NR

THE WHITE HOUSE

WASHINGTON

December 4, 1997

MEMORANDUM FOR DISTRIBUTION

FROM: **BRUCE REED**

RE: **CHILD CARE MEETING**

Attached please find a discussion paper for tomorrow's 11am meeting on child care.

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Domestic Policy Council Principals Meeting
December 5, 1997

PRELIMINARY 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. One option considered would raise the top rate from 30 percent (current law) to 50 percent and move the phase-out range from $10,000-$28,000 (current law) to $30,000-$59,000, indexed for inflation thereafter. 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). 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 2.2 million taxpayers with adjusted gross incomes below $59,000, providing an average tax credit of $233 and eliminating tax liability for most families with incomes below 200% of poverty. This option would cost $5.2 billion through the year 2003; less expensive options, using different rates and phase-out ranges, are also available. The credit could also be made refundable.

Pros:

- The CDCTC parameters have not been adjusted for inflation since 1982.
- Through the tax system, assistance can be provided directly to parents for their child care needs with 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 money income in the bottom quintile. 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 CDCTC unless their income is between 130 and 160 percent of poverty.
- 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.

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. Under one option considered (proposed by Senator Kohl), the credit could cover 50% of qualified costs incurred, but could not exceed $150,000 per year. This option has been estimated by the Joint Committee on Taxation to cost $2.6 billion over five years. The option could also be scaled back, for example, to cover a smaller percentage of qualified costs or to limit the types of qualified costs to which the credit could apply.

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 businesses take the credit only for expenses incurred in licensed child care facilities.

Cons:

- This may give businesses a tax credit for expenses they would have otherwise incurred -- and deducted or depreciated -- in the absence of the credit.
- The 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 (governments, non-profit organizations).

II. CHILD CARE AND DEVELOPMENT BLOCK GRANT. Increasing federal investment in the Child Care and Development Block Grant (CCDBG) will 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 the CCDBG, at least an additional 35,000 children from families with incomes below 200% of poverty will receive subsidized child care. A possible recommendation is to increase the investment by $4 billion over five years, which would provide subsidies for approximately 280,000 children per year. Less money would mean proportionately fewer additional children subsidized.

Pros:

- CCDBG provides significant relief to low-income working families for child care costs. Average child care costs are $74 per week, and the average subsidy is $66 per week.
- States currently target their CCDBG dollars to the lowest-income working families who are transitioning off or at risk of returning to TANF; additional resources will enable states to reach working families with slightly higher incomes.

-- Early data from HHS demonstrates 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.

Cons:

- The federal government has little control over the income levels of the families reached (as long as they are below the statutory limit of 85 percent of state median income).

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

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

1. *Child Care Provider Scholarship Fund.* Announced by the President at the White House Conference on Child Care, the Child Care Provider Scholarship Fund will 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. The President announced an investment of $250 million over five years.

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 an appropriation of $10 million for FY 1999.

Pros:

- Child care experts agree that well trained child care providers are a key element of child care quality.

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% for T.E.A.C.H. participants, as compared to 42% statewide.

B. *Research and Evaluation*. Establish a new fund to support data and research and technology development and utilization. Uses for the new funding would include research and demonstration projects, a National Center on Child Care Statistics, and a national child care hotline.

Pros:

- Currently, no funds are targeted to child care data and research on a national level. 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, and does not directly make care more affordable.

C. *Standards Enforcement.* Establish a fund for states to improve licensing 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 licensed 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.

Cons:

- Where state child care standards are inadequate, the fund may result in only marginal improvements.

D. *Early Childhood Development and Quality*

1. *Early Learning and Quality 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; and (5) 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.

Pros:

- Targets infants and toddlers, who are most vulnerable to health and safety risks in child care.

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

Cons:

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

2. *Head Start / 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 boosting 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 50,000 additional children to receive Early Head Start services in 2002 (relative to current law).

Possible recommendations for funding the above package of initiatives fall within the range of $1.5 to $4 billion over five years.

IV. SCHOOL-AGE OPPORTUNITIES

A. *Expansion of the 21st Century Community Learning Center Program*. The 21st Century Community Learning Program provides start-up funds to school-community partnerships to establish before- and after-school programs for school-age children at public schools. Changes to the program would be made to increase community involvement, target high-need communities, and require an increased local match to ensure that programs become self-sustaining after receiving start-up funding.

Pros:

- Responds to the tremendous need for after-school programs. Estimates of the number of "latch-key" children who are unsupervised during non-school hours ranges from 2 to 15 million.

- Increases the supply of after-school programs in a cost-effective manner by establishing or expanding programs at underutilized public school buildings.

- 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 and are run by school officials.

- The 21st Century Community Learning Center program has a proven record of support in this Congress (appropriated at $40 million for FY 1998); there is no need to create a new federal program.

Cons:

- It may be difficult to expand a newly funded program to a level that meets the great need for after-school programs.

- Some schools operate in an isolated manner and do not broadly engage parents or community organizations in their programs.

- This program funds only after-school programs located in public schools. However, families can use CCDBG subsidies to pay for care for children under 13 at other institutions.

B. *Coordination of Federal Efforts*. Create a multi-agency task force to assist three to five pilot cities identify, obtain, and make the best use of currently available federal resources --financial and human-- to provide comprehensive after-school programming for their children. This collaborative federal effort would work to remove impediments to access to or efficient use of federal funds and would seek to provide the communities with information from around the country regarding promising and effective programmatic strategies. In addition to assisting those communities meet an important need, this initiative is expected to lead to other federal multi-agency collaborative efforts in other areas.

Possible recommendations for funding the initiatives above fall within the range of $.5 to $2.5 billion over five years.

V. STAY-AT-HOME PARENTS

A. *Expand the reach of the Family and Medical Leave Act* (FMLA). Presently, FMLA covers employees of businesses with 50 or more employees. Options include expanding coverage to businesses with 25 or more employees, either all at one time or incrementally. Another option is to extend the time period from 12 weeks (current law) to 24 weeks.

Pros:

- By increasing the number of covered employees, more parents would have the ability to take time to care for their children. Lowering the employee threshold would cover 10 million additional employees or increase by 15% those employees covered by the Act.

- No expense to the U.S. Treasury.

Cons:

- Lowering the threshold will provoke strong business opposition and increasing the length of leave may do so as well.

- A very small percentage of employees take the maximum amount of leave now, so expanding the length of leave will help only a small percentage of people. Today, only 100,000 to 400,000 take the maximum leave of 12 weeks, out of the 12 million who take the leave.

- These options will not help those people who cannot afford to take leave. According to the Department of Labor, 65% of those who wanted to take leave to care for their newborn, foster, or adopted child did not do so for economic reasons.

B. *Provide paid parental leave coverage* for a limited amount of time for working parents below a set 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. This plan would use the unemployment insurance system to provide the leave payments, but would be paid for 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 at a crucial time in their children's development.

- This proposal is likely to modify behavior. According to the Department of Labor, 65% of those who wanted to take leave to care for their newborn, foster, or adopted child did not do so for economic reasons.

Cons:

- There are small substitution effects. Two to three percent of all employees receive paid leave from their employers, but many of these employees would not meet the income threshold for this benefit. However, many employees receive paid vacation leave (88% to 97%) and paid sick leave (50 to 65%), and they do use these benefits to take leave for the birth of a child.

- Parents who have not been in the workforce would not receive any benefit.

- There may be some business backlash because the cost of hiring will increase as more people take leave.

C. *Demonstration Project to Support Stay-at-Home Parents.* Establish a demonstration project for innovative approaches by states to enable parents to stay at home during their children's first years of life.

Pros:

- This proposal would target benefits to parents who stay at home during a crucial time in their children's development.

Cons:

- This option is likely to affect a small number of people.

D. *Expand the child tax credit for families with children of a certain age*. Build on the $500 per child tax credit. For example, families with children 0 to 3 years of age could receive an additional $250, at a cost of roughly $6.5 billion over 5 years, or families with children 0 to 1 year of age could receive an additional $500, at a cost of roughly $4.67 billion over 5 years.

Pros:

- Provides a benefit to both stay-at-home parents and working parents targeted to the earliest years of their children's lives, a time at which couples usually have lower incomes.

Cons:

- This option will provide small benefits to a large group of people and is unlikely to modify behavior.

- The tax code already favors stay-at-home parents through marriage bonuses, while the Social Security system favors this group by providing them benefits without requiring that they work. In addition, the Administration already has supported policies benefiting stay-at-home parents, such as the per child tax credit and eased access to the home office deduction.

APPENDIX: 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% (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.

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. 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. By law, states may serve families below 85% of state median income, and must spend 4% of their funds on efforts to improve child care quality.

	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	Approximately 96%	19%
% 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)	$419 (average tax relief per family with AGI below 200% of poverty)

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.

Effect of Modifying Child and Dependent Care Tax Credit
Single Head of Household, One Child Under 13, $20,000 of Income, and $1,900 of Child Care Expenses
1999 Dollars

	Current Law	Option
Earnings	20,000	20,000
Other Forms of Income	0	0
Child Care Expenses	1,900	1,900
Adjusted Gross Income	20,000	20,000
-- Standard Deduction	-6,400	-6,400
-- Exemptions	-5,600	-5,600
Taxable Income	8,000	8,000
Pre-Credit Income Tax Liability	1,200	1,200
-- Child and Dependent Care Credit	-475	-950
-- $500 Child Credit	-500	-500
-- Earned Income Tax Credit	-1,152	-1,152
Post-Credit Income Tax Liability	-927	-1,152
Change in Tax Liability From Current Law		-225

Department of the Treasury
Office of Tax Analysis

December 4, 1997

Option: Child and dependent care tax credit rate would be 50% for taxpayers with AGI of $30,000 or less
Credit rate would be reduced by 1 percentage point for each additional $1,000 of AGI.
Credit rate would be 20% for AGI above $59,000.

