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More than a work support? Issues around integrating child development goals into the child care subsidy system☆

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Abstract

Over the past decade, policymakers have become increasingly concerned about the development of low-income children, as well as about helping low-income parents work. Yet, all too often, child development and parental work goals are seen as separate. As a result, key parental work support services that affect children (such as child care subsidies) have not had a sustained focus on supporting the development of the children that they serve—even though subsidies are now estimated to serve more than 2 million low-income children. This article describes current approaches to child care subsidies, and identifies a number of the issues and opportunities facing those who want to integrate a stronger child development focus into the subsidy system. It concludes with a discussion of important questions that policymakers, practitioners, and researchers can explore if they want to help the subsidy system achieve a better balance between supporting parental work and supporting child development.

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1. Introduction/overview

Over the past decade, policymakers in the United States have become increasingly concerned about supporting the development of low-income children. For preschool-age children, this

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interest is apparent in policy discussions about school readiness, early brain development, and—most recently—early literacy. Over this same period, there has been a rising awareness of the critical role that child care can play in helping low-income parents work, and thus of the important role of child care in any effort to reform welfare and support economic security among low-income families (Martinson, 2000).

However, policymakers often have seen the services needed to help support the development of low-income children, and the child care services their parents need to be able to work, as two separate policy areas with different programmatic goals, funding structures, and approaches. As a result, until relatively recently, there has been a conceptual division between the policies and government initiatives in each of these areas—in particular, subsidies that low-income parents can use to help pay for child care to allow them to work, and programs such as Head Start and state prekindergarten initiatives that focus on supporting the development of low-income children. This conceptual division is unfortunate because many low-income families need child care/early education services that simultaneously support healthy child development and parental employment.

The child care/early education field has long been aware of the problems created by policies that artificially separate the needs of children and their parents. Quality local child care/early education programs have always worked to simultaneously meet the needs of children and their parents—and programs that have relied upon funds from either of these two policy areas have had to struggle to use these resources to effectively meet both their child development and work support goals. However, it is only recently that policymakers have begun to focus on the disconnect between these two policy areas. As a result, there have been a number of recent efforts to encourage child development-oriented initiatives to integrate a focus on supporting parental work (Sandfort & Selden, 2001; Schulman, Blank, & Ewen, 1999). While there is still a long way to go, initiatives focusing on child development/school readiness have made progress in better supporting the needs of working families.

However, there has been less focus on trying to take steps to help ensure that policies and funding originally developed to support parent employment—specifically, child care subsidies—also include an integrated and systemic focus on child development. The relevance of child care subsidies to children's development is clear, as the federal-state child care subsidy system has grown significantly over the past decade. It is now estimated that there are over 2 million children receiving publicly funded child care subsidies.[1] This is in comparison to an estimated 813,000 3- to 4-year-olds being served by Head Start, 45,000 children ages 2 and under in Early Head Start (HHS, 2001a), and potentially another 765,000 served by state prekindergarten programs in 2000 (Doherty, 2002).[2] As a consequence, child care subsidies have the potential to affect the development of more low-income children on a daily basis than do programs such as Head Start and state prekindergarten which are focused on child development. Also, because most subsidies are used by families to purchase child care from providers in the larger child care market, subsidy funds and policies are likely to have an impact on the child care experiences of other children who do not receive subsidies.

The goal of this article is to examine the issues that must be considered if policymakers wish to build upon the unique strengths of the subsidy system and to help it move beyond the goal of supporting parental work to also emphasize child development. To address this question, this article describes current approaches to child care subsidies and identifies some of the issues that can challenge efforts to better support the development of low-income children in the child care subsidy system. In particular, we want to highlight some questions and issues that policymakers, practitioners, and researchers in the child care field might want to debate and explore as they work to identify ways to better meet the needs of low-income children and families.

Such a debate is particularly opportune at this point in time. In addition to the significant growth in the subsidy system in recent years, policymakers at the federal, state, and local level, as well as practitioners and researchers, continue to be concerned about both supporting the development of low-income children and supporting work for low-income parents. For example, at press time, these issues were being debated at the federal level as part of both the reauthorization of the 1996 welfare and child care legislation, and the administration's focus on early literacy. State and local policymakers have struggled (and no doubt will continue to struggle) with these issues as they work to implement federal initiatives and as they develop their own child care and early education systems and policies. Practitioners continue to explore new strategies to balance these issues in their programs, and researchers continue to document different policy strategies and examine their impact.

In considering these questions, however, it is also essential to keep in mind the critical and unique role played by subsidies in helping millions of families work. Child care subsidies play a vital role in meeting the goals of welfare reform, in helping millions of low-income families become established and remain in the workforce, and in helping families find child care options they would otherwise not be able to afford. The questions posed here are not meant to undercut the importance of the role that subsidies play in supporting parental work; instead, they are meant to move the discussion forward for those interested in taking steps to help subsidies also focus upon supporting children's development.

2. Background

As mentioned above, policy and funding strategies to support parental work and to support child development have evolved along two largely separate tracks. Although they serve overlapping target populations—namely low-income children—they differ in almost every other area. Specifically,

> *Child care subsidies have a primary focus of helping low-income parents work*. Most child care subsidy funds are used to help low-income working families defray some or all of the costs of purchasing child care in the larger child care market. The major sources of funding for subsidies are the federal Child Care Development Fund (CCDF) 1998, state funds for the CCDF, and funds allocated to child care from the Temporary Assistance for Needy Families (TANF) program. Under federal CCDF rules, most families must have incomes below 85 percent of state median income (SMI) to qualify for federal assistance—though many states set their income cutoffs below this level. Subsidies are primarily provided to low-income parents who are working, in job training or participating in a welfare-to-work activity, or (depending upon the state) in school, and who have children younger than 13.[3] Parents lose subsidies when they become ineligible for any reason—for example, when they lose a job or their income rises above the state income eligibility cutoff.

The vast majority of subsidy funds are distributed through vouchers that families can use to help defray some or all of the costs of any legal child care provider, including relatives, in-home caregivers, family child care homes, or centers. (Some states, however, still spend a significant portion of their subsidy funds through a contracted funding mechanism.[4]) The only programmatic requirements linked to federal subsidy funds are that child care providers must be licensed if state law requires it, or must meet basic health and safety standards if they are legally exempt from licensing. (Under the CCDF, states can exempt certain relatives from these basic health or safety standards).

