The Texas Child Care Subsidy Program After Devolution to the Local Level

A Product of the Study of Child Care Devolution in Texas

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Finally, this research would not have been possible without the enthusiastic cooperation of the many persons interviewed for this project. Our sincerest thanks go to the child care staff members of the 28 local workforce boards throughout Texas. Their candor in providing their perceptions of policy changes over this time period informed our understanding of these complex issues and aided us immeasurably in developing the research approaches used to analyze the data gathered for this research.

Executive Summary

In 1995, the Texas Legislature passed its first major welfare reform legislation, House Bill (HB) 1863. One provision of HB1863 consolidated a number of workforce programs—including child care—under a new agency, the Texas Workforce Commission (TWC), and authorized the creation of 28 local workforce development boards (LWDBs). As these boards formed and were certified to administer programs, they assumed responsibility for the management of many workforce development programs in their geographical areas of the state. TWC began devolving (transferring from a more centralized to a less centralized authority) responsibility for the management of existing contracts with child care brokers to LWDBs in September 1997. Beginning in September 1999, the local boards assumed responsibility for defining specific local goals and setting selected policies for the provision of subsidized child care. All 28 boards began setting some child care policies by January 2000.

This interim report summarizes child care policy changes that occurred from September 1997 through August 2003, discusses local board staff perceptions of these changes and summarizes information gathered from multiple sources over the six-year study period. Particular attention is focused on those areas—child care availability, funding, and quality—imbedded in the goals that LWDBs agreed to pursue when they assumed responsibility for managing subsidized child care in their local areas. This second-year project report lays the groundwork for the continuing analysis of qualitative variables and the design and implementation of an econometric analysis to be completed during the third and final year of this research project.

The Texas Legislature and TWC both contribute to the formation of the performance criteria under which the local workforce boards must operate. Such performance requirements include the number of children served, the number of child care providers meeting specific quality criteria, and the number of providers receiving training through TWC programs. However, local boards are able to set a number of policies, including income eligibility guidelines for child care services, attendance standards, maximum reimbursement rates, and parent co-payment rates. Over the four years since they have assumed policy-making authority, boards have exhibited considerable variation in such policy areas as the income eligibility ceilings for working parents, the co-payments required of parents, and the reimbursement rates for the most common types of care. Boards also differed considerably in their perception of how much flexibility they had regarding TWC directives and their ability to manage the child care program to respond to specific conditions in their local areas. The degree of flexibility they perceived appears related to the two other issues (i.e., funding and quality) described in detail in this report.

Boards that were able to generate more funds earlier in the process were likely to experience more flexibility in two ways. First of all, they were able to contribute the required matching funds from the beginning of the process and, in some cases, take on additional funds during the year that had been "de-obligated" from other boards. Secondly, they were able to sustain at least some investment in quality initiatives even as the state entered a period of funding shortages.

The funding available to boards, as well as the restrictions on expenditures, had considerable impacts on the policy decisions the boards made. However, boards responded to funding constraints in different ways. In the early years of this study, the substantial increases in child care funding meant that more funds were available to local boards. On the other hand, changes in welfare policy and in performance criteria put greater demands on this funding over time, primarily through increasing the number of children to be served. Although funding for child care has tripled in Texas since 1996, Texas has never had sufficient funding to meet all of its demand for subsidized child care. Boards continue to deal with the tension between the increasing funds and the even more quickly increasing number of children to be served. The increasing proportion of funding that requires matching funds, coupled with the increasing demand for local boards to provide that match, has accentuated funding pressures.

Over the study period, both the total dollars of funds re-allocated among boards and the number of boards losing funds due to an inability to come up with the matching funds have decreased as boards have become better at securing matching funds. However, boards continue to vary considerably in their experience with obtaining matches; large boards in economically active areas report considerably less trouble in obtaining matching funds than do boards in smaller, more impoverished and economically limited areas. Boards serving impoverished rural areas felt that the formula for determining fund allotment put them at a disadvantage.

In addition to raising funds and serving the requisite number of children, LWDBs have been responsible for increasing the quality of care in their local areas, a responsibility that many boards assumed enthusiastically. However, Texas state policies governing the state's investment in quality child care initiatives have changed considerably over time. During the first two years of this project, TWC maintained primary responsibility for expenditures on quality initiatives. This was followed by the devolution of this responsibility to the local boards and two years in which local areas received funds that were specifically targeted for quality activities. During the last two years of this project the state removed the dedicated quality funds and increased the number of children local boards were expected to serve. Boards responded in different ways to this move away from local quality initiatives. Their responses depended largely on the additional funding they could raise to devote to quality initiatives, the internal staff expertise they could draw upon, and services and expertise available in their local communities.

Chapter 1: Study Overview and Report Contents

In 1995, the Texas Legislature passed its first major welfare reform legislation, House Bill (HB) 1863. One provision of HB1863 consolidated a number of workforce programs—including child care—under a new agency, the Texas Workforce Commission (TWC), and authorized the creation of 28 local workforce development boards (LWDBs). As these boards formed and were certified to administer programs, they assumed responsibility for the management of many workforce development programs in their geographical areas of the state.

TWC began devolving (transferring from a more centralized to a less centralized authority) responsibility for the management of existing contracts with child care brokers to LWDBs in September 1997. Beginning in September 1999, the local boards assumed responsibility for defining specific local goals and setting selected policies for the provision of subsidized child care. All LWDBs agreed to the following three goals while managing subsidized child care in their respective geographical areas:

- Expand the availability of full-day child care in order to support participation in employment, training, and educational activities by low-income parents,
- Support and increase the quality of child care in Texas, and
- Maximize opportunities to draw down unmatched federal funds for child care services.

In September 2001, the U.S. Department of Health and Human Services (HHS) awarded a three-year grant to the University of Texas at Austin to study Texas' decision to devolve management and some policy authority for its subsidized child care program from the state to its LWDBs.[1] This research project examines the Texas subsidized child care program from Fiscal Years (FYs) 1998 through 2003, a time period that begins two years before policies were devolved to the local level and ends four years after this change in authority. Its purposes are to describe the processes by which local boards develop child care policies and to determine the extent to which LWDBs policy changes are associated with changes in subsidy participation patterns, family outcomes and child care markets in these local geographic areas.

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[1] Boards are prohibited from providing any direct services.

RESEARCH QUESTIONS AND METHODS

The study addresses the following specific research questions:

1. How do local child care policies in Texas vary following the devolution of responsibilities for child care policies to the local workforce boards?

2. What is the process by which local policy changes governing the provision of publicly subsidized child care are decided upon and implemented?

3. Which changes in local child care markets are statistically associated with local policy variations?

4. Which changes in the patterns of child care use and family outcomes are statistically associated with local policy variations?

To answer these research questions, researchers compiled federal and state legislation and regulations enacted during the six years of the study, as well as local policies developed by all 28 LWDBs. Researchers also conducted two rounds of telephone interviews with LWDB child care staff members to better understand the process by which local boards made their policy decisions and to gain their perception of the issues that local boards faced in achieving their child care goals. To better understand certain aspects of policy development and financing that could not be determined from those sources, researchers interviewed TWC child care staff members throughout the period of this study. They also extracted information from administrative databases related to the operation and financing of the child care subsidy program, and obtained historical market rate survey data for each local area. Finally, the research team conducted site visits to three local areas to gain the perspective of local organizations and individuals involved in developing or implementing local policies for subsidized child care.

Several complementary research techniques are being used to analyze the data collected for the six-year study period. The changes in policies and patterns of subsidy usage were compiled into a single research database and summarized in individual profiles for each local area. Interview data are being analyzed using ethnographic techniques to determine common issues faced by local boards when setting child care policies and to identify the different approaches that boards took when confronted with similar situations. Case studies will be developed from the local site visits to better explain the diversity of views held by local stakeholders regarding the LWDBs' handling of their new policy authority. And, finally, an econometric analysis will be conducted to determine which decision-making style and policies are associated with changes in family outcomes and local child care markets.

Results from this analysis will be contained in several research reports. This report, which summarizes data from all sources over the entire six-year study period, addresses the first two research questions. Two other technical reports are planned: one that addresses the last two research questions in the context of this earlier work, based primarily on findings from the econometric analysis; and another that reports on the three local site visits. The overall summary report for this project will include findings and conclusions from all aspects of this study and will offer both policy recommendations and suggestions for future research.

POLICY RELEVANCE

This research study will inform the policy and research communities interested in child care subsidy programs and program devolution in the following ways:

1. Because Texas decided to place its child care program under the management of its workforce agency (rather than its human services agency, which is the case in most states), this study will document the ways in which this program placement results in different program decisions than may have occurred if the program were being managed by human services professionals.

2. Local changes in child care policies occurred within the context of a welfare program that continued to be managed from the state level, in which changes affected all local board areas simultaneously. This will allow researchers to disentangle events associated with individual child care policy changes from welfare policy changes.

3. The qualitative aspects of this study (both the case studies and the interviews over two different time periods) will enable the policy community to better understand the process of devolution and the different types of factors that influence local governing bodies when they are making policy decisions.

4. The ability to identify which of the many influences and policy decisions included in this study are statistically associated with differences in family and market outcomes will help identify promising policy decisions that would be suitable for study through experimental demonstrations.

REPORT CONTENTS

This report, which addresses the first two research questions, summarizes policy changes that occurred over the six-year study period, discusses local board staff perceptions of these changes and summarizes information gathered from all sources over the six-year study period.[2] Particular attention is focused on those areas—child care availability, funding, and quality—imbedded in the goals that LWDBs agreed to pursue when they assumed responsibility for managing subsidized child care in their local areas.

The report contains five chapters and five technical appendices. Chapter 1 gives an overview of this project and describes the relevance of this research to the child care policy and research communities. Chapter 2 describes federal, state and local child care policies that emerged during the study period and gives board staff perceptions as to the degree of flexibility that local boards had in setting local child care policies. Chapter 3 discusses key changes in funding and local board staff perceptions of their ability to raise local matching funds over time. In Chapter 4, changes in approaches to quality and local perceptions about the shifting policies related to quality are analyzed. Chapter 5 contains a summary of findings from all of these chapters and next steps needed to complete this six year study period. The technical appendices include more detailed information from each phase of this analysis, including a compendium of legislation and policies occurring during this period, policy and statistical profiles and maps for each local area, indicator maps, more detailed information from interviews with local child care program management staff, and a glossary of terms to help readers unfamiliar with the Texas subsidized child care system.

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[2] All research reports from this study can be found at: http://www.utexas.edu/research/cshr/pubs/child.html

Chapter 2: The Making of Devolution

This chapter describes the policy context within which this study occurred. First, a brief history of the federal laws governing subsidized child care programs during this time period is provided. Then, Texas state laws and regulations that have influenced the subsidized child care program over the past six years are described and discussed. The third section describes the composition and governing authority of local workforce development boards, the changes that they made to child care policies over the study period and perceptions of local staff about the degree of flexibility that boards had in making these decisions.

FEDERAL CONTEXT

Until 1996, a myriad of federal programs provided child care support to poor and low-income families to help them get employment and training, or to stay on the job.[3] The Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA), in addition to overhauling the nation's welfare system, also consolidated existing federal funding streams for child care into a new child care block grant, the Child Care and Development Fund (CCDF). This consolidation simplified state administration of federal subsidy programs and dramatically increased federal funding for child care.