Effect of Modifying Child and Dependent Care Tax Credit
Single Head of Household, One Child Under 13, $25,000 of Income, and $2,500 of Child Care Expenses
1999 Dollars

	Current Law	Option
Earnings	25,000	25,000
Other Forms of Income	0	0
Child Care Expenses	2,500	2,500
Adjusted Gross Income	25,000	25,000
-- Standard Deduction	-6,400	-6,400
-- Exemptions	-5,600	-5,600
Taxable Income	13,000	13,000
Pre-Credit Income Tax Liability	1,950	1,950
-- Child and Dependent Care Credit	-528	-1,200
-- $500 Child Credit	-500	-500
-- Earned Income Tax Credit	-353	-353
Post-Credit Income Tax Liability	569	-103
Change in Tax Liability From Current Law		-672

Department of the Treasury
Office of Tax Analysis

December 4, 1997

Option: Child and dependent care tax credit rate would be 50% for taxpayers with AGI of $30,000 or less
Credit rate would be reduced by 1 percentage point for each additional $1,000 of AGI.
Credit rate would be 20% for AGI above $59,000.

Effect of Modifying to Child and Dependent Care Tax Credit
Married Couple, Two Children Under 13, $35,000 of Income, and $4,050 of Child Care Expenses
1999 Dollars

	Current Law	Option
Combined Earnings (Both Employed) 1/	35,000	35,000
Other Forms of Income	0	0
Child Care Expenses	4,050	4,050
Adjusted Gross Income	35,000	35,000
-- Standard Deduction	-7,300	-7,300
-- Exemptions	-11,200	-11,200
Taxable Income	16,500	16,500
Pre-Credit Income Tax Liability	2,475	2,475
-- Child and Dependent Care Credit	-810	-1,823
-- $500 Child Credit	-1,000	-1,000
-- Earned Income Tax Credit	0	0
Post-Credit Income Tax Liability	665	0
Change in Tax Liability From Current Law		-665

Department of the Treasury
Office of Tax Analysis

December 4, 1997

1/ Earnings of lower earner are greater than child care expenses.

Option: Child and dependent care tax credit rate would be 50% for taxpayers with AGI of $30,000 or less
Credit rate would be reduced by 1 percentage point for each additional $1,000 of AGI.
Credit rate would be 20% for AGI above $59,000.

Effect of Modifying Child and Dependent Care Tax Credit
Married Couple, Two Children Under 13, $50,000 of Income, and $4,050 of Child Care Expenses
1999 Dollars

	Current Law	Option
Combined Earnings (Both Employed) 1/	50,000	50,000
Other Forms of Income	0	0
Child Care Expenses	4,050	4,050
Adjusted Gross Income	50,000	50,000
-- Standard Deduction	-7,300	-7,300
-- Exemptions	-11,200	-11,200
Taxable Income	31,500	31,500
Pre-Credit Income Tax Liability	4,725	4,725
-- Child and Dependent Care Credit	-810	-1,215
-- $500 Child Credit	-1,000	-1,000
-- Earned Income Tax Credit	0	0
Post-Credit Income Tax Liability	2,915	2,510
Change in Tax Liability From Current Law		-405

Department of the Treasury
Office of Tax Analysis

December 4, 1997

1/ Earnings of lower earner are greater than child care expenses.

Option: Child and dependent care tax credit rate would be 50% for taxpayers with AGI of $30,000 or less
Credit rate would be reduced by 1 percentage point for each additional $1,000 of AGI.
Credit rate would be 20% for AGI above $59,000.

NEC EARLY CHILDHOOD EDUCATION AND CHILD CARE PROPOSAL
November 25, 1997

I. Early Childhood Education

1. *Early Head Start*. Increase the Early Head Start (children 0-3) set-aside from the 5 percent under current law to 10 percent by 2002, combined with an overall increase in Head Start funding to ensure that boosting the set-aside does not reduce the resources available for children 3-5. Doubling the set-aside would allow more than 50,000 additional children to receive Early Head Start services in 2002 (relative to current law). Early Head Start funds activities other than child care, such as parent training in child development, home visits and family support services (e.g., counseling). If the Administration's Head Start reauthorization proposal is not developed in time for particular provisions to be included in the FY 99 budget, **the budget should still feature broad commitments to, for example, at least double Early Head Start funding.**

Five-year cost: $500 million

and either of the following options:

2. *Combined local/State early childhood education funding*. Under this initiative, 50 percent of the funds would be passed through to local collaboratives and 50 percent would be State discretionary dollars; both the State and local funds would be devoted to addressing the needs of pre-school children.

Each local collaborative would submit an application to the State administering agency describing how the community would use funds to meet the developmental needs of young children. **The local funds could be allocated by formula or through a competitive process, but States would be required in either case to use child poverty as one of the major factors in distributing the dollars**. Local collaboratives and the State would agree upon goals, and States would be encouraged to make continued funding contingent on meeting these targets. The funds could be used for a wide range of activities, including but by no means limited to home visits, courses for parents in child development, improvements in educational and other aspects of center-based and family (pre-kindergarten) child care, speech therapy, and developmental screenings. **These early childhood education activities in most cases would benefit both working and stay-at-home parents**.

The local collaboratives would consist of, for example, representatives of public agencies, business and community-based organizations such as Head Start programs, as well as local elected officials and parents of young children.

States would also have considerable flexibility with regard to their 50 percent of the funds. **They would, however, as a condition of receiving the State funds, have to set benchmarks concerning child care standards in the areas of education, health and/or safety**; e.g., provider educational qualifications, compensation/reimbursement rates, staff-child ratio, condition of the physical plant, licensing requirements (which providers, especially family child

care homes, must be licensed) and frequency of licensing inspections. States could establish benchmarks in a wide range of areas, but continued State-level funding would be contingent on fulfilling these commitments (or making substantial progress in that direction). States would have the option of setting outcome goals--for example, significant improvement in overall quality as measured by an impartial evaluator.
NOTE: The State dollars would not have to be devoted entirely to achieving the benchmarks. **Provided the commitments were fulfilled, States could use the funds for early childhood education efforts other than improvements in child care quality**.

There would be a modest (e.g., 20 percent) cash match for the State funds; the match could be provided by local or private sources. There would be no match for the local funds. **States that declined to set benchmarks or provide the match would still receive the local dollars to pass through to communities, but would not receive the State funds**. The program would also include a small set-aside (1 percent or less) for a national evaluation of State and local efforts funded under the initiative. **This funding should be on the mandatory side if at all possible.**

Suggested funding levels:

FY 1999:	$200 million
FY 2000:	$400 million
FY 2001:	$800 million
FY 2002:	$1 billion
FY 2003:	$1.2 billion
Five-year cost:	**$3.6 billion**

3. *Separate State and local pools of early childhood education funding*. Similar to Option 2, except that the State and local funding would be separate. Communities would apply directly to a Federal administering agency for the local funds, which could be allocated by formula or on a competitive basis (or through a combination of the two). Intermediate goals would be mutually arrived at by each community and the Federal agency, and continued funding would be dependent on progress toward those goals.

The State funds would be provided through a separate funding stream, for example, a CCDBG set-aside. States would still be required to set and achieve benchmarks with regard to child care educational, health and/or safety standards. The match would be limited to the State pool, and the set-aside for evaluation would be limited to the local funding stream.

Five-year cost: **$3.6 billion** (same as Option 2)

II Affordability

Child and Dependent Care Tax Credit. Raise the top child and dependent care credit (DCTC) rate to 50 percent and move the phase-out range from $10,000-$28,000 (current law) to $30,000-$59,000, and index it for inflation thereafter.

Presently, the DCTC phases down from a high of 30 percent at $10,000 or less of income to 20 percent at more than $28,000 (a phase-out rate of one percentage point per $2,000 of income). Under this option, the credit would phase out at a rate of 1 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.

Five-year cost: **Probably about $3 billion** (to be scored by Treasury)

Child Care and Development Block Grant. Increase CCDBG funding by $700 million per year. To access the additional funds, States would be required to set benchmarks concerning, for example, eligibility and priority (i.e., targeting) levels, copayments and reimbursement rates. States would have considerable flexibility regarding the benchmarks, but these benchmarks would not be simply guidelines. Continued access to the additional funds would be contingent on progress toward the benchmarks.
NOTE: States that expanded eligibility (as a benchmark) would also be expected to serve a non-negligible number of families at these higher income levels, rather than simply broadening eligibility on paper.

Five-year cost: **$3.5 billion**

III After-school care

Do we really think they'll let us do this??

21st Century Learning Centers. Expand the Department of Education's 21st Century Learning Centers program (which is designed to increase use of school facilities during non-school hours) to provide funds to school-community partnerships for after-school programs in high-need urban, rural and suburban communities. Before-school activities could also be funded with these dollars, but the program would be primarily for after-school efforts. By increasing the funding level from $40 million to $400 million annually and targeting the dollars to higher-poverty local education agencies (LEAs), the program could provide funding to 4,300 LEAs with 60 percent of the nation's poor children. There would be a one-to-one local match, although this requirement might be phased in over several years. [This is the Education proposal].