Some CCDF funding is set aside for targeted purposes. In particular, there is a "quality set-aside" that requires that states spend at least 4 percent of certain state and federal CCDF-related funds to improve the quality or supply of child care, or to help educate parents about their child care options (though many states spend higher amounts). There are also funds earmarked to support activities around infants and toddlers, Child Care Resource and Referral (CCR&R) services, additional quality activities, and school-age child care.

Other policy initiatives focus on child development or school readiness. There are various policy initiatives that support the development of low-income children under age 5. These include, for example, the federal Head Start program as well as the various prekindergarten initiatives that have developed at the state level in recent decades (Adams & Sandfort, 1994; Schulman et al., 1999). These programs vary widely—for example, in whether services are focused comprehensively upon all aspects of child development and well-being (as is the case for Head Start and some state prekindergarten programs), or more narrowly upon the cognitive and social-emotional aspects of school preparation. They also differ in the size of the program, the quality of the services they provide, the amount they spend per child, and in their administrative and programmatic approaches (Schulman et al., 1999).

While there are significant differences in the quality and intensity of services offered across Head Start and different prekindergarten initiatives, they do share some common characteristics. In particular, services are usually targeted to low-income[5] 3- to 4-year-olds[6] or those preschool-age children who are considered to be at-risk of school failure. Eligibility is seldom based on parent work status. These initiatives usually provide funds directly to local service providers to allow them to provide child care/early education services to one or more classrooms of eligible children. These initiatives commit to stable funding for a given period of time (usually for a year or longer), and children almost always remain eligible for the entire period of service regardless of changes in family status or eligibility. As a condition of receiving funds, these initiatives often require programs to meet certain quality requirements to ensure that the services support the program's child development goals.

One of the most fundamental differences between these two approaches is that the funds that help families pay for care in the subsidy system are largely designed to help families access the existing market of child care options. As a consequence, the quality of care that parents can access with child care subsidy funds is predominantly determined by the larger forces that shape the overall child care market. Unfortunately, research has shown that the quality of care generally available to families in the United States is problematic. Though quality programs can be found, research generally concludes that many child care programs, across a range of child care settings, provide care that is no better than mediocre and therefore not likely to foster developmental growth. Furthermore, a significant minority of programs provide poor quality care that falls below minimal thresholds of adequate care (Phillips & Adams, 2001; Vandell & Wolfe, 2000).

One reason behind the inadequate quality of care is that it is driven by what parents can afford. Given that, better-quality care is generally more costly due to lower child-to-staff ratios and better trained and compensated teachers (though higher cost is by no means a guarantee of quality), good quality care can be so costly that many families cannot afford it. As a result, the current child care system is characterized by problems such as low wages, high staff turnover rates, inadequate incentives for education, and other problems that undercut the ability of programs to provide quality care.

It is useful to contrast the approach taken by child care subsidies—which primarily help families access the existing market—with the approach taken by policy initiatives focusing on child development. These latter initiatives usually have a funding structure and programmatic requirements that attempt to create or support a particular kind of service that likely would not be available to families if it were left up to market forces.

As mentioned earlier, both kinds of policy initiatives—those that focus on supporting work through child care subsidies and those that focus on child development—have received increased attention and funding in recent decades as policymakers have become more concerned about these issues. In recent years, policymakers have also become more aware of the problems created by the artificial distinction between these two policy areas. As a result, efforts to bridge the gap between these areas of policy have grown.

These efforts are most clearly seen through strategies developed to integrate the focus on supporting parental work into programs that are primarily motivated by child development goals. For example, the Head Start community has increasingly worked to provide full-day/full-year services by directly providing full-day services with Head Start funds, by relying upon subsidy funds to provide "wrap-around" services to Head Start children, and/or coordinating with child care programs in the community to provide the additional hours of service (Brush, Deich, Traylor, & Pindus, 1995). Similarly, some states help children in prekindergarten access full-day services by, for example, delivering these services directly, providing funding to full-day child care programs in the community or helping families find care for the rest of the day (Schulman et al., 1999). While significantly more needs to be done, there has been progress in moving policy initiatives originally designed to support children's development to better meet the needs of working parents.

However, the situation is more challenging when we consider how to integrate child development concerns more comprehensively into child care subsidy programs that are mainly designed to support parental work. While the CCDF has a clear commitment to improving the quality of care, and to helping low-income families access quality options, this is primarily implemented through the "quality set-aside." The set-aside requires states to dedicate at least 4% of their CCDF-related funds to efforts that directly support the quality and supply of child care. As is described more below, these funds have become an important part of state efforts to support the quality of child care. These "quality set-aside" funds are, however, separate from the vast majority of CCDF funds which go to help families purchase child care through subsidies. There has been less progress in integrating a child development focus into the subsidy component of the system. The next section lays out some of the reasons behind this lack of progress, and discusses some of the specific challenges and opportunities facing those who want to strengthen the child development focus of child care subsidies.

3. Challenges and opportunities in improving the subsidy system to better support both child development and parental work

There is no question that many policymakers and practitioners involved with the child care subsidy system see child development and well-being as a high priority, and are therefore interested in improving the quality of care available to low-income children. However, there are a number of factors that constrain efforts to ensure that low-income children receiving subsidies are receiving quality care that prepares them to succeed in school. These issues can be examined on two levels. First, there are some underlying realities that shape and motivate the entire subsidy system. Second, there are a number of specific ways in which these realities have shaped how subsidies are currently implemented—particularly the funds that go to help families pay for care—that can constrain efforts to integrate a stronger focus on child development into the current system. Each of these levels is described below.

3.1. Underlying realities that shape the subsidy system

There are three underlying realities that shape and motivate the child care subsidy system, and that ultimately can constrain efforts to integrate a child development focus into subsidy policies and practices.

3.1.1. Funding constraints force trade-offs between access and quality

Funding constraints are probably the most fundamental factor affecting the ability of subsidy systems to focus on quality. While most policy areas face funding constraints that force trade-offs between access and quality, subsidy administrators face a particular set of pressures to focus on access (over quality), given that helping parents work is a primary goal of the subsidy system. Although the subsidy system has expanded greatly over the past decade, many states do not have sufficient funds to serve all of the eligible low-income working families who need services. Research shows, for example, that many states served less than one-third of children eligible under state eligibility requirements in 1999[7]—and recent state budget cuts have further limited funding in many states (Children's Defense Fund, 2002). To deal with this problem, states use a variety of rationing tools—such as setting income cutoffs below the federal level, minimizing outreach efforts to inform families about the services, and prioritizing among those eligible families to target resources for the lowest-income families and families receiving welfare (Adams & Rohacek, 2002; U.S. General Accounting Office [GAO], 1998).