States are free to use CCDF funds to support child care for any family with income up to 85 percent of the state median income whose children are 13 years old or younger. CCDF regulations also give states the option of serving 14-19 year olds who are physically or mentally incapacitated or under court supervision. Since 1996, the majority of states have adopted income eligibility guidelines that are more stringent than the federal guidelines. In order to qualify, parents must be working, in school or training, with some limited exceptions. States are encouraged to focus their resources to help those families with the greatest financial need and children with disabilities. States may

3 These included the Title XX Social Services block grants, child care for welfare families participating in the Job Opportunities and Basic Skills program, transitional child care for persons transitioning from welfare to work, child care for families at risk of going on welfare and care through the Child Care Development and Block Grant for working families, those in school or training, and families needing protective services.

opt to waive co-payment requirements for families below the poverty line. PRWORA also gave states more discretion in determining how to target child care assistance among low-income families. The federal government no longer requires states to guarantee child care services for current and former welfare recipients but gives states the flexibility to adjust their policies based on need and funds available. "These adjustments mean that states can determine which groups of families will be eligible and which eligible families will be served."[4] States have taken quite different paths in developing their child care policies in the post-PRWORA era.[5]

STATE CONTEXT

Before 1995, the Texas Department of Human Services (TDHS) administered all subsidized child care programs in Texas. TDHS developed rules, determined eligibility for services, disbursed funds, and submitted program reports to the different federal funding agencies. To streamline the federal government's fragmented array of child care subsidy programs for low-income families and to better integrate service delivery, TDHS created a statewide Child Care Management Services system (CCMS) in 1991. Under this system, TDHS combined most federal and state child care funding sources and funneled them to 27 local CCMS contractors. These CCMS contractors centrally managed intake, eligibility determination, authorization of child care arrangements, and the automatic transfer between programs as a family's eligibility status changed, without requiring eligible families to change providers. It was one of the nation's first attempts to simplify access to subsidized child care services at the local level and pre-dated the federal combination of various child care programs into the CCDF by four years.[6]

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4 General Accounting Office, May 2003. p 12.
5 Meyers et al., 2002.
6 For a more complete description of Texas child care policies during this time period, see Schexnayder, et al., 1999.

Texas Workforce Development System

In 1995, the Texas Legislature passed HB1863, its workforce development and welfare reform act. This legislation transferred responsibility for a number of workforce development programs, including child care, from several state agencies to the newly created Texas Workforce Commission. In transferring its child care program from its human services agency to its workforce development agency, Texas emphasized child care's role as a support service that families needed to work or to participate in activities that would prepare them for work.

HB1863 divided the state into 28 local workforce development areas.[7] The legislation authorized local elected officials in each of these areas to create local workforce development boards. These boards would make policy and receive block grants from the state to locally administer most large training programs as well as child care services.[8] All appointed board members are volunteers, with fifty-one percent of each board comprised of private sector employers. Other members must represent various types of public and community-based organizations. At least one member must have expertise in child care or early childhood education.[9] To avoid a conflict of interest, state law prohibits local boards from providing direct services. Each board hires professional staff to handle board responsibilities and all services are contracted to independent providers.

After TWC certified that local boards were capable of managing the requirements of various workforce development programs, responsibility for many (but not all) of these programs was transferred to the local boards. TWC began transferring responsibility for managing child care contracts to local boards in 1998, with some LWDBs gaining authority to set selected child care policies in September 1999. All 28 boards completed this process by January 2000, with the last boards assuming responsibility for the subsidized child care program during that month.

[7] Most but not all of these boundaries were identical to those of the 27 CCMS areas.
[8] For additional information about the changes introduced by HB1863, see King, et al. 1997.
[9] Texas Administrative Code, Chapter 801.1. Last modified: 11/20/2001.

Achieving Change for Texans Welfare Waiver

To implement those HB1863 provisions that conflicted with existing federal laws and regulations governing the Aid to Families with Dependent Children (AFDC) program, Texas sought a waiver from the U.S. Department of Health and Human Services.[10] The waiver, known as Achieving Change for Texans (ACT), was approved by the federal government in March 1996 and operated through March 2002. After the passage of PRWORA in August 1996, ACT waiver provisions took precedence over conflicting PROWRA provisions until the end of the waiver.

ACT differed from PRWORA in several significant ways.[11] It set state time limits for receipt of welfare assistance that differed from the federal five-year limit, imposed work requirements and required clients to sign Texas-designed personal responsibility agreements Two key features of the ACT waiver affected child care subsidies during most of the study period:

1. It allowed more exemptions from Temporary Assistance for Needy Families (TANF) work requirements than PRWORA, thus mandating fewer TANF recipients to participate in work programs.[12]
2. It exempted more TANF families with young children from participating in work programs than allowed under federal law.

When Texas legislators passed HB1863, legislators were concerned about its potential child care costs, and thus initially exempted all welfare families with children under age five from work participation requirements. The legislation gradually restricted this exemption to families with children under age three, similar to the Family Support Act (FSA) provisions in effect at the time the Texas legislation was enacted.

After PRWORA restricted the TANF work exemption to families with children under age one, the 1999 Texas Legislature responded by passing Senate Bill (SB) 666, which lowered the Texas exemption to TANF families with children under two in September of 2000, and age one in September of 2001. These actions assured that Texas

[10] Title IV-A of the Social Security Act contained a waiver clause. If granted approval, the federal government allowed states to experiment with policy changes to cash assistance.
[11] Texas Department of Human Services, 2003.
[12] Under PRWORA, TANF replaced the AFDC cash welfare assistance program.

would be in compliance with PRWORA when the ACT waiver expired at the end of March 2002.

Another provision of HB1863 (but not part of the ACT waiver) guaranteed child care for TANF families participating in work preparation programs (known as Choices) or transitioning from welfare to work, similar to FSA provisions in effect when HB1863 was enacted. These legislatively mandated guarantees of subsidized child care for families in the TANF Choices program or those transitioning from TANF continue to exist, even though they are not required under PRWORA.

State Performance Measures

In 1991, the Texas Legislature authorized the Legislative Budget Board (LBB) to require each state agency to develop a statewide five-year strategic planning process and performance-based budgeting. Further legislative action in 1993 linked each agency's goals, strategies, and performance targets with each agency's appropriations, resulting in the Strategic Planning and Budgeting System (SPBS). Since that time, all Texas state agencies must meet the requirements of the SPBS.

As part of the state's biennial appropriations process, the LBB establishes performance measures that TWC must meet for the subsidized child care program. Table 1 displays the three performance measures that are relevant to this study: Average number of children served per day, percent of child care providers meeting certain quality criteria (known initially as designated vendors but later termed Texas Rising Star providers), and number of provider staff trained through TWC's training program.[13] Once local boards assumed responsibility for managing child care, each area was allocated annual targets needed to meet these measures. In FY 2003, all LWDBs participated in the development of these allocation formulas for the first time.

Generally, the sum of the targets for each local area equals the statewide target for a given measure. However, because the LBB measure for number of children served is split between Choices and non-Choices participants, TWC developed an internal calculation that combines these into one figure for allocation to the local level. This

[13] The provider training measure was reduced to 10,000 a year in FY 2004.

combined figure reflects the current mix of children in Choices and non-Choices families within the child care caseload.

Table 1. LBB Performance Measures: FYs 1998–2003

Performance Measure	LBB Statewide Targets					
	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002	FY 2003
Average number of children served per day (LBB)[14]	88,704	88,963	89,111	88,707	107,744	107,195
Average number of children served per day (TWC internal)	83,764	88,963	93,563	100,000	107,744	107,382
Percent of vendors meeting designated vendor criteria	35%	39%	39%	39%	39%	39%
Number of providers staff trained through TWC child care training programs	NA	NA	39,520	39,520	39,520	39,520

Source: Child Care Performance Measures, Texas Workforce Commission.

PROCESS AND PERCEPTIONS OF LOCAL DEVOLUTION

The final section of this chapter discusses responsibilities of LWDBs for the subsidized child care program following the state's decision to transfer management and some policy-setting authority to them. It also describes several policy areas in which local boards have used this authority to make different policy decisions. Then, the perceptions of local child care staff members regarding the actual amount of flexibility that local boards experience in setting policy are described. A compendium of relevant state legislation and policies occurring during the study period are included in Appendix A.

[14] The table displays both LBB and TWC targets for this measure.

Responsibilities of Local Workforce Development Boards

In 1999, the Texas Workforce Commission adopted Child Care and Development Rules that transferred significant responsibilities for the development of subsidized child care policies from the state to the LWDBs.[15] Within federal and state regulatory frameworks, the new rules allow local boards the flexibility to create policies based on the needs of their particular geographic area. Each board creates a child care delivery plan that outlines its local policies by working with federal, state and local child care and early childhood development programs as well as with representatives from local government. Boards must also gather input from a local child care advisory council and the public.[16] These plans are submitted to TWC and used to develop the state's biennial CCDF annual plan for the federal government.

Although some policy-setting responsibilities still remain with TWC, the LWDBs now have more flexibility to determine income eligibility cutoffs, parent fees and reimbursement rates, and payment schedules for providers. The boards can also set a number of other policies, as listed in Figure 1. Local boards are also expected to raise a portion of the funds needed to match federal CCDF funds, a process which will be discussed in Chapter 3.

Texas state law prohibits local workforce development boards from providing direct services. Texas LWDWs contract with one or more child care management service agencies, which in turn authorize voucher payments for subsidized child care and maintain and manage a network of child care providers.[17] These child care management service agencies, known as contractors, are chosen through a competitive bidding process, may be single agencies or consortia consisting of local governments, community-based organizations or service providers.[18] Each contract is effective for four years and can be continued upon renewal. Boards may elect to contract with one or more entities for direct care services and quality initiatives in their respective areas.

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[15] Texas Administrative Code, Chapter 809.
[16] The child care advisory council consists of provider representatives and other community stakeholders.
[17] Child care management contractors have replaced CCMS contractors but maintain many of the same types of responsibilities.
[18] Texas Workforce Commission. Online. Available: http://www.twc.state.tx.us. Accessed: November 20, 2003.

Figure 1. State and Local Policymaking Authority for Child Care

State Authority*

- Allocate funds among boards;
- Establish local matching funds targets for boards;
- Set performance targets for boards needed to meet performance measures;
- Ensure that board policies comply with state and federal regulations;
- Develop rules, policies and procedures to guide boards' activities;
- License and monitor child care providers (TDPRS)**;
- Manage Child Care Texas provider database (TDPRS).

Local Workforce Boards Authority

- Establish income eligibility for services under federal and state guidelines;
- Set attendance standards;
- Authorize service units (i.e. full-day, part-time);
- Identify eligible providers***;
- Determine extension of eligibility for children with disabilities (ages 13 to 19);
- Establish liability insurance requirements for local providers;
- Set parental co-payment rates;
- Establish maximum provider reimbursement rates;
- Allocate funds between direct care and quality improvement;
- Initiate and manage quality improvement initiatives;
- Set priority groups to receive services (in addition to those required by state law);
- Establish eligibility time limits for parents enrolled in educational programs;
- Set policy for repayment of delinquent fees;
- Establish waiting list procedures.

* Responsibility of the Texas Workforce Commission unless noted otherwise.
** Texas Department of Protective and Regulatory Services during study period.
*** Parents may choose care from these providers or may arrange their own care.
Source: Texas Workforce Commission

Child care management contractors are responsible for recruiting, managing and paying child care providers as well as providing technical assistance (in some areas) and other resources to vendors to improve services. The contractors enter into vendor agreements with child care providers to offer services in their regions. They also provide case management services for low-income families needing child care services. After receiving a family's application for subsidized child care and determining eligibility and funding availability, the contractor advises the parents about child care options. Families can choose child care from a vendor registered with the subsidy system or arrange their own care with pre-approval by the child care management contractor. If funding is unavailable, the contractor places applicants on a waiting list.

