THE WHITE HOUSE

WASHINGTON

December 11, 1997

MEMORANDUM FOR THE PRESIDENT

FROM: BRUCE REED

SUBJECT: Child Care Initiative

As you recall, you announced at the White House Conference on Child Care that you would unveil a child care initiative in your State of the Union Address and FY 1999 budget proposal. The Conference made clear that child care is one of the most pressing issues facing America's working families today. It focused particular attention on the problems families face with the cost of child care, the quality of care (especially for infants and toddlers), and the availability of care (especially for school-age children). The recommendations presented in this memorandum address these concerns.

This memorandum outlines a recommended package of proposals and reflects a policy development process led by the Domestic Policy Council with significant input from the First Lady and her staff, NEC, OMB, OVP, CEA, IGA, and various federal agencies, including the Departments of HHS, Treasury, and Education. Many of your advisors see your child care proposal as the next significant initiative in your on-going commitment to working families. As you know, the First Lady has been particularly supportive of strong investment in this area.

The memorandum outlines both tax and general revenue expenditure options. On the tax side, we recommend an increase in the Child and Dependent Tax Credit, which assists low- and middle-income working families with child care costs. On the spending side, we recommend a package centered around: a significant investment in direct child care subsidies, which help low-income working families afford child care; a series of targeted investments to promote early learning opportunities and improve the safety and quality of child care; and an expansion of good after-school programs.

OVERVIEW OF PROPOSALS

Tax Relief for American Families. Modify the Child and Dependent Care Tax Credit (CDCTC) to assist low- and middle-income Americans with child care costs.

Tax Credits for Businesses. Provide a tax credit to businesses that incur costs related to building or operating child care facilities, training child care workers, or providing resource and referral services to employees (some version of Senator Kohl's proposal).

Subsidies for Low-Income Families. Increase federal investment in the Child Care and Development Block Grant (CCDBG) to enable states to provide child care subsidies to additional low-income working families with children under 13.

Standards Enforcement. Establish a new fund for states to improve licensing of providers and enforcement of state health and safety standards.

Early Learning Fund. Establish a new fund -- structured as challenge grants to communities -- to promote early learning, child care quality, and parent involvement and education.

Early Head Start. Increase the Early Head Start set-aside and raise overall funding in Head Start.

Scholarships and Training for Child Care Providers. Establish a Child Care Provider Scholarship Fund to provide scholarships to students working toward a child care credential, and expand the Department of Labor's Child Care Apprenticeship Program to fund training of child care providers.

Research and Evaluation. Establish a new fund to support research and demonstration projects, data collection, technology development, a National Center on Child Care Statistics, and a national child care hotline for parents.

School-Age Opportunities. Expand the Department of Education's 21st Century Community Learning Center Program to provide start-up funds to school-community partnerships to establish or expand before- and after-school programs for school-age children in public schools.

Stay-at-Home Parents. Consider expanding the reach of the Family and Medical Leave Act and establishing a small evaluation or demonstration fund to support states wishing to test innovative approaches in this area.

PROPOSAL	DPC RECOMMENDED FUNDING LEVEL OVER FIVE YEARS
Child and Dependent Tax Credit Reform	$5.2 billion
Tax Credit for Businesses	$1 - $2 billion
Subsidies for Low-Income Families Through Block Grant	$4 billion
Standards Enforcement Fund	$500 million
Early Learning Fund	Approx. $2 billion
Early Head Start	$500 million
Child Care Provider Scholarship Fund	$250 million
Child Care Apprenticeship Training Program	$10 million (for FY 1999)
Research and Evaluation Fund	$150 million
21st Century Learning Center program	$500 million to $1 billion

TOTAL TAX: $6.2 to $7.2 billion over five years

TOTAL SPENDING: Approx. $8 billion over five years

BACKGROUND ON FEDERAL CHILD CARE INVESTMENTS

The federal government invests in child care in a variety of ways. The two principal mechanisms designed to help parents pay for child care are the Child and Dependent Care Tax Credit (CDCTC) and the Child Care and Development Block Grant (CCDBG).

Child and Dependent Care Tax Credit. The CDCTC provides tax relief to taxpayers who pay for the care of a child under 13 or a disabled dependent or spouse in order to work. The non-refundable credit is equal to a percentage of the taxpayer's employment-related expenditures for child or dependent care, with the amount of the credit rate depending on the taxpayer's adjusted gross income (AGI). Currently, the credit rate is phased down from 30 percent (for taxpayers with AGI of $10,000 or less) to 20 percent (for taxpayers with AGI above $28,000). The maximum amounts of qualifying expenses for which credits may be claimed are $2,400 for one qualifying individual and $4,800 for two or more qualifying individuals. Thus, the maximum credit ranges from $480 to $720 for a taxpayer with one qualifying individual and $960 to $1,440 for a taxpayer with two or more qualifying individuals.

Child Care and Development Block Grant. The CCDBG is the primary federal subsidy program devoted to child care, enabling low-income parents and parents receiving Temporary Assistance for Needy Families (TANF) to work or participate in the educational or training programs they need in order to work. Because of your efforts, welfare reform increased federal funding for child care by approximately $4 billion over five years (FY 1997 - FY 2002), and it consolidated four child care subsidy programs into the CCDBG. The funds are distributed primarily by formula to the states, which provide matching funds to operate direct child care subsidy programs and improve the quality and availability of care. By law, states may serve families below 85 percent of state median income, and must spend 4 percent of their funds on efforts to improve child care quality.

	CCDBG	**CDCTC**
Current federal funding level	$2.9 billion (FY 1997)	$2.5 billion (FY 1998)
Eligibility criteria	Families (TANF and non-TANF) with children under 13 who need child care and earn less than 85 percent of state median income	Taxpayers who pay for at least 50 percent of the care of a child under 13 and/or a disabled dependent or spouse in order to work
Percent of overall dollars in program going to families with AGI below 200 percent of poverty	**Approximately 96 percent**	**19 percent**
Percent of families with AGI below 200 percent of poverty and children under 13 who receive assistance under program	12 percent (of potentially eligible families)	13 percent
Amount of assistance	**$3,200 (average, annual subsidy per-child in FY 1995)***	**$419 (average tax relief per family with AGI below 200 % of poverty)***

*Average annual child care costs in 1995 range from $4,000 - $10,000 for full-time care for one child.

OPTIONS FOR CHILD CARE INITIATIVE

I. TAX SYSTEM. Options for investing in child care through the tax system include:

A. ***Child and Dependent Care Tax Credit***. Modify the Child and Dependent Care Tax Credit (CDCTC) by raising the top rate and moving the phase-out range. Presently, the CDCTC phases down from a high of 30 percent at $10,000 or less of income to 20 percent at more than $28,000 of income (a phase-out rate of one percentage point per $2,000 of income). The recommended option would raise the top rate from 30 percent to 50 percent and move the phase-out range from $10,000-$28,000 to $30,000-$59,000, indexed for inflation thereafter. Under this option, the credit would phase out at a rate of one percentage point per $1,000 of income, from a high of 50 percent at $30,000 or less of income to 20 percent at more than $59,000. The Department of the Treasury estimates that this option would affect 3 million taxpayers (all with adjusted gross incomes below $59,000), providing an average tax cut of $358 and eliminating tax liability for most families with incomes below 200 percent of poverty and maximum allowable child care expenses. This option would cost $5.2 billion over five years; less expensive options, using different rates and phase-out ranges, are also possible.

The chart below describes the effect of modifying the CDCTC as described above on various hypothetical American families:

Hypothetical Family Experiences	Post-Credit Income Tax Liability Under Current Law	Post-Credit Income Tax Liability Under the Proposal	Change in Tax Liability from Current Law
Single head of household with a child under 13, whose income is $20,000 and has $1,900 of child care expenses	-$927	-$1,152	-$225
Single head of household with a child under 13, whose income is $25,000 and has $2,500 of child care expenses	$569	-$103	-$672
Married couple with two children under 13, whose income is $35,000 and have $4,050 of child care expenses	$665	0	-$665
Married couple with two children under 13, whose income is $50,000 and have $4,050 of child care expenses	$2,915	$2,510	-$405

[Treasury Department Analysis; shown in 1999 dollars]

Pros:

- The CDCTC has not been adjusted for inflation since 1982. (Adjusting for inflation would move the phase-out from the current $10,000 - $28,000 to $18,000 - $45,000 -- less than $30,000 to $59,000 described in the option.
- The CDCTC assists parents with a range of income levels at low administrative costs.

Cons:

- The CDCTC is not well targeted to those with low incomes.
  - -- Under current law, about 1 percent of the CDCTC is received by families with incomes in the bottom quintile. About 32 percent of the credit is received by families with incomes in the top quintile.
  - -- Taxpayers who also claim the $500 child credit will not benefit from an increase in the CDCTC unless their income is more than 130 to 160 percent of poverty, depending on such variables as number of children and level of child care expenses.
- The IRS cannot easily verify child care expenditures. In 1988, about one-third of the CDCTC amounts claimed were false or overstated. Compliance efforts since 1988 may have reduced this error rate somewhat, but the IRS continues to have difficulty verifying expenses.

Recommendation

This option will directly assist middle-class families with child care costs: over 3 million families, all with incomes below $59,000, will benefit. The Treasury Department and OMB think that if you decide to propose a tax bill this year, this expansion of the CDCTC should be part of that package. The NEC supports this option. **The DPC recommends that you propose these adjustments to the CDCTC, at a cost of $5.2 billion over five years.**

B. ***Tax Credits to Corporate Sector***. Provide a tax credit to businesses that incur costs related to providing child care services to their employees. Qualifying expenses could include those a business incurs to build or expand a child care facility, operate an existing facility, train child care workers, reserve slots at a child care facility for employees, or provide child care resource and referral services to employees. In legislation proposed by Senator Kohl, the credit covers 50 percent of qualified costs incurred, but cannot exceed $150,000 per year. Kohl's proposal, which is sunsetted after two years, is estimated by the Joint Committee on Taxation to cost $2.6 billion over five years. The Treasury Department is working to adjust this option to limit inefficient subsidies; Treasury predicts that the resulting proposal will be less costly.

Pros:

- The proposal could increase the availability of child care services by giving businesses an incentive to provide those services to employees.

- The proposal addresses concerns about the quality of child care by providing the credit only for expenses incurred in licensed child care facilities.

Cons:

- This credit is costly relative to the number of additional child care slots created.
- This proposal may give businesses a tax credit for expenses they would have otherwise incurred -- and deducted or depreciated -- in the absence of the credit. (The Treasury Department is working to adjust the option to limit substitution.)
- This proposed credit is likely to disproportionately benefit middle- and higher- wage workers.
- A tax credit for employers will not benefit the nearly 30 percent of the labor force whose employers are non-taxable (*e.g.*, governments and non-profit organizations).

Recommendation

Secretary Rubin has met with Senator Kohl and recommends that you seriously consider including this option in any tax bill you propose this year if Treasury can adjust it to limit subsidization of existing activity. The rest of your advisors generally agree (with NEC most stressing the need for safeguards against inefficient subsidization), though all think that adjustment of the Child and Dependent Care Tax Credit should be a higher priority because that credit better helps low- and middle-income families afford child care. **The DPC recommends that you support a new tax credit to businesses with effective safeguards against subsidizing existing activity, in the range of $1 to $2 billion over five years.**

II. CHILD CARE AND DEVELOPMENT BLOCK GRANT. Increase federal investment in the Child Care and Development Block Grant (CCDBG) to enable states to provide child care subsidies to additional low-income working families with children under age 13. According to HHS estimates, for every $100 million of annual additional federal investment in CCDBG matching funds, at least 35,000 more children from families with incomes below 200 percent of poverty will receive subsidized child care.