Five-year cost: **$2 billion**

TOTAL FIVE-YEAR COST FOR INITIATIVE: **$12-13 BILLION**

Draft for Discussion Purposes Only
December 2, 1997

OPTIONS FOR CHILD CARE INITIATIVE

This would prov. [illegible]
(tax chart)

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. One option considered would raise the top rate from 30 percent (current law) to 50 percent and move the phase-out range from $10,000-$28,000 (current law) to $30,000-$59,000, indexed for inflation thereafter. 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). 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. This option would cost $5.2 billion through the year 2003; less expensive options, using different rates and phase-out ranges, are also available. The credit could also be made refundable.

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. Under one option, the credit could cover 50% of qualified costs incurred, but could not exceed $150,000 per year. This option has been estimated by the Joint Committee on Taxation to cost $2.6 billion over five years.

II. Child Care and Development Block Grant. Options for increasing federal investment in the Child Care and Development Block Grant (CCDBG) include:

A. *Distribute additional funding to States by current CCDBG formula without restriction.*

B. *Require that states set benchmarks to access additional funding.* To access additional funding, states would be required to set benchmarks, concerning, for example, eligibility and priority (i.e. targeting) levels, copayments, and reimbursement rates. While states would have considerable flexibility in setting the benchmarks, continued additional funding would be contingent on progress toward meeting the benchmarks.

A possible recommendation is to increase the investment by $4 billion over five years, which would provide subsidies for approximately 280,000 children per year. Less money would mean proportionately fewer additional children subsidized.

(HHS estimates ...

III. Quality/Early Learning. Options for increasing federal investment in the quality of child care and early learning include:

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

1. *Child Care Provider Scholarship Fund.* Announced by the President, the Child Care Provider Scholarship Fund will 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. The President announced an investment of $250 million over five years.

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

B. *Consumer Education and Research.* Establish a new fund to support consumer education, technology development and utilization, data and research. Uses for the new funding would include 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.

C. *Standards Enforcement and Licensing Support.* Establish a fund for states to improve and enforce state child care health and safety standards. Activities supported would include increasing unannounced visits to licensed child care centers and family day care homes, and improving state licensing of child care settings.

D. *Early Childhood Education.* Increase investment in early childhood education and learning activities. Options for the funding mechanism include:

0-5

1. *Early Childhood Education Fund.* Establish a grant program to support specific activities to improve safety, quality, and learning for young children in child care. The fund would support, among other things, health and safety improvements and parental involvement in child care. Options for the funding mechanism include:

a) quality
b) early learn.

a) *Combined local/state funding for early childhood education activities.* 50 percent of the fund would be passed through states to local collaboratives and 50 percent would be state discretionary dollars. The local funds could be allocated by states by formula or through a competitive grant process, but states would be required to use child poverty as one of the major factors in distributing the dollars. States would have considerable flexibility with their 50 percent of the funds, but would be required to set benchmarks concerning child care standards in the areas of education, health and/or safety. The fund would require a modest (e.g. 20 percent) cash match for

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Mary

the state funds. There would be no match for the local funds.

b) *Funding for Local Collaboratives through States.* Funding would entirely pass through states to local collaboratives through a state-administered competitive grant program, with a modest (e.g. 20 percent) state match. States would have considerable flexibility in administering the grant program, but would be required to use child poverty as one of the major factors in distributing the dollars.

c) *Funding for Local Collaboratives through Federal Competitive Grant Program.* Funding would pass directly from the Federal government to local collaboratives through a federally-administered competitive grant program. The feasibility of this mechanism would depend on the level of funding for the program.

2. *Head Start / 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 boosting the set-aside does not reduce the resources available for children 3-5. Early Head Start funds activities other than child care, such as parent training in child development, home visits, and family support services. One option would be to double the set-aside to enable more than 50,000 additional children to receive Early Head Start services in 2002 (relative to current law).

Possible recommendations for funding the above package of initiatives fall within the range of $1.5 to $4 billion over five years.

IV. School-Age Opportunities.

A. *Increasing Federal Investment in School-Age Programs.* Options for the funding mechanism include:

1. *Invest in a Two-Pronged School-Age Initiative.* Both expand the existing 21st Century Community Learning Centers program for public-school based programs and establish a new fund for community-based agencies to increase supply of school-age opportunities. The 21st Century Community Learning Program provides start-up funds to school-community partnerships to establish before- and after-school programs for school-age children at public schools. The expansion would support school-based programs in targeted high-need communities, 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. Creating a fund for community use would support non-school-based programs; funds would pass through the states (by CCDBG formula with matching and benchmark-setting requirements) to communities, with 50% targeted to areas with high concentrations of poverty.

2. *Expand and Modify the 21st Century Community Learning Centers program.* Expand the existing 21st Century Community Learning Centers program and modify it so that non-school-based efforts are eligible for support.

Pro: [illegible] favor schools — i.e. churches & [illegible]

call: Dave Jones

3. *Expand the existing 21st Century Community Learning Centers program.*

B. *Coordination of Federal Efforts.* Set up a multi-agency task force to focus on youths during after-school hours in three to five pilot sites. The task force would gather and organize this information by the purpose for which it may be used, rather than by the agency administering it, to be of better use to communities seeking to determine what assistance is available.

3.5

<u>Possible recommendations for funding the initiatives above fall within the range of $.5 to $1.5 billion over five years.</u>

V. **<u>Stay-at-Home Parents</u>**.

A. *Leave Options for Working Parents.*

1. *Expand the reach of the Family and Medical Leave Act* (FMLA) to cover businesses with 25 or more employees. This could also be done incrementally. Presently, FMLA covers employees of businesses with 50 or more employees.

2. *Expand the period of time for FMLA* from 12 weeks (current law) to 24 weeks. key effect 400,000 — [illegible]

3. *Provide paid parental leave coverage* for a limited amount of time for working parents below a set income level. For example, a new paid leave plan could provide 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. This plan would use the unemployment insurance system to provide the leave payments, but would be paid for by the federal government. on c. 2001 use for 10 yrs

B. *Demonstration Project to Support Stay-at-Home Parents.* Establish a demonstration project for innovative approaches by states to enable parents to stay at home during their children's first years of life and supporting them in their role as their children's first teacher, such as through home visitation.

C. *Tax Credits.* Options include:

Move to tax

1. *Expand the child tax credit for families with children of a certain age.* For example, families with children 0 to 3 years of age could receive an additional $250, at a cost of roughly $6.5 billion over 5 years, or families with children 0 to 1 year of age could receive an additional $500, at a cost of roughly $4.67 billion over 5 years.

2. ~~*Modify the Child and Dependent Care Tax Credit* (CDCTC) to cover certain kinds of expenses for those parents who stay at home to raise a child.~~

CHILD CARE INITIATIVE

At the White House Conference on Child Care on October 23, 1997, the President announced that he will unveil a child care initiative in his 1998 State of the Union Address. Options for this initiative will be forwarded to the President for his consideration and will stem from the policy development process led by the Domestic Policy Council, with significant input from various federal agencies and White House offices.

To outline the Child Care Initiative, we must address two questions:

I. How much money will we invest?

II. What do we primarily want to accomplish?

A. Possible Objectives

- **Assisting More Parents With Child Care Costs**
- **Assuring Safety and Quality**
- **Increasing Supply of Care for Children of All Ages**

Within each of these objectives, there are questions to address and strategies to consider.

I. Assisting More Parents With Child Care Costs

A. Possible Objectives (What do we primarily want to accomplish?)

- Assisting lowest income families
- Assisting low-income working families
- Assisting with cost of care for young children
- Assisting with cost of care for school-age children
- Letting states evaluate and determine need

B. Strategies to Consider

- Increasing Child Care and Development Block Grant (CCDBG) funds to states by formula
- Modifying and/or making refundable the Child and Dependent Care Tax Credit (CDCTC)

II. Assuring Safety and Quality

A. Possible Objectives (What do we primarily want to accomplish?)

- Targeting safety improvements
- Targeting child development enhancement
- Targeting the quality of child care serving young children
- Targeting school-age care quality
- Targeting family day care quality
- Targeting training of child care providers
- Targeting consumer information
- Targeting research and evaluation

B. Strategies to Consider

- Increase CCDBG funds to states and thereby increase quality set-aside, letting states decide where to make quality improvements
- Create a Child Care Quality Fund by targeting increased CCDBG funds to states for community initiatives of specified activities to improve quality and/or for specified age-groups, e.g.:
  --in-service or pre-service health, safety and child development programs
  --improvement and enforcement of licensing programs
  --creation and support of family child care networks and/or family child care home visitation programs
  --Healthy Child Care America activities, including health and mental health consultation
  --parent/consumer education
  Measure improvements in Child Care Quality Fund through:
  --state commitment and state plans up-front
  --established benchmarks
- Expand scholarship/training/compensation proposal announced on 10/23/97
- Create a federal fund to target consumer education and/or research that would:
  --establish a consumer hotline for parents
  --support a public awareness campaign
  --establish a national center for child care statistics
  --support innovative uses of technology
  --support research and demonstration on child care

III. Increasing Supply of Care for Children of All Ages

A. Possible Objectives (What do we primarily want to accomplish?)

- Increasing supply of care for young children
- Increasing supply of care for school-age children
- Increasing supply of on-site child care
- Increasing supply of odd-hour care

B. Strategies to Consider

- Increase CCDBG funds to states, giving states flexibility to build supply
- Create and/or build on existing funding streams to states for schools to offer before and after-school opportunities
- Create a separate funds to states for communities to build supply of school-age care opportunities
- Provide tax credits to businesses to create, renovate and/or operate child care for employees

ADDITIONAL ISSUES TO CONSIDER:

1. Head Start. As a part of this initiative, do we include Head Start reauthorization and/or expansion? Pros? Cons?

2. Parents who want to stay at home. How do we provide assistance?

3. USDA food program. What opportunities are available to improve quality and supply through the USDA program?

4. Where can we combine various options (i.e. quality and supply) to streamline proposals?

THE WORKING FAMILY
CHILD CARE INITIATIVE 1999-2002

During the last quarter century, the entrance of mothers into the paid labor force has changed the face of the American work force. Currently, a majority of American families is comprised of either two working parents or is headed by a single working parent. Child Care has become the "new neighborhood". Millions of America's families depend on access to affordable quality child care in order to be productive workers. Their children depend on child care that provides safe, healthy and productive learning environments.