Local Policy Changes Following Devolution

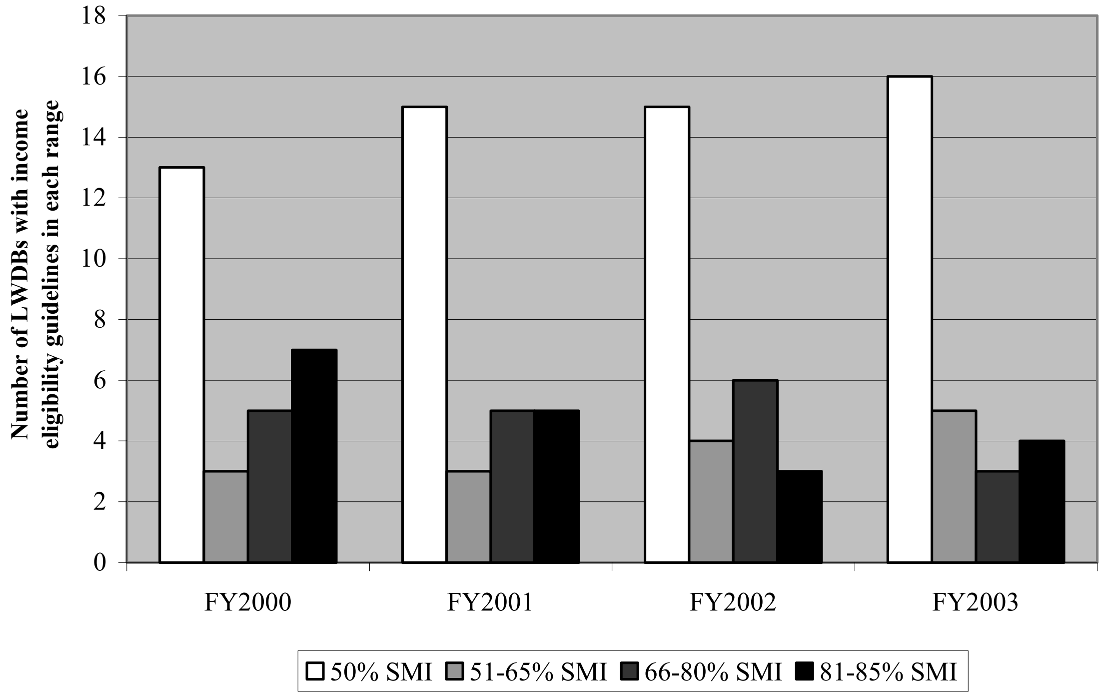
Since LWDBs gained authority to set some policies for subsidized child care within their geographical areas, their decisions have produced a wide degree of variation among policies governing the subsidized child care across the state. This section will briefly describe the degree of change that has occurred in three areas in which local boards can now set policy: Income eligibility ceilings for working parents, co-payments required of parents and reimbursement rates for the most common type of care. A more complete analysis of the differences in policies and uses of child care subsidies over time can be found in Appendix B.

Income Eligibility Ceilings

Following the passage of PRWORA, Texas working families were eligible for child care subsidies if their family income was less than the lower of 85 percent of the state median income (SMI) or 150 percent of the federal poverty income level (FPIL).[19] TWC's Child Care and Development Rules, which included a section on General Eligibility Requirements, were adopted in February 1999 and took effect on September 1 of the same year. After that date, LWDBs gained the authority to set their own income eligibility ceilings for such families. As shown in Figure 2, the 28 local areas adopted a number of different eligibility ceilings and some are continuing to change these limits each year. Generally, the eligibility limits have become more restrictive over time. For example, in FY 2000, only 13 local boards restricted eligibility to families with incomes less than 50 percent of the SMI. This number increased to 16 by FY 2003. Conversely, seven LWDBs set eligibility ceilings at or near the federal ceiling of 85 percent of SMI in FY 2000, while only four boards allowed eligibility for families at this income level in FY 2003.

[19] Which of these two levels produced a lower family income depended on family size.

Figure 2. Changes in Income Eligibility Policies Over Time



Source: U.T. analysis of local board policies from FY 2000 through FY 2003.

Parental Co-payments

All families who receive child care subsidies must pay for a portion of the fees associated with that care, unless the family is receiving child care through Choices, Food Stamp Employment and Training or child protective services. Prior to the fall of 1999, all Texas working families with one child who were eligible for care based on their income (known as income-eligible) paid nine percent of their gross monthly family income for subsidized child care. Families with two or more children contributed 11 percent of their income toward the cost of this care. After the local boards took over the responsibility for setting co-payment policies, they changed these policies in a number of ways. As shown in Table 2, some boards lowered the family co-payments while others increased families' share of child care costs. As a result of the tightening funds available for child care and more stringent performance measures in the last two years of the study period, 12 boards had increased co-payments above the 9 percent/11 percent levels by the end of that time period.[20]

[20] Detailed co-payment policies for each local area can be found in Appendix C.

Table 2. Changing Features of Co-payment Policies Over Time

Co-payment policy features	Count of LWDAs with each policy feature	
	End of FY 2001	End of FY 2003
Co-payment lower than 9%/11%	3	2
Co-payment higher than 9%/11%	2	12
Co-payment increases the longer family receives subsidy	2	7
Co-payment reduced for large families	22	25
Co-payment varies for different eligibility groups[21]	0	3
Co-payment prorated for part-time care	2	12

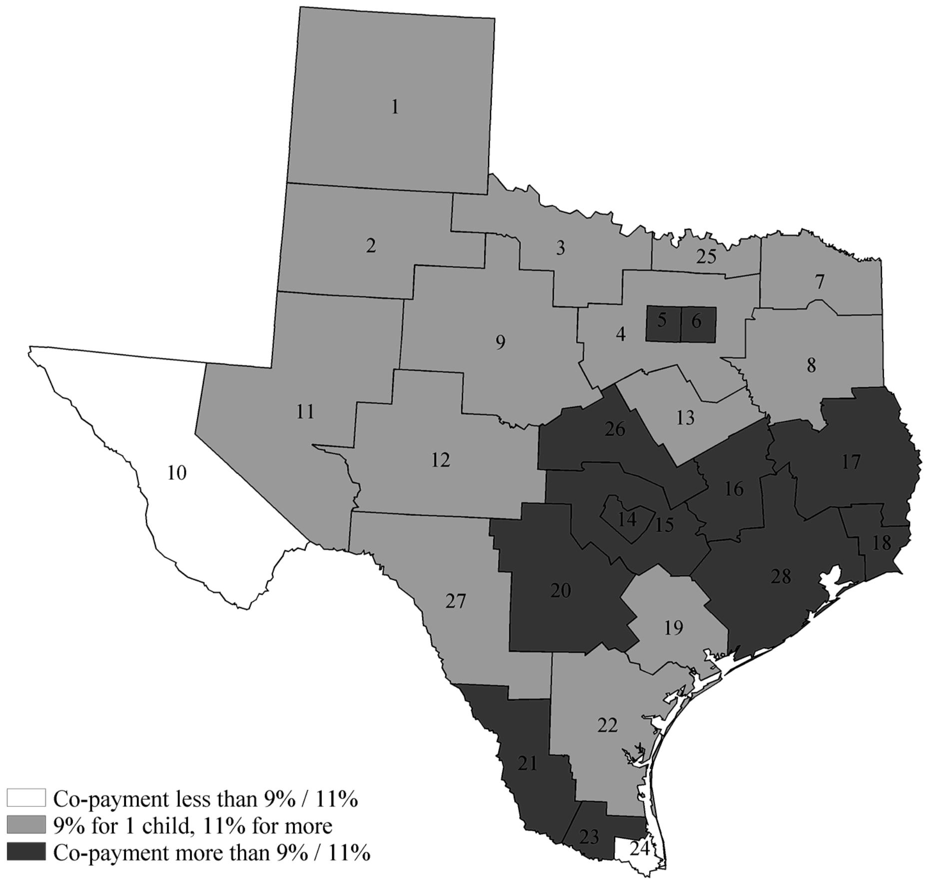
Source: U.T. analysis of local board policies from FY 2000 through FY 2003.

Boards have also tinkered with co-payment policies in other ways that reflect their differing philosophies regarding the allocation of scarce child care resources. For example, seven boards increase a family's share of costs the longer they are in service and 12 boards prorate the amount of the co-payment charged for part-time care.

A map in Figure 3 illustrates the geographic distribution of co-payment policy variation as of 2003. As can be seen from this figure, two boards along the Rio Grande have co-payment policies requiring parents to pay less than the historic 9 percent/11 percent co-payment level. Among those requiring working parents to pay higher percentages of their income are another two boards along the border, as well as a large cluster of boards scattered from central to southeast Texas that incorporates nearly every large urban area in the state. A map displaying changes in co-payment policies over time is included in Appendix C.

[21] Choices, FSE&T and CPS clients do not pay a co-payment. This measure only counts policy variations that affect the level of co-payment required of those in other eligibility groups (e.g., teen parents).

Figure 3. Co-payment Policy Variation, 2003



Source: U.T. analysis of local board policies.

Reimbursement Rates

CCDF regulations require that the state commission a survey each year to establish market rate guidelines for regulated child care in each area of the state. Based on the result of the market rate survey, local workforce development boards now have the authority to set maximum reimbursement rates for their local areas for different types of care, and in so doing, are allowed to consider additional factors. The final maximum rate adopted by the boards must show these rates are adequate and how they are affordable.

Given the diversity of the local labor markets in Texas, there have always been substantial differences in the actual cost of child care across the state. The best way to understand boards' behaviors with regard to provider reimbursement rates is to look at the differences between the current rates and the baseline rates in effect when the boards assumed responsibility for setting reimbursement rates for child care providers. Eight boards have not raised their reimbursement rates for full-time pre-school center care (the most common type of care in Texas) in the four years that they have had the authority to do so. However, as shown in Table 3, 16 boards raised their rates by more than 10 percent in the first two years after receiving the authority to set rates (see Appendix C for a map of rate increases over time). The lack of rate increases in the past two years can be attributed to two factors: The tightened demand for subsidized child care funds and a temporary rate freeze put into effect by the Texas Workforce Commission.

Table 3. Changes in Reimbursement Rates Over Time

Changes in daily reimbursement rate for center full-time pre-schooler care	FY 1999 to FY 2001	FY 2001 to FY 2003
Average rate increase (dollars)	$1.62	$0.04
Average rate increase (percent)	12.2%	0.3%
Count of LWDBs with no rate increase	8	26
Count of LWDBs with rate increase < 10%	4	2
Count of LWDBs with 10% or greater rate increase	16	0

Source: U.T. analysis of local board policies from FY 1999 through FY 2003.

Perceptions of Local Board Staff of Their Flexibility to Set Policies

In the context of devolution, local workforce development boards gained an assortment of rights and responsibilities for the development of child care policies and procedures. Their policy decisions, however, had to conform to state and federal legislation, rules and policies. Board staff held quite diverse views concerning the level of flexibility they perceived themselves to have in managing the child care program. Some felt they continued to make many important decisions. Other boards felt their independence was essentially illusionary. Indeed, many managers agreed that, even in areas where local workforce boards can take some initiative, local control was considerably curtailed. This included their perception of their own control over the assignment of eligibility levels, additional priority groups, and parental co-payment levels, among others.