Pros:

- CCDBG provides significant relief to low-income working families for child care costs. Annual subsidies averaged nearly $3,300 in FY 1995. Average annual child care costs range from $4,000 - $10,000 for full-time care for one child.
- States currently target their CCDBG dollars to the lowest-income working families who are making the transition from welfare to work; additional resources will enable states to reach working families with slightly higher incomes.

-- Early data from HHS demonstrate that states have obligated nearly all of their FY 1997

CCDBG dollars. Although states are allowed to subsidize child care costs for families below 85 percent of state median income (roughly 200 percent of the federal poverty level), the majority of states serve only families with incomes below 130 percent of poverty.

- Increasing federal investment in the block grant leaves states with flexibility to use the funds for the particular child care needs of their low-income populations.

- Governors strongly favor this option.

Cons:

- The federal government has little control over a state's use of this money, including the state's decision about which families to cover (assuming the families are below the statutory limit of 85 percent of state median income).

Recommendation

Many of your advisors -- Secretary Shalala, the Treasury Department, DPC, and CEA in particular -- believe that making child care affordable for low-income working families should be the highest priority of any child care initiative -- and that subsidies are the most effective mechanism to accomplish this goal. They note that subsidies from the block grant provide a generous amount of assistance and go to the lowest-income families. During the policy development process, your advisors considered whether to condition increases in the block grant on quality improvements. Most of your advisors, however, came to the conclusion that doing so would provoke broad bipartisan opposition among Governors and Members of Congress. The DPC will continue to explore whether there are feasible ways of using new investment in the block grant to encourage quality improvements. **The DPC recommends that you propose an increase in federal investment in the CCDBG of $4 billion over five years, which will provide subsidies for approximately 280,000 additional children of low-income families.**

III. QUALITY/EARLY LEARNING. Options for increasing federal investment in child care quality and early learning include:

A. ***Standards Enforcement***. Establish a fund for states to improve licensing systems and enforce state child care health and safety standards. Activities supported would include providing additional staff and resources to license child care settings and increasing unannounced inspections of child care centers and family day care homes.

Pros:

- Child care experts report that almost all states under-enforce child care standards.

- Research and experience in the military child care program indicate that diligent enforcement of standards -- particularly frequent unannounced inspections -- improves quality dramatically.

Cons:

- In some states, funding will go to enforce weak standards.

B. ***Early Childhood Development and Quality***

1. ***Early Learning Fund***. Increase federal investment in activities to improve early childhood education and the quality and safety of child care for young children (ages 0-5). The program would have three goals: (1) to improve early learning and development for our youngest children; (2) to ensure health and safety in child care; and (3) to increase parental involvement. In order to accomplish these goals, funds could be used for the following activities: (1) providing basic training to child care providers (including first aid and CPR, and training in child development); (2) creating and supporting family day care networks (*e.g.*, connecting individual child care providers to centers for education and support); (3) assisting providers in meeting accreditation and licensing requirements; (4) linking child care providers with health professionals; (5) reducing group sizes and child-to-staff ratios; and (6) providing home visits, parent education, and consumer education about child care. This program would provide challenge grants to communities (*e.g.*, counties or local public-private partnerships) to support child care providers and programs. It is similar to North Carolina's Smart Start program and Senator Kerry's current legislative proposal.

Pros:

- The fund targets infants and toddlers, whose health and safety are most at risk in child care today.

- The Administration has made a strong commitment to promoting early childhood development and learning, which help ensure school-readiness.

Cons:

- With limited resources, additional investments in quality may take money from investments to make child care more affordable.

- Existing programs and proposals serve some of the same purposes as the Early Learning Fund.

- It is unclear whether this fund, as presently conceived, has sufficiently clear and measurable goals.

2. ***Early Head Start***. Increase the Early Head Start (children 0-3) set-aside (5 percent under current law), while increasing overall funding in Head Start to ensure that raising the set-aside does not reduce the resources available for children 3-5. One option would be to double the set-aside to enable more than 35,000 additional children to receive Early Head Start services in 2002, at a cost of approximately $500 million over five years.

C. ***Child Care Provider Training***. Increase federal investment in the training of child care providers. Options include:

1. ***Child Care Provider Scholarship Fund***. Establish (as you announced at the White House Conference on Child Care), the Child Care Provider Scholarship Fund to enable states to provide scholarship funds to students working toward a child care credential. Eligible child care workers must commit to remaining in the field for at least one year for each year of assistance received and will earn increased compensation or bonuses when they complete their course work. You announced an investment of $250 million over five years, which will support 50,000 scholarships per year.

2. ***Child Care Apprenticeship Training Program***. Expand the Child Care Apprenticeship Program to fund the training of child care providers working toward a degree equivalent to the Child Development Associate degree, with on-the-job observation and practice. The Department of Labor has asked for a one-time increase of $10 million for FY 1999.

Pros:

- Child care experts agree that well-trained child care providers are critical to child care quality.

- The apprenticeship program has shown positive results. In West Virginia alone, the program led to 800 apprenticeships in the child care field.

Cons:

- The scholarship fund will not guarantee that the recipient will remain in the child care field beyond the one-year commitment. However, results from the North Carolina T.E.A.C.H. program (on which the fund is modeled) indicate that annual staff turnover is only 10 percent for T.E.A.C.H. participants, as compared to 42 percent statewide.

D. ***Research and Evaluation***. Establish a new fund to support data and research, a National Center on Child Care Statistics, and a national child care hotline.

Pros:

- There is very little solid data on many aspects of child care, including quality, affordability, and parental choice. Funds for research and evaluation would be a noncontroversial way of expanding our knowledge on child care.

- No federal funds currently go to child care data and research. Research is needed to assist policy-makers and community leaders to better understand how to build the supply of affordable, quality care.

Cons:

- Research will not directly increase the supply of child care or make it more affordable.

Recommendation
All of your advisors agree with the proposals to establish a Standards Enforcement Fund and a Research and Evaluation Fund. Your advisors also agree on the need to increase federal investment in the training of child care workers (although OMB recommends only a $1 million increase for the DOL apprenticeship program).

Your advisors disagree about the importance of the Early Learning Fund. OMB supports resources for early learning, but not in the format of an Early Learning Fund because it is not targeted to the poor and does not go through existing programs. OMB notes that we already spend over $4 billion on early learning activities in Head Start and $50 to $60 million in America Reads for Parents as First Teachers and HIPPY. OMB believes that these programs, as well as WIC, may be more appropriate vehicles than a new program for conveying information to parents and otherwise promoting early learning and development.

NEC and HHS argue equally strongly in support of the Early Learning Fund -- and of significant investment in this new program. NEC argues that a "signature" initiative focusing on early learning and parents as first teachers builds on your and the First Lady's longstanding commitment (evidenced most recently at the White House Conferences) to foster learning in the earliest years. HHS notes the importance of directing resources to communities to make needed quality improvements for infants and toddlers. HHS has recommended $4 billion over five years for the Early Learning Fund; NEC has recommended $3.6 billion over five years.

Your advisors also disagree about whether you should propose to increase Early Head Start as part of the child care initiative. Many believe that this proposal would comport with your long-standing commitment to early learning for young children. HHS believes, however, that because the Head Start Act is up for reauthorization next year, such a proposal might lead to trade-offs within the Head Start program (*i.e.*, Head Start vs. Early Head Start) and between Head Start and other elements of your child care initiative.

The DPC recommends that you propose the above package of initiatives at a cost of about $3.5 billion over five years, broken down as follows:

Standards Enforcement	**$500 million over five years**
Early Learning Fund	**Approx. $2 billion over five years**
Early Head Start	**$500 million over four years (through FY 2002)**
Child Care Provider Training	
Scholarship Fund	**$250 million over five years**
Apprenticeship Fund	**$10 million for FY 1999**
Research and Evaluation	**$150 million over five years**

IV. SCHOOL-AGE OPPORTUNITIES

A. ***Expansion of the 21st Century Community Learning Center Program***. Increase investment in the 21st Century Community Learning program, which provides start-up funds to school-community partnerships to establish or expand before- and after-school programs for school-age children at public schools. Modify the program to increase community involvement, target higher-need communities, and require an increasing local match to ensure that programs become self-sustaining after receiving start-up funding.

Pros:

- This expansion responds to the tremendous need for after-school programs. Estimates of the number of "latch-key" children who are left unsupervised during non-school hours range from 2 to 15 million. Research shows that children are more likely to engage in at-risk behavior (*e.g.*, crime, drug and alcohol use) during these unsupervised hours.

- The program increases the supply of after-school programs in a cost-effective manner by using underutilized public school buildings and their existing resources, such as computers, gymnasiums, and sports equipment.

- The program responds to demonstrated parental and educator demand for school-based after-school programs. Many parents prefer school-based programs because they do not require transportation from school, are more likely to provide enrichment activities that build on the regular school program, and are overseen by school officials.

- The 21st Century Community Learning Center program has a proven record of support in this Congress; it received $40 million for FY 1998.

Cons:

- It may be difficult to expand a relatively new program rapidly (although creating an altogether new program at this level of funding would be even more difficult).

- Some community organizations may not support a primarily school-based initiative. This program currently funds only activities located in public schools, even though good programs also exist in community centers, museums, and other locations.

B. ***Coordination of Federal Efforts***. Create a multi-agency task force to assist three to five pilot cities, including the District of Columbia, to identify and make the best use of currently available federal resources to provide comprehensive after-school programming. This collaborative federal effort would work to improve access to and efficient use of federal funds, and would provide the targeted communities with information from around the country on promising and effective practices. This initiative is expected to lead to other federal multi-agency collaborative efforts in other areas. (It has no cost for FY 1999.)

Recommendation
The Vice President, the First Lady, and Departments of Justice, HHS, and Education believe that your initiative must make a strong commitment to after-school programming, in part because this issue affects both low- and middle-income families. The Department of Education has recommended investing $1.7 billion over five years in this program -- $200 million in the first year, $300 million in the second year, and $400 million in the last three years to reach up to 1 million children and thereby double the number of children currently served by school-based after-school programs. The Vice President's Office supports this funding level. OMB suggests that a more gradual expansion of this new program would help ensure an effective use of funds. **The DPC recommends that your initiative propose a phased-in expansion of the 21st Century Learning Center program, at a total cost of $500 million - $1 billion over five years.**

V. STAY-AT-HOME PARENTS

A. ***The Family and Medical Leave Act (FMLA)***. FMLA currently covers employees of businesses with 50 or more employees. Options include: (1) expanding coverage to businesses with 25 or more employees, either in one step or incrementally; or (2) extending the leave period from 12 weeks (current law) to 24 weeks for parents with newborns.

Pros:

- Lowering the employee threshold would cover 10 million additional employees, increasing by 15 percent those employees covered by the Act.

- This proposal has no cost to the federal government.

Cons:

- Lowering the threshold will provoke strong business opposition, and increasing the length of leave may do so as well. The numbers of employers covered would double from 330,000 to 690,000.