The challenge that state and local child care administrators face is that improving quality often requires spending more per child. As a consequence, they must trade off between serving more families and ensuring that those families who receive subsidies are able to access quality care that supports their children's development. Given that many eligible families are not receiving assistance, it is not surprising that state administrators may place a higher priority on using scarce resources to serve additional families rather than to serve fewer families and improve the quality of care they receive. Despite these pressures, it is important to recognize that administrators have traditionally responded to additional funds by investing more in quality initiatives. For example, when states received additional funds for child care in the late 1990s, many expanded their efforts to support quality through strategies such as raising provider reimbursement rates and expanding their quality enhancement initiatives (Blank & Poersch, 1999).

3.1.2. The primary goal of child care subsidy programs is to support work

The CCDF rules and regulations clearly emphasize both supporting work among low-income parents and supporting the quality of care. However, in many ways, these two goals are separated in the structure of the program. Supporting work is the particular focus of the bulk of the CCDF funds, which are allocated to helping families purchase child care through subsidies. Supporting quality is the primary focus of the funds dedicated to improve quality—the 4% quality set-aside—mentioned earlier.

The subsidy component of the CCDF—which comprises the majority of CCDF-related funding—goes directly to child care subsidies that help low-income families work by helping them purchase child care. The focus on work has been evident since the federal government significantly expanded its investments and responsibilities in the area of child care with the welfare reform legislation of 1988. That legislation made subsidies an entitlement for families moving from welfare to work, and though the entitlement was eliminated in 1996, these families continue to be a high-priority group in most states (Adams & Rohacek, 2002; Collins, Layzer, Kreader, Werner, & Glantz, 2000). The link between subsidies and work has grown stronger in recent years as child care subsidies have become an integral part of current federal and state welfare reform efforts, and as states have used growing amounts of federal welfare funds (from the TANF program) to support child care (Schumacher, Greenberg, & Duffy, 2001). Because of these pressures, the CCDF-related dollars that are allocated to subsidies are primarily designed to fund a work support program—which means that the subsidy program's structure, rules, and implementation can sometimes be in conflict with child development goals (as is described later in this article).

Despite the fact that most CCDF funds are focused on supporting parental work, the CCDF also has a strong focus on the quality of child care. Concerns about the quality of child care were pervasive in the policy debate leading to the passage of the federal CCDF subsidy program; a focus on quality is visible in its regulatory language, and it has dedicated funds to support quality initiatives. The quality set-aside, in particular, has played an important role in supporting the quality of care overall. These funds have helped states to develop and support key components of the child care infrastructure—such as state child care licensing systems that function to protect children from harm; state CCR&R networks that play many key infrastructure roles (including helping educate families about their child care options, helping them find care, and working with providers); national training and technical assistance networks; and state professional development networks. The quality set-aside funds have also supported a range of other initiatives, including provider training and compensation strategies.

While relatively little is known about the impact of these efforts, it seems likely that they have had a positive impact on the quality of care available to families overall. However, it is important to recognize that the quality set-aside is a relatively small fraction of the overall CCDF funding, showing that the primary focus of the CCDF is upon supporting work. Furthermore, the size of the quality set-aside is very small when compared with the size of the overall child care market it is designed to affect.

3.1.3. The subsidy system places a high priority on "parental choice"

The CCDF places a high priority on maximizing "parental choice." Under the CCDF, parental choice is interpreted to mean that parents should be able to use their subsidies to pay for any of a range of existing providers in their community, including in-home caregivers, relatives, family child care homes, and child care centers. This principle was codified on the federal level in 1990, with the passage of the Child Care and Development Block Grant (CCDBG) that helped to establish a number of the key components of the current federal child care subsidy system. The CCDBG not only required parental choice but also required that every parent be offered a voucher that he/she could use in any of the settings listed above. Before then, many of the states that funded subsidies did so through a system that relied primarily upon direct contracts with selected providers to care for eligible children rather than providing vouchers to parents. The federal parental choice requirements, however, mean that states with existing contract-based subsidy systems shifted their funding toward vouchers, and states that developed new systems as a result of the new federal programs were almost all voucher-based. As a consequence, even though some states have continued to fund a portion of their subsidy system through direct contracts with providers, 89% of children served by CCDF subsidies in FY 2000 were served through voucher-based funding.[8]

The predominance of the "parent choice" concept, as operationalized in the CCDF approach to vouchers, is a critical factor shaping the current subsidy system. Vouchers have some important strengths—for example, they are a portable, flexible funding approach that has proved absolutely essential in allowing parents to choose from a broader range of providers. In particular, the decision to allow parents to use their vouchers in less formal child care settings—sometimes called "kith and kin care" (Brown-Lyons, Robertson, & Layzer, 2002) or "family, friend, and neighbor care" (Brandon, Maher, Joesch, & Doyle, 2002)—has been especially important for the significant number of low-income parents who work nontraditional hours, such as evenings or weekends, or whose work hours are irregular (Acs, Ross Phillips, & MacKenzie, 2000). This approach also can result in services that are less segregated by income, as families can—at least in theory—use their vouchers to access any of a range of providers in their community rather than being limited to providers who serve primarily low-income children. On the other hand, the way that parental choice is implemented under the CCDF can create some particular challenges for efforts to help ensure that subsidized families can access quality care. These issues are described in the following section.

3.2. Key features of the current subsidy system can challenge efforts to ensure that families with subsidies can access quality child care

The three forces discussed above—inadequate funds, the focus on supporting work rather than child development, and the focus on parent choice—have worked together to shape the current subsidy system. In fact, they have interacted to form or support a number of key features that can make it difficult to ensure that subsidized parents can access quality care. Not surprisingly, these challenges are particularly evident in the part of the subsidy system that is designed to support parental work—the subsidies that help parents pay for care and that account for the bulk of the CCDF funds. Therefore it is this part of the system—and not the quality set-aside—that is the primary focus of the sections below.