While board staff across the state differed considerably in the degree of flexibility they felt they experienced, four distinct groupings emerged. The characteristics of each group are described briefly below (more detailed corroboration is provided in Appendix D). The first two groups felt they had a reasonable level of local flexibility. Members of the third and fourth groups felt constrained in making decisions that reflected their own interests and management choices, as well as the needs of their communities. The degree to which boards perceived flexibility seemed related to a number of factors including the size of the board's operations, the degree to which the board was able to raise extra funds, and the amount of experience board staff had working with state agencies.[22]

The First Group: A High Level of Flexibility

Staff members at three boards felt they had a high level of flexibility in the management of the child care program. They found it relatively easy to communicate with TWC and felt they received guidance without rigid direction. At the time of the interview, board staff felt the local boards made policy and procedural changes relatively independently. According to board staff in this group, the state agency provided guidance when a problem or question was submitted to their attention; board staff did not feel they were asking permission, even in important areas of the program (such as rules and monitoring procedures). However, there remained some concern, even in this group, that future state policy decisions might increasingly limit board autonomy.

The Second Group: Flexibility under Constraints

Staff of four boards felt they had considerable flexibility in the management of their child care programs but also felt limited by some significant constraints. These restrictions affected their independence in the areas of decision-making, allocations, and meeting performance measures. Overall, staff in this group desired more input into decisions made by TWC. While some staff members were encouraged by TWC's recent

[22] Interview data describing these relationships will be analyzed further in the final year of this research project.

consultation concerning performance measures, one staff member explained that TWC tended to impose its own views and interpretations and in so doing limited the local workforce board. Some board staff questioned not only the level of funding their Boards received and the performance targets "attached" to it but also the method by which this allocation was determined.

Board staff reported that performance targets were determined by the state (through the LBB and TWC) and were not negotiated with the boards. They felt that diversity among the boards and the areas they served should be taken more into consideration. The state's emphasis on units in care concerned board staff; many boards faced pressures to serve more children with limited resources. Staff members felt that the emphasis on performance measures could limit efforts to improve quality, as meeting each of these objectives at that time was (FY 2003) a pre-condition to expenditures on quality improvement activities. They also thought that this could limit the autonomy of the boards to establish their own goals, as local workforce boards were held accountable for meeting these measures and could be sanctioned for non-compliance.[23]

The Third Group: Little Flexibility

Child care program managers from this group of ten boards felt very limited in determining child care policy. They felt very limited in decision-making, the establishment of performance measures, allocation of resources, development of quality initiatives, and the management of funds, as well as in implementing procedures. Furthermore, some board staff saw continuing decreases in flexibility over time. Board staff in this group felt strongly that the state agency dictated policy changes and new policies that boards had to adopt, leaving boards primarily responsible for the management of service delivery. This limited scope for action was not what board staff members wanted as "local governance." For example, eligibility for child care subsidies remained, at least in part, under board control since boards may set their own priorities in addition to state mandated categories. However, staff of these boards felt the state agency intended to make the management of the child care program more uniform. While staff recognized one recent change that allowed more board input, they saw

[23] Sanctions included a temporary suspension of local flexibility and denial of access to additional funding.

themselves overall as controlled through the assignment of non-negotiable performance measures. Staff members of this group of boards felt particularly constrained by the relatively new emphasis from TWC on the number of children served rather than on quality initiatives. For example, one staff member explained: “I don't feel there's any flexibility in our allocation because even though we can technically have quality initiatives, the way the money was allocated, it really prohibits us from doing any quality activities because all the dollars have to go to direct care.”

The Fourth Group: Almost No Flexibility at All

Staff members from this group of eight boards shared a number of the concerns expressed by the third group. However, they tended to see their boards as almost totally constrained by the requirements of the state agency, particularly in the areas of policy making, performance and funds-tracking, and quality initiatives. The flexibility they once experienced appeared to be disappearing. Board staff reported that in many instances, even recently, policy changes were initiated by the state agency without local input. They felt that the state would intervene in some of the changes that the board made.

These board staff felt particularly constrained when decisions initiated by the state appeared inappropriate to their area. Board staff members mentioned examples of confusing and contradictory messages. For example, boards were asked to develop a “termination of care” policy but when some of them tried to implement it, a change of position at the state level condemned such efforts. Board staff in this group reported difficulties reconciling their funds with TWC figures, a problem they have experienced since the devolution of the child care system to the local boards. They reported that the daily and monthly variations in the number of children served made it difficult to create figures in the manner that TWC expected. As a result, TWC sometimes thought that they were not meeting their performance requirements. Finally, board staff in this group felt they have been told that quality initiatives were at an end.

SUMMARY

At the same time Texas enacted its initial welfare reform laws, the legislature assigned responsibility for workforce development activities, including child care, to a new state agency, the Texas Workforce Commission. This legislation also authorized the creation of 28 local workforce development areas and the formation of local boards that eventually assumed responsibility for the management of most large training programs and child care services, thus emphasizing child care's role as a workforce support. Some local workforce development boards began managing child care contracts in 1998 and setting some child care policies in September 1999. All 28 boards completed this process by January 2000.

The state exercises some level of control over board activities through both legislative demands and the regulatory system. The state guarantees subsidized child care for families in the TANF Choices (job-training) program and those transitioning from TANF. TWC must also meet a number of legislatively-determined performance criteria related to the number of children served, the number of child care providers (vendors) meeting specific quality criteria, and the number of vendors receiving training through TWC programs. However, within this framework boards can develop diverse policies to meet the needs of their geographic regions. Such policies that are under board control include income eligibility for child care services, attendance standards, provider eligibility, parental co-payment rates, among a range of others. They also procure and monitor contracts for the provision of child care services and child care quality activities.

Three policy areas with considerable variation across the boards are income eligibility ceilings for working parents, co-payments required of parents and reimbursement rates for the most common types of care. However, even in these areas, the state does exercise control, sometimes intermittently, as in the recent freeze on reimbursement rates. In this new regulatory environment, boards differ considerably in their perception of how much flexibility they have regarding TWC directives and their ability to manage the child care program to respond to specific conditions in their local areas.

Chapter 3: Funding

After PRWORA was enacted, the federal government appropriated an additional $4 billion for child care over a five-year period to aid families in the welfare to work transition.[24] While PRWORA provided an injection of funding for the program, the work requirements established by welfare reform also substantially increased the need for child care subsidies.

In order to receive the full amount of federal mandatory funding included in the CCDF block grants, states must demonstrate that they are appropriating and spending a specified amount known as "Maintenance of Effort" (MOE). They must spend additional funds above that amount in order to access federal matching funds included in the full CCDF allocation to states.[25] States also have the flexibility to transfer up to 30 percent of their TANF block grant funds to CCDF programs.

FEDERAL FUNDING TRENDS

Though the number of children served more than doubled in the latter half of the 1990's due to a substantial increase in funding (Figure 4), the available resources for subsidized care have never been sufficient to meet the need for child care. Additionally, as federal work requirements for welfare recipients have become more stringent, the number of children needing care has increased which could exacerbate the funding gap.

In FY 2001, funding for child care from all sources (CCDF, TANF transfers and state MOE and Matching Funds) reached a historically high level of $11.2 billion, up from $3.2 billion in FY 1996 when PRWORA was enacted.[26] During this period, states were able to move individuals off of the welfare rolls in record numbers and used a substantial portion of federal TANF funds for child care services.

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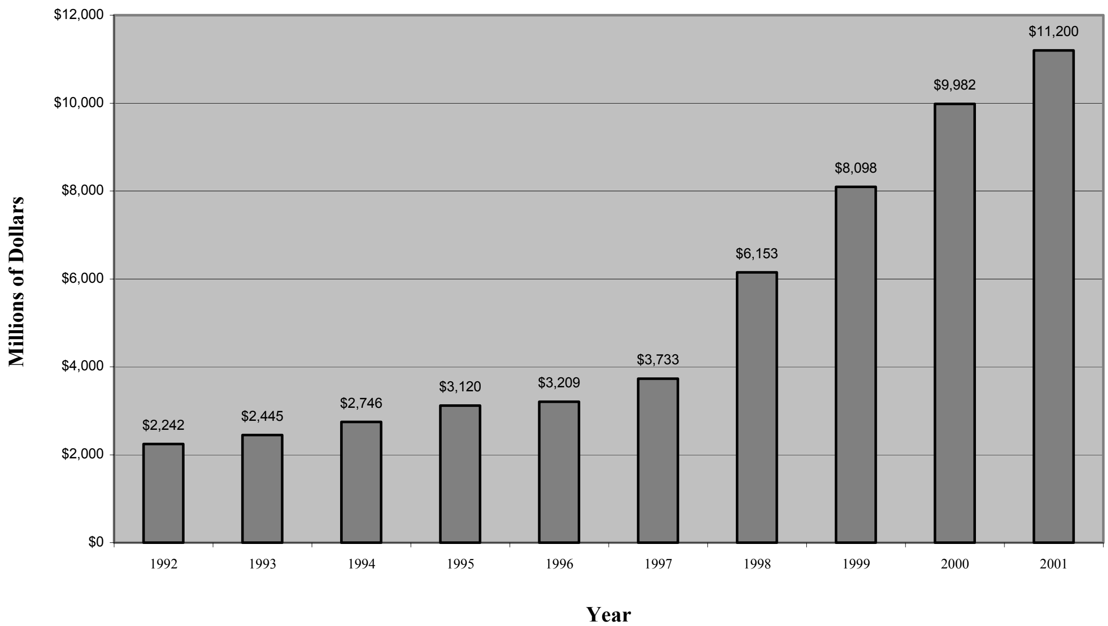
[24] Children's Defense Fund. Accessed: September 2, 2003.
[25] General Accounting Office, February 2001, p. 8.
[26] U.S. Department of Health and Human Services, Administration for Children and Families. Accessed: September, 18, 2003. p. 5.

Figure 4. CCDF and TANF Related Child Care Funding FYs 1992–2001



Source: Administration for Children and Families. CCDF Report to Congress – FY 2001. U.S. Department of Health and Human Services.

HHS estimated that twice as many children received child care subsidies in each month of FY 2000 than was true when PRWORA was first enacted in 1996.[27] However, even during these years of historically high spending levels and significant TANF transfers, HHS also noted that only 28 percent of those children eligible for CCDF assistance under states' eligibility rules received a child care subsidy. Forty-five percent of children whose families had income below the poverty level for a family of three were served.[28]

The expansion of federal funding that occurred in the late 1990's slowed in 2001 and 2002, and funding levels in recent years do not reflect any increases in spending. In FY 2002 the federal government allocated $2.7 billion for child care to states (a $150 million increase from the previous fiscal year), and made an additional $2.2 billion available to states that met their MOE requirements and could match these federal funds with state or local dollars. The amount of federal funding for CCDF programs remained

[27] Ibid, p. 6.
[28] Ibid. p. 6.

constant for 2003 and 2004. (Estimates of total subsidized child care expenditures from all sources are not yet available for the 2002 and 2003 fiscal years.)

STATE FUNDING TRENDS

The economic downturn in 2001 and 2002 has had direct impact on state revenues and welfare rolls, which in turn have had a downward effect on state spending and state transfer of TANF funds for child care purposes. More than half of the states cut overall funding for child care programs between 2001 and 2003.[29]

Funding for subsidized child care in Texas has roughly tripled since the passage of PRWORA, with combined federal and state appropriations for Texas reaching $441.4 million in FY 2003. During the period covered by this research study, the total funds used to directly purchase child care slots increased from $345 million in FY 1998 to over $422 million in FY 2003.

The increase in Texas child care funding has leveled off recently due to a combination of the leveling of appropriations from the federal government for this purpose and the state's budget challenges caused by the economic downturn. Although Texas transferred approximately $79 million in TANF funds to the CCDF program in FY 2000 and FY 2001, the state legislature ended this transfer beginning in FY 2002. Aside from the transferred amount, TANF funds have never been used directly for the purchase of child care services in Texas.