- Opening the FMLA may trigger further Congressional action on legislation we oppose -- *e.g.*, comp time legislation.

- Because a small percentage of employees take the maximum amount of leave, expanding the length of leave will help relatively few people. Based on 1994 survey data, about 10 to 20 percent of the estimated 8 million who take some leave for any allowable reason in a year take the maximum leave of 12 weeks.

- These options will not help those people who cannot afford to take leave. According to the Commission on Leave, 65 percent of those who would have liked to take leave to care for their newborn, foster, or adopted child could not do so for economic reasons.

B. ***Paid parental leave coverage.*** Provide paid parental leave coverage for a limited amount of time to working parents below a specified income level. For example, a new paid leave plan could provide $200 a week for 6 weeks of paid leave to all new parents who have been in the workforce either part-time or full-time for one year and whose family income is below $50,000, at a cost of $1 billion per year. Leave would be administered through the unemployment insurance system, but would be funded separately by the federal government. Employers not currently covered by FMLA would not be required to allow their employees to take this leave.

Pros:

- Paid leave would allow more parents to spend time with their newborn babies, and many parents are likely to take advantage of this new opportunity.

Cons:

- There are small substitution effects. Two to three percent of all employees receive paid family leave from their employers, though many of these employees would not meet the income threshold for this benefit. In addition, many employees receive paid vacation leave (roughly 90 percent) and paid sick leave (roughly 55 percent), and they do "bundle" these benefits to take leave for the birth of a child.

- Under the program described above, parents who have not been in the workforce would not receive any benefit.

- Businesses may oppose the plan because the cost of hiring and replacing employees will increase as more people take leave.

Recommendation

Some of your advisors, including the First Lady, urged us to consider policies to support new parents who want to stay at home with their newborns. They argued that such policies offer choice to parents and could help inoculate your child care initiative against conservative attack. Most of your advisors concluded, however, that the available policies -- *i.e.*, expanding the FMLA and providing paid leave -- would have limited appeal to conservatives because they primarily help mothers who intend to return to the workforce. Given the expense of paid leave, your advisors also concluded that it is not the best use of limited resources. We are now looking into the possibility of establishing a small evaluation or demonstration fund to support states wishing to test innovative approaches in this area. **The DPC recommends against proposing paid leave at this time. The DPC and NEC will soon submit a separate decision memorandum on FMLA options (which have no budgetary consequences), and the DPC may submit a proposal for an evaluation or demonstration fund to assist stay-at-home parents.**

THE WHITE HOUSE

WASHINGTON

September 15, 1997

MEMORANDUM FOR HILLARY RODHAM CLINTON

CC: BRUCE REED
MELANNE VERVEER
ELENA KAGAN

FROM: JENNIFER KLEIN
NICOLE RABNER

RE: CHILD CARE

As you know, over the past few months, we have been preparing for the upcoming White House Conference on Child Care on two tracks: policy development and conference planning. The purpose of this memorandum and binder is to give you an overview of our progress with the policy planning process and to solicit your advice and ideas. Also included in the binder is information for discussion on the conference format.

We have divided the policy development discussions into three broad categories -- **1) quality, 2) affordability, and 3) school-age care** -- and have led an interagency process of examining current child care policy in each of these areas and exploring ways to improve it. Our goal to date has been to identify the major policy challenges for possible focus, which this memo outlines. It is now time to begin to prioritize among the many options and make strategic decisions about where to recommend investing limited resources. Please note also that we do not anticipate announcing many of these options at the conference itself, as the event will take place ahead of the budget process. However, we do expect to have some important policy announcements ready for the conference, as well as a process in place to further develop others for later announcement (perhaps at the State of the Union).

1. Quality

Issues relating to quality of care are perhaps the most challenging and important that we face. As you know, studies reveal a quality crisis in child care. For instance, one study of child care centers shows that 10% of children in center-based care are in care that is dangerous to their health and safety, 70% are in care that is barely adequate, and only 20% are in high quality care. Infants are at greatest risk, with 40% in care that is dangerous to their health and safety.

While there is clear agreement that high quality care for all children is our goal, there exist underlying concerns about pursuing policy that increases the quality of care, but prices care out of the reach of working parents, as well. For that reason, the discussion of quality and affordability go hand-in-hand.

Our discussion of policy related to quality has several components:

A. Health and safety standards
B. Professional development and screening
C. Quality enhancement

A. HEALTH AND SAFETY STANDARDS

National child care standards are extremely controversial. At the same time, experts, advocates and parents seem to agree that with the clear absence of state leadership in this area, there is a role for the federal government to play. The question with which we are grappling is the nature and extent of that role. Included in this binder is a memo prepared by the Department of Maternal and Child Health at HHS that outlines various policy options and examines the advantages and disadvantages of each.

Perhaps the most promising policy option involves a set of national child care standards recently-released by HHS for states' voluntary use. The standards, called *Stepping Stones* (and included in the binder), is a reader-friendly document extrapolated from the 1992 *National Health and Safety Performance Standards: Guidelines for Out-of-Home* Care, which was developed by the American Public Health Association in cooperation with the American Academy of Pediatrics through a grant support by HHS. We could urge, for example, that states use *Stepping Stones by* offering them incentive grants if they agree to use these guidelines.

In addition to the options outlined in the memo included in the binder, we are examining immediate steps we might be able to take, along the lines of the regulation recently promulgated that requires immunizations in federally-supported child care settings.

B. PROFESSIONAL DEVELOPMENT AND SCREENING

Professional Development

Experts routinely link the quality of any child care setting to the quality of the child care providers themselves. Yet child care providers are among the lowest paid, least trained professionals, and the profession not surprisingly experiences a very high turn-over rate. We are exploring several policy options related to enhancing professional development, some of which are explored in the binder:

- Creating a national child care provider scholarship fund which could be available to states conditioned on their setting standards for child care provider preparation and/or facilitating loan forgiveness or Pell Grant expansion to assist and encourage child care professionals to seek training;

- Linking compensation to training for child care providers by requiring that states set higher reimbursement rates for providers that meet higher training standards, to address high turn-over rates and encourage providers to seek higher education; and

- Establishing a National Child Care Provider Day to stimulate national recognition of the important work of child care providers and to urge talented people to join the profession.

Screening of Child Care Providers

Making sure that child care providers are properly screened for criminal/abuse histories is a compelling issue; it is also one that is wrought with complications of cost, jurisdiction and effectiveness. Today, there exists no national standard for criminal (state/FBI records) and/or civil (child abuse registry) background checks for child care providers. Background checks requirements are made at the state level, and today, while state laws routinely require these checks for people who work in banks, for example, no consistent requirement exists for child care providers. While a few federal laws have been passed to either facilitate or encourage such checks, they have had little impact and substantial obstacles remain:

- No national standards exist for background checks. "Background checks" can mean either a criminal history name check, a fingerprint check, or a civil records check. Moreover, states vary widely on who they check (part-time/full-time employees) and the scope of crimes they are checking;

- There is no single database for background checks. The feds and the states have their own information systems and many criminal justice records remain decentralized at the local level. In addition, these information systems may not collect all of the relevant information relevant for day care workers (e.g., sex offender registry may identify a convicted child molester but not a child abuser); and

- The cost of background checks can be substantial. Fingerprint checks are at least three times as expensive as name checks, but are more reliable. Concerns were raised about passing these costs along to the customers, many of whom may already find child care costs prohibitive. Moreover, child care facilities have a high rate of employee turn over.

Since the Supreme Court's decision the Brady Law, there is a heightened sensitivity to imposing mandates on states in this area, particularly without providing additional funding. Our discussion on moving forward was focused on an Interstate Compact bill which the Justice Department is preparing the send to the Hill this month. Under the Compact -- which must first be passed by Congress and then by individual states -- the FBI would maintain an index of all of the state-maintained criminal history records and the ground rules for states to share their information. The Compact would be a solid first step to expand the availability of criminal history records for "non-criminal justice purposes." The downside is that each state needs to ratify the compact if they want to participate-- which could take a long time.

C. QUALITY ENHANCEMENT

Included in the binder is a memo prepared by HHS that outlines policy options specific to the question of child care quality enhancement. A range of ideas are discussed, including:

- Creating a quality incentive fund that would be available to states for quality improvements in a number of areas, such as promoting accreditation, providing consumer education, providing professional training, meeting standards, etc.;

- Establishing a family child care network support fund that would be available to states to establish and support family child care networks. Family child care settings are particularly vulnerable to poor quality, because of their isolation from any support networks; and

- Creating a national public awareness campaign, stimulating technology and establishing a research fund designed to improve consumer awareness and care.

2. Affordability

The federal government has two mechanisms for helping working parents afford child care -- the tax system, through the Dependent Care Tax Credit (DCTC) and the block-grant subsidy system, through the Child Care and Development Block Grant (CCDBG). We are exploring ways to expand and improve each to reach more working parents. Included in the binder are memos that examine the two systems and outline possible approaches to reform. We are waiting for HHS and the Department of Treasury to complete its analysis of how these two systems interact -- what income levels are being adequately covered and who is being left out -- before we devise specific recommendations in this area. To date, the most promising policy proposals are:

- Reforming DCTC to adjust the income slide parameters for eligibility and increasing the amount of qualifying expenses (neither has not been adjusted for inflation since 1982); and

- Increasing subsidy dollars to states to reach more people, possibly conditioned on certain quality-related initiatives undertaken by the states.

3. School Age Care

In our many focus groups with experts and advocates on child care, one message was very clear -- the need for after-school programs is extreme and the evidence has never been more clear that these programs are good investments, in terms of education enhancement, crime reduction and teen pregnancy prevention. The Department of Education is in the process of completing its proposal for an ambitious expansion of federal support for after-school programs. Included in this binder is a overview of current federal programs in this area and some of the compelling supporting evidence.

NR

November 18, 1997

MEMORANDUM FOR DISTRIBUTION

FROM: ELENA KAGAN
DEPUTY ASSISTANT TO THE PRESIDENT
FOR DOMESTIC POLICY

RE: DEPUTIES MEETING ON CHILD CARE INITIATIVE

As you know, the President announced that he will unveil a child care initiative in his 1998 State of the Union Address. The Domestic Policy Council has been leading a policy development process, with significant input from various federal agencies and White House offices, to develop policy options on child care for the President's consideration.

The purpose of today's Deputies-level meeting is to discuss various policy options for the child care initiative that have been developed over the past months. At the meeting, representatives from the Departments of the Treasury, Health and Human Services, and Education will make brief presentations of several proposals, with the balance of the meeting reserved for discussion.

Attached for your review please find several documents: 1) an overview paper which outlines current federal investment in child care, proposes goals for a new child care initiative, and summarizes the policy options for discussion at the Deputies meeting, and 2) the policy proposals developed by various agencies (which are summarized in the overview paper).

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CHILD CARE INITIATIVE

Overview of Current Federal Investment in Child Care

The Federal government invests in child care in a variety of ways. The two principal mechanisms designed to help parents pay for child care are the Child and Dependent Care Tax Credit (CDCTC) and the Child Care and Development Block Grant (CCDBG):

- **Child and Dependent Care Tax Credit (CDCTC).** The CDCTC provides tax relief to taxpayers who pay for the care of a child under 13 or a disabled dependent or spouse in order to work. The non-refundable credit is equal to a percentage of the taxpayer's employment-related expenditures for child or dependent care, with the amount of the credit rate depending on the taxpayer's adjusted gross income. The Federal government spent approximately $2.6 billion on the CDCTC in 1997.