3.2.1. Whether parents can access quality care depends upon the availability of quality options in their communities

One of the primary challenges presented by the heavy reliance upon vouchers (as implemented in the CCDF) is that vouchers only allow families to access higher quality providers if there are such providers in their community (and if those providers are willing to accept a voucher). In other words, vouchers are not designed to increase the supply of good quality care. However, as noted previously, the quality of care overall is such that many parents may not be able to find quality providers in their community. Furthermore, studies also suggest that low-income families may face even greater constraints than other families in trying to find quality care.[9] For example, some studies have found that, in some states, low-income communities tend to have a lower supply of regulated care than higher-income communities (Fuller & Strath, 2001; Queralt & Witte, 1998). In addition, several studies have reported that children from homes that are poor or stressed are in lower quality settings than other children (Galinsky, Howes, Kontos, & Shinn, 1994; Howes & Olenick, 1986; NICHD, 1997; Phillips, Voran, Kisker, Howes, & Whitebook, 1994). One possible exception is that *centers* caring for poor children may be of better quality than those used by families with incomes just above the poverty level (Phillips et al., 1994). This could be because (at the time of the study) among children in centers, children below the poverty level may have been more likely than children just above the poverty level to be enrolled in programs subsidized through subsidy contracts and Head Start. Yet it is important to put this finding in context—lower-income children are less likely to benefit from center-based programs, as national surveys consistently show that low-income children are less likely to be cared for in centers than are higher-income children.[10]

Nonetheless, it is important to recognize that even though vouchers may not bolster the supply of quality care, they can play a role in helping individual parents access a higher quality provider than they would without the subsidy—*if* such a provider is available. This is because financial assistance can help parents purchase more costly child care options than they could otherwise afford. Given that better quality care is generally more costly (though higher cost is by no means a guarantee of quality), it is likely that vouchers help at least some parents access better quality care than they would otherwise be able to access. Nonetheless, the net result is that while it is likely that parents receiving CCDF voucher-based subsidies have a broader range of choices than they would otherwise have, they continue to be limited by the choices available in their community. This is likely to limit the quality of care families can access through the subsidy program, unless steps are taken to expand the availability of good options.

Given these concerns, it is interesting to recognize that there is another legislative principle in the CCDF that has received less attention than the principle of parent choice. In particular, the CCDF also asserts that low-income children receiving subsidies should have "equal access" to child care options that are comparable to the options available to nonsubsidized children. As noted above, the parent choice principle has been interpreted to focus primarily upon helping low-income families access the child care options that exist in their community. However, the "equal access" principle states that there should be a focus on identifying the mechanisms necessary to ensure that the child care options available in low-income communities are actually comparable to those available in other communities. One question to consider is whether we should examine the current approach to subsidies to identify ways that the system could be designed to focus *equally* upon the goals of parental choice and equal access. Such a strategy might give low-income parents a more complete set of choices than would be available through a system focused on parental choice alone. However, while this strategy might help low-income children access better choices, it would not be sufficient to ensure that they are always able to access quality choices given the inadequate quality of care available in the market overall.

3.2.2. Allowing public funds to go to unregulated caregivers presents particular challenges

An additional challenge created by the focus on parent choice was introduced by the decision to use subsidy funds to pay for legally unregulated providers such as in-home caregivers, relatives, and—in those states that exempt them from regulation—small family child care homes. A significant number of subsidized children are cared for in these settings. In 2000, for example, an estimated 26% of children receiving CCDF-related subsidies were cared for in unregulated child care settings (HHS, 2002b). As noted earlier, the ability to access such care is particularly important for low-income parents who are more likely to work nontraditional hours such as evenings or weekends (Acs et al., 2000) when other child care options are less available.

Despite the importance of these options for some families, allowing public funds to go to unregulated caregivers creates some particular challenges. Research shows that, like all types of child care, unregulated settings range in quality from care that supports children's development to care that is harmful (Galinsky et al., 1994). However, when providers are not subject to basic licensing protections—as is the case with unregulated settings—it is difficult to ensure that children are minimally protected from harm, much less that they are getting good quality care. (The licensing system is primarily designed to screen out those settings that are harmful rather than to ensure children get care that promotes their healthy development.) The CCDF worked to address this issue of protection from harm for subsidized children by requiring states to put some basic health and safety protections in place for those unregulated caregivers (except some relatives) who receive subsidies. However, states vary in how they implement this requirement, and most have fairly minimal enforcement such as asking providers to self-certify that they are in compliance with a few key protections (HHS, 2001b).

There are a number of reasons it can be difficult for states to take steps to improve the quality of unregulated providers. Whether states are trying to enforce basic health or safety protections or working to more directly support the quality of care in these settings, it can be very difficult and costly to work with unregulated caregivers who tend to experience high turnover and to serve a small number of children. As a result, state administrators face difficult trade-offs in deciding how to best allocate their relatively small quality funds across a wide range of settings and needs. For example, administrators may decide it is more cost effective to use limited resources to enforce basic licensing standards in larger group settings or to invest in training child care staff who are going to stay in the field for longer periods of time, rather than implementing similar efforts with unregulated providers.

As a consequence, states continue to struggle with balancing the need to protect parental choice of these options with the need to protect children's well-being and to use public funds accountably. In part because of the growth in the use of legally unregulated care among families receiving vouchers, states and localities around the country have been working to identify ways to support quality care among these providers (Collins & Carlson, 1998). Continued experimentation and research would be useful to identify strategies that are effective at addressing the quality of care in unregulated settings.

3.2.3. It is difficult to require programs to meet higher quality standards as a condition of receiving vouchers

A common approach to ensuring that public funds purchase quality services is to require that programs receiving public funds meet certain standards of quality as a condition of receiving funding. This approach is common to Head Start and state prekindergarten initiatives, as well as in the contracted systems that some states still employ for some of their subsidy funds. In this approach, providers are generally paid a certain amount to provide services to a certain number of eligible children. These initiatives commit funding to service providers for an extended period of time (such as a program year). In exchange, providers agree to provide a certain quality of care, and to meet other program requirements. Providers can then invest in hiring teachers with certain levels of training, purchase materials, and so forth because they know how much they will receive in advance and what they have to do to receive the funds. This approach allows policymakers to use public funds in a targeted way to expand the supply of quality settings—and to ensure that a particular group of families can benefit from them.

A voucher-based payment mechanism, on the other hand, has features that can make it more difficult to require providers to meet higher quality standards as a condition of receiving voucher funds. One challenge is that voucher funds are spread across a range of different providers who rely upon these funds to different degrees. For example, some providers may serve only one or two children, while others may have a clientele almost completely made up of children receiving vouchers. Some providers also may blend funds from subsidies with funds from private-paying parents or other public funding sources (such as prekindergarten or Head Start), which means that voucher funds can end up being only a portion of their budget.