LOCAL FUNDING PROCESS AND PERCEPTIONS

For many years, Texas has allocated its funds to the local entities responsible for delivering subsidized child care throughout the state and has relied upon funding from local governments and other organizations to assist the state in accessing all of the available subsidized child care funds. This section describes the process by which funds are allocated across the state, how local matching funds are obtained and changes that have occurred over the period of this study, followed by local board staff members' perceptions of how these procedures affect their local areas.

[29] Parrott and Shapiro. August, 29, 2003. p. 3.

Allocation of Funds

Under CCDF, the states are eligible to receive three categories of child care funds —mandatory, discretionary, and matching. Mandatory and discretionary funds are allocated to states according to demographic characteristics of its population. However, a state must appropriate a certain amount of funds for subsidized child care to be eligible to receive matching funds and must match these funds at the state's Medicaid matching rate. Texas is not required to follow the federal formula in allocating resources among the local boards, though the formulas that state lawmakers and administrators have opted to use bear some similarities to the formulas the federal government uses to allocate CCDF funds to the states. TWC allocates child care funds to LWDBs according to the formula described in Figure 5.

Figure 5. TWC Formulas for Allocating Child Care Funds to Workforce Boards

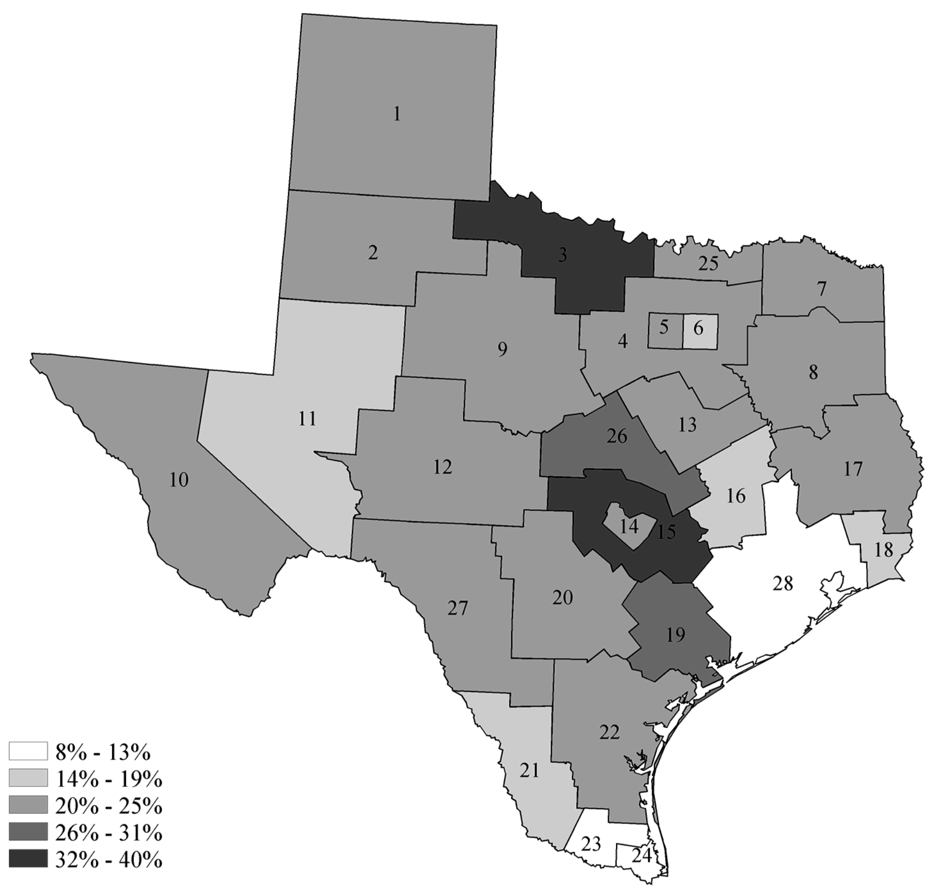
CCDF Category	Methodology for Allocation to LWDBs
Mandatory	50% of funds based on the proportion of children under 5 living in the workforce area relative to the statewide total of children under 5. 50% of funds based on the proportion of the total number of people with income less than or equal to 100% of the FPIL, relative to the statewide total of individuals in that income category.
Matching	Based on the proportion of children under 13 living in the workforce area relative to the statewide total number of children under 13.
Discretionary	Based on the proportion of children under the age of 13 in families whose income is less than or equal to 150% of FPIL, relative to the statewide total of children in that category.

Source: "Comparison of TWC's Methodology (Allocation to the LWDBs) with Federal CCDF Allocation Methodology (Allocation to the States)." Texas Workforce Commission. 9/16/2003.

This funding formula has been contentious among some policymakers and other stakeholders in rural areas and the border region. They contend that while the number of children served in their region is lower than some large metropolitan areas, they face particular resource challenges such as the availability of providers and trainers. In 2000, TWC conducted a review of the allocation method upon the instruction of the legislature, examining a range of need indicators measuring poverty in workforce areas throughout the state. The Commission concluded that the current allocation formula was consistent with the state's needs and recommended the continued use of the formula.[30]

Another method of judging the fairness of the allocation formulas would be to examine whether, across areas, children and families at the same level of need would be equally likely to receive subsidized child care. A preliminary analysis using this approach produced the map in Figure 6, which illustrates the estimated percentage of low-income children in each area who received subsidized child care in FY 2003 (for a map of this indicator over time see Appendix C). As can be seen, the share of low-income children receiving care is low overall, but the variation across areas is quite substantial. Apparently, in some areas low-income children are much less likely to receive subsidized child care than in other areas.

Figure 6. Share of Low-Income Children Served (FY 2003)



Source: U.T. analysis of local workforce board demographics and subsidy program data.

[30] Texas Workforce Commission. November 1, 2000.

Many factors could influence this disparity in access to subsidized child care funds across the state, including ability of local areas to obtain matching funds, variation in the cost of child care across the state, and possible inequities in the local funding allocation formulas. Additional analysis of this topic will be conducted in the final year of this study to assess the degree to which this apparent unequal access to subsidized child care funds remain after fully accounting for the many factors that influence allocation levels to local boards.

Requirements for Raising Local Matching Funds

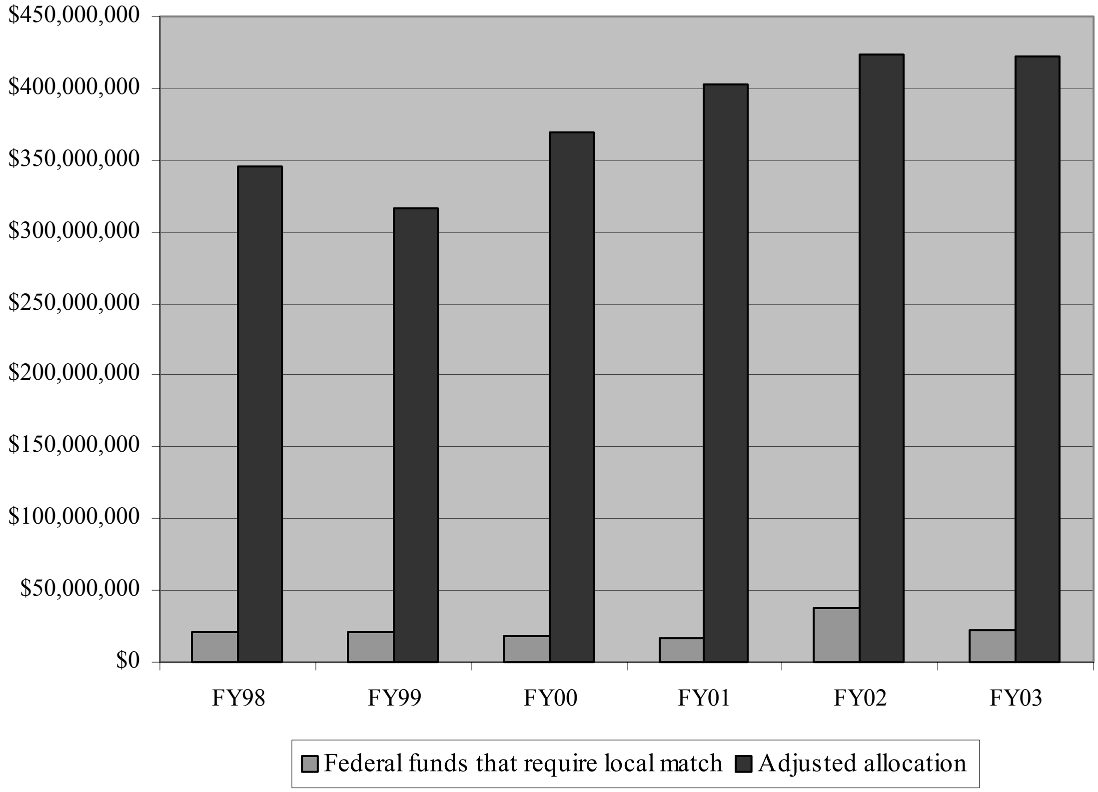
For many years, the State of Texas has relied upon local funds for some of the matching funds needed to draw down the available federal funds for subsidized child care. The Texas Legislature estimates the amount of local funds needed for match during its biennial budgeting process. Adjustments are made by the state agency responsible for child care (first TDHS and then TWC) as more complete information on the amount of available federal funds is learned.

Over the study period, the share of total funds used to purchase subsidized child care that required local match (see Figure 7) ranged from a low of 4.2 percent in FY 2001 to a high of 8.8 percent in FY 2002, then dropped in FY 2003. These fluctuations occurred for two reasons: changes in the amounts of available federal funds that could be matched after the Texas Legislature had already appropriated its matching funds for the coming biennium, and an increasing reliance on local boards to come up with matching funds.[31]

Until 1999, the responsibility for negotiating agreements for matching funds with local entities rested with local state agency staff members, first at TDHS and then at TWC. Responsibility for raising local matching funds was transferred to the LWDBs once they began managing and setting policies for child care services.

[31] For the FY 2004-2005 biennium, the state's reliance on local matching funds will increase even more. For that time period, it is estimated that $29.8 million of available funds for child care services will require local match, an increase of over $8 million from FY 2003.

Figure 7. Total Child Care Funds and Funds Requiring Local Match Over Time



Source: U.T. analysis of TWC child care financial allocation data.

The Texas Legislature recognized the challenges facing local communities in raising sufficient funds to serve families in need, and passed two pieces of legislation in 2001 to enhance local capacity-building. The state appropriations bill in 2001 asked TWC to cooperate with cities, school districts, the Texas Education Agency and non-profit organizations to obtain local match for federal child care funds. Another bill, HB2767, required LWDBs to use money and in-kind services provided by a local school district or agency to obtain federal matching funds for child care services to the extent permitted by federal law.[32]

[32] Federal rules prohibit the use of in-kind services to draw down matching funds. Therefore, TWC has not used any in-kind services even though the words remain in the text.

During the period of this study, local boards could certify existing *public* expenditures for CCDF-eligible activities, but could only count donations provided by private entities toward a local match. Recently, TWC adopted a rule which aims to enhance LWDBs' ability to raise local matching funds. Effective in January 2004 (which is beyond the formal time period covered by this study), this rule allows local boards to "certify" expenditures from private organizations (such as local chapters of United Way) as local match for subsidized child care. However, federal regulations provide that expenditures from private entities that are not transferred or under the administrative control of the lead state agency may qualify for matching funds only if they are given to the single entity designated by the state to receive donated funds. It is too early to ascertain the degree and the nature of local implementation of this newly-adopted rule.