- **Child Care and Development Block Grant (CCDBG).** The CCDBG is the primary Federal subsidy program devoted to child care, enabling low-income parents and parents receiving Temporary Assistance for Needy Families (TANF) to work or participate in the educational or training programs they need in order to work. Welfare reform increased federal funding for child care by approximately $4 billion over five years (FY 1997 - FY 2002), and it consolidated four child care subsidy programs into the CCDBG. The funds are distributed primarily by formula to the States to operate direct child care subsidy programs and improve the quality and availability of care. The Federal government spent $2.9 billion in direct child care subsidies in FY 1997, serving a little more than one million children.

In addition, the $500 per-child tax credit in the Balanced Budget Act can provide significant additional support to help parents meet child care costs.

In addition to these programs, the federal government runs a food program for child and adult day care centers through the USDA and invests in after-school programs for school-age children. The Child and Adult Care Food Program (CACFP) provided meals to approximately 2.5 million children in approximately 35,000 child care centers (including after-school centers) in 1997. The General Accounting Office identified the CACFP as one of the most effective vehicles for reaching family child care providers and enhancing care in home-based settings. After-school programs are supported through a variety of initiatives, including the Department of Education's 21st Century Learning Centers, funded at $40 million for FY 1998, which will provide after-school program opportunities in public schools for a million children.

Goals of New Child Care Initiative

The goals for the Child Care Initiative will drive decisions on how to invest limited additional resources. Agency representatives generally have argued for a child care initiative addressing each of the following goals:

1. Helping more parents afford child care
2. Assuring safety and quality in child care
3. Making child care more available

These goals and their prioritization of course remain open for discussion and debate. A child care initiative could decide to focus on one or two of these goals, rather than all three.

Policy Options

The remainder of this memo outlines policy options relating to the goals of affordability, safety and quality, and availability. Some of the options address more than one of these goals, but are placed in a single category for organizational purposes.

I. AFFORDABILITY

In order to help more parents afford child care, the Administration could: 1) expand the Child Care and Development Block Grant and/or 2) modify the Child and Dependent Care Tax Credit. The pros and cons of building on one or both of these mechanisms are discussed in the attached papers prepared by the Departments of the Treasury and HHS. Information on the way the two mechanisms assist low-income families appears below, followed by policy options relating to each.

	CCDBG	**CDCTC**
Current Federal funding level	$2.9 billion (FY 1997)	$2.6 billion (FY 1998)
Eligibility criteria	Families (TANF and non-TANF) with children under 13 who need child care and earn less than 85% of state median income	Taxpayers who pay for at least 50% of the care of a child under 13 and/or a disabled dependent or spouse in order to work.
% of overall dollars in program going to families with AGI below 200% of poverty	100%	19%

(A -)

	CCDBG	CDCTC
% of families with AGI below 200% of poverty and children under 13 who receive assistance under program	12% (of potentially eligible families)	13%
Amount of federal assistance	$2,200 (average, annual federal subsidy per-child)	19 $494 (average tax relief per family with AGI below 200% of poverty)

1. Increase Federal Investment in the Child Care and Development Block Grant

There are three options for additional investment in the Child Care and Development Block Grant:

OPTION ONE: Increasing CCDBG funding based on current formula. : lower # ?

OPTION TWO: Increasing CCDBG funding and working with states to set specified benchmarks or performance standards for use of additional funding (e.g. to expand eligibility, make co-payments more affordable, improve reimbursement rates). leg change req.

OPTION THREE: Increasing CCDBG funding and requiring that funds are targeted to reach families of a specified income level or to pay child care costs for children of a specified age level. cons - 1. gaming 2. tracking

For each of these options, using HHS estimates, for every $100 million of annual additional investment in the CCDBG, the child care costs of at least an additional 35,000 children from families with incomes below 200% of poverty will be subsidized:

'98 #s: or 2200 fed 3,500 total.

Increased Investment in CCDBG	Number of Additional Children Reached
$100 million/year or more than $500 million/5 years	Approximately 35,000/year
$300 million/year or more than $1.5 billion/5 years	Approximately 105,000/year
$500 million/year or more than $2.5 billion/5 years	Approximately 175,000/year

Increased Investment in CCDBG	Number of Additional Children Reached
$700 million/year or more than $3.5 billion/5 years	Approximately 250,000/year
$1 billion/year or more than $5 billion/5 years	Approximately 350,000/year

Not indexed since '82

2. Modify the Child and Dependent Care Tax Credit

The Child and Dependent Care Tax Credit is currently a non-refundable credit that may be claimed by taxpayers who pay for the care of a qualifying individual (children under 13 years old and/or disabled dependents or spouses) in order to work. The credit is equal to a percentage of the taxpayer's employment-related expenditures for child or dependent care. The amount of the credit rate depends on the taxpayer's adjusted gross income (AGI). The credit rate is phased down from 30% (for taxpayers with AGI of $10,000 or less) to 20% (for taxpayers with adjusted gross income above $28,000). The maximum amounts of qualifying expenses for which credits may be claimed are $2,400 for one qualifying individual and $4,800 for two or more qualifying individuals. Thus, the maximum credit ranges from $480 to $720 for a taxpayer with one qualifying individual and $960 to $1,440 for a taxpayer with two or more qualifying individuals.

Four options are proposed for discussion:

OPTION ONE: Beginning in 1999, taxpayers would become eligible for the 30 percent credit rate if their income is $18,000 or less. The credit rate would be phased down from 30% to 20% for AGI between $18,000 and $45,000. In subsequent years, the starting point for the phase down range would be indexed for inflation, as would the maximum amounts of qualifying child and dependent care expenses that could be claimed.

> **IMPACT AND COST**: The Department of the Treasury estimates that this option would affect 2.1 million taxpayers with AGI below $45,000, providing an average tax cut increase of $74. It would cost approximately $2.4 billion over five years (see Treasury paper for fuller discussion).

OPTION TWO: Beginning in 1999, taxpayers would become eligible for a 50% credit rate if their income is $18,000 or less. The credit rate would be phased-down from 50% to 20% for AGI between $18,000 and $47,000. In subsequent years, the starting point for the phase down range would be indexed for inflation, as would the maximum amounts of qualifying child and dependent care expenses that can be claimed.

IMPACT AND COST: The Department of the Treasury estimates that this option would affect 2.2 million taxpayers with AGI below $47,000, providing an average tax cut increase of $223. It would cost approximately $4.6 billion over five years (see Treasury paper for fuller discussion).

OPTION THREE: The CDCTC would be made refundable in 1999, thus allowing individuals who do not have an income tax liability to claim the credit.

IMPACT AND COST: The Department of the Treasury estimates that this option would affect 1.3 million families, mostly with AGI ~~between 160~~-200% of poverty, providing an annual tax cut increase or refund of $407. It would cost approximately $6.9 billion over five years (see Treasury paper for fuller discussion).

OPTION FOUR: In addition to making the CDCTC refundable, the phase-down would be adjusted as described in Option One.

IMPACT AND COST: The Department of the Treasury estimates that this option would affect 3.4 million families, providing an average tax cut increase or refund of $~~347~~ 234. It would cost would cost approximately $11 billion over five years (see Treasury paper for fuller discussion).

II. SAFETY AND QUALITY

Four proposals to ensure safety and quality in child care will be presented for discussion: increasing federal funds targeted to quality improvements, either by increasing funding for the CCDBG (with its set-aside for quality improvements) or by establishing a separate quality fund; increasing federal investment in education and training for child care providers; and establishing a new fund for activities related to consumer education, technology development and utilization, and data and research.

1. <u>Increase Federal Funds Targeted to Quality Improvements</u>

OPTION ONE: Increase federal funding in the CCDBG and thereby increase required 4% set-aside for quality improvements.

IMPACT AND COST: For every $100 million of annual, additional investment in the CCDBG, States would receive an additional $4 million in flexible funding for quality improvements:

Additional Annual Investment in CCDBG	Increase in Quality Set-Aside Per Year (4% of increase)
$100 million	$4 million
$300 million	$12 million
$500 million	$20 million
$700 million	$28 million
$1 billion	$40 million

OPTION TWO: Establish a fund distributed to the States according to the CCDBG formula to provide grants to communities to improve safety, quality, and learning for young children in child care (see HHS paper for fuller discussion). This fund would differ from the 4% set-aside for quality in the CCDBG because it would be designated for use by communities, rather than by States, and because it would be targeted for to infants and toddlers.

safety, health immuniz etc.

> **IMPACT AND COST**: This fund would build on the North Carolina model of community grants known as "Smart Start." HHS recommends a funding level of $800 million per year or $4 billion over 5 years to reach 1,000 communities; still needed is a range of cost options and further impact analyses.

2. **Increase Federal Investment in Provider Education and Training**

OPTION: Build on the Child Care Provider Scholarship Fund announced by the President at the White House Conference on Child Care, in which states provide scholarship funds to students working toward a state or national credential, certificate or Associate, B.A. or B.S. degree. Child care workers, who must commit to remaining in the field for at least one year for each year of assistance received, will earn increased compensation or bonuses when they complete their course work, provided by some combination of the scholarship fund and the worker's employer.

> **IMPACT AND COST**: For every $50 million of annual federal investment in the Child Care Provider Scholarship Fund (matched with one State or Community dollar for every four federal dollars), up to 50,000 child care providers will receive scholarship assistance.

Federal Investment in Child Care Provider Fund	Number of Scholarships Available
$50 million/year or $250 million/5 years	50,000/year
$100 million/year or $500 million/5 years	100,000/year
$150 million/year or $750 million/5 years	150,000/year
$200 million/year or $1 billion/5 years	200,000/year

3. Increase Federal Investment in Consumer Education, Research, and Technology

The CCDBG currently contains a 4% set-aside for quality activities, under which consumer education is an allowable, but not a required expense. HHS reports that although some States are investing some of their quality set-aside in consumer education efforts, these efforts are limited and scattershot. Further, HHS reports that no funds are presently targeted to child care data and research.

OPTION: Establish a new fund for activities related to consumer education, technology development and utilization, and data and research. Funds would support research and demonstration projects, a National Center on Child Care Statistics, a national child care hotline, and a consumer education campaign to help parents select safe and healthy care for their children (see HHS paper for fuller discussion).

> **IMPACT AND COST**: HHS recommends federal investment of $50 million per year; still needed is a range of cost options and further impact analyses.

III. AVAILABILITY

Two options to make child care more available will be presented for consideration: 1) investing in school-age care opportunities, and 2) providing incentives to businesses to create and/or run child care programs.

1. Invest in School-Age Care Opportunities

need money for

Three options will be presented for consideration:

OPTION ONE: Expand the existing 21st Century Community Learning Centers program to provide start-up funds to school-community partnerships to establish before- and after-school programs for school-age children at public schools. This expanded program would target additional funding to high-need communities (using eligibility requirements for the President's Title V Teacher Recruitment proposal), further concentrate on providing enriching after-school programming for children, and require an increased local match to ensure that programs become self-sustaining after receiving start-up funding (see Department of Education paper for fuller discussion).