Child Care is an issue that cuts across income lines. However, the struggle to find affordable quality care is particularly acute for low-income working families. The new work requirements contained in the welfare reform law will result in a great number of parents going to work and placing their children in child care. With welfare reform's emphasis on labor force participation of mothers, child care has become an integral aspect to determining the success of welfare to work efforts. As a result, access to affordable and high-quality child care is of primary concern.

As we move into the 21st century, it is time to take bold new action to develop a child care system that works for all of America's working families. This initiative is designed to assure that the FY 1999 budget lays the foundation upon which we can begin to build a more effective child care system to support working families and promote child development. It is designed to move us towards a vision in which:

> ***Every community will have a continuum of affordable, quality care for children from birth through early adolescence.***

The Need for Affordable Quality Child Care

Affordability

Access to affordable and high-quality child care remains out of reach for many American families. While the average family pays about 7 percent of its income for child care, child care consumes about a quarter of the income of low-income families who pay for care. Furthermore, as the demand for affordable child care services increases, waiting lists for child care assistance for these families continue to grow.

Federal child care assistance in FY 1997 provides $2.9 billion in direct subsidies, serving a little more than one million children. Although estimating the extent of the need for child care assistance is difficult, if we consider working families with children earning at or below 150 percent of poverty (or about $20,000 for a family of three), we are currently providing child care subsidies for less than one quarter of them.

In addition to child care assistance, the Dependent Care Tax Credit provides more than $2 billion in tax relief for child care expenses. However, because it is not refundable, the vast majority of low-income working families are unable to access this assistance. For these families, the amount of the credit has not been adjusted since 1982, despite significant increases in the cost of care over the last 15 years.

Supply of care

Even when funds are available, the lack of adequate supply 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. For example, while there are currently 50,000 school age programs, serving 1.7 million children across the country, there are more than 16 million school age children who have working families. Moreover, this situation is further exacerbated by the lack of "odd-hour care" for families working nightshifts.

Quality

Research has documented the importance of quality child care programs to school readiness. The first years of life are critically important to determining academic success and studies have shown that quality school age child care can have a positive impact on academic achievement, especially for children who are most at risk for school failure.

Despite this correlation between quality of care and education, many stories have raised serious concern about child care quality during the past decade. From the "National Child Care Staffing Study" released in 1989 to the more recent "Cost and Quality Study", we know that the quality of child care for most children remains far from adequate. Furthermore, in recent months, even the basic health and safety of child care has become a national concern.

Although 4 percent of federal dollars are set aside to address quality, there are limited additional resources to help build infrastructure, provide training and consumer services, and make other improvements. Child care providers are the key to a quality program. However, the majority of states require no pre-service training for teachers or family child care providers. Child Care teaching staff typically earn about $6.50 an hour or a little more than $12,000 per year and often receive no benefits. This lack of support for the child care workforce results in high turnover, affecting the overall quality of care.

Guiding Principles for Child Care Policy

Meeting this critical need calls for major new public and private investment and a bold comprehensive approach based on the following principles:

- Child care is critical to workforce development and child development.

- A broad range of working parents need some assistance in accessing affordable quality care.

- The quality of care affects school readiness and academic achievement.

- The quality of care is directly related to the investments made in programs and providers.

- All segments of society: parents, schools, employers, health providers, other community agencies, states and the federal government must be involved to ensure access to adequate care.

Goals and Outcomes

This initiative sets forth an approach to address three key issues: affordability, school age care and quality.

We propose the following outcomes for this investment.

To improve the economic and social well-being of working families with children by:

- Increasing the number of low income families with access to affordable child care by doubling the number of children receiving direct child care assistance by the year 2002 (reaching 2 million low-income children).

- Increasing the number of families with school-age children who have access to child care by doubling the number of programs serving school age children in after-school and summer programs, including youth sport programs.

To improve the quality of child care to promote childhood development by:

- Improving the quality and accessibility of care in more than 500 communities across the country, with a particular focus on assuring the health and safety and school readiness of children 0-5.

o Increasing the number of trained child care providers by expanding access to training and other supports for 50,000-75,000 child care providers per year.

o Increasing the number of informed consumers and improve child care data and the use of technology by increasing access to consumer education, innovation and data collection in every state.

FY 1999 Budget Request

This proposal will require changes in Title VI of the Personal Responsibility and Work Opportunity Reconciliation Act of 1986. The proposed funding level for **The 1998 Amendments to The Child Care and Development Block Grant** is $2 billion in mandatory funding for FY 1999.

We are also proposing that this effort be accompanied by changes in the Dependent Care Tax Credit to make this authority more supportive of working low-income families.

The following five initiatives are designed to address the three key issues of **affordability, quality and school age care**. These initiatives build on existing developments in the field, attempting to bring promising programs and practices to scale.

Affordability

1. **Child Care Assistance for Working families**

   o **Increase funding for the Child Care and Development Fund by $700 million in order to provide at least 1.25 million child care slots in FY 1999, increasing to 2 million slots by FY 2002.**

   o States would be allowed to integrate these funds into their Child Care and Development Fund and match with state, local or private sector dollars.

   o Like existing resources in the CCDF, these dollars would enable parents to choose child care in their preferred setting, subject to State health and safety standards.

   o States would be required to set benchmarks to expand eligibility to serve more working families, to make copayments more affordable, and to improve reimbursement rates.

Quality

2. **Child Care Caring Communities**

   o **Increase CCDF funding by $800 million.**

- o Distribute through the CCDBG State formula.

- o Grants of $500,000-$2 million would be made to establish family child care networks, promote accreditation, provide consumer education, provide training, meet standards, promote health and parent education in child care and improve access and affordability. Communities would select priorities based on local need, with a focus on care for infants and toddlers.

- o Funds would be federal with a 20 percent local match. Funds would go from the State level to communities across the states.

- o States would have to assure that they would take steps to incorporate key protections for children's health and safety outlined in "Stepping Stones" developed by the American Academy of Pediatrics and the American Public Health Association.

- o Communities would have to form partnerships with the private sector to access funds.

3. **T.E.A.C.H USA (Teacher Education and Compensation Helps).**

- **o Increase CCDF funding by $150 million.**

- o This builds off the success of the T.E.A.C.H program launched in North Carolina and now emerging in 4 other states. (T.E.A.C.H. is a State program that offers a variety of educational scholarship opportunities to child care providers that enhances their skills and marketability.)

- o Funds would be all federal to state, using the CCDBG formula.

- o States would have agree to set standards for child care provider preparation. The licensure of providers would be encouraged.

- o Funds would primarily be for scholarships, however states could set aside a portion for program development.

4. **The 21st Century Child Care Fund**

- **o Increase CCDF funding by $50 million.**

- o Funds would be administered directly from the Federal level. HHS would:

    - o Establish a consumer hotline for parents which would connect with local resource and referral agencies.

- o Launch a public awareness campaign for parents on choosing and monitoring quality care and parent involvement.

- o Establish a National Center for Child Care statistics.

- o Support innovations in the use of technology to encourage distance learning and interactive computer programs as part of child care teacher preparation.

- o Support research and demonstrations on child care issues that could benefit other communities.

School-age care

5. **Making the Most of Out of School Time** (The MOST USA Initiative is a community-wide process for expanding the supply of school age child care.)

- o **Increase CCDF funding by $300 million.**

- o This builds upon projects successfully launched across the country to build the quality, supply and affordability of school age care in communities.

- o Funds would be distributed to the states based on the CCDBG formula.

- o Funds would be federal with a 20 percent local match. Funds would go from the State to schools or community based agencies.

- o Funds would be provided to improve and expand school age services from preschool to early adolescence.

- o The National Youth Sports Program would be integrated into this part of the initiative in order to give children opportunities to participate in organized sports programs during the time they are not in school.

Other Participating agencies:

The involvement of other Federal agencies, both within and outside of HHS, will be determined in the upcoming weeks.

Dependent Care Tax Credit

HHS staff is currently working with Treasury to develop proposals to expand the Dependent Care Tax Credit and make it more supportive of low income working families. Issues under consideration include increasing the income level at which families receive the full credit, increasing the amount that can be claimed towards the credit, and exploring issues around refundability.

FY 99 Budget Request
Child Care

Affordability	$ 700 million
Quality	$ 1 billion
School-Age	$ 300 million
TOTAL	$ 2 billion

DEAR LORD BE GOOD TO ME THE SEA IS SO WIDE AND MY BOAT IS SO SMALL
Children's Defense Fund

MEMORANDUM

TO: Gene Sperling

FROM: Marian Wright Edelman

DATE: November 25, 1997

RE: **Fiscal Year 1999 and Beyond: Investing in Healthy, Safe, School-Ready Children**

I look forward to meeting with you on Monday at 3:00 p.m.