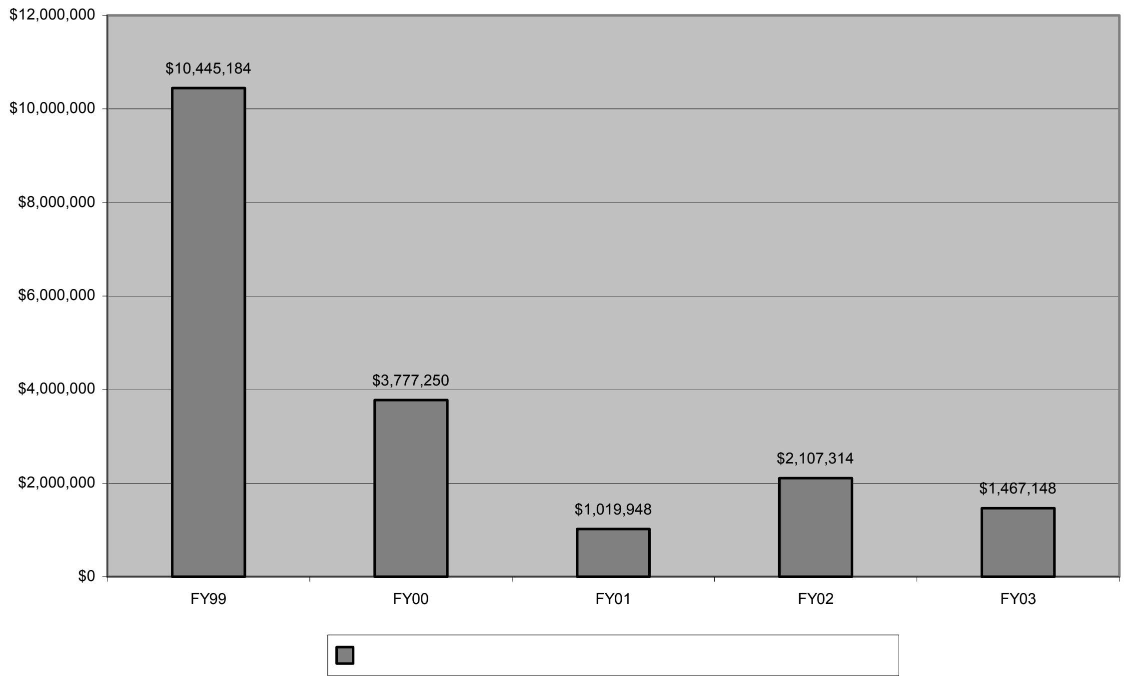
De-Obligation and Re-Obligation of Funds

TWC establishes a financial target for each board's local match each year based on the allocation formula described above. If a board fails to meet its match target, the federal funds allocated to that area are "de-obligated," meaning that the state recaptures those funds into the child care funding pool available to boards across the state. Those boards that are able to exceed their match target can then negotiate with TWC to access additional federal funding by arranging additional match contracts above and beyond their requirement. Those boards that are not meeting their performance targets for units of direct care are not considered by TWC for additional funding.

While boards do have some discretion in how they can spend this additional funding, the federal dollars come with direct care requirements. The dollars are "attached" to units in care requirements and thus, a board that receives additional federal match dollars in the middle of a fiscal year has to adjust the number of children that they are serving.

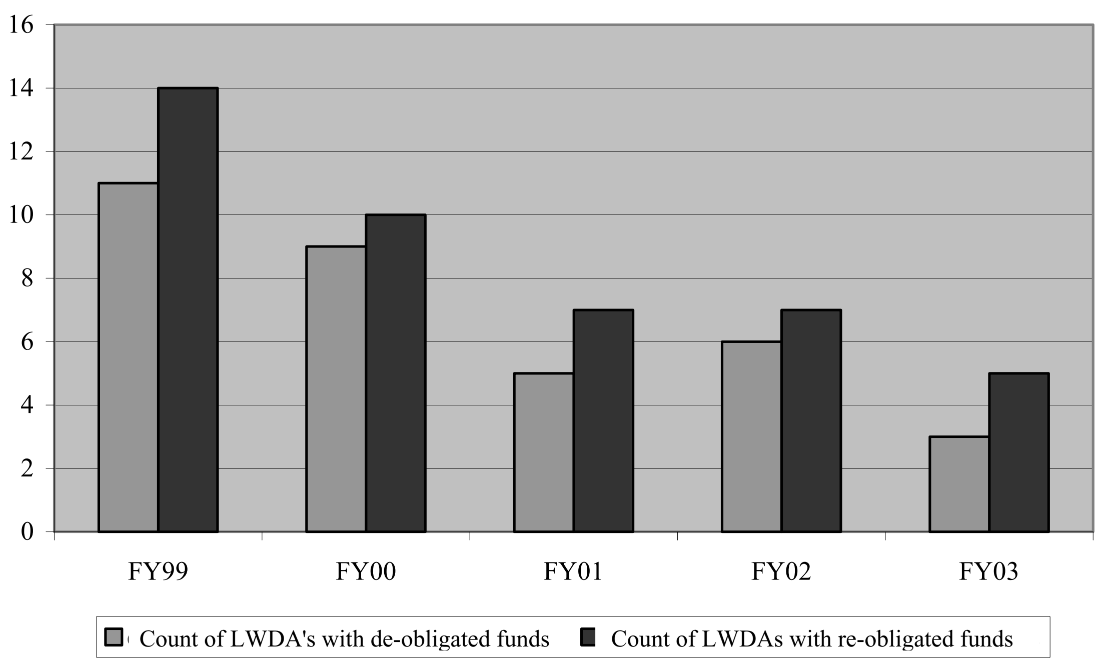
As shown in Figures 8 and 9, both the number of local boards that have had funds de-obligated or re-obligated and the amount of funds transferred between local board areas has decreased over the period of this study (for a map of de-obligation/re-obligation over time see Appendix C). This decrease in the transfer of funds between boards can be attributed both to the increasing capacity of boards to raise matching funds and the

Figure 8. Total Child Care Funds Shifted Among Boards Over Time



Source: U.T. analysis of TWC child care financial allocation data.

Figure 9. Number of Boards with Funds De-obligated or Re-obligated Over Time



Source: U.T. analysis of TWC child care financial allocation data.

tightening of the available funds for care, which resulted in increasing the willingness of some boards to put forth the additional effort needed to raise matching funds.

The capacity of boards to find local match partners and meet their goals has increased in part because of the technical assistance and training that TWC has provided to board staff to enhance their understanding of the federal match system and to seek new ways to generate local revenue. Most child care program managers report spending more time on acquiring matching funds in recent years, and some areas have adjusted board or contractor staffs' responsibilities in order to devote more staff time to this function. Recently, TWC also streamlined the process for approving match contracts but some local board staff still feel that the process could be made more user-friendly.

Perceptions of Local Board Staff on Finding Matching Funds at the Local Level

The state has increased the targets for required matching funds in recent years and more increases are planned for the 2004 fiscal year, according to board staff. However, preliminary analysis of the qualitative interview data reveal that local workforce boards tend to have notably different experiences with securing local matching funds. Larger boards in more affluent areas find it easier to obtain funds from partners and to get funds certified. Smaller boards in areas with fewer economic resources find it more difficult. Some of the boards located along the border with Mexico cannot find partners in the economically depressed areas they serve, as many potential partners are themselves funded through federal money.

One program manager in an urban area of the state explained that it was not a problem at all for her board to find partners and sign agreements to certify matching funds. In this case, the funds and services available for match exceed the limit set for this particular board. The respondent highlighted the important leadership role played by key members of the voluntary board which helped to secure the collaboration of other potential funding agencies.

In other geographic areas, however, the recent economic downturn and economic insecurity are making the job of finding new partners more difficult, especially in areas hit hard by the economic recession. For example, one respondent explained that her board had not raised any extra monies locally above the required match amount. Unemployment had increased dramatically in her area. Her board has not approached any local employers for donations. Instead, she has been encouraging them to donate to the local United Way. Her board has reached its local matching funds targets via certification through the United Way. For this reason, she concluded that it makes sense to just encourage giving in that way rather than to solicit direct private donations to board activities.

Other local boards find that even large organizations, such as the United Way, have a more limited ability to help in the current economic context. Public organizations such as schools, which frequently partner with boards to provide local match, have also faced rounds of funding cuts. Board staff described the efforts made to join forces at the local level by various actors (board members, contractor and community partners) to find the necessary funds to meet the local match target.

Local board staff members report that the difficulty in obtaining matching funds are related to other problems facing the boards. Specifically, potential partners have tended to be more interested in the development of quality initiatives than in the provision of direct care. They have also been interested in providing contributions that will increase local flexibility. As board flexibility has become more limited and as quality initiatives have moved off the core agenda, some local organizations are not as interested in contributions as was true earlier.

SUMMARY

Federal child care appropriations to the states increased in the years immediately following the passage of PRWORA and most states also experienced a simultaneous increase in the demands for subsidized child care services from eligible families. Part of the additional funding was made available to states on the basis of their ability to match the federal money with local expenditures. Federal funding for child care has not increased in the most recent two year period.

Funding for child care has tripled in Texas since 1996, but has leveled off recently. While both funding and the number of children served increased dramatically since the passage of PRWORA, Texas has never had sufficient funding to meet all of its demand for subsidized child care. Funds for subsidized child care are allocated to local boards based on a formula similar to the one used by the federal government to allocate child care money among the states, a matter of contention in rural areas and high-poverty areas near the Mexican border. Part of local boards' concern is the result of the increasing proportion of funding that requires a match and the increasing demand for local boards to provide that match. A recently-adopted TWC rule allows certification of expenditures by eligible private entities toward local matching funds. However, it is too early to ascertain whether this will become an effective tool for local boards.

Over the period of this study, both the total dollars of funds re-allocated among local areas and the number of boards losing funds due to an inability to come up with the matching funds have decreased as boards have become more adept at the process of securing matching funds. Boards vary considerably in their experience with obtaining matches: Large boards in economically active areas report considerably less trouble in obtaining matching funds than do boards in smaller, impoverished areas or communities with limited economic resources.

Chapter 4: Quality

There is an inherent competition between the goals of increasing the number of children served by available child care funds and improving the quality of care for those children served by subsidies. One of CCDF's goals is to provide child care to assist low-income families so that parents can work or participate in education or training activities that lead to employment. However, improving the quality of care available to poor families is also a stated goal of this program. Because the available funding for child care subsidies doesn't meet the demand for these services, states must make difficult decisions as to how to allocate funds between these competing goals.

This chapter discusses how the federal government, the State of Texas and local workforce boards have chosen to address quality in subsidized child care programs over the period of this study. In particular, it discusses the nature of the choices being made by different governmental entities during hard economic times and the perceptions of child care staff members who are responsible for juggling the competing demands of serving more children while still maintaining quality.

NATIONAL CONTEXT

Prior to the 1996 reform, the Child Care and Development Block Grant (CCDBG) program required states to use 25 percent of their federal funding allocation toward quality improvement initiatives.[33] Under PRWORA, state lead agencies for CCDF must spend no less than four percent of total CCDF expenditures (a much larger dollar amount than prior CCDGB expenditures) for quality improvement. In reality, nine percent of CCDF expenditures were used by states for quality purposes in FY 2001.[34] A 2002 Congressional Research Service report also found that more than half of the states planned to spend more than four percent of their CCDF funds on quality activities; of these, four states reported plans to spend 23-27 percent.[35]

[33] Faliski, 1999. p. 51.

[34] U.S. Department of Health and Human Services Administration for Children and Families. Child Care and Development Fund (CCDF) Report to Congress–Fiscal Year 2001. Accessed on February 23, 2004.