IMPACT AND COST: The Department of Education recommends annual federal funding of up to $400 million. Using the Department of Education assumption of a one-to-one local match and an average per-child cost of an after-school program as $800/year, the Department estimates that this level of funding would enable the program to serve up to 1 million children. Using these estimates, other levels of federal investment would yield:

Federal Investment	Approximate Number of Children Served
$100 million	250,000
$400 million	1 million
$680 million	1.7 million (which would double the current level of participation in after-school programs)
$800 million	2 million

OPTION TWO: Establish a fund to support after-school program opportunities to be distributed to the States according to the CCDBG formula, with matching and benchmark-setting requirements. Funds would go through States directly to communities, with 50% targeted to areas with high concentrations of poverty. These funds would enable communities to create new programs and link already-existing community resources such as schools, libraries, parks, and recreation centers to build the supply of school-age care and improve quality. The proposal is modeled after the Making the Most of Out of School Time (MOST) projects (see HHS paper for fuller discussion).

IMPACT AND COST: HHS recommends an annual investment of $300 million; still needed is per-child cost and a range of investment options and further impact analyses.

OPTION THREE: Increase federal funding in the CCDBG and thereby increase CCDBG dollars targeted to support after-school opportunities. HHS estimates that approximately one-third of children currently served by the CCDBG are school-age.

IMPACT AND COST: HHS estimates a general increase in the CCDBG will proportionately increase school-age slots by approximately 30%.

2. **Provide Tax Incentive to Businesses**

OPTION: Senator Kohl has introduced legislation to provide a tax credit to businesses that incur costs related to providing child care services to their employees. Qualifying expenses would include those a business incurs to build or expand a child care facility, operate an existing facility, train child care workers, reserve slots at a child care facility for employees, or provide child care resource and referral services to employees. The credit would cover 50% of qualified costs incurred, but could not exceed $150,000 per year.

IMPACT AND COST: The Department of the Treasury advises that low-wage workers are generally less likely to receive employer-provided fringe benefits than middle- and higher-wage workers and that the proposed credit is therefore likely to benefit disproportionately middle- and higher-wage workers. The Joint Committee on Taxation has estimated the Kohl proposal to cost $2.6 billion over five years.

HHS submission

Affordability

Federal child care assistance in FY 1997 provides $2.9 billion in direct subsidies, serving a little more than one million children. However,. even with this substantial investment, only 10% of eligible children receive assistance. Due to the high demand for assistance, States often set eligibility levels below the allowable income level established in the Federal statute. For example, although a State can allow families up to 85% of State Median Income to receive assistance, many States cut off eligibility at 130% of the Federal poverty level. Therefore, many working families are not eligible for direct assistance and are also unable to take advantage of the Dependent Care Tax Credit.

OPTION 1: Increase CCDBG funding without benchmarking or targeting.

Interaction with Current Program: The proposal is simply an increase in the CCDBG.

Cost Estimate: The Secretary has recommended a $700 million increase in the CCDBG to expand the number of children served with subsidies. These funds would be matched at the FMAP (which averages around 56%).

Impact Analysis: An increase of $700 million in CCDBG would provide at least 250,000 child care slots in FY 99.

Pros:
- Gives States the flexibility to spend the funds as best fits its needs.
- Enables the States to serve more working families with subsidy through the CCDBG.

Cons:
- May not be targeted enough to reach the working poor population in need of child care assistance.

OPTION 2: Increase the Child Care and Development Block Grant (CCDBG) funding and require States to set benchmarks to make care more affordable and accessible for low-income working families.

Interaction with Current Program: New funding will be provided through the CCDBG, although in order to access additional dollars, each State would have to set benchmarks, based on the State's individual situation. The benchmarks would describe how States will expand eligibility to serve more working families, make copayments more affordable, and improve reimbursement rates. For instance, if a State currently sets eligibility at 130% of the Federal poverty level, they may expand eligibility to 135% of poverty.

Cost Estimate: See Option 1 above.

Impact Analysis: An increase of $700 million in CCDBG would provide at least 250,000 child care slots in FY 99. Requiring States to set benchmarks will ensure that funds are targeted to low-income working families.

Pros:
- Retains State flexibility to use funds for the particular child care needs of their populations.
- Targets low-income working families without adding regulatory or administrative burden on the States.
- Focuses on results by requiring States to set and report on benchmarks.

Cons:
- May have to provide technical assistance to States in order for them to set appropriate and enforceable benchmarks.
- May not be sufficiently targeted to assure that funds reach specific age groups or specified income levels. However, all funds would still reach low income families that are eligible for CCDBG.

OPTION 3: Increase CCDBG funding, but require that the funds be targeted.

OPTION 3A: Target the CCDBG increase to reach families of a certain income level.

Interaction with current program: Funding would be provided through the CCDBG. Every State would be required; regardless of its individual situation, to assure that the additional money goes to families at a specified income level.

Cost Estimate: See Option 1 above.

Impact Analysis: This option would assure that additional funds are targeted to working poor families, rather than those families who are moving from welfare to work.

Pros:
- Provides a mechanism to target funds to more working poor families.

Cons:
- Limits the flexibility that States have under CCDBG to assess their own needs and allocate funds accordingly.
- Restricts States' ability to use the funds to move families from welfare to work.
- Recreates the type of administrative complications that the reforms in the Personal Responsibility Act were designed to eliminate.
- May not achieve its goal due to a substitution effect. For example, States may move the working families whom they already serve under this targeted funding and use the existing funding on other families, leading to no net increase in the number of working families served.

OPTION 3B: Target the CCDBG increase to reach children of a certain age.

Interaction with Current Program: Funding would be provided through the CCDBG. Every State would be required, regardless of its individual situation, to assure that the additional money goes to children in a specified age group.

Cost Estimate: See Option 1 above.

Impact Analysis: This option provides a mechanism to reach a specific targeted population based on the age of the children in the family. For instance, only a third of the children currently served are school age. Therefore, a general increase in CCDBG will proportionately only increase school age slots by over 30%. Targeting could increase the number and proportion of school age children affected.

Pros:
- Provides a mechanism to attempt to target funds to children in a certain age group.

Cons:

- May not achieve its goal due to a substitution effect. For example, States may move the children of a targeted age whom they already serve under this targeted funding and use the existing funding on other children, leading to no net increase in the number of children served from the specified age group.
- May restrict States' ability to serve all children in families with children of different ages (one child may be eligible while a "non-target" age child may not be eligible for the subsidy).
- Takes away the flexibility that States have under CCDBG to assess their own needs and allocate funds accordingly.
- Restricts States' ability to use the funds to move families from welfare to work, by constraining States' priorities.
- Recreates the type of administrative complications that the reforms in the Personal Responsibility Act were designed to eliminate.

Treasury Submission

Modifying the Child and Dependent Care Tax Credit

Current Law

A taxpayer may be eligible for a nonrefundable tax credit if he or she pays for the care of a qualifying individual in order to work. Qualifying individuals include children under the age of 13 and disabled dependents or spouses. The credit is equal to a percentage of the taxpayer's employment-related expenditures for child or dependent care.

The amount of the credit rate depends on the taxpayer's adjusted gross income. The credit rate is phased-down from 30 percent (for taxpayers with adjusted gross income of $10,000 or less) to 20 percent (for taxpayers with adjusted gross income above $28,000). The maximum amounts of qualifying expenses for which credits can be claimed are limited to $2,400 for one qualifying individual and $4,800 for two or more qualifying individuals. Thus, the maximum credit ranges from $480 to $720 for a taxpayer with one qualifying individual and $960 to $1,440 for a taxpayer with two or more qualifying individuals.

Employees may exclude from their taxable income (and their earnings for social security tax purposes) amounts their employers provide as child and dependent care benefits, including cafeteria plan contributions. The exclusion is limited to $5,000 of child care expenses per year and does not vary with the number of qualifying dependents. The amount of the expenses eligible for the child and dependent care credit is reduced dollar for dollar by the amount of excludable expenses.

Options to Increase the Credit Amounts and/or to Extend Eligibility

Option 1: Beginning in 1999, taxpayers would become eligible for the 30 percent credit rate if their income is $18,000 or less. The credit rate would be phased-down from 30 percent to 20 percent for AGI between $18,000 and $45,000. In subsequent years, the starting point for the phase-down range is indexed for inflation, as are the maximum amounts of qualifying child and dependent care expenses that can be claimed for the credit or the employer exclusion.

Option 2: Beginning in 1999, taxpayers would become eligible for a 50 percent credit rate if their income is $18,000 or less. The credit rate would be phased-down from 50 percent to 20 percent for AGI between $18,000 and $47,000. In subsequent years, the starting point for the phase-down range is indexed for inflation, as are the maximum amounts of qualifying child and dependent care expenses that can be claimed for the credit or the employer exclusion.

Option 3: The child and dependent care tax credit would be made refundable in 1999, thus allowing individuals who do not have an income tax liability to claim the credit.

Option 4: In addition to making the child and dependent care tax credit refundable, the phase-down range would be adjusted as described under option 1.

Impact Analysis and Cost

Cost and Number of Families Affected by Various Options									
	Cost in Fiscal Year (millions)							Number of Taxpayers with Cut (1999)	Average Tax Cut (1999)
	1999	2000	2001	2002	2003	1999-2003	1999-2007		
Option 1	39	192	204	239	238	673	2,446	2.1 million	$74
Option 2	132	613	543	550	555	1,838	4,638	2.2 million	$223
Option 3	150	698	636	683	747	2,167	6,880	1.3 million	$409
Option 4	215	1,014	965	1,068	1,205	3,261	11,078	3.4 million	$234

Options 1 and 2: Increase Amount of Child and Dependent Care Tax Credit

Pros

- The child and dependent care tax credit parameters have not been adjusted for inflation since 1982. Options 1 and 2 essentially adjust the child and dependent care credit for inflation since 1982.

  -- In 1982, nearly 6 percent of taxpayers who benefited from the child and dependent care tax credit were eligible for the maximum credit rate of 30 percent.

  -- But in 1999, very few taxpayers will qualify for the 30 percent rate because the income threshold ($10,000) has not been increased since 1982 Options 1 and 2 increase the threshold from $10,000 to $18,000, the level it would be in 1999 if the parameters had been indexed in 1982.

- Through the tax system, assistance can be provided directly to parents for their child care needs with low administrative costs.

- Working parents can receive the credit by filing a tax return and avoid the hassles and stigma associated with applying for assistance through welfare offices.

Cons

- The child and dependent care tax credit is not well targeted to those with low income.

-- Under current law, about 1 percent of the child and dependent care tax credit is received by families with money income in the bottom quintile and children under 13. About 32 percent of the credit is received by those with income in the top quintile.

-- Taxpayers, who also claim the $500 child credit, will not benefit from an increase in the child and dependent care tax credit unless their income is at least between 130 and 160 percent of poverty.

- The IRS cannot easily verify child care expenditures. In 1988, about one-third of the child and dependent care tax credit amounts were overclaimed on tax returns. While compliance efforts since 1988 may have reduced this error rate, these initiatives have not significantly improved IRS's ability to verify expenditures.

Options 3 and 4: Expand Eligibility for the Credit by Making it Refundable

Pros

- Low-income taxpayers will not benefit from an expansion of the child and dependent care tax credit unless the credit is made refundable.

Cons

- Many beneficiaries of a refundable child and dependent care tax credit already are able to use the EITC to fully offset their income and payroll taxes. Hence, critics of refundability will be quick to label a new refundable child and dependent care tax credit as "welfare" and vigorously fight the proposal.

