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IMPACT: Child Care Assistance Programs

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ARIZONA'S EVAPORATING CHILD CARE SUBSIDIES

Governor Jan Brewer signed into law the FY 2012 budget that eliminates General Fund appropriation for Department of Economic Security's Child Care Administration, possibly meaning low-income families presently receiving state assistance to pay for child care will receive none beginning July 1. As a result of the elimination of state funding for child care assistance programs, millions of matching federal dollars may be at risk. However, some are counting on First Things First's Quality First Child Care Scholarships to fulfill Arizona's match to maximize federal sources for child care subsidies. So far, there has been no guarantee that will happen.

Prior to the elimination of all funding for child care subsidies, Arizona's General Fund obligation to programs that make child care more affordable for low-income families had dropped nearly 72% in three years, from a high of \$84.5 million in FY 2008 to a current fiscal year low of \$23.8 million. Until June 30, total funding for these programs is at pre-2005 levels.

Arizona's child care subsidy programs are administered by the Department of Economic Security's (DES) Child Care Administration, with the purpose of assisting low-income parents in paying for child care while they are working or receiving job training. Child care subsidies are guaranteed to children in the Child Protective Services (CPS) system.

Arizona's child-care subsidies are funded by three sources: the federal Child Care and Development Fund (CCDF), Temporary Assistance for Needy Families (TANF) grants, and the state's General Fund. The General Fund obligation to child care subsidies has ranged from 42.6% of the total cost of the programs in FY 2008 to 14.1% just a year later.

UNDERSTANDING CHILD CARE SUBSIDIES IN ARIZONA

Arizona's child care assistance programs are administered by the Department of Economic Security's Child Care Administration. Assistance in paying for all or part of child care costs are guaranteed to those enrolled in Temporary Assistance for Needy Families (TANF), employed and transitioning off of TANF, or within the Child Protective Services (CPS) system. When funding is available, assistance is offered to qualified families with incomes below 165% of the federal poverty level, which for a family of three is \$30,216. Child care assistance is limited to five years per child and six children per household. Children must be cared for by contracted providers. More information on the child care subsidies can be found at www.azdes.gov/az_child_care/

Federal funding has increased since 2005, but not enough to replace the loss from the General Fund. Federal stimulus funding through the American Recovery and Reinvestment Act (ARRA) in fiscal years 2009 through 2011 provided nearly \$50 million for child care subsidies.

As child care subsidies have decreased, so have the number of children receiving them. FY 2009 was DES' high point when, on average, 45,957 children received subsidies each month. FY 2011 is projected to be on par with pre-FY 2005 levels, with a monthly average of 32,700 children receiving subsidies, a 28.8% drop from FY 2009. DES has taken steps to reduce child care assistance programs in response to Arizona's financial crisis.

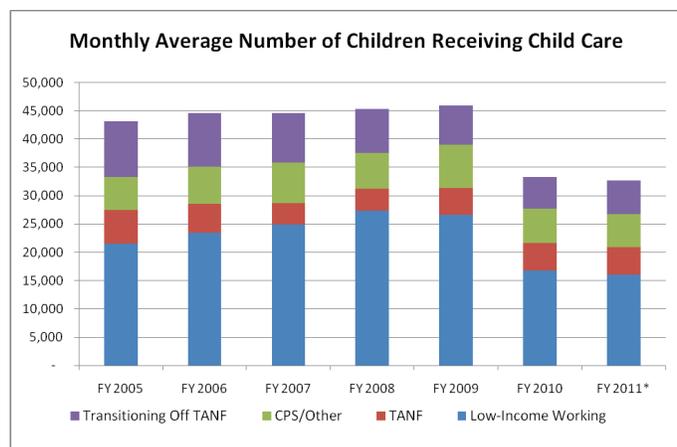
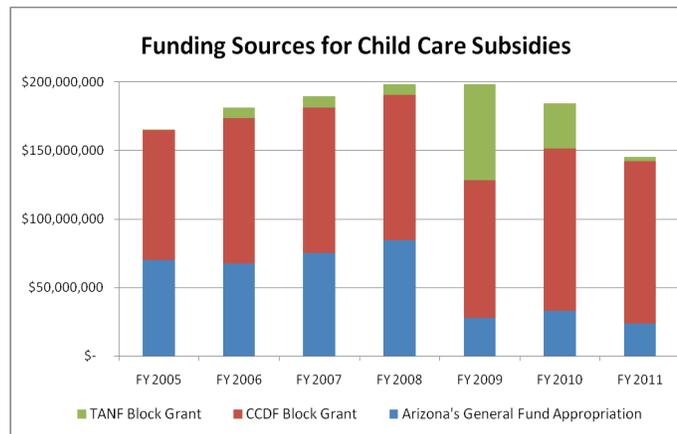
WAITING LIST

In February 2009, DES instituted a waiting list for the child care subsidies programs, where only mandatory populations – those enrolled in TANF, transitioning off TANF, or in the CPS system – are guaranteed child care subsidies. The working poor, those with a household income of less than 165% of the federal poverty level, are placed on a waiting list.