[35] Gish and Harper, October 8, 2002. p. 32.

The old CCDBG regulations also spelled out categories of quality activities that states had to undertake in order to qualify for itemized federal funds. PRWORA simply eliminated the itemization. Federal regulations now only list these same categories of activities (shown in Figure 10) as optional uses of quality funds and ask states to specify their quality activities in their CCDF state plans. Most states have continued to spend quality funds in the categories previously mandated by CCDBG.[36]

Figure 10. Categories of Quality Activities Suggested by Federal Regulations

- Resource and referral programs for the development, establishment, expansion, operation and coordination of child care services;
- Consumer education to improve the availability and quality of child care;
- Grants and loans to assist in meeting state and local child care standards;
- Monitoring of compliance with licensing and regulatory requirements;
- Training and technical assistance in appropriate areas, such as health and safety, nutrition, first aid, the recognition of communicable diseases, child abuse detection and prevention, and the care of children with special needs;
- Compensation to improve salaries of staff who provide child care services; or
- Other quality activities that increase parental choice, and improve the quality and availability of child care.

Source: Gish and Harper, October 8, 2002. p. 33.

In addition to the four-percent set-aside stipulated in PRWORA, federal appropriations legislation has included additional provisions (called earmarks) for quality spending. Earmarks are typically made for the following areas: providing comprehensive consumer education, resource and referral services to parents and the public, increasing parental choice improving the quality and availability of care, improving school-age care, and child care resources and referral services.

[36] Gish and Harper, pp. 33-36.

STATE CONTEXT: CHANGING POLICIES OVER TIME

Texas state policies governing quality improvement in subsidized child care programs have changed substantially over the six years covered by this research study. These changes can be grouped into three distinctive phases: FYs 1998–1999, a period in which TWC, as the state agency responsible for the CCDF program, also had the primary responsibility for meeting its quality requirements; FYs 2000–2001, a period in which local boards assumed responsibility for child care quality; and FYs 2002–2003, in which the state, when faced with tough economic decisions, reduced the required amount of funding for quality activities and expected local boards to serve more children with subsidy dollars. Major state legislation and policies that occurred throughout this time period are described below.

Texas Rising Star Providers/Designated Vendors Program

State rules encourage local boards to recognize activities by providers who voluntarily exceed the minimum regulatory standards set by the Texas Department of Protective and Regulatory Services. Since 1991, the Texas subsidized child care program has operated a designated vendor program to recognize and encourage the use of those vendors who use quality activities described in the federal law, and who engage in quality improvement activities that reduce group sizes, improve health and safety conditions, improve linkage to parents and community services, improve teacher training, or recognize professional accreditation as a means to improve quality. When TWC changed the term “designated vendors” to Texas Rising Star providers in 2001, the certification criteria and process for the quality system were also updated and improved. Many existing designated vendors were incorporated into the new system.

In 1999, Texas lawmakers passed a bill that requires local boards to establish graduated reimbursement rates for TWC’s designated vendor program. Under the bill’s provisions, those providers are entitled to a reimbursement rate at least five percent higher than the maximum rate for non-designated vendors. This rate differential is funded by the federal CCDF funds dedicated to quality improvement.[37]

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[37] Some boards exceed the five percent increase, according to the State of Texas Child Care & Development Fund Plan for FY 2002–2003.

During this time period (FY 2000–FY 2003), the legislature also established a statewide performance target stating that 39 percent of all subsidized child care providers should meet the TRS criteria.[38] In reality, local boards have often exceeded the performance targets (see Table 4). The difference between FY 2000 and the subsequent years reflects the definition change, which excluded certain vendors from the denominator, such as providers of after-school and occasional care. Not all of the certified TRS providers provided subsidized child care services in a given year. In accordance with federal law, parents may choose to arrange their own care from providers in or out of TWC's provider network.

Table 4. Actual Percentage of In-Network Providers that Achieved Designated Vendor/TRS certification, FY 2000–2003

FY 2000	18.0%
FY 2001	41.9%
FY 2002	46.5%
FY 2003	44.5%

Source: E-mail from Gary Frederick of TWC, February 12, 2004.

For FY 2004–2005, the Texas Rising Star statewide target has changed to 17 percent (from 39 percent), in recognition of the need for more funds to serve a larger number of children per day and a projected larger number of Choices clients (TANF recipients participating in employment and training), who are guaranteed priority for subsidized child care services under Texas state rules.

In 2003, state law makers also addressed the issue of quality rating in child care and education by passing SB76, which has potentially important implications for the TRS quality system. (Other implications of the bill will be discussed later.) SB76 calls for state and local officials to consider quality as the basis for contract decisions for child care and early education. It sets out a mandate for the development of a quality rating system demonstration project for future replication at the state level. TWC staff members

[38] See Table 1, Chapter 2.

anticipate that the Texas Rising Star system will eventually be folded into the quality rating system envisioned in SB76.

Change in Approach to Meeting the Federal Quality Spending Mandate

Until FY 2002, Texas met the statewide, four percent quality spending requirement stipulated by CCDF through a number of statewide activities and expected local boards to spend an additional four percent of their CCDF formula funding on quality initiatives to assist them in meeting their quality performance measures (i.e., share of providers meeting TRS criteria and number of child care workers trained).

The 2001 Texas Legislature made an important change with regard to quality spending. At the state level, Texas decided to use its existing allocations for its child care regulatory and licensing activities to satisfy most of the federal four percent quality spending mandate.[39] TWC subsequently removed the requirement that local boards must spend four percent of their child care funds on quality improvement activities. Instead, it gave local boards the authority to decide how much they want to spend on quality improvement activities, provided that the boards were meeting their performance measures for the total number of children served.

Although the TWC rule is not explicit about prohibiting local boards to spend on quality, the need to meet performance measures and the potential for financial sanctions being imposed on boards for not doing so poses a direct trade-off with continuing to spend on quality initiatives. In essence, boards are no longer allowed to allocate funding for quality programs unless they still have funds available after meeting their performance requirements for units in care. Many boards struggle to meet their units in care requirement with their existing funds and thus have reduced or completely eliminated spending on quality programs.

[39] These were funded through a combination of CCDF and TANF funds for FY 2000 and FY 2001. Since FY 2002, these activities are totally funded by CCDF.

Other Statewide Quality Efforts

Resource and Referral Services

In response to the federal initiative for consumer education through resource and referral services, the 2001 Texas Legislature charged TWC with establishing a child care resource and referral network. TWC, through a competitive procurement process, entered into a contract with the Texas Association of Child Care Resource and Referral Agencies (TACCRRA). TWC also continued to engage certain local resource and referral agencies to provide database management, consumer education, referral and training services in the local areas.

In April 2004, TWC terminated the contract with TACCRRA. Instead, the resource and referral functions will be assumed by the statewide information and referral network, the 211 program, which consists of local resource and referral agencies throughout the state and which is administered by the Texas Health and Human Services Commission.[40] The purpose of this transition is to achieve more local coverage of resource and referral services, with 80 percent of the population to be covered by the end of 2004 and 100 percent by the end of 2005, thus enhancing the quality activity.[41]

Grants and Loans to Providers

Federal regulations allow states to give child care providers grants or loans with CCDF funds to assist child care programs in meeting state and local standards. Although the majority of states have used grants and loans as a quality activity, Texas is among the eight states that do not.[42] While the FY 2000–2001 Texas CCDF state plan allowed local boards to amend their local plans to include this option, no state funds were committed to this initiative and no local area ever implemented this option.[43] Boards were not given the option in the FY 2002–2003 state plan and by FY 2004, it was removed with the explicit statement that doing so would free up more funds to purchase direct child care services.

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[40] Conversation with Gary Frederick of TWC, January 29, 2004.
[41] Conversation with Gary Frederick of TWC, February 27, 2004.
[42] Gish and Harper, October 8, 2003. pp. 34-35.
[43] Texas Workforce Commission, State of Texas Child Care & Development Fund Plan for FY 2000–2001.

Teacher Retention

It is well known that caregiver turnover has a direct, negative impact on the quality of care. To address this issue, in 2001, the legislature instructed TWC to establish a pilot program known as Teacher Education and Compensation Helps (TEACH) in at least three locations in the state to assist teachers in retaining employment in the child care field. A teacher must have a provider agreement with a LWDB to serve families receiving subsidized child care services. Three more pilots will be added in FY 2004.[44]

Coordination of Early Care and Education

Another important stipulation in SB76, passed by the legislature in 2003, deals with the lack of coordination among early child care and education programs, particularly Head Start, pre-kindergarten and child care (including subsidized child care) services in the state. The legislation aims to achieve coordination among these programs "by providing a clear path for integrating early education with child care to ensure that resources are used efficiently to support Texas families." Together with the quality rating demonstration project that was mentioned earlier in this chapter, recommendations regarding the feasibility of coordinating child care and early education programs will be reported to state leaders by September 2004.[45]

LOCAL INITIATIVES AND PERCEPTIONS ABOUT POLICY CHANGES

Local Quality Initiatives

Since assuming responsibility for managing subsidized child care, LWDBs have made significant strides in improving the availability of quality care offered to children receiving subsidies. Within the guidelines provided by the federal government and TWC, over the past several years boards have undertaken a number of different types of quality initiatives and have considered these initiatives an important part of their role. Boards reported investing in the following quality initiatives:

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[44] Personal communication with Gary Frederick, January 29, 2004.

[45] A summary of SB76, titled "Summary of Senate Bill 76, relating to the Provision of Subsidized Child Care Services" is available at http://www.tecec.org/pages.php/sb76_summary.html. Accessed 9 June 2004.

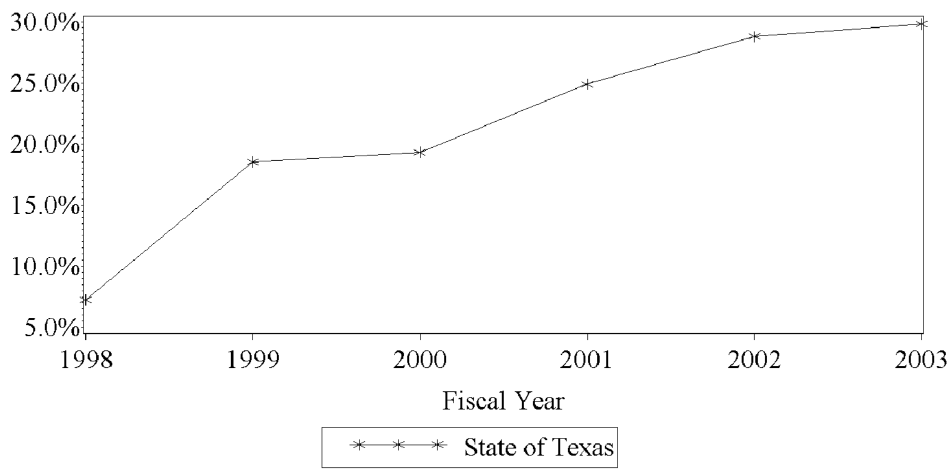
1. Training for providers: The development of training for child care providers, including workshops and seminars, as well as encouragement for providers to gain new credentials.

2. Texas Rising Star program: Support for the recruitment and retention of facilities in the Texas Rising Star program. Boards put resources behind the effort of achieving their goals for the proportion of children in Texas Rising Star care.

3. Innovation programs: The development and implementation of new programs and supports for providers including access to materials, special services, and trained personnel.

As shown in Figure 11, designated quality vendors provided only seven percent of subsidized care when this study began in FY 1998. Due to recruitment, training and incentive programs conducted by the boards, by the end of FY 2003 TRS vendors provided 29 percent of all subsidized care.