In developing your FY 99 budget, the Administration has an extraordinary opportunity to help shape the direction our nation will take in the next century and millennium. The resources -- whether from the budget surplus, reducing corporate welfare subsidies, restraining defense spending, new taxes on tobacco, a tobacco settlement, or redefined federal spending priorities -- are available to make the necessary investments in children. We urge you to make these investments a reality by including in your FY 99 budget the following:

Child Care:	
Quality Improvements:	$1 billion a year over next five years
School-age Care:	$1 billion a year over next five years
Affordability:	$1 billion a year for the next three years $1.5 billion for fourth and $2 billion for fifth year
Head Start:	$1 billion increase a year over next five years
Youth Violence Prevention:	$500 million a year over the next five years

Each is described below.

1. <u>Child care</u>. We applaud the Administration's efforts to focus national attention on child care. It is critical, however, for the FY 99 budget to invest enough to significantly solve pressing child care problems confronting so many families and children. Our budget requests arise out of discussions before and after the recent White House Conference on Child Care and focus groups we have recently completed.

- **<u>Quality: At least $1 billion a year for the next five years to help states improve the quality of child care</u>.** The importance of the first three years of life in a child's development is clear. Funding should be targeted towards helping states meet the goals of ensuring that children begin school ready to learn; improving the quality of care for infants and toddlers; and ensuring that children in child care are in safe settings that are adequately supported and

25 E Street NW
Washington, DC 20001
Telephone 202 628 8787
Fax 202 662 3510
E-mail
cdfinfo@childrensdefense.org
Internet
www.childrensdefense.org

inspected. A variety of approaches exist to improve child care quality including increased funds for inspections to more training and education for child care providers. But all depend upon additional funds which should be linked to specific, measurable outcomes that improve program quality. Polling and focus group surveys indicate that the quality of child care is foremost on parents' minds. A strong Administration initiative to improve the quality of child care will enjoy broad public support. Members of both parties have already introduced legislation to improve child care quality. Parents and the public support strong policies that include standards to ensure that children are safe and well cared for in child care programs.

- **Before-and-after-school care. At least $1 billion a year for the next five years to help communities start, operate, and expand programs for children and youth before and after school, during school holidays, and summer months.** Parents and communities are increasingly concerned about the need for more before-and-after-school care for school-age children for good reason. Nearly five million children are home alone after-school. Juvenile crime peaks between 2:00 and 6:00 p.m. These proposed funds would enroll 600,000 to 650,000 children in school-age programs. The price of not providing these services -- in juvenile crime, teen pregnancies, and other societal costs -- far outweighs their cost.

- **Affordability: At least $1 billion a year for three years, $1.5 billion in the fourth year, and $2 billion in the fifth year ($6.5 billion over five years), in the Child Care and Development Block Grant to help low-wage, working families pay for child care.** The 1996 welfare act requires millions of women to enter the workforce in low-wage jobs, joining millions of other women already in the workforce whose incomes do not adequately cover the cost of child care. We now provide child care assistance to less than one in ten eligible families. Direct subsidies, through vouchers or other means, are the most effective way of helping these families whose incomes are simply too low to benefit from tax credits or deductions. While we hear that the Administration is considering improvements in the Dependent Care Tax Credit (DCTC) to help families pay for child care and support mothers who choose to stay at home, tax credits are an ineffective mechanism for helping families in greatest need of assistance. The bulk of DCTC funds go to families earning over $30,000. It is critical that any Administration initiative to help families with the costs of child care focuses first on families with incomes below $35,000. We estimate that up to 450,000 children in low-wage working families would benefit from the additional proposed funds for the CCDBG program in the first three years. Additional increased funding levels are proposed for the fourth and fifth years to address the increased demand for child care assistance that will result as the work requirements of the 1996 welfare act take effect throughout the nation.

- **Child and Adult Care Food Program Improvements: $88 million a year for five years to enable CACFP to serve more children better.** Programmatic changes are needed in the Child and Adult Care Food program (CACFP) to better serve children both in child care and after-school settings. The eligibility age for CACFP should be raised to 18 so that programs serving adolescents can feed them. Changes are needed to make it easier for schools providing before-and-after-school care to participate in CACFP and for recreation programs and youth programs to offer CACFP snacks and/or meals. For-profit centers that serve significant (25%) numbers of children eligible for free and reduced price school lunches should be allowed to participate in CACFP; family child care homes should have their costs per meal increased; and sponsoring agency administrative costs should be increased. Finally, child care centers and family child care homes should have the option of serving children a fourth meal or a snack.

2. <u>**Head Start**</u>. <u>**At least $1 billion a year increase for the next five years.**</u> If all children are to enter school ready to learn, Head Start must be able to serve more children, reach families earlier, and expand hours to help families moving from welfare to work. We are disappointed that the Administration backed away from its initial commitment to fully fund Head Start by 1998, and urge additional funds to allow Head Start to serve more children, maintain program quality, gradually expand Early Head Start to serve younger children, and have the flexibility to extend hours and months of operation to serve working families.

3. <u>**Youth violence prevention**</u>. <u>**At least $500 million a year for the next five years to support a juvenile justice prevention strategy, including a set aside in any new juvenile justice legislation for prevention activities**</u>. Congress is moving forward with a juvenile crime bill (S.10) which would turn the clock backward for children and sets aside <u>no</u> money for prevention activities. It also has just passed a Commerce, State, Justice appropriations bill for FY 98 authorizing a new "juvenile accountability block grant" that allocates no money for prevention activities. We hope the President will use his veto pen to block these very bad policies from becoming law, and provide stronger leadership in directing attention to the importance of effective juvenile crime and violence prevention activities and keeping children safe. Rand and other studies have shown that more costly prisons do not work and all of us must be concerned about the growing criminalization of minority youth and their treatment as adults. We will be mounting a strong campaign against S.10 but the Administration's leadership is crucial

4. <u>**Youth jobs.**</u> <u>**We urge the Administration to develop a youth jobs initiative to address widespread youth unemployment and hopelessness.**</u> Although the overall unemployment rate has dropped to new lows, the lack of employment opportunities for young people, especially in low-income communities, remains a deep and serious problem. The unemployment rate for youths ages 16 to 19 in October was 15.3, over three times the 4.7 over-all unemployment rate. Yet funding for employment programs for at-risk youths has steadily declined. The Job Training Partnership Summer Youth Employment program currently provides about $130 million -- drastically below its pre-rescission 1995 level of nearly $600 million. The Administration can play a leadership role in promoting a youth employment initiative. Over the next fifteen years, the number of young adults ages 18 to 24 will grow by 22 percent or 5.4 million. We need to begin now to address the problems many of these young workers will face and give them a sense that staying in school and avoiding anti-social behavior will be rewarded with a job.

5. <u>**Housing, education, child health, child welfare, and welfare-to-work.**</u> A number of other budget areas affecting children need to be adequately funded in the FY 99 budget and beyond including: **Child Welfare:** We are disappointed that the increases needed to make the new adoption and foster care legislation workable were not included in the final legislation, and urge the Administration to work towards making those resources available in the future as the new legislation takes effect. **Child Health:** We <u>deeply</u> appreciate the Administration's leadership and support in expanding child health coverage. We believe that the $48 billion allocated over the next decade under this new law will reach at least half of the more than 10 million uninsured

complete this task. **Housing:** Inadequate housing plagues millions of families with children. Homeless shelters and rat-infested, overcrowded, unsafe housing are no places for children to grow up. This Administration needs to address the housing crisis in America in a determined fashion to prevent a generation of young people from growing up without adequate shelter or any sense of place and home. We strongly urge that the FY 99 budget include adequate funding for housing programs for low-income families. **Welfare-to-work:** More needs to be done to address the needs of those with the greatest barriers to employment like substance abuse, mental health, domestic violence, and illiteracy problems to enable these populations to move from welfare to work.

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DRAFT

Coordinated School-Age Program Initiative

Total Cost: $700 million

Principles

- Improve the quality, supply and affordability of care for school-age children.
- Ensure coordinated school-age care efforts at the community, State, and Federal levels.
- Provide resources for communities to pursue both school-based and non-school based options.
- Build on existing programs--the Department of Health and Human Services' Child Care and Development Fund and the Department of Education's 21st Century Community Learning Centers.

Summary of How the Initiatives Will be Coordinated

The Fund for the Improvement and Expansion of School-Age Care (HHS) and the 21st Century Community Learning Centers (ED) proposal would provide a coordinated two-part approach to expanding the supply of high quality before- and after-school care and before- and after-school extended learning programs. The programs would be coordinated at the Federal level through:

- a proposed Federal Interagency Agreement on School-Age Programs;
- the planning and implementation process at the local level should communities apply for funds under both authorities; and coordination between 2
- technical assistance and the establishment of a national support network available to grantees and potential grantees under both programs.

Competitive grants

ED - 400
HHS 300

HHS - thru states
Ed - direct to communities

coordinate w/ Ag

DRAFT

What is the Initiative and How Will it Work?

The initiative would expand the supply of before- and after-school programs through two coordinated parts, one focused on funding community partnerships and the other focused on leveraging existing school facilities. This dual approach recognizes that community needs may vary and includes every segment of the after-school community as part of the solution.