A second challenge is that vouchers may not be a stable source of funding, given that parents can leave the program (and take their subsidy with them) at any time, or can lose eligibility. Recent research found that average duration of subsidy for children in five states ranged from 3 to 7 months (Meyers et al., 2002), and that providers may not be able to count on receiving subsidy funds for long periods of time for any individual child. Furthermore, as is described more below, the amount that states pay providers (and the way in which they determine that amount) can give providers little incentive (or ability) to meet higher quality requirements.

These uncertainties mean that it is difficult to require providers to meet higher standards of quality as a condition of receiving voucher funds—unless they are already meeting these requirements—and that it is difficult to use vouchers to help providers improve the quality of care they give. Even if the subsidy agency offers to pay a higher rate for higher quality care, lower quality providers cannot be expected to invest in quality improvements without some assurance of the stability of these funds. For example, it would be difficult for providers to commit to the long-term costs of hiring better trained and more highly compensated staff or of meeting better staff-to-child ratios unless they serve some critical number of subsidized children, can rely upon these funds for some period of time in the future, and receive enough funds through the higher rate to actually cover the increased costs of these quality improvements. Given the difficulties of requiring that providers meet higher quality requirements as a condition of receiving a voucher, it is not surprising that under the federal law states are only required to ensure that programs receiving vouchers meet any relevant state licensing standards. However, as noted earlier, state licensing laws mostly work to try to minimize harm done to children, and are not designed to ensure quality care.[11]

Despite these challenges, however, it is also evident that there might be opportunities for using vouchers strategically to support improved care. For example, while relatively little is known about the characteristics of providers who receive subsidies, it appears that there are some who are highly reliant upon the subsidy system for their payments (Adams & Snyder, forthcoming). Understanding more about these providers and their characteristics could help inform the development of effective policies that link voucher receipt to higher quality care. Other strategies might work for providers with different characteristics—for example, who are less reliant upon subsidies.

3.2.4. Ensuring continuity of care can be difficult when services are strictly tied to parental eligibility

The focus on subsidies as a work support program means that initial and ongoing access to subsidies is based on parent eligibility requirements such as work status and income. As a result, parents become ineligible for subsidies upon losing their job, earning above the income cutoff, or failing to comply with the sometimes extensive requirements for keeping subsidies (Adams, Snyder, & Sandfort, 2002). Many states currently move fairly quickly to terminate subsidies when parents lose their eligibility, though parents generally get some time for job search or a short grace period to come back into compliance. Funding constraints and concerns about fraud further contribute to this situation, giving agencies a strong incentive to closely monitor any change in parent eligibility or failure to comply with program requirements so that they may quickly re-allocate subsidies to families who are waiting for assistance. (Note, however, that it is not clear that it is cost effective to move quickly to terminate families, given the administrative burden of closing cases, many of which are reopened later.) These circumstances, coupled with the fact that research has shown that entry-level workers are likely to have fairly unstable work patterns (Lane, 2000), are no doubt a partial explanation for the short subsidy spells described earlier (Meyers et al., 2002).

However, this is a key area where the goals of the subsidy system are in conflict with the needs of children. Although we do not know how frequently children leave their child care arrangements when their subsidies are terminated, it is likely that the tight focus on eligibility may contribute to unstable child care for at least some subsidized children. This is cause for concern because research has shown that children benefit from stable nurturing relationships with caregivers, and that frequent changes in caregivers can threaten healthy development (Shonkoff & Phillips, 2000).

3.2.5. Current reimbursement rate-setting policies can make it difficult for parents to access a full range of providers in their community

The way that subsidy agencies determine the amount they are willing to pay providers under CCDF presents another challenge to efforts to improve the quality of care available to children who receive vouchers. As described earlier, the current CCDF rules state that children receiving subsidies should have equal access to child care that is comparable to the care available to non-subsidized children. The rules also suggest that this requirement can be met if states generally pay the price that is charged in the private market. In particular, the CCDF preamble encourages states to set the maximum amount they will reimburse child care providers at a level sufficient to cover the price charged by at least 75% of the providers in the community (also known as the "75th percentile" of current market rates). This, at least in theory, would allow subsidized parents to have access to all providers except those whose prices fall in the top 25% of local market rates.

While the 75th percentile is a suggestion only, and the federal rules allow states great flexibility in setting their maximum rates, nearly half of all states set their reimbursement caps at lower levels—either by setting rate caps lower than the 75th percentile, or by using outdated data about provider charges (Schulman, Blank, & Ewen, 2001). Given that higher quality care is often more expensive—due to the higher costs associated with better trained and paid teachers, as well as better materials and facilities—these policies are likely to limit the quality of the options available to parents receiving subsidies.

Providers with rates that are higher than the state cap have a few options. First, they can refuse to serve subsidized children. Or second, if they agree to serve subsidized children, then they either will lose money on each subsidized child they serve, or must try to make up the difference in other ways—for example, by finding other funding sources or requiring subsidized parents to pay the difference (in sites where the subsidy agency allows this) on top of a state-determined parent co-payment. A number of states have worked to address this problem by setting higher rate caps for programs that provide higher quality care—also known as "differential rates" or "tiered reimbursements" (Karolak, Collins, & Stoney, 2001). Depending upon the amount of the differential rate, and how the differential rates are implemented, this approach may lessen the extent to which low reimbursement caps limit participation of higher-quality providers in the subsidy system (though relatively little research has been done in this area). Regardless, however, the ongoing challenge facing administrators is that increasing reimbursement rates—in the absence of additional funding—can result in fewer families being served. As a result, the issue of where states set their rate ceilings is directly tied to the inadequate funding levels, and the resulting trade-offs, described earlier.

3.2.6. Limiting provider payments to what a provider charges private-paying parents can present challenges to efforts to improve quality

Another issue is whether subsidy agencies are allowed to pay providers more than the provider would charge a private-paying parent. The CCDF regulations generally suggest that voucher payments should be equivalent to what is charged in the private market (though they do suggest that there may be permissible exceptions) and some states have specific rules that prevent providers from being paid more than they charge private-paying parents. While the reason behind this policy is understandable—for the most part, providers should not be able to get a higher payment from the state than they would otherwise be able to receive—implementing this as a blanket policy has some unintended consequences.