Figure 11. Percent of Subsidized Care by Quality Vendors Over Time

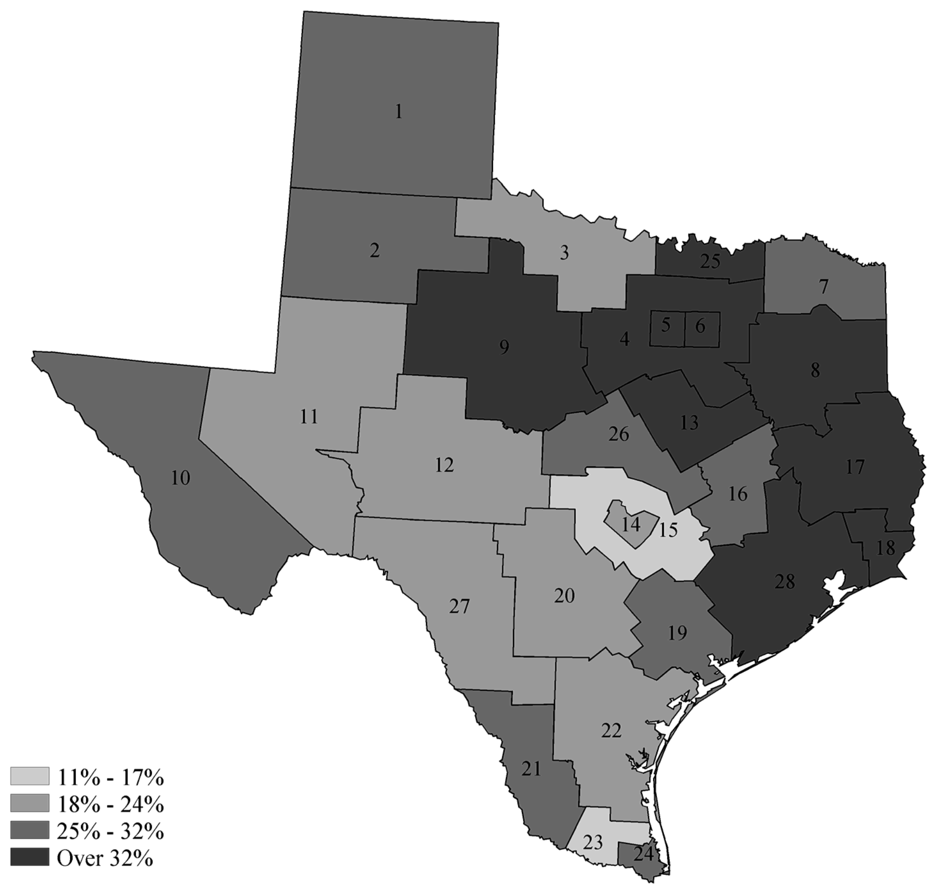


Source: U.T. analysis of Texas subsidized child care data.

These gains may be difficult to sustain given the increased emphasis on serving more children in care coupled with the reduced expectations for the training of additional providers and the number of total providers who will be designated as TRS providers. As of the spring of 2003, few boards were actively recruiting TRS providers due to the higher costs associated with recruiting, training, certifying and utilizing these vendors, and most have eliminated financial incentives that defray the costs of becoming TRS providers. As of the end of the study period, many existing providers have maintained their TRS designation despite the decreasing technical and financial assistance, and still receive a higher payment rate as a result of their certification as a TRS provider. It is unclear how long these practices will continue.

A map in Figure 12 illustrates the distribution of care provided by Texas Rising Star providers as of 2003. This measure examines the percentage of care days provided by TRS providers rather than the simple percentage of providers specified in the TWC performance measure. The patterns in this measure change from year to year, however, in 2003 it appears that boards in the east and northeast portions of the state utilize these providers to a greater extent (for a map of this indicator over time see Appendix C).

Figure 12. Percent of Care from Texas Rising Star Providers (FY 2003)



Source: U.T. analysis of Texas subsidized child care data.

Views of the Impact of Policy Changes on Quality Improvement

As indicated earlier, LWDBs were once expected to spend four percent of state-provided resources on quality initiatives. Many boards embraced the effort toward improved child care quality with considerable enthusiasm. However, in the past two years, policy has changed. Many boards feel that their overall autonomy in addressing local problems has been reduced, particularly problems regarding the quality of care available. Some boards also expressed concern that during a period of economic downturn it was increasingly difficult for them to successfully seek out local donations and contributions toward this and other child care efforts.

Board staff, and according to the staff, board members also, tend to retain a commitment to quality initiatives and to the performance measures attached to such initiatives. However, in the last year most boards have had to reduce the funding used for this purpose. Some actions that they have taken include: eliminating grants for child care providers to get certifications; reducing the number of training and conferences and one to one advice (turning to internal resources and cutting payments to external trainers); reducing number of grants and financial incentives for TRS providers; and reducing investments in resource rooms.

In spite of the loss of state contributions to this local effort, many boards and their contractors have continued to seek funding to sustain these activities in FY 2003. However, given the different contexts within which boards operate, their continuation of quality initiatives can be grouped into several different patterns ranging from a reduced but continuing investment to almost no initiatives at all above the minimum required by the state. These are giving an extra five percent of higher reimbursement to TRS providers, meeting TRS performance measures and meeting training unit requirements.

Lowered But Continuing Substantial Investment: Availability of Community Resources

At least three boards are continuing with past efforts at quality initiatives. In order to do so they are reaching their performance targets with their core allocation and then using a combination of matching funds and new special grants to proceed with their quality-related work. This has required effort to develop new grants and approach quality-related programs and funders for support either in their own communities or elsewhere. These boards heavily draw upon community and regional resources in their continuation of the quality initiatives.

Considerably Reduced Investment: Limited Alternative Funding

For eighteen of the boards, the removal of the four percent spending requirement for the boards and the increased emphasis on direct care have resulted in a striking reduction in funding invested in quality initiatives. However, board staff and often board members as well, tend to retain a commitment to quality initiatives in addition to the extra payment to TRS facilities. Strategies used by boards to continue some level of funding for quality initiatives include: use of matching funds, use of carry-over funds from the preceding year, expenditures from the contractor's own grants, an innovation grant from TWC, and close collaborations with other interested parties.

Pooling of Resources

Four boards have collaborated with other organizations in the community that sponsor no-cost or low-cost activities or participate with local boards on a cost-sharing basis. However, areas where such expertise and resources are harder to find face a challenge when attempting this strategy as it relies on community resources that are not equally present in all areas.

Little Quality Initiative Programming

Three boards have felt forced to move their quality funds to direct care, usually reluctantly and against their own inclination. These boards have found it necessary to use almost all of their resources to meet performance requirements for direct care, eliminating their investment in programs they had put in place in earlier years. Many of those boards with almost no quality-related expenditures are also having difficulty figuring out how to continue supporting the ongoing Texas Rising Star provider program beyond the five percent higher reimbursement rate to providers.

SUMMARY

Over the period of this research, TWC and boards have attempted to reach a reasonable compromise between the competing needs of serving increasing numbers of children and maintaining and improving the quality of the care that these children receive. The expenditure of resources on the quality of child care remains a requirement of PRWORA and many states elected to spend additional resources on the quality of care as well. However, Texas state policies governing the state's investment in quality initiatives have changed considerably over time. During the first two years of this project, TWC maintained primary responsibility for expenditures on quality initiatives. This was followed by the devolution of this responsibility to the local boards and two years in which local areas received funds that were specifically targeted for quality activities. During the last two years of this project the state removed the dedicated quality funds and increased the number of children local boards were expected to serve.

During the early years of devolution, local boards engaged enthusiastically in a range of quality initiatives. Then, in the later period, as the state emphasis changed, boards responded in different ways. Local boards' responses depended largely upon the additional funding they could raise to devote to quality initiatives, their internal staff expertise and services, and expertise available in their local communities.

Chapter 5: Summary and Next Steps

SUMMARY

This research reports on the variation in policies and outcomes among the 28 local workforce boards in Texas following the assignment of many workforce development activities, including child care, to them by the Texas Workforce Commission. Local workforce development boards began managing child care contracts and setting some child care policies during 1998 and 1999. All 28 boards had assumed responsibility for these activities by January 2000.

The Texas Legislature and TWC both contribute to the formation of the performance criteria under which the local workforce boards must operate. Such performance requirements include the number of children served, the number of child care providers meeting specific quality criteria, and the number receiving training through TWC programs. However, local boards are able to set a number of policies, including income eligibility guidelines for child care services, attendance standards, provider eligibility and parent co-payment rates. Over the four years since they have assumed policy-making authority, boards have exhibited considerable variation in such policy areas as the income eligibility ceilings for working parents, the co-payments required of parents, and the reimbursement rates for the most common types of care. Boards also differ considerably in their perception of local flexibility in responding to TWC directives and their ability to make the child care program responsive to specific conditions in their local areas.

The funding available to boards, as well as the restrictions on the expenditures that they receive, has had considerable impacts on the policy decisions they made. However, boards have responded to funding constraints in different ways. In the early years of this study, substantial increases in child care funding meant that more funds were available to local boards. On the other hand, changes in welfare policy and in performance criteria put greater demands on this funding over time, primarily by increasing the number of children to be served. Although funding for child care has tripled in Texas since 1996, Texas has never had sufficient funding to meet all of its demand for subsidized child care. Boards continue to deal with the tension between the increasing funds and the even more quickly increasing number of children to be served. The increasing proportion of funding that requires matching funds, coupled with the increasing demand for local boards to provide that match, accentuated funding pressures.

Over the study period both the total dollars of funds re-allocated among boards and the number of boards losing funds due to an inability to come up with the matching funds have decreased as boards have become better at securing matching funds. However, boards continue to vary considerably in their experience with obtaining matches: large boards in economically active areas report considerably less trouble in obtaining matching funds than do boards in smaller, more impoverished and economically limited areas.

In addition to raising funds and serving the requisite number of children, boards have been responsible for developing the quality of care in their local area, a responsibility that many boards assumed enthusiastically. However, Texas state policies governing the state's investment in quality initiative have changed considerably over time. During the first two years of this project, TWC maintained primary responsibility for expenditures on quality initiatives. This was followed by the devolution of this responsibility to the local boards and two years in which local areas received funds that were specifically targeted for quality activities. During the last two years of this project the state removed the dedicated quality funds and increased the number of children local boards were expected to serve. Boards responded in different ways to this move away from local quality initiatives. Their responses have depended largely on the additional funding they could raise to devote to quality initiatives, the internal staff expertise they could draw upon, and services and expertise available in their local communities.

NEXT STEPS

Over the past two years, this research project has gathered data on board activity from numerous sources including administrative data bases, interviews with board and TWC staff, board level information from TWC records and several site visits (report not yet completed). These data show that boards have varied considerably in the policy responses they make, their ability to raise additional funds, and their continuing quality initiatives under the pressure of serving increasing numbers of children. In the coming year the research team will be undertaking the culminating tasks of this research, including:

- The detailed account of site visits, which provides a more complex picture of the on-going policy process and its impact on the various local stakeholders;
- Continued analysis of the qualitative data from the two waves of telephone interviews with child care staff to develop a series of variables related to board staff perceptions of such variables as the flexibility available to them, the financial resources available, and commitment to quality initiatives;
- Refinement and completion of the policy review and literature search that informs this research;
- Refinement and work with the market rate survey for Texas which indicates both rates charged and areas of care shortages; and
- The econometric analysis which will examine the relationship of policy changes and board perceptions to subsidized child care participation patterns, family and board outcomes, and child care markets.

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