In practice, families on the waiting list do not receive subsidies unless they fall into one of the mandatory categories. As of December, 7,684 children were on the waiting list. This is not the first time DES has implemented a waiting list. Between 2003 and 2005, DES maintained a similar waiting list that at its height had 9,300 children. According to the U.S. Department of Health and Human Services, Arizona is one of 22 states that currently have a child care subsidy waiting list.

PROVIDER RATE STAGNATION AND REDUCTION

DES sets reimbursement rates for child care providers who care for children receiving child care assistance. These rates vary by geography, age of child, and type of child care facility. As a condition of federal funding, DES must conduct a biennial survey of child care providers' market rates. However, DES is not required to use the survey results to set rates. In 2006, DES set the provider rate to the 75th percentile of the market rate in 2000. For nearly two years, providers received a 5% increase. Due to the budget crisis, this increase was cancelled in April 2009. According to the National Women's Law Center, Arizona is one of eight states that set its reimbursement rates to a pre-2005 market survey. Kansas and Arizona are the only states to use the 2000 market rate survey as the basis for reimbursement rates.



WHAT'S THE IMPACT?

The effects of the downturn in the economy complicate understanding the effects of the cuts to the Child Care Administration. Much of the information is anecdotal, and in some cases can be enhanced by data.

EFFECTS ON DES

In order to maximize available federal funding options, Arizona needs to contribute approximately \$30 million. Historically this match has come from the General Fund and utilized by the DES Child Care Administration. Recently, Arizona has begun using First Things First's Quality First Child Care Scholarships as a match source, relieving the General Fund of some of the burden of providing a match. First Things First is the Arizona agency that provides early learning and health programs for children from birth through age 5 and is funded by a tobacco tax.

This shifting of the match source also moves focus to First Things First. Their Quality First Child Care Scholarships is a program designed to improve access and affordability for low-income families to child care providers that meet certain quality standards. While similar to the DES child care subsidy programs that reduce the cost of child care so working parents can remain employed, Quality First Child Care Scholarships place a greater emphasis on providing children a quality early-learning experience. The provider reimbursement rates are tied to DES' most current Market Rate Survey.

EFFECTS ON THE CHILD-CARE INDUSTRY

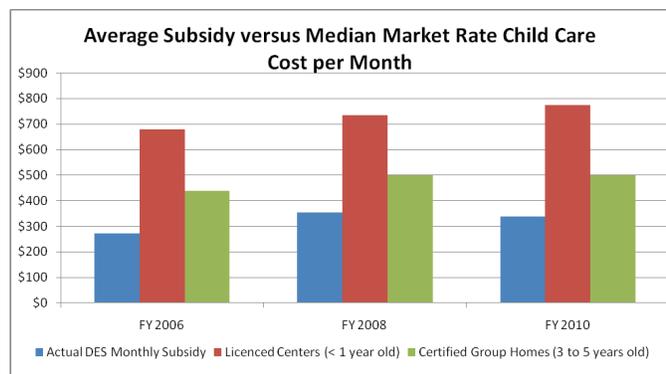
Arizona's child care industry is diverse and includes for-profit, non-profit and faith-based centers, all of which are licensed and regulated by the state. Home-based child care businesses are regulated only when they care for five or more children. Since home-based businesses with four or fewer children are not regulated, we know less about them. A study by W.P. Carey School of Business estimated that center-based child care facilities (not including home-based businesses) produced \$1.7 billion in gross receipts and total spending in 2001.

According to Robert Orsi, owner of 26 Phoenix-area for-profit child-care centers, accepting DES child care subsidies is a sound business decision. "We accept DES clients even though DES pays less than the general public because it is a substantial amount of business and because we can do the right thing for these children and families. We provide a safe and nurturing environment that prepares young children for success in school," he explained.

STRATEGIES TO CLOSE THE GAP

In addition to reductions in funding, DES has employed other strategies to contain costs of its child care assistance programs, including:

- Change in eligibility requirements
- Reduction in FTEs
- Temporary Band-Aids (ARRA)
- DES staff furloughs
- Reduction in benefits and provider reimbursements
- Shift of responsibility and costs to other sectors



As a result of the decreased number of clients subsidized by DES, Orsi's DES revenue dropped by more than \$2 million from 2008 to 2010. Orsi has eliminated 100 teaching positions and 15 administrative and support positions. Influenced by the economy as a whole, as well as the drop in DES clients, Orsi closed one school, cancelled the construction of another and is considering closure of an additional three schools. He relies much less on outsourcing to vendors, such as janitorial work, opting to retain child care center staff for those jobs instead of laying them off.