On the most basic level, this policy is problematic because it means that the subsidy system is constrained by the same forces that limit the quality of care available to parents overall. For example, because many parents cannot afford to pay for quality care, providers find it difficult to cover the higher costs of quality (and therefore to provide quality care) unless they are able to get additional resources from other sources. While this is a problem facing providers in most communities, it is most clearly evident in low-income communities—where providers may fundamentally be unable to charge any parents a price that covers the cost of providing quality care. By limiting reimbursements to what private-paying parents pay, the voucher system may end up inadvertently contributing to the existing resource constraints facing providers in low-income communities.[12]

This policy is also problematic because it means that it is difficult for states to use reimbursement rates as an incentive to provide higher quality care. For example, the policy of "differential rates" or "tiered reimbursements" described earlier (where subsidy agencies pay higher rates for care that is accredited or meets higher quality standards) is sometimes seen as a strategy to help providers meet higher standards than they would otherwise meet. The ability of this policy to provide an incentive to providers to improve the quality of care they provide may, however, be limited. This is partially because (as noted earlier) providers in a voucher-based system may not be able to rely upon these funds. However, this strategy is further undercut by the fact that a number of states will pay providers the higher differential rates if they already charge these higher prices to private-paying parents (Adams & Snyder, forthcoming). This means that providers with lower prices (i.e., below the state cap)—such as those predominantly serving low-income parents who cannot afford higher prices—are, by definition, unable to access these higher reimbursement rates.

As a result of these realities, the differential rate strategy may not have the intended effect of giving providers who serve subsidized children additional funds to help them to cover the cost of providing higher quality care—which means that the strategy may have a limited impact upon the supply of higher quality care. On the other hand, this strategy is likely to allow subsidized families to access those providers who already charge higher prices—which thereby could increase access to higher quality providers for some families. This is an area where further experimentation and research would be beneficial—for example, what is the impact of this approach, as contrasted with an approach that pays higher rates as a bonus available to all qualifying providers independent of the fees they charge?

3.2.7. Policies and practices affecting how providers are paid and treated may also limit access to quality care

Recent research involving focus groups with child care providers in 17 sites across 12 states suggests that there are other subsidy policies and practices—beyond published payment rates—that might have an effect on the quality of providers who participate in the subsidy system (Adams & Snyder, forthcoming). In particular, although the CCDF suggests that child care providers should generally be reimbursed the same rate that they charge private-paying parents, there are a number of policies and practices that can result in providers getting paid less than this amount.

There are a number of ways in which provider payments can be undercut. For example, some subsidy agencies do not cover all of the days when children are absent, or special fees (such as registration fees), even when private-paying parents must pay for these days or fees. Some agencies reduce subsidies to part-time when parents become unemployed and need time to find a new job—even though most private-paying parents would not get any similar reduction in the amount they would have to pay under these circumstances. Policies such as these effectively reduce the amount the provider makes, as their fixed costs for expenses such as rent and staff remain the same whether a child is ill or a parent temporarily only needs part-time care. Subsidy payments can also be undercut when providers are not paid for the full period of service due to miscommunication about when families are authorized and terminated from subsidies. Finally, in addition to policies that undercut payment levels, some providers involved in this research also described other frustrating experiences—such as delays in payments, burdensome paperwork, or not being able to contact caseworkers to resolve problems.

While it is not clear how common these problems are, providers suggested that they are likely to have two unfortunate results when they do occur. First, some of these policies and practices may affect the quality of care that subsidized providers are able to give, as lower or unpredictable payments affect provider revenue and make it more difficult to pay adequate wages, afford supplies, and so forth. Second, some of these policies and practices could also affect the willingness of some providers to serve children in the subsidy system, thereby potentially restricting the choices available to families receiving subsidies.

These issues are related both to some of the fundamental issues described above—in particular, the focus on supporting parental work (rather than children's development) and the funding constraints—as well as to local implementation strategies. For example, some of these problems are directly the result of state or local policies that define whether agencies will pay for absent days or special fees, or whether the amount of subsidy is reduced while parents are looking for a job. These policies reflect efforts to save costs, as well as to tie the subsidy directly to the parent's work and the service provided. However, the research described above also found that some of these problems seem to be related to how local agencies administer and implement their subsidy program (rather than to state policies or practices). For example, there were some local agencies that seemed to place a higher priority on issues such as communicating clearly with providers about when children are authorized and terminated, paying providers on time, and so forth, while others seemed to see these issues as less critical. This suggests that a number of these issues could be addressed by focusing more carefully on implementation issues and local agency leadership. Overall, this research underscores the importance of examining the full range of policies and practices that can shape what providers actually receive and how they experience participating in the subsidy system.

4. Implications for policymakers, practitioners, and researchers

A number of issues must be examined if policymakers wish to help the subsidy system play a stronger role in meeting larger social policy goals on child development and school readiness. Furthermore, in examining these issues, it is important to recognize that there are unique roles that different parts of the child care field—policymakers, practitioners, and researchers—can play. This section lays out some of the overarching questions and issues that need to be explored and debated by the child care field overall, and by different members of it, as we consider moving forward.

First and foremost, any effort to move toward better use of subsidies to support child development must confront three factors that fundamentally constrain the system's ability to focus on the quality of care that children receive.

- *Address funding constraints*. The issue of resources is clearly the most challenging, especially considering the growing budget deficits facing all levels of government. Although some improvements can be made with few or no resources, it is likely to be difficult to integrate a more systemic focus on child development into the subsidy system without additional funds to support this effort. Without additional resources, a substantial effort to move in this direction would most likely result in fewer eligible families receiving services—which is a difficult choice when there are already eligible families unable to get child care assistance in order to work and avoid welfare. As a result, unless the funding context changes, states are likely to continue to give higher priority to supporting parents' work and lower priority to helping their children develop. States are also likely to continue experimenting with a variety of piecemeal strategies, which, though valuable, are not likely to result in the systemic change needed to ensure that subsidized families are able to access good quality care for their children.
- *Balance the focus on parental work with an equal focus on child development*. Many of the key features of the current subsidy system support parental work rather than child development goals. If additional funds were allocated to try to better meet the needs of children, it would be necessary to find a more equal balance between the needs of a system that supports parent work and the needs of a system that supports healthy child development. To achieve a better balance between the two goals, the child care field should reexamine every aspect of the current subsidy system—including administrative structures, policies, program implementation, and local practices—to determine whether and how it is possible to redesign the system to be one that simultaneously supports work and child development.
- *Examine what needs to be done to reconfigure the current concept of "parental choice" into one that helps parents truly have quality options*. Working to ensure that subsidized children can access quality options requires action on multiple levels. Beyond the additional funds mentioned above, a key step involves reframing the "parental choice" principle to incorporate the "equal access" principle emphasized in the CCDF. This means going beyond helping families access existing providers to also working to expand the quality of the options available to low-income children to be more in line with what is available to other children. However, while this would be an important first step, it would not be sufficient to ensure that subsidized children have access to quality options because the problems of the child care market affect families at all income levels. Though very challenging, exploring strategies to address this more fundamental problem will be essential to move toward a system where all parents have the opportunity to find and choose quality providers.