- In the past, efforts to create new refundable credits (including recent experience with the child credit) have led to increased scrutiny of the EITC and its compliance problems. Unfortunately, the EITC will remain vulnerable to such attacks until the most recent set of compliance initiatives can be fully implemented, and studies show an improvement in compliance.

- The child and dependent care tax credit will generally not be available to most taxpayers until the end of the year. But low-income parents, particularly those who are just entering the workforce, need assistance in "real-time."

No sense that compliance rate wd be better.

HHS Submission

The Supply and Quality of Care for Young Children

Currently, activities to improve safety, health, and learning in child care are funded by States under the required 4 percent minimum set-aside for such activities in the Child Care and Development Block Grant (CCDBG). States fund a variety of quality activities including training, licensing improvements, and resource and referral services. Since there is a tremendous need for direct assistance, most States spend only the minimum set-aside on quality activities.

OPTION 1: Increase CCDBG funding thereby increasing the amount of money that is allocated to quality via the 4% minimum set-aside.

Interaction with the Current Program: This proposal is simply an increase in the CCDBG.

Cost Estimate:
The funds for quality activities would increase by 4% of the total CCDBG increase. The Secretary proposes a $700 million subsidy increase.

Impact Analysis: A CCDBG increase would result in the States having more money to direct toward quality activities. The Secretary's proposal would result in $28 million more for quality. However, the net increase in quality funds would be offset by the fact that the increased subsidies would result in more children in child care in need of quality enhancements.

Pros:
- Improves affordability
- Potentially increases supply
- Devotes more funding to State-identified quality and supply issues.

Cons:
- Is not primarily a quality strategy; 96% of the new funds do not target quality at all, but 100% of the funds are applied to one of the three goals of quality, affordability, and supply.
- Does not target young children, especially infants and toddlers, who have the most critical health and safety concerns in child care.
- Does not allow the Administration to use its funds to leverage additional public and private resources to increase the total investments in quality.
- Does not pomote decision making at the community level.

OPTION 2: Establish a fund distributed to the States according to the Child Care and Development Block Grant formula to provide grants to communities to improve safety, health, and learning for young children in child care. The funds would specifically target young children, with a focus on infants and toddlers who are the most vulnerable children in care. States would be required to match the Federal money and would have to set benchmarks to measure their outcomes. At least 85% of funds would go directly to communities and 50% would be targeted to areas with high concentrations of poverty. This model is based on the Smart Start program in North Carolina which has allowed many counties to improve the supply and quality of care for young children. With these funds communities might choose to establish family child care networks, promote accreditation, help providers meet health and safety standards, and promote health and parent education in child care.

Interaction with the Current Program: The vast majority of the CCDBG funding currently goes toward affordability, most often in the form of vouchers. The quality money is extremely limited and typically goes to general activities funded by the States. Little or no money is administered for these purposes directly by communities. The new funding would not replace the quality set-aside, but would give communities a role in building local supply.

Cost Estimate:
The Secretary has recommended a $800 million dollar increase in the CCDBG to increase the health, safety and learning environment of child care programs.

Impact Analysis:
The proposal recognizes that the real issue in child care is whether *each community* has an adequate supply of quality care. These funds would improve the safety, health and learning of young children in child care by allowing up to 1000 communities to craft solutions that meet their specific needs.

North Carolina's Smart Start program demonstrates the impact that the community grants would have. One Smart Start county has expanded supply by 3,578 spaces in licensed programs. In another, every child care center and 50 percent of the family child care programs are participating Smart Start programs to improve the quality of care, which affects 1,234 young children in the county. In North Carolina's most populous county, 7000 children were enrolled in programs that received enhancements through the county's Smart Start grant. In other North Carolina communities, 1400 children received health and developmental screenings as a result of the Smart Start grants.

Pros:
- Gives flexibility to communities to tailor funds to their specific needs.
- Focuses on results by requiring communities to meet

benchmarks and report on outcomes.

- Targets young children, especially infants and toddlers, who are the most vulnerable children in care.
- Allows communities to build supply and fill gaps in their system of care.

- Meets the President's challenge to find a way to replicate successful child care models across the country.
- Uses Federal money to leverage State and local public and private sector funds.

Cons:

- Limits State flexibility to determine the use of funds.
- Targets only one age group.

HHS Submission

Child Care Provider Education and Training

Child care provider training is one of a number of allowable activities under the Child Care and Development Block Grant set-aside for quality activities, but only a small portion of the set-aside is spent for that purpose. The funds that do go to training are often spread very thin and cover only basic workshops which don't lead to credentials or degrees.

OPTION 1: Establish the Child Care Provider Scholarship Fund announced by the President at the White House Conference. States will administer scholarship funds to providers for either pre-service on in-service coursework as part of a degree or credential program. The provider and the sponsoring child care program must also bear a portion of the cost. The provider, who will receive increased compensation after the coursework is complete, must commit to remaining in the field for at least one year for each year of assistance received.

Interaction with the Current Program: These funds are targeted specifically to providers who are enrolled in a degree or certificate program, unlike current expenditures for training. In addition, these scholarships are tied to an increase in compensation.

Cost Estimate:
The Secretary's proposal recommends an investment of $150 million in scholarship funds to provide training and support.

Impact Analysis:
The scholarships will reach approximately 150,000 providers and increase the quality and supply of child care for about 1.5 million children.

Pros:
- Targets training of providers, which is a proven effective approach to build warm and responsive interactions between the provider and the child. These interactions, while often the most difficult aspect of quality to measure, have been found in recent studies to be one of the most powerful predictors of children's healthy development in child care.
- Requires an investment from several stakeholders including the provider and the sponsoring child care program.
- Impacts potentially scores of children with each scholarship, because each provider reaches many children.

Cons:
- Cannot guarantee that the recipient will stay in the field beyond the one year commitment. However, child care workers have an average turnover of over 30%, but programs like T.E.A.C.H. in North Carolina have shown that education reduces turnover. In North Carolina, staff turnover is only 10% for people who participate in the program, compared to 42% overall.

HHS Submission

National Leadership for Consumer Education, Research, and Technology

The Child Care and Development Block Grant (CCDBG) currently contains a 4% set-aside for quality activities, under which consumer education is an allowable cost. However, quality set-aside funds only meet a small portion of the need for consumer education. In addition, the law provides a small set-aside for technical assistance, which amounts to about $8 million per year.

OPTION 1: Establish a new fund for activities related to consumer education, technology development and utilization, and data and research to help redefine the future of child care in America. The fund would support a national child care hotline and a consumer education campaign to help parents select safe and healthy care for their children, a project to increase the use of distance learning technologies for rural and home-based providers, and a National Center on Child Care Statistics, along with research and demonstration projects.

Interaction with the Current Program: These funds will go to initiatives which will lead the field of child care into the twenty first century. Although some States are investing some of their quality set-aside in consumer education, these limited efforts are scattered around the country and provide inadequate coverage even within States. No funds are targeted to child care data and research on a national level. A few States and academic institutions are undertaking research, which primarily consists of studies with small sample sizes. Currently there is no framework to provide leadership to coordinate consumer education, technology development and utilization, and research of a national scope. The fund for consumer education, research and technology will fill that gap.

Cost Estimate: The various components of this effort total $50 million.

Impact Analysis: The Secretary's proposal provides sufficient funds for a consumer education initiative, which will reach millions of households with information for parents on how to find and select safe, healthy care. The quality of care for thousands of children, particularly rural children, will be enhanced by the training of providers, made possible by distance learning technologies. The National Center for Child Care Statistics and competitive research and demonstration projects will help policymakers, community leaders, and program developers find solutions to the lack of safe, healthy, affordable, and accessible care.

Pros:
- Targets funds directly to consumer education to assist parents in choosing care that will protect the health and safety of their children.
- Will potentially build the supply of quality care by

creating demand for quality care
- Provides funds specifically for data and research to help policy makers and community leaders better understand how to build the supply of affordable, quality care.

Cons:
- Does not directly increase the supply of care
- Does not directly make care more affordable

Education Submission

Expanding School-Age Care Through 21st Century Community Learning Centers

Description of Policy Option

The Department of Education proposes to expand the existing 21st Century Community Learning Centers program to provide start-up funds to school-community partnerships to establish before- and after-school programs for school-age children at public schools. The proposal responds to surveys showing strong parental support for keeping schools open during non-school hours and complements existing and proposed funding from HHS by enabling communities with under-utilized school facilities to apply for 21st Century funding and enabling other communities to apply for funding from HHS. The expanded 21st Century funding would provide up to 1 million school children per year with safe, drug-free, low-cost, and accessible programming combining learning, enrichment and recreational activities.

Description of Current Programs and Interaction of Proposal with Current Programs

This proposal would expand the existing 21st Century Community Learning Centers program that was sponsored by Senator Jeffords in 1994. The program has won strong bipartisan support in Congress, which increased its funding from $1 million in FY97 to $40 million in FY98 with particularly strong support from Rep. Nita Lowey. The program was designed to expand the use of school facilities during non-school hours.

In expanding the current program, the Department proposes to better target funding to high-need communities, further focus it on enriching after-school programming for children, and require an increasing local match to make sure programs become self-sustaining after receiving start-up funding. As now, schools would be required to partner with community, business, or educational organizations and programming could be provided by these partners in the schools.

Schools can currently use Title I, Safe and Drug-Free Schools and other federal funding for after-school programming, but these dollars are already committed and stretched thin. An expanded 21st Century Schools program would enable high-need schools to start before- and after-school programs linked to other federally funded activities, further benefit from federal school-based nutrition programs, and provide a catalyst for the schools to partner with community organizations and businesses.

The Education Department has also generated interest from a private foundation to supplement the 21st Century Community Learning Centers by developing training, technical assistance and networking capacity among participating sites. This private funding would further help the education and child care communities work effectively together in providing after-school care.

Impact Analysis

A $400 million per year 21st Century program would reach up to 1 million school children per year. While the current law limits eligibility to "inner city and rural" schools, the Department proposes to retarget the program to *high-need* urban, rural, and suburban communities using the same eligibility as used for the President's Title V Teacher Recruitment proposal. Thus, 4,300 high-need communities serving approximately a third of the nation's school children and 60 percent of the nation's poor children would be eligible for funding.

Pros of Expanding 21st Century Community Learning Centers

- Increases the supply of after-school programs in a cost-effective manner by establishing or expanding programs at underutilized school buildings.
- Compliments HHS funding by allowing communities to choose between school-based and non-school based options.
- Responds to surveys showing strong parental and educator support for school-based after-school programs. Parents often prefer school-based programs because they do not require transportation from school to the after-school program and they trust their school officials to care for their children and provide appropriate activities.
- Enables linkages between after-school activities and school-day activities and learning.
- Provides start-up funding not requiring on-going funding after five years.
- 21st Century Schools has a proven record of support in this Congress.
- Does not require the creation of a new federal program.

Cons of Expanding 21st Century Community Learning Centers

- Some schools operate in an isolated manner and do not broadly engage parents or community organizations in their programs. However, schools are increasingly interested in partnering with community organizations and this funding would provide a catalyst for them to do so. Schools would be *required* to partner with outside organizations.
- Some are concerned that any school-based after-school program could lead to a divisive debate over vouchers. However, 21st Century Schools has won bipartisan support in this Congress and did not engender a debate over vouchers because it is premised on taking advantage of underutilized school facilities.