1. <u>The Fund for the Improvement and Expansion of School-Age Care</u>

Description:

- As part of HHS' Child Care and Development Fund, the Fund for the Improvement and Expansion of School-Age Care will provide $300 million a year in formula grants to States that apply (with $6 million set aside for Tribes).
- States, in turn, would fund community partnerships (through a formula or a competitive process) to provide new or expanded quality services to school-age children in approximately 500 communities. States are responsible for a 20 percent match from private, local or State funds.
- Funds may be used for the creation and support of before- and after-school programs and other activities to improve the supply, quality and affordability of care.

Coordination with 21st Century Community Learning Centers:

If a community partnership funded by the Fund for the Improvement and Expansion of School-Age Care includes a school district that also applies to receive funds under the 21st Century Community Learning Centers program, it must demonstrate coordination with the 21st Century program, beginning with the planning stage and continuing through implementation.

- The community partnership must include in its proposal a memorandum of collaboration signed by the relevant parties that describes its planned coordination efforts.
- If a State awards funds competitively, coordination with the 21st Century program must be included as an evaluation factor.
- The community partnership must include representatives from the 21st Century program on its community planning and monitoring group.

School to Work -

Like Kerry bond ≠

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2. Expansion of 21st Century Community Learning Centers

Description:

- This expansion will provide $400 million a year in incentive funds directly to schools (in partnership with other community entities) to leverage the use of existing school facilities to expand the supply of high quality before- and after-school programs for school-age children at public schools.

- 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 (assuming a one to one match and an average cost of $800 per child).

- The program will take advantage of school facilities and resources such as computers and libraries and enable linkages between after-school activities and school-day activities and learning.

Coordination with the Fund for the Improvement and Expansion of School-Age Care:

- If a school district is part of a community partnership that also applies to receive funds under the Fund for the Improvement and Expansion of School-Age Care, it must demonstrate coordination with the community activities related to the Fund.

- Schools operating 21st Century Learning Centers will be required to partner with community, business, or educational organizations and programming can be provided by these partners in the schools.

Technical Assistance

- The Fund for the Improvement and Expansion of School-Age Care will include a $750,000 set-aside (1/4 of a percent of the funds) for a national technical assistance initiative.

- This effort will identify and promote existing models, strategies, and materials to ensure that States and communities have the necessary information and resources to promote coordination around school-age care, particularly coordination between activities funded by the two parts of the Coordinated School-Age Program Initiative (the Fund and the 21st Century programs).

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Evaluation

- Five hundred thousand dollars would be reserved by the Department of Education for an evaluation of the Coordinated School-Age Program Initiative.

- The evaluation will examine the impact of program implementation on children across a range of variables such as safety and academic achievement. It will also look at the effectiveness of efforts to promote coordination between the two parts of the Initiative (the Fund and the 21st Century program) at the community, State, and Federal levels.

Federal Interagency Agreement on School-Age Programs

- A Federal Interagency Agreement between the Departments of Agriculture, Education, Health and Human Services, Justice, and Labor will be established to ensure coordination at the Federal level on school-age issues such as common eligibility and application requirements.

- The agreement will promote the coordination of Federal resources for school-age care, and will ensure that States and communities have the necessary information and resources to promote coordination as well.

- The agreement will help States and localities to bring together law enforcement, nutrition, workforce development, education, child care, and other representatives around school-age care.

Jan - Clients! From: Anne

THE SECRETARY OF HEALTH AND HUMAN SERVICES
WASHINGTON, D.C. 20201

NOV 18 1997

MEMORANDUM FOR THE PRESIDENT AND THE FIRST LADY

On the morning of the first-ever White House Conference on Child Care, you reminded the Nation that no parent should ever have to choose between work and family or between earning a decent wage and caring for a child. The growing number of women with children in the labor force is one of the biggest social changes of the 20th century; coming to terms with that change is one of our biggest challenges of the 21st century. As Secretary Rubin pointed out at the Child Care Conference, our new economy cannot continue into the 21st century unless we as a Nation can ensure safe and affordable child care. As we know from both the common sense experience of parents and a range of emerging research, our children cannot grow and thrive unless those child care settings protect their health and safety and provide an environment in which they can learn.

Together, you have lead an extraordinary national dialogue on child care. Over the past five years your Administration has taken important steps to increase funding for child care, particularly for families transitioning from welfare to work. Yet, as your White House Conference demonstrated, we still have a long way to go.

We need a bold new 21st Century Child Care Initiative to draw on the energy the Child Care Conference unleashed from all Americans -- federal, state and local leaders; employers; the faith community; child care providers; and families themselves, both rich and poor. This initiative must build on what we know about what children need to be safe and healthy, about what works in communities, and about what parents and employers need to assure a strong and effective labor force.

We cannot settle for addressing just one of these needs or just one part of the problem, because the stakes are too high for us as a Nation. We cannot meet the 21st century challenge of a thriving economy and growing children if we settle only for making child care more affordable for struggling families while leaving children's safety at risk -- or if we settle only for improving some children's care while leaving the cost of child care out of range for far too many working families. A piecemeal approach will undercut both our short-run and long-run success by failing to respond to the deeply felt needs of parents; by playing different families off against each other, rather than building a shared commitment to America's future; and by failing to provide the real leadership that communities, states, employers, and families need to move forward.

Let me say more about what we know now about each of these needs:

Across the country we hear from working families that they are struggling to afford safe care for their children. Low-income working families are spending on average a quarter of their income on child care. Although some 10 million children from working families are eligible for direct child care assistance, federal subsidies serve a little more than one million children. The Dependent Care Tax Credit reaches only a fraction of these families since it is not refundable and provides only minimal support. Your new plan must address these hardworking, low-income families. They get up each day, work hard and play by the rules and yet still cannot afford quality health care or child care.

The children of these working parents too often spend their days in settings that do not promote healthy child development and may even compromise their safety. With millions of infants and toddlers now in care, children can spend years in poor care before they enter school, directly affecting school readiness. The recent National Institute of Child Health and Human Development study clearly demonstrated that high quality care for very young children is consistently related to high levels of cognitive and language development.

Once children enter school, we do not take advantage of the valuable learning time after school and throughout the summer months. Learning does not stop at 3:00 p.m., and it is certainly not seasonal. We no longer need our children to tend our fields during the summer. Furthermore, numerous studies now indicate that the lack of care and attention put our youth at risk for greater alcohol, tobacco, drug use, teen pregnancy, and involvement in crime.

Despite these needs, very few communities have resources to create solutions to the quality, affordability, and availability issues that you outlined at the White House Conference. The vast majority of assistance goes directly to parents to pay for care. A very small amount, about four percent of direct subsidy, goes to quality activities, which are usually planned at the state level. Some communities, like those that Governor Hunt described in North Carolina, are combining a variety of resources to stimulate innovation and capitalize on the commitment of their neighborhood schools, employers, and parents. As you pointed out at the Conference, we need to take the models that are working in one community and give other communities an opportunity to adapt them to meet their specific needs.

Given what we know about child care both from emerging research and from what parents have told us, I have recommended to OMB and White House Staff a series of investments to seriously address the health, safety, and developmental needs of our youngest children and our school-age children, for whom care is most often of poor quality and in short supply.

In your State of the Union address and fiscal year 1999 budget submission, I strongly urge you to put forward a comprehensive plan that would include six critical child care investment strategies to help families and communities.

For families:

- o Increase the number of children from low-income working families that receive child care assistance by 250,000 in 1999 by expanding direct assistance by 700 million dollars. This would be an important first step toward the goal of doubling the number of children now receiving direct child care assistance.

- o Reach millions of working families by modifying the Dependent Care Tax Credit (DCTC) in two ways, making it refundable and expanding the credit to provide greater assistance to low-income working families. At a minimum we should update the DCTC; it has not been indexed for inflation since 1982. The time for change in this critical family support is long overdue.

For communities:

- o Enable up to 1,000 communities to craft innovative solutions to protect the health and safety of infants and toddlers in care. This will demonstrate your commitment to school readiness in 1999, the tenth anniversary of the education goals. Investment: 800 million dollars.

- o Enable up to 500 communities to find local solutions to school-age child care needs. Link such an effort with an expansion of your Schools of the 21st Century program to ensure that we maximize the use of schools as part of this overall community mobilization effort. A particular emphasis needs to be put on after school alternatives for adolescents. Investment: 300 million dollars.

- o Provide training and education to at least 150,000 providers, affecting the care of about 1.5 million children. This would build on the National Child Care Provider Scholarship Fund that you announced at the White House Conference. Investment: 150 million dollars.

- Put in place a system of consumer education and supports for research and data collection as well as the use of technology for training providers. This effort would include a national consumer education campaign, a training strategy to reach home providers and caregivers in rural communities and a National Center on Child Care Statistics that will finally give us the critical information we need to plan future policy direction in this area. Investment: 50 million dollars.

Together, you have set the stage for an unprecedented national discussion and investment in child care and after school programs. The American people know we have a child care system that does not work effectively for families or for children.

Building on the momentum that you began with the White House Conferences, your FY 1999 budget and the State of the Union should present a concrete and powerful strategy to build a 21st century child care system.

I believe that with your inspiring leadership, we can add another building block to your effort to redefine the future of working families in America. This will be another historic legacy of your Presidency.

