeks a month.

*For Connecticut, the 2000 state reimbursement rate considered here is the rate that applies to low-income and transitioning families only. The maximum reimbursement rate for TANF families is lower.

**For New Hampshire, the 2000 state reimbursement rate considered here is the rate that applies to TANF families only. The maximum reimbursement rate for non-TANF families is lower.

***New Mexico, North Carolina, Oklahoma, and South Carolina have multiple-tiered rating systems that are tied to tiered reimbursement levels. Programs with higher quality rankings receive progressively higher rates. The 2000 rates considered here for these states are the rates for centers meeting basic licensing criteria.

States appear to have made notable progress in one area: differential rates. Before the welfare act, very few states offered differential rates for care that was more costly to provide or in short supply. Since that time, many have established higher rates for high quality, odd-hour, and other types of care.

- Only six states reported having differential rates for higher quality care in 1995, compared with 22 in the more recent survey.
- The number of states reporting differential rates for odd-hour care increased from just one in 1995 to 13 in 2000.

It is encouraging that these innovative policies to stimulate the supply of higher quality care and care that meets parents' specialized needs are becoming more widespread. However, most of these efforts only adjust rates at the margins and are not sufficient to ensure the adequacy of rates across the board.

Further progress is clearly needed to address the persistent shortcomings of state child care assistance policies. Policies should be improved to ensure that states reach all of the families who need help paying for care and that the level of help is sufficient to enable families to use quality child care. Consistently good policies should be applied across all groups of families so that families transitioning from one category to another do not have to struggle to learn new rules or adapt to less generous policies. This will require not only thoughtful policy choices at the federal, state, and local levels, but also additional federal and state funding to support these policies.

About This Report

This report contains data on state policies as of March 15, 2000. The information was collected through surveys of state child care administrators from all 50 states and the District of Columbia.[15] The administrators were asked to complete a written survey. Once we received each administrator's survey and reviewed it, we interviewed the administrator by telephone for further clarification and details of their policies. The administrators were also given an opportunity to review a draft of the report so they could verify the data.

The report provides only a sample of the myriad of policies that determine who receives child care assistance and the extent of assistance they can obtain. In addition, several policies are compared across states by using a few selected hypothetical scenarios. These scenarios were intended to be representative of the broader policies, but an examination of policies in other situations might yield different results for particular states. Also note that this report generally only indicates what states policies are, not how they are implemented. The way in which a policy is implemented can differ significantly from the way the state intended and can vary widely from community to community within a state.

Another difficulty in examining state policies is that the policies are constantly shifting and changing. While states were asked to report their policies as of a particular date (March 15, 2000) so that comparisons could be made across states, there have already been numerous changes—both positive and negative—since then. Our annual report, *State Developments in Child Care, Early Education, and School-Age Care*, tracks these changes and can be used to supplement the data in this report.

[15] For the purposes of this report, the District of Columbia is referred to as a state.

A Blueprint for Strong Child Care Assistance Policies

Strong state child care assistance policies enable all families who need help affording care to receive it and have access to quality care. Such policies are only possible with increased investments in child care. Although state funding levels are not covered in this report (data will be provided in a separate report), funding is the underlying issue that affects nearly all other state decisions about their child care assistance programs. The amount of funding determines how many families can be served, whether they can easily maintain eligibility for help, and the quality of care children receive.

Eligibility Policies

Eligibility policies should be set so that all families who need it can qualify for child care assistance. States should be encouraged to:

- Guarantee that both welfare families *and* low-income working families who are not on welfare are eligible for, and receive, child care help.
- Set their income eligibility cutoffs at the maximum level allowed under federal law, 85 percent of state median income.
- Provide child care assistance to all children and families who may need it, including children with disabilities or other special needs, children in protective services or foster care, parents searching for a job, parents participating in education or training, and teen parents and their children.

Policies on Applying for Assistance

The process of applying for child care assistance should ensure the parents have easy access to the help that they need. States should:

- Design the simplest system possible that allows families to move from welfare to job training or education to job search to work without having to reapply for child care assistance.
- Simplify the application form for child care assistance as well as other benefits and make sure it is available in languages used in each community.
- Make application forms available throughout the community and allow families to apply through mail and other methods that are convenient for them.
- Support an adequate number of staff to handle families' applications for assistance promptly.
- Ensure that staff are adequately trained to help families understand the application process and their child care options; staff or interpreters should be available to communicate in languages used by families in the community.
- Consider using resource and referral agencies or other community organizations to administer child care assistance programs.
- Allow families to continue receiving assistance for a full year before requiring recertification, regardless of changes in income or other circumstances, and to be recertified through a simple mail-in application.
- Provide families with a grace period after the deadline for recertification so that they can continue receiving assistance even if there are delays in the reapplication process.

Parent Co-payment Policies

Parent co-payment policies should enable parents receiving child care assistance to afford and choose good care. In particular, states should:

- Keep co-payments low for very poor families. Low-income families should not be expected to pay a higher percentage of their income than the national average—7 percent[16]—and families at or below the poverty line should not be required to pay any fee.
- Avoid basing co-payments on the cost of care, which pressures parents to use the cheapest care possible as they struggle with other financial responsibilities.
- Charge reduced fees for additional children if a family has more than one child in care.
- Gradually phase in any fee increases, rather than changing them abruptly as a family's income rises.

Reimbursement Rates and Policies

Reimbursement policies should encourage providers to accept children receiving subsidies and enable them to support good quality care. This allows parents to have a choice of providers that meets their individualized needs and supports their children's successful development. States should:

- Set reimbursement rates at the 100th percentile of the current market rate to allow families full access to the providers in their community.
- Maintain separate rates for different types of care, care for children of different ages, and care in different areas or communities to reflect variations in the cost of care.
- Set higher rates for child care programs that provide higher quality care or enriched services, or (for example) meet the accreditation standards of the National Association for the Education of Young Children (NAEYC).
- Pay higher rates for care that is hard to find or more costly to provide, such as care during odd hours (weekends or nights) or special needs care, to encourage more providers to offer this care.
- Pay higher rates to programs serving large numbers of low-income children, to ensure that the programs have an economic base that allows them to remain viable.
- Pay rates that are higher than the market rate in low-income neighborhoods and rural areas where rates are depressed. In these neighborhoods, providers cannot charge higher rates because private-paying parents could not afford them. Yet this keeps providers' rates far below the level needed to support quality care.
- Pay for child care during days when children are absent so providers do not lose expected income and can afford to serve low-income children.
- Establish rates for part-time care that provide sufficient incentive for providers to accept children on a part-time basis. Providers often charge more for such care, rather than simply pro-rating the time, and states should recognize this market reality.
- Pay providers in advance, rather than on a reimbursement basis, so that they have resources available upfront to support their services.
- Offer certificates to ensure parent choice as well as contracts that enable providers to have a reliable source of income.

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[16] Kristin Smith, *Who's Minding the Kids? Child Care Arrangements: Fall 1995 (Current Population Reports P70-70)* (Washington, D.C.: U.S. Census Bureau, 2000).