Cost of Proposal

The Department of Education proposes to expand 21st Century funding from $40 million to $400 million per year, serving up to 1 million children per year, assuming a one-to-one local match and an average cost of $800 per child. Each program would set its hours to meet the community's needs but would operate for the equivalent of 3-4 hours each school day.

Need for supply

HHS submission

The Supply and Quality of School-Age Care

Experts estimate that nearly 5 million school-age children spend time without adult supervision during a typical week. However, only about 1.7 million children in kindergarten through grade 8 were enrolled in formal before- and after-school 49,500 programs in 1991, according to the National Study of Before and After School Programs. School-age children are currently served by the Child Care and Development Block Grant (CCDBG) subsidy program. Approximately one-third of the subsidies go to school-age children (i.e. approximately $1 billion).

OPTION 1: Establish a fund distributed to the States according to the CCDBG formula to provide grants to increase the supply and quality of school-age care. States would be required to match the Federal money and to set benchmarks to measure their progress. At least 85% of funds would go directly to communities, with 50% targeted to areas with high concentrations of poverty. The new money would allow communities to create new programs and link already-existing community resources such as schools, libraries, parks, and recreation centers to build the supply of school-age care and improve quality.

Interaction with the Current Program: Money would be targeted to school-age children, unlike the CCDBG funds. Rather than funding slots through the subsidy program, the new money would build supply and quality through partnerships in communities. Decisions would be made at the community level, rather than the State level, to allow communities to fill their own local needs.

Cost Estimate: The Secretary has recommended a $300 million dollar increase in the CCDBG to improve the supply and quality of care school-age children.

Impact Analysis:
An increase in funding for this program would affect school-age children from a variety of economic backgrounds by allowing them to have safe and productive ways to spend their before and after-school time. The funds would provide up to 500 community grants to expand current promising programs and create new, comprehensive services. The proposal is modeled after the Making the Most of Out of School Time (M.O.S.T.) projects, underway in three American cities. The following are examples of what the Seattle M.O.S.T. project accomplished in its first two years: provided training for 560 school-age caregivers, served 250 low-income children in free summer programs, served an additional 500 low-income children by establishing three new programs and expanding seven existing ones, and created a database of school-age programs that was used by 2000 families in a nine-month period.

Pros:
- Targets school-age care, which is lacking in many communities.

- Builds on existing community resources to maximize the impact of the investment.
- Prevents children's exposure to violence and substance abuse during the hours that studies show they are most likely to experience those risks.
- Enhances academic performance through academic enrichment and homework supervision and support.
- Allows communities to fill the gaps that they identify in their school-age care systems.
- Uses a community approach to reach a broader range of families than CCDBG subsidy.
- Meets the President's challenge to find a way to replicate successful child care models across the country.

Cons:

- Limits State flexibility.
- Targets only one age group.

Treasury Submission

Child Care Infrastructure Act of 1997 (S.82)

Description of Proposal

Senator Kohl has introduced a bill (S. 82) that would provide a tax credit to businesses that incur costs related to providing child care services to their employees. Qualifying expenses would include those a business incurs to build or expand a child care facility, operate an existing facility, train child care workers, reserve slots at a child care facility for employees, or provide child care resource and referral services to employees. The credit would be for 50 percent of qualified costs incurred, but not to exceed $150,000 per year.

Current Law and Interaction

The costs of child and dependent care services provided by an employer are currently deductible compensation. An employer that builds a structure for use as a child care facility would normally depreciate the associated capital costs. Under the proposal, many taxpayers will see it to their advantage to take the tax credit for expenses that they would otherwise have deducted or depreciated.

Impact Analysis

In general, low-wage workers are less likely to receive employer-provided fringe benefits than middle- and higher-wage workers. Therefore, the proposed credit is likely to disproportionately benefit middle- and higher-wage workers.

Pros

- The proposal could increase the availability of child care services by giving businesses an incentive to provide those services to their employees.
- The proposal addresses concerns about the quality of child care by requiring that qualifying expenditures be taken with regard to a licensed child care facility and by allowing training and continuing education costs for child care employees to qualify for the proposed credit.

Cons

- The proposal will not necessarily increase the number of quality child care placements or improve the quality of existing facilities. Instead, it will provide a subsidy to businesses that take the credit for expenses that they would have made -- and deducted or depreciated -- in the absence of the credit.
- Because the proposed credit is likely to disproportionately benefit middle- and higher-wage workers, it is not the most efficient use of scarce Federal resources to support child care.
- A tax credit for employers will not benefit the nearly 30 percent of the labor force whose employers are non-taxable (governments, non-profit organizations, etc.).

Cost of Proposal

JCT has estimated the proposal to cost $2.6 billion over five years.

As part of the President's ~~announcement~~ child care initiative, the Pres has adopted an Early Learning Fund, which will 1st 4.

The Early Learning Fund

~~PRESIDENTIAL ANNOUNCEMENT~~: The President ~~proposes the~~ is proposed Early Learning Fund (~~ELF~~) ~~to~~ respond to new information about the importance of brain development in children's earliest years and ~~in order to meet~~ the serious concerns about the quality of child care that impacts children's development. The Early Learning Fund ~~ELF~~ will provide $3 billion in Federal funds over five years, with a small State match requirement. The Fund will allow States to provide challenge grants to their communities, so that each community may craft approaches to enhance the quality of child care for the children of working families. ?

Communities can use the funds to improve the health, safety, and learning of children in their earliest years by:

- providing basic training to child care providers (including first aid, CPR, and basic child development training),
- creating and sustaining family child care networks to connect child care home providers to education and support,
- providing home visits and parent education,
- helping parents recognize high quality care through consumer education,
- helping child care providers meet licensing and accreditation standards,
- linking child care providers to health professionals, and supporting the inclusion of young children with special needs in quality child care settings, and
- reducing group sizes and the ratio of children to staff.

RATIONALE: Research shows that when children are in higher quality child care programs, they have stronger language, pre-mathematics, and social skills, better relationships with their teachers, and stronger self-esteem. The Clinton Administration's commitment to quality has been underscored by the White House Conference on Early Learning and the follow-up White House Conference on Child Care.

Despite the documented link between the quality of care and a good education, serious concerns have emerged about the quality of child care that many American children receive. A four-state study of quality in child care centers found that only one in seven were rated as good quality. In addition, a study of family child care and relative care found that 13% of regulated and 50% of unregulated family child care providers offer care that is inadequate.

~~CURRENT PROGRAM:~~ ~~Currently, states fund quality activities with a~~ minimum 4% setaside from the ~~Child Care and Development Block Grant. Although States~~ provide valuable quality activities ~~from these funds, they are rarely enough. Given the acute need to~~ serve additional children, states ~~rarely invest more than the minimum 4%, which is spread~~ thinly across a variety of activities.

The Early Learning Fund will channel money to communities to empower them to determine their most crucial needs. ELF also will target the funds to programs for children ages 0-5, who are the most vulnerable children in care.

INVESTING IN RESEARCH AND EVALUATION OF CHILD CARE

PRESIDENTIAL ANNOUNCEMENT: The President proposes specific funding to support research, data collection, and evaluation on child care issues, including funding for:
research on child care issues that could benefit low income families,
innovations in the use of technology to promote distance learning and interactive computer programs in provider education and training,
demonstration projects to test new approaches to help new parents who choose to stay home to care for newborns or newly adopted children,
a national center for child care statistics, and
a child care hotline to provide consumer information and link parents to resource and referral in their communities;

The goal of the new funding is to collect accurate information on the status of child care and make it easily accessible to assist legislators and other policy makers, program planners and administrators, educators, employers, civic leaders, providers, and parents.

The President's budget includes $30 million in FY99 for these activities, as part of a total $150 million investment over five years.

RATIONALE: The rapid devolution of responsibility from the Federal level to States, coupled with limited funding and a burgeoning need for child care services, State and local policymakers are under enormous pressure to effectively manage child care funds. Yet, existing data are often limited, out of date or cannot be easily used for planning and policy making. There is no existing dedicated source of funding for child care research or for developing innovative child care strategies for the future.

Demonstration projects and other research develop critically needed information for and about parents, providers and children; the availability, cost and quality of community child care options; and how work, family and child care trends are changing. The projects that currently exist however, are widely scattered across academia, the private sector, and public agencies and do not have the capacity to provide data on a national scale. There is no single clearinghouse for bringing together the child care data already collected by the States and others. on the status of child care.

CURRENT PROGRAM: Currently, there is no authority for research and demonstration in the Child Care and Development Block Grant.

CHILD CARE STANDARDS ENFORCEMENT FUND

PRESIDENTIAL ANNOUNCEMENT: The President proposes a fund dedicated to helping States improve their own child care provider licensing systems, enforce their child care health and safety standards, promote licensing and accreditation, increase unannounced inspections of child care settings, and ensure the health and safety of all children in child care. The Standards Enforcement Fund will enable States to more adequately address the health and safety of child care programs for children and families in all States across the nation. The President's budget provides $100 million for these activities in fiscal year 1999 and $500 million over 5 years.

RATIONALE: Recent research suggests that warm, responsive, high quality child care is critical to healthy development. Unfortunately, quality child care is often the exception, not the rule, particularly for low income working families. In 1995 a four-State study of child care, for example, found that only one in seven centers were rated "good." A University of Colorado study found that States with stronger licensing requirements had more high quality centers.

One of the vital ingredients to improving quality is holding child care providers accountable to meeting the State child care licensing standards under which they are operating and, at a minimum, assure child care providers operate programs which meet all State health and safety requirements. Too many programs currently are not merely low quality but are, often, unsafe. A study conducted in 1994 by the Department of Health and Human Services Inspector General's Office points to serious problems in many child care centers, finding more than 1,200 violations at 169 child care facilities in five States. Among the hazards found were fire code violations, toxic chemicals, playground hazards and unsanitary conditions. These are the types of dangerous and unhealthy situations that State and local standards are designed to avoid.

The Standards Enforcement Fund is designed to allow states to capitalize on lessons from the military child care system. The military child care system, highlighted in the White House Conference on Child Care as a model for the nation, turned its system around by instituting high standards and conducting four unannounced visits per year to monitor compliance with standards.

CURRENT PROGRAM: The Child Care and Development Block Grant Act (CCDBG) requires that States have child care licensure laws and effectively enforce them. However, States often do not have the resources to adequately enforce their licensing standards and to provide technical assistance to providers who wish to improve their compliance with standards.

States must spend a minimum of 4% of their Child Care and Development Block Grant on activities designed to improve the quality of child care. However, only a few States have invested more than the minimum in quality activities, because of the high demand for subsidies among low income families struggling to afford care. In addition, those funds which are available are thinly spread over a range of important quality activities.

These dedicated funds will build on the quality setaside to permit States to improve existing standards and to better monitor compliance with them.

NATIONAL CHILD CARE PROVIDER SCHOLARSHIP FUND

PRESIDENTIAL ANNOUNCEMENT: The President proposes a National Child Care Provider Scholarship Fund that will provide more than $300 million in scholarships over five years to assist up to 50,000 child care providers annually. The scholarships will improve the quality of care for more than half a million children in these providers' care. The Fund will provide scholarships of up to $1,500 to current and future child care providers who agree to remain in the field for at least one year after receiving assistance. These providers will earn increased compensation or a bonus when they complete their course work, provided by some combination of the Fund and the provider's employer.