Donna E. Shalala

FOR INTERNAL DISCUSSION PURPOSES ONLY

Child Care Policy Options
Draft Working Paper

1. Make the Dependent Care Tax Credit Refundable for Child Care Expenses and/or Increase the Amount of Credit Available on a Sliding Scale to Reach Low and Moderate Income Working Families

The Dependent Care Tax Credit (DCTC) is an income tax credit for taxpayers who incur employment related expenses for child care or elder care. The credit is now available to single parents who work and to two-parent families in which both parents work. The maximum allowable credit, available on a sliding scale depending on income, ranges from $480 to $720 for families with one child and from $960 to $1440 for families with two or more children. Since the credit is not refundable, it cannot be used by most low income working families with incomes below the federal income tax threshold (approximately $24,000 for a family of four).

2. Double the Number of Children from Working Families Receiving Child Care Assistance through the Child Care Development Fund (CCDF) By Increasing CCDF Funds Over Five Years To Reach 2 Million Children by 2002

Low-income families face major obstacles in finding or affording child care services. While the average family spends about 7 percent of their income on child care, low-income families spend approximately a quarter of their income for child care services. An estimated 10 million children from working families will be eligible for federal child care assistance, yet only 1-1.4 million children currently receive assistance. Among working families earning 150% of poverty, 4 out of 5 do not receive federal child care assistance. Among working families earning at or below the poverty line, 2 out of 3 do not receive assistance.

3. Establish a Quality Incentive Grant Fund to Provide Grants to States (With Match from the Private Sector) to Improve Child Care for Young Children Based on the Military Child Care Model, Including Support for Achieving Accreditation

Research confirms that the quality of child care can impact children's language and cognitive development and can affect school-readiness. Yet study after study reveals a crisis in the quality of child care across the country. At the White House Conference on Early Childhood Development and Learning, the President pointed to the military child care program as a model for the rest of the country. Of particular note is the military's focus on establishing family child care networks, achieving outside accreditation of its facilities, and tying professional training to compensation.

4. Launch an Infant/Toddler Family Child Care Initiative by Providing Additional Funds through CCDF or Another Funding Mechanism to Encourage Communities to Establish and Support Family Child Care Networks

As the number of infants and toddlers in care increase, many families are turning to small family child care homes to provide a more home-like setting for their children. One of the most effective strategies for improving the quality of these settings is the establishment of networks of support and training specifically designed for family child care providers.

5. Establish a Scholarship Program for Child Care Professionals By Exploring Loan Forgiveness and Scholarship Funds

Research confirms the importance of early childhood staff to the quality of child care services. Yet child care providers receive inadequate wages and there are limited resources to recruit and retain staff. When scholarships are provided, the quality of care improves (as seen in the TEACH scholarship program in NC).

6. Double the Number of School Age Children Who Have Access to Quality Child Care By Providing Incentive Funding to Stimulate Community-Wide School-Age Child Care Efforts, With Involvement of Schools and Community-Based Organizations

The need for after-school care has grown dramatically in recent years. With the vast majority of parents with school-age children in the workforce, millions of school-age children go home to an empty house after school. Yet most schools close at 3:00 pm and remain closed in the summer months. While the number of school-age programs has grown over the last decade, there are still dramatically few school-age programs for low-income working families, particularly for children aged 10-13. Despite poor access to quality programs, recent research documents the positive effects that school-age programs can have on academic achievement of low-income children. FBI studies report that crime rates increase between 3-6pm.

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Cost/Benefit
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THE WHITE HOUSE

WASHINGTON

April 15, 1997

TO: BRUCE REED

FROM: MARK MAZUR Mark

SUBJECT: TAX OPTIONS TO PROMOTE CHILD CARE

In the note Cynthia Rice sent you yesterday, she mentioned that I would develop some information on tax subsidies for child care. What follows is a short description of the existing dependent care tax credit (DCTC), three options to expand this credit, two other options to promote the provision of child care, and the tax credit for FICA taxes that Cynthia described. Note that all revenue estimates presented are just guesses and that Treasury would have to provide current estimates for any proposals that were developed. Please let me know if you wish to discuss these further.

Dependent Care Tax Credit. A taxpayer may claim a non-refundable income tax credit for eligible employment-related expenses related to dependent care. Eligible expenses include those for the care of a child under age 13 or a disabled dependent or spouse. Eligible expenses are limited to $2,400 for one dependent or $4,800 for two or more dependents. The credit rate depends on income, with a 30 percent credit rate for those with adjusted gross income below $10,000. The credit rate is reduced with income, so that those with incomes over $28,000 have a 20 percent credit rate.

In 1996, about 6.2 million taxpayers are expected to claim the credit at a total cost of about $2.8 billion (average credit is $445). The 30 percent credit rate is not very meaningful, because those with incomes below $10,000 generally do not have sufficient tax liability to claim the non-refundable credit. But about 1/4 of the total number of households claiming the credit have credit rates over 20 percent (and so have AGI below $28,000).

Those claiming the benefits of the credit are skewed toward the higher end of the income distribution, because (1) higher income households have enough tax liability to benefit fully from the credit; and (2) higher income households tend to spend more on eligible dependent care expenses. About 13 percent of the total tax benefit goes to taxpayers with AGI below $20,000 (about 45 percent of taxpayers), about 46 percent to taxpayers with AGI between $20,000 and $50,000 (about 35 percent of all taxpayers), and about 41 percent to taxpayers with AGI over $50,000 (about 20 percent of all taxpayers).

Possible Options to Promote Child Care.

(1) Make the existing Dependent Care Tax Credit (DCTC) refundable -- The existing DCTC is non-refundable, meaning that taxpayers whose income tax liability is less than the credit do not receive the full benefit. Making the DCTC refundable would make it similar to the Earned Income Tax Credit (EITC): taxpayers with low tax liabilities would receive a check from the IRS for the amount by which the credit claimed exceeds their tax liability. This would increase the value of the DCTC to low-income families, which is why child care advocates invariably bring up this proposal. However, the proposal has two drawbacks associated with it. First, making the DCTC refundable would lead to comparisons with the EITC. The comparisons would almost certainly focus on reported error rates, which are around 25-30 percent for the EITC. Congressional Republicans (including Senators Roth and Nickels) have been trying to cut the EITC for years, and proposing a new refundable tax credit may lead to increased attacks on the EITC. Second, refundable tax credits (except the EITC, which is grandfathered under budget rules) generally require annual appropriations for the refundable portion. If taxpayers have to wait until Congress appropriates sufficient funds to cover the refundable portion of a tax credit, the delay could interfere significantly with their planning.

> Treasury estimates the revenue cost of this proposal at around $4 billion for 1998-2002. The Joint Committee on Taxation (JCT) estimated a much smaller amount last year (around 1/2 the size of the Treasury estimate), but it is likely that new JCT estimates would be much closer to Treasury's.

(2) Increase the maximum amount of eligible dependent care expenses to $3,600 for one dependent and $5,400 for two or more dependents (Senator Roberts proposal). This would increase the tax credit that could be claimed by taxpayers who spend more than the current limit on eligible expenses ($2,400 for one dependent and $4,800 for two or more dependents). The proposal would disproportionately benefit those with higher incomes, since that is who spends more than the current law limit on dependent care expenses.

> Treasury has not estimated the revenue cost for this proposal. However, almost any revenue target within the 1998-2002 budget window could be met by choosing a different maximum and/or phasing it in over a number of years. For example, the limits in the Roberts proposal could be achieved by increasing the maximum $300 per year for 4 years ($150 per year for taxpayers with expenses for two or more dependents).

(3) Change the AGI range over which the 30 percent credit rate declines to 20 percent. The phasedown range was set in 1981 and has not been adjusted for inflation. Overall price levels have increased by about 70 percent since then, and a simple increase for inflation would change the credit rate phasedown range to $17,000-$45,000. This proposal would benefit those with low and middle incomes by providing these families with a higher credit rate. (Taxpayers with AGI over $45,000 would continue to claim the same 20 percent credit rate as under current law.) Over half of current DCTC claimants would benefit from this proposal.

Treasury estimates that this proposal would cost about $2 billion over 1998-2002. This revenue cost could be reduced if the changes to the phasedown range occurred in steps.

(4) Provide a non-refundable tax credit for firms that construct, expand, or renovate child care facilities. The credit rate and maximum annual credit could be chosen to meet a revenue target. Senator Kohl has a similar proposal that would allow firms to claim a tax credit for up to 50 percent of the cost of building, renovating, or operating child care centers, with a credit limit of $150,000 per year. Excluding operating costs from expenses allowable for the credit keeps the revenue cost down and ensures that the credit is targeted toward capital costs that may be difficult for firms to finance.

JCT has estimated the revenue cost of the Kohl proposal at $2.6 billion over 1998-2002 (but note that the Kohl proposal is not available for years after 1999, reducing its overall revenue cost). Limiting the credit to construction, expansion, and renovation expenditures should reduce the revenue cost to well below $1 billion for 1998-2002.

(5) Permit taxpayers to exclude from income amounts of loan forgiven by certain entities. Under current law, loan forgiveness is generally counted as taxable income in the year that the loan is partially or wholly forgiven. This provision, included in the Administration's FY 1998 Budget, would provide an income tax exclusion for income generated by forgiven loans, if the party forgiving the loan is a government or a charitable organization. The intent of this provision is to provide a financial incentive to enter public service professions, by allowing conditional forgiveness of loans without adverse tax consequences. Child care providers appear to fit the broad classes of employment that would qualify for this special tax treatment. The main difficulty in making this proposal work is to find charitable organizations, universities, or governments that are willing to make loans to people who want to become child care providers and are also willing to forgive a portion of the loans as the borrowers enter the designated profession.