Obviously, these fundamental shifts will be very difficult to accomplish in the short term—particularly in a system that is based on incremental change and is facing resource constraints. However, even incremental change requires constant experimentation, assessment, and dissemination of effective ideas and strategies. It is therefore essential that the larger child care field—whether policymakers, practitioners, or researchers—continue to explore and debate these issues. Below we identify some of the key issues, strategies, and questions that should be part of this debate about the evolution of our child care subsidy system. It is important to recognize that many of these issues are not new to the child care field—in fact many can already be seen in policy strategies that are being developed and tried in communities across the country. However, there has not been a sustained focus on assessing their impact or implementation, and there generally has not been a focused effort to see them as part of an overarching strategy to help the subsidy system better address child development goals.

- *Explore mechanisms to use voucher funds to expand the supply of quality care*. There are a number of issues that could be considered here. For example, are there voucher-based approaches that might support and expand the supply of quality child care? Do different kinds of providers respond differently to voucher-based quality enhancement strategies? For example, providers who rely heavily upon vouchers might be more responsive (but also face additional constraints) than providers who receive funds from multiple sources. Also, what are the pros and cons of different approaches to paying differential rates—for example, are there benefits to paying differential rates as a bonus (so all providers meeting the requirements can access the higher payment) versus only paying the higher rate to providers who charge this rate to private-paying parents? What kind of evidence from fee or cost surveys could be useful in establishing rates that help cover the true cost of quality care?
- *Explore mechanisms to blend voucher funding with other, more stable, funding sources to better support quality programs*. Another approach is to examine successful strategies that blend voucher funding with other forms of funding. There are some examples from the CCDF program itself—for example, states have used quality set-aside funds to provide more stable funding support to local programs, along with voucher funds to help families access those programs.[13] A different strategy is to lower barriers to blending funding between the CCDF and other federal or state initiatives (such as Head Start and prekindergarten) that support child development. For example, many Head Start, prekindergarten, and child care programs have experimented at the program level with blending funds and have been identifying policy and practice barriers (Poersch & Blank, 1996; Sandfort & Selden, 2001). One challenge to this effort is the perception that blending funds from different funding streams results in "double dipping" (which is the concern that local programs use funds from two government programs to serve the same child). However, this concern does not recognize the fact that each service may not be funded at levels sufficient to provide the unique services offered by the other—for example, part-day preschool programs are often not funded at levels to provide full-day/full-year services, and therefore need the additional funds from subsidies to extend services to cover the extra hours and months. Note, however, that blending funds across subsidies and Head Start or prekindergarten primarily supports the expansion of quality options for 3- to 4-year-olds. At this point the potential of this strategy is more limited for other age groups, such as infants and toddlers, where there are relatively few resources focused on supporting quality programs.
- *Examine strategies to selectively "un-link" state reimbursement rates from the prices charged by providers in the child care market*. It is important to know whether there are certain targeted circumstances where it is useful to loosen the tie between the amount that subsidy agencies will reimburse providers from the prices that providers charge—for example, in lower-income communities or for types of care that are in short supply.

These strategies already are in place in some communities for some providers (such as for providers who care for children with special needs), though such efforts could be expanded and their impact assessed. These strategies can be developed within the current CCDF, as states actually have considerable latitude to experiment with this issue despite a perception that there are federal limitations.[14]

- *Examine policies and practices that may limit participation of quality providers in the system*. While only preliminary research is available at this point, there appears to be a range of policies that might affect which providers participate in the subsidy system—and that therefore could affect families' access to quality providers. For example, how does setting rate ceilings at different levels (such as the 75th percentile) affect the quality of care that low-income children can access? How important are other policies and practices that can either undercut the actual reimbursement payment, or make it easier or more difficult to participate (such as reliability of payments or ease of paperwork), in affecting which providers are willing (or able) to serve subsidized children?
- *Examine policies and practices that may affect the ability of providers serving subsidized children to provide quality care*. Preliminary research also suggests that payment policies and practices might ultimately affect the ability of subsidized providers to provide quality care, though much more work needs to be done to examine these questions. For example, what is the impact of policies that undercut reimbursement levels upon the quality of care offered by providers who care for subsidized children? Do providers who experience unstable funding due to subsidy payment delays find it more difficult to provide quality care? What can agencies do to address these issues and to better support providers?
- *Explore policies that can affect the stability and continuity of care for children receiving subsidies*. Given the importance of continuity of care for children's development, it will be important to better assess what is known about the stability of child care arrangements for children in the subsidy system. It would also be helpful to examine the link between unstable arrangements and subsidy policies and practices versus parental decisions, and interesting to examine how subsidy policies might change if stable continuous child care options for children had a higher priority. For example, are there ways to help children remain in child care for a longer period of time after parents become ineligible for subsidies, ways to minimize needless terminations from subsidies, or ways to use other funding sources as bridge funding to allow children to stay in their child care setting if their parent loses eligibility?
- *Identify effective strategies to support the quality of care in unregulated settings*. We need to continue policy and research activities focusing on questions about unregulated providers, including experimenting with and assessing the impacts of different policies and new strategies. For example, what are cost-effective interventions for improving the quality of care in these settings? What is the right balance between ensuring parental choice and protecting children from harm and using funds in an accountable fashion? Continued research and policy experimentation is necessary so that we can identify the most effective ways to support the quality of care received by the 26% of subsidized children being cared for in unregulated settings.
- *Continue to invest in quality activities, and to experiment and explore strategies to improve the overall quality of care*. While it is important to expand efforts to support quality

through the subsidy funds that help families purchase care, the challenges of this approach underscore the importance of the quality set-aside as a mechanism to support the quality of care overall. Regardless of how effective voucher strategies may become in supporting quality, the subsidy system is likely to continue to depend upon the quality of care available in the overall child care market—which suggests that the CCDF funds dedicated to support quality will continue to be a critical component of any effort to ensure that subsidized children have access to quality settings. However, these funds are relatively small given the size of the overall child care market they are designed to influence, which suggests that policymakers may want to consider expanding funds dedicated for this purpose if the quality of care is a priority.