The reduction in DES clients has affected for-profit child care centers' ability to qualify for the federal Child and Adult Care Food Program, which provides food subsidies based on the percent of DES child care subsidies a center receives. Some centers deeply affected by the DES client reduction are no longer able to qualify for the Child and Adult Care Food Program. Anecdotally, centers have either absorbed the cost of reduced food subsidies or served less costly (and less nutritious) food, rather than pass along the cost in the form of a tuition increase.

Reimbursement rates have remained, essentially, unchanged for more than four years and are based on rates more appropriate to a decade ago. Child care centers are allowed to charge DES clients the shortfall of the reimbursement rates, and oftentimes centers do so. However, in the current environment of fiscal stress, centers often absorb the difference. Further, stagnant reimbursement rates discourage high-quality providers from serving families who receive child care assistance and do not support a high-quality child care industry in Arizona.

EFFECTS ON FAMILIES AND THE QUALITY OF CHILD CARE

Child-care subsidies are available so parents can be away from home to work or receive job training. When subsidies are unavailable, families often turn to less-expensive alternatives, such as family or neighbors. At worst, this patchwork of child care can cause older siblings to miss school or place children in child care scenarios that are not regulated and may even require intervention by CPS. Anecdotally both incidences have increased.

Advocates for children say parents are often faced with a difficult choice regarding child care subsidies: Either go on TANF and automatically receive a subsidy, or take a low-paying job and receive no subsidy. Ultimately, this choice can produce a disincentive to work.

BUDGET TRAX SNAPSHOT

DALE FISHER AND SYCAMORE SCHOOL

In 1995, Dale Fisher and his wife purchased the Sycamore School as a retirement investment.

Fisher did everything he could to make his child care business successful: He grew the number of children enrolled from 60 to 135 and the number of staff up to 30; the school participated in the Quality First program to improve the standard of care; and he continued to accept DES child care subsidies, which was a frequently utilized program by families in school's Mesa neighborhood.

At its height, Sycamore School's monthly budget included \$33,000 in salaries and \$3,000 to local businesses for supplies and food.

The business was worth \$500,000. However, the economy waned and DES implemented a waiting list for low-income working parents seeking child care subsidies.

"In that part of Mesa, we had to accept DES subsidies for child care," Fisher said. "Most of our families were two kids and a single parent making minimum wage. They used the subsidies so the parent could work."

Without those subsidies, Sycamore School began to have financial troubles and ultimately closed in 2010. Fisher laid off the remaining 12 employees, including his two daughters, and filed for bankruptcy.

The lack of subsidies may affect certain industries more than others. According to a 2004 study by the W.P. Carey School of Business, specific industries rely more heavily on employees who receive child care subsidies, including laundry services, auto repair, professional services, real estate, wholesale trade, ambulatory health care and restaurants – all industries that rely heavily on low-cost employees.

THINGS TO CONSIDER

- LINK BETWEEN AFFORDABLE CHILD CARE AND REBUILDING ARIZONA'S ECONOMY

Recently, Arizona has focused on attracting businesses to the state through a series of corporate tax cuts and other incentives. Arizona's child care assistance programs are primarily designed to support parents in job training programs or those who are not earning enough to afford child care. Giving low-income families the basic supports necessary to engage in employment is intricately linked with providing qualified labor to those businesses our state hopes to attract.

- MORE CLOSELY MIRROR MARKET RATE COSTS

As an industry, wages and benefits make up the lion's share of a child-care center's budget. Child care workers are not well paid. According to the Bureau of Labor Statistics' 2009 Quarterly Census of Employment and Wages, the average Arizona child care worker employed by a private center makes \$17,987 annually, whereas the average Arizonan makes \$42,149. By pegging the reimbursement subsidies to a decade-old market rate, we are undercutting the wages for child care workers.

- RECOGNIZE THE DIFFERENCE BETWEEN BASIC AND QUALITY CHILD CARE

Closely linked to reimbursement rates is the quality of care and education for young children. There is a philosophical tension between using state funds to provide the most basic child care, where the child is supervised in a safe and healthy environment, or one that provides the structure to prepare the child for the K-12 education system. Currently, Arizona is trying to support both systems.

IN CONCLUSION

In recent years the reduction of Arizona's General Fund obligation to the child care subsidies has negatively affected many residents, including low-income working parents and those in the child care industry. However, as the state rebuilds its economy and the new law takes effect that eliminates all state funding for child care subsidies despite the threat of losing matching federal funding, it is unclear at this point as to the extent significant reductions or outright elimination of this program will have – short term and long term – on individual families and industries reliant on this program.

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