The Fund will receive at least $250 million in Federal funds over five years (beginning with $50 million in fiscal year 1999), with every four dollars of Federal funds matched with at least one dollar of private, local or State funds. States will have flexibility in designing their programs, and can provide scholarships for students working toward a State or national credential, certificate, or Associate, B.A., or B.S. degree. States cannot use the Fund to substitute for existing efforts. States also cannot provide scholarships to employees or child care providers that are not licensed or registered.

RATIONALE: Child care staff today earn between $7 and $8 per hour and often receive few, if any, fringe benefits. Turnover rates are very high -- one third of all child care teachers leave their programs each year. This high turnover rate has significant negative impacts on quality, as new staff lack experience and often need training. Children who experience a high turnover in caregivers do not benefit from the stable, nurturing relationships that are shown to be the most effective for a child's growth.

When enacted, the Fund will improve the quality of our nation's child care by helping caregivers get training and raise their pay, thereby supporting efforts to recruit and retain them. The Fund is modeled on the North Carolina T.E.A.C.H. Early Childhood® Project, a bipartisan program that has been shown to work. Participants in T.E.A.C.H. complete an average of 18 credit hours per year and receive an average 10% increase in their wages. They have less than a 10% turnover rate, compared to the statewide rate of 42%. The President's Child Care Provider Scholarship Fund is also modeled on the Defense Department's program of linking pay raises to increased training.

CURRENT PROGRAM: While not limited to those eligible for Pell Grants, the scholarships build on Pell Grants for those eligible by covering any costs not covered by Pell, including tuition and fees, books, supplies, transportation, and child care expenses. For example, a typical caregiver in a child care center earns $12,000 a year. Attending a community college half time, with total costs of $3,000, this individual would be eligible for a $1,350 Pell Grant in 1997-98. The Fund will provide additional monies. All applicants must first apply for Pell Grants before receiving a Child Care Provider Scholarship.

MAKING CHILD CARE MORE AFFORDABLE FOR WORKING FAMILIES

PRESIDENTIAL ANNOUNCEMENT: The President proposes to dramatically expand child care subsidies to help working families struggling to meet the cost of child care. The President will add more than $1.1 billion in FY 99, as part of a total increase of $7.5 billion over 5 years. These funds will allow the States to provide additional direct child care subsidies to working families. The funds will be distributed by formula to the States and will require a State match. The Initiative builds on the $4 billion added for child care in the Personal Responsibility and Work Opportunity Reconciliation Act. Together, these new funds will allow us to reach over a million more children by 2003. The new Initiative concentrates on families who are working, but making so little that affording child care is a serious struggle.

RATIONALE: Affordable and adequate child care remains out of reach for many American working families. While the average family pays about 7% of its income for child care, low income families pay about a quarter of their income for care. At the same time, waiting lists for child care assistance continue to grow. Of the approximately 10 million families who are eligible for child care assistance, only over a million are served.

Even when funds are available, the lack of adequate supply of child care leaves many families without access to care. A recent GAO report documents the need for more child care, particularly for infants and toddlers, school-age children, and children with disabilities. The lack of adequate supply of care is even more crucial for families who work night shifts, due to the lack of "odd hour care."

CURRENT PROGRAM: The Federal government will provide approximately $3.1 billion in FY 1998 to the States, by formula , to provide direct child care assistance in care that each family chooses. Although the Federal statute allows States to set eligibility at up to 85% of State Median Income, many States set eligibility lower due to the high demand for affordable care among families with very low incomes. The new funding is designed to allow States to reach more working poor families who currently are not receiving a subsidy or assistance under the Child and Dependent Care Tax Credit.

OVERALL CHILD CARE PACKAGE

DISCRETIONARY PROGRAMS	Five-year Cost

1. Expand After-School Programs — **$0.5-1.0 billion**
Helps 1,500-4,000 schools provide after-school programs for 75,000-200,000 children

2. Standards Enforcement Fund — **$0.5 billion**
Helps states to improve licensing systems and enforce health and safety standards

3. Provider Training — **$250-300 million**
Provides 50,000 scholarships for child care workers to get advanced training

4. Research & Evaluation — **$50-150 million**

5. Expand Head Start & Early Head Start — **$1.4-1.7 billion**
Enables over 50,000 additional children to receive Early Head Start in 2003

TOTAL DISCRETIONARY — **$2.7-3.65 billion**

MANDATORY SPENDING	Five-year Cost

1. Expand Child Care and Development Block Grant — **$4-9 billion**
Increases number of low-income children receiving subsidies from 1 million in FY98 to between 1.54 million and 2.26 million in FY2003. See attached chart.

2. Early Learning Fund — **$2-3 billion**
Provides funds to states and communities to improve early childhood education and child care quality for children 0-5

TOTAL MANDATORY SPENDING — **$6-12 billion**

TAX CREDITS

1. Expand Child and Dependent Care Tax Credit — **$5.2 billion**
Raises top rate from 30% to 50% and phase-down from $10-28k to $30-59k, for avg. tax cut of $358 -- eliminating tax liability for most families below 200% of poverty w/high child care costs

2. Kohl Business Tax Credit for Child Care — **$1-2 billion**
Business credit for expenses incurred in building, expanding, or operating child care facilities

TOTAL TAX — **$6.2-7.2 billion**

OVERALL TOTAL FOR SPENDING AND TAX — **$14.9-22.8 billion**

NUMBER OF CHILD CARE SLOTS FOR LOW-INCOME FAMILIES THROUGH THE CHILD CARE BLOCK GRANT

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Baseline # of children served through CCDBG (current law)	**1 million children**	1.07 million children	1.13 million children	1.2 million children	1.26 million children	1.32 million children
Option One: $4 billion increase over 5 years	--	$0.8 billion	$0.8 billion	$0.8 billion	$0.8 billion	$0.8 billion
100% federal dollars		1.29 million children	1.35 million children	1.42 million children	1.49 million children	**1.54 million children**
80-20% match	--	1.34 million children	1.41 million children	1.48 million children	1.54 million children	**1.6 million children**
Option Two: $9 billion increase over five years	--	$1.2 billion	$1.5 billion	$1.6 billion	$2.0 billion	$2.7 billion
100% federal dollars		1.39 million children	1.55 million children	1.6 million children	1.82 million children	**2.07 million children**
80-20% match		1.48 million children	1.65 million children	1.75 million children	1.96 million children	**2.26 million children**

*The Child and Development Block Grant (CCDBG) is funded through three streams: discretionary, mandatory non-matching, and mandatory matching (based on FMAP: average of 56% federal, 44% state). Each stream is funded at roughly $1 billion in FY 1998. The mandatory matching stream is responsible for nearly all of the block grant growth in the outyears.

*These calculations use FY 1998 dollars and assume a per-child cost of $3,617, which largely represents the subsidy, but also includes set-asides and administrative costs.

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Talking Points:
The Choice Between Increases in Direct Subsidies and Making the CDCTC Refundable

There is a large unmet need for child care subsidies among low income families (i.e. below 200 percent of poverty) in which the mother works. Two options for increasing federal funding to this group are an increase in the amount of funding for the Child Care and Development Block Grant (CCDBG) and making the Child and Dependent Care Tax Credit (CDCTC) refundable. Currently, the CCDBG provided $3 billion in FY 1997 and is scheduled to increase to $3.7 billion by FY 2002. The CDCTC currently has a progressive rate structure, but it is non-refundable. Estimated tax expenditures are $2.8 billion for FY 1998.

ARGUMENTS FOR CDCTC REFUNDABILITY OVER INCREASED SUBSIDES

Reaching more people for a given expenditure. A fundamental tradeoff between increasing the CCDBG and making the CDCTC refundable is the tradeoff between giving a larger group of people a smaller subsidy and concentrating the subsidy so that larger subsidies are given to fewer people.[1] A refundable CDCTC provides a subsidy to *all* low income families with working mothers and children in paid child care who file federal tax returns. In contrast, states concentrate CCDBG subsidies on about 10 percent of eligible children, leaving approximately 9 million low income children whose mothers work without access to subsidies for paid child care.[2] Of course, credits through the CDCTC would be considerably smaller than those given out through the block grant.[3] However, such credits would provide a minimum level of support to all those in need; states could then use their CCDBG block grant funds to target subsets of this group as they see best.

Reaching groups who currently may not receive much child care assistance

- **The near-poor.** 70 percent of federal block grant funds go to families at or below poverty, leaving little funding for near-poor working families. These families are also unable to get the full benefits of the current CDCTC: Due to low tax liabilities, a taxpayer may not receive the full amount of the credit until his income exceeds 140 to 160 percent of poverty, depending on

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[1]We assume that the federal government cannot easily affect targeting and the amount of benefits per recipient in the subsidy program.

[2]HHS preliminary estimates based on FY 1995 data (the most recent available data). All estimates about the CCDBG are based on this data. Note that the subsidy program has been changed since then.

[3]At the existing credit rates, a low income family with two children could receive a maximum credit of $1440 per year ($720 for a family with one child). Annual federal subsidies in the programs that CCDBG replaced averaged approximately $3200 in FY 1995. Average annual child care expenditures were $3,848 in 1993.

family composition. Making the credit refundable would therefore benefit a population that is currently receiving little support from *either* the CCDBG or the existing CDCTC.

- **The non-welfare population.** States have an incentive to spend their CCDBG funding on the welfare population, in order to help move this population into the labor market and thus meet their work requirements and avoid financial penalties. Some anecdotal evidence suggests that states are targeting their subsides to the welfare population, at the expense of the working poor and near-poor, although data are not yet available to confirm this.[4] A refundable CDCTC, would ensure that non-welfare poor and near-poor working families also receive some federal funding for child care.

The link to quality. A subsidy administered through the tax code can bypass state regulations of child care providers and facilities. To the extent that these regulations are inefficient or serve to increase the cost of care, this is a benefit to providing subsidies through the tax code.

Administrative costs. Although in general a tax credit is less costly to administer than a direct subsidy program, given that the CCDBG administrative framework is already in place in all states, the administrative costs of the two options may be comparable.

State choices. A refundable CDCTC would provide subsidies to consumers of child care, while increases in the CCDBG might give states flexibility to use the money for provider subsidies. There is evidence that such provider subsidies are an inefficient use of resources, providing subsidies to providers for what they would have done anyway.

Political issues. It may be easier to chip away at direct subsidies than at a refundable tax credit.

ARGUMENTS FOR INCREASED SUBSIDIES OVER CDCTC REFUNDABILITY

Spreading money too thinly. The CDCTC provides a much smaller subsidy than average CCDBG subsidies (see above). It might be that a better use of scarce resources is to provide a smaller group with larger subsidies. For example, larger subsidies would have much larger effects on decisions to use paid care and decisions of mothers to work. Of course, an option is to increase the credit rates for low income families as well as making it refundable; this however would increase the cost of the reform.

Link to quality. A subsidy administered through the tax code can bypass state regulations of child care providers and facilities. To the extent that these regulations are important to ensure the basic health and safety of children and/or to promote their development, this is an advantage to increasing the CCDBG rather than making the CDCTC refundable.

Timing. The CDCTC is currently received once a year, when taxes are filed. Child care costs,

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[4]Furthermore, the CCDBG requires that states spend at least 70 percent of their mandatory funds (2/3 of the total) to provide child care services to families that are on TANF, trying to get off TANF through work activities, or at risk of becoming dependent on TANF.