In conclusion, policymakers, researchers, and practitioners who care about the development of low-income children face both challenges and opportunities as they work to identify mechanisms to better support the development of children in the current child care subsidy system. Policymakers, for example, face obvious resource constraints and competing interests. However, they also have freedom to experiment fairly widely due to the devolved nature of the CCDF (which means that many of the key decisions in the child care subsidy system are set at the state level). Relatively few of the issues described here are constrained by federal requirements, so state and local policymakers and administrators have a significant amount of flexibility in experimenting with different strategies. This is evident by simply examining the enormous range of current policy strategies across the country—where policymakers are already experimenting with many of the key questions identified above.

Researchers also face remarkable opportunities to do policy-relevant research that will help to inform the policymaking process. While the devolved nature of the child care system presents challenges for researchers, it also offers a plethora of different strategies and program models to examine. A focused assessment of the various strategies states and localities are using to address the questions above would provide essential information to those working to better meet the needs of children and families in the subsidy system. Furthermore, there are many basic questions that researchers can help to answer. For example, relatively little is known about how different policy strategies affect child care markets overall, and particularly how they affect the quality of care that is provided. There is also a dearth of information available about child care providers, and policies and practices that can affect either the quality of care they provide or their participation in the subsidy system.

Finally, practitioners can continue to play the critical role that they have always played in the child care subsidy system, which is to work creatively to address the basic constraints they face in an underfunded system that artificially separates the needs of children and families. In fact, practitioners are already examining and testing most of the questions above in communities across the country. The challenge facing practitioners is to work closely with policymakers and researchers so that lessons can be learned from their efforts, and to help ensure that the results are used to inform policy in a more systemic way.

The bottom line is that subsidies are already playing a central role in helping millions of families work, and are already shaping the care of at least 2 million low-income children every month. While there are clear challenges in working to better address child development goals in the subsidy system, there are lessons that can be learned and steps that all members of the child care field—including policymakers, researchers and practitioners—can take to move forward toward this goal.

Notes

1. This includes an estimated average of 1.75 million low-income children under the age of 13 served by the Child Care Development Fund (CCDF) each month and, according to one estimate, another 700,000 children served through the Social Services Block Grant and Temporary Assistance to Needy Families (TANF) funding streams (U.S. Department of Health and Human Services [HHS], 2002a) (The CCDF is also known as the Child Care and Development Block Grant, or CCDBG).
2. These estimates do not necessarily reflect an unduplicated count of children served through any of the funding streams. For example, a child may be in Head Start while receiving a subsidy, or enrolled in both Head Start and prekindergarten.
3. CCDF funds can also be used for other special populations, including children in protective services or foster care, and children under the age of 19 who are physically or mentally incapable of caring for themselves.
4. In 18 states, at least some subsidy funds are delivered through a "contract" mechanism (HHS, 2002b). In this approach, the subsidy agency enters into a contract with selected child care providers and agrees up-front to pay these providers a certain amount to care for a certain number of children. Providers can count on receiving the promised funds as long as they deliver the services in the contract and comply with other requirements. [Note that some of these states have systems called "contracts," but which actually operate more like a voucher system.]
5. Head Start services are primarily targeted at families living in poverty.
6. Some programs focus on younger children as well, though this is less common. For example, the Early Head Start program focuses on children ages 0–2, and some state prekindergarten programs have a broader age group that they will serve.
7. Collins and her colleagues found that even when counting children served with all federal and state child care funds in 1999, none of the 16 states they examined served more than 25% of the families eligible under *federal* eligibility guidelines in 1999—federal guidelines are higher than state eligibility cutoffs—and some states served less than 10% of those eligible under federal guidelines (Collins et al., 2000).
8. In FY 2000, 11% of all children were served through contracts or grants, 83% through certificates, and 6% by paying cash directly to parents. In FY 2000, seven states (and Puerto Rico) had more than 20% of children served with contracts (HHS, 2002b).
9. It can also be particularly problematic for other specific populations, including families living in rural areas, families with infants and toddlers, and families that need child care during nontraditional hours (Clark & Long, 1995; GAO, 1995, 1997; Proctor & Johnson-Staub, 1998; Reich & Nussbaum, 1995).
10. See, for example, recent data from the 1999 National Survey of America's Families (NSAF) that show that only 16% of children younger than age 5 in lower-income families with working parents were in center-based care, as contrasted to 29% of the children of higher-income families (Sonenstein, Gates, Schmidt, & Bolshun, 2002). This pattern may

be due—at least in part—to different demand patterns for low-income families. However, the fact that center-based care is generally more costly, and that those low-income families who have help paying for care are more likely to use center-based care (Giannarelli, Adelman, & Schmidt, forthcoming), suggest that this pattern may be at least partially attributable to the financial constraints faced by low-income families.

11. Many states have relatively low standards—for example, 31 states do not require child care staff in child care centers to have any training prior to working in child care (Center for Career Development in Early Child Care and Education at Wheelock College, 1999). Furthermore, enforcement efforts are often limited. Finally, state licensing laws do not cover a significant number of providers. For example, some states exempt smaller family child care homes from any regulation or oversight by state licensing systems, and relatives and in-home caregivers are typically exempted from regulation.
12. It is also important to recognize, however, that voucher subsidy funding may also be allowing providers in low-income communities to stay in business—though not necessarily to provide good quality care.
13. Note that this corresponds with the debate in the child care field about exploring the higher education financing model, which, among other things, provides funding both to programs (e.g., universities) to help them stay in operation and to parents (e.g., student loans) to help them access those programs (Vast, 2001).
14. While perception is likely to be the result of language in the CCDF preamble which states that it is a generally accepted principle that subsidy agencies should not pay more for child care than other consumers, the CCDF does not have a specific prohibition against this and also encourages states to pay more for higher quality care, or for care that the market does not produce in sufficient quantities.

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