The revenue cost of this proposal would be minimal (or even zero) because it appears that only a clarification of the proposal is needed to ensure that child care workers are eligible.

(6) Expand the Welfare-to-Work tax credit. The Administration's FY 1998 Budget proposed a 50 percent non-refundable income tax credit for employers who hire long-term welfare recipients. Up to $10,000 in wages would be eligible for the credit, with wages defined broadly to include health insurance, child care, and training expenses. This proposal would provide an additional tax credit for the employer share of FICA taxes that would be paid to long-term welfare recipients. This proposal appears to be duplicative of the tax credit already proposed by the Administration and could easily distract attention from the larger welfare-to-work tax credit. If there is a chance that the Administration will be successful in having its proposed welfare-to-work tax credit enacted, this add-on credit probably should not be pursued.

cc: CRice, EKagan, PAbernathy, PWeinstein

MARCH 25, 1997

MEMORANDUM FOR BRUCE REED AND ELENA KAGAN

FROM: CYNTHIA RICE

SUBJECT: CHILD CARE IDEAS

The new welfare law increased child care spending by nearly $4 billion--a hard-won victory for the President. Generally, analysts agree that the new law provides enough funding for welfare recipients entering the workforce. Yet there is growing concern that working poor families will be short-changed as available subsidies are directed toward former welfare recipients. Even the Congressional Budget Office last December concluded that the new law is $1.4 billion short of the resources needed to maintain current child care programs for at-risk, working poor families and provide enough child care for newly working welfare recipients. In addition, there are persistent concerns about the quality of care most children receive in the typical child care setting.

Here are a few ideas for ways to address these problems.

- **Make the Child and Dependent Care Tax Credit Refundable.** Current tax law provides a tax credit for child care expenses of up to $2,400 for one child and $4,800 for two or more children. The credit is not refundable, however, meaning families with little or no income can't benefit. In August, the Joint Tax Committee concluded it would cost $2.1 billion from 1997-2002 to make the tax credit refundable; the Treasury Department estimate was inexplicably twice as high. The Blue Dog budget released last month made the credit refundable but paid for it by eliminating the tax benefit for families with incomes over $100,000.

- **Endorse Senator Kohl's "Child Care Expansion Act."** Senator Kohl's bill provides tax credits to private companies and institutions to encourage them to build quality child care centers on-site or near their companies. (Generally, child care centers are considered to be higher quality than family day care, which operate out of individual homes, because centers have to meet certain state staffing and safety rules.) His bill, introduced in January, was lauded in a recent edition of Working Mother magazine. It would provide a 50% credit for eligible activities up to $150,000 per year per business. The Joint Tax Committee estimates the cost to be $2.6 billion from 1997-2002.

- **Endorse Republican Senator Pat Roberts of Kansas' "Child Care Expansion Act."** His bill, which has not yet been introduced, would: 1) Increase the amount of the Child and Dependent Tax Credit to $3,600 for one child and

$5,400 for two. This would not help the lowest-income families since the credit would still not be refundable. 2) Provide matching grants of up to $50,000 for small businesses that work together to provide day care for their employees. 3) Expand the IRS rules to allow more parents to deduct home offices expenses from their taxes. This provision would allow an exception to the "exclusive use" rule permitting mixed use of space for business and personal purposes in the case of taxpayers who conduct home-based business while caring for dependents. 4) Encourage older Americans participating in federally-supported programs to provide child care services in their communities. A cost estimate for this bill is not yet available.

CHILD CARE INITIATIVE
OPTIONS FOR DISCRETIONARY SPENDING

(budget authority, in millions of dollars)

	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
FY 1998 Budget [1/]........................	50	50	50	50	50	N/A
FY 1998 Enacted/Passback [1/].......	40	40	40	40	40	40
Changes to Passback						
Option #1....................................		+221	+271	+321	+321	+321
Option #2....................................		+700	+750	+800	+800	+800

[1/] 21st Century Community Learning Centers;

- Background. An EXOP and interagency group has been working to develop a child care initiative. HHS and Education requested $2.16 billion ($10.8 billion over five years) in mandatory funds for this initiative.

- OMB, DPC and NEC have developed two child care options for discretionary spending.

- Option #1 costs $221 million in FY 1999, and $1,455 million over five years. This option includes the following:

  - Quality Activities ($100 million). This new activity would support State and local systems for health and safety monitoring, report cards, and assistance in attaining private accreditation for child care providers. This activity would also fund State and local consumer education efforts and resource and referral programs designed to assist parents in identifying and locating quality child care.

  - 21st Century Community Learning Centers ($60 million). Additional funds to increase substantially the number of school buildings and other sites available for after-school programs for school-age children. The total program in FY 1999 would be $100 million, a 150 percent increase over FY 1998. This program would grow to $200 million by FY 2001.

  - Provider Scholarship Loan Fund ($50 million). Announced by the President at the *White House Conference on Child Care*. With State and local matching, the program will provide scholarships for up to 50,000 providers. This activity was proposed for mandatory funds, but can be better accommodated as discretionary.

- Child Care Apprenticeship Training Program: $1 million. Expand the DOL Child Care Apprenticeship Program, which funds the training of child care providers working toward a degree equivalent to the Child Development Associate degree. This program currently exists in only one state.

- Research Fund ($10 million). Establish a new fund to support analysis of child care data, state and local hotlines, and research projects, including a focus on methods and technology that can be used to train child care providers in rural regions.

- Option #2 costs $700 million in FY 1999, and $3,850 over five years. This option increases funding for some of the programs listed in option #1 and provides funding for an Early Learning Fund, as described below:

- Early Learning Fund ($400 million). To provide "challenge grants" to communities (e.g., counties or local public-private partnerships) to support child care providers and programs through a range of activities developed at the community level. Funds could be used for: (1) basic training to providers; (2) creating and supporting family day care networks; (3) assisting providers in meeting accreditation and licensing requirements; (4) linking child care providers with health professional; and (5) providing home visits, parent education, and consumer education about child care.

- 21st Century Community Learning Centers ($110 million). Provides additional funding in FY 1999 and the outyears, so that the program will grow from $40 million in FY 1998 to $150 million in FY 199 to $250 million in FY 2001.

- Research Fund ($30 million). Increases the research fund beyond the amount provided in Option #1.

- Child Care Apprenticeship Training Program: $1 million. Increases the program beyond the amount provided in Option #1.

- Standards Enforcement ($100 million) and Child Care Provider Scholarship Fund ($50 million). Proposes the same funding levels as in Option #1.

- Increases to the Child Care and Development Block Grant reforms to the Child and Dependent Care Tax Credit may be addressed in discussions of mandatory funding for the Child Care Initiative. The Early Learning Fund may also be considered as a mandatory program.

THE WHITE HOUSE

WASHINGTON

November 6, 1997

MEMORANDUM

TO: Karl Scholz, Department of the Treasury
Olivia Golden, Department of HHS
Michael Smith, Department of Education

FROM: Jennifer Klein, DPC
Nicole Rabner, DPC

RE: Child Care Policy Options Memoranda

As discussed in yesterday's meeting, attached please find an outline for your use in developing the child care policy options memoranda. Please forward your paper(s) of 1-2 pages in length to us by fax at 202/456-2878 by Monday evening, November 10, 1997.

Assignments are:

HHS:
1. Increasing funding for CCDBG
2. Changing structure of block grant (e.g. to target particular age groups or income levels)
3. Increasing funding for child care quality by 1) creating a fund for child care quality or 2) increasing CCDBG funds and thereby increasing quality set-aside
4. Creating consumer education/research fund
5. Creating a fund for communities to build school-age care supply

Treasury:
1. Modifying and/or making refundable the CDCTC
2. Providing tax credits to businesses that invest in child care

Education:
1. Create and/or build on funding streams to states for schools to offer before- and after-school care opportunities

Please feel free to call either of us with questions or comments, Jennifer at 456-2599 and Nicole at 456-7263. Thanks very much.

Child Care Initiative
Outline of Policy Options Memorandum

1. Description of Policy Option(s)

2. Description of Current Programs and Interaction of New Policy Option(s) with Existing Programs and Funding

3. Impact Analysis [e.g. who would be reached by proposal, what income level(s), etc.]

4. Pros of Policy Option(s)

5. Cons of Policy Option(s) [including likely criticism and response]

6. Cost of Policy Option(s) [including benefit of investment (who would be reached) for at least four levels of possible funding, and a discussion of possible use of existing funding levels]

There will be a Deputies Meeting on Child Care spending options, Friday, November 14 from 5:00-6:30 in room 180 OEOB. Please let me know if you cannot attend. (NO ADDITIONS PLEASE!)

Deputies Invited

DPC	Elena Kagan
HHS	Kevin Thurm
Education	Mike Smith
Treasury	Larry Summers
HUD	Dwight Robinson
Agriculture	Richard Rominger
Defense	John Hamre
Justice	Eric Holder
Labor	Kitty Higgins
CEA	Jeff Frankel
OMB	Jack Lew
OVP	Don Gips

Also Attending

DPC	Jennifer Klein
	Nicole Rabner
HHS	Olivia Golden
	Joan Lombardi
	Mary Bourdette
Treasury	Karl Scholz
	Janet Holtzblatt
	Jonathan Gruber
OMB	Barry White
CEA	Becky Blank
Education	Terry Peterson
	Pauline Abernathy
DOD	Carolyn Becraft
NEC	Anne Lewis
	Emil Parker
Women's	Audrey Haynes

Due to the large size of this meeting I can not accept any additions. Thank you.