

The Devolution of Subsidized Child Care in Texas

Final Summary Report

Deanna Schexnayder
Laura Len

March 2008



**Center for Social
Work Research**

*School of Social Work
University of Texas at Austin*

The Devolution of Subsidized Child Care in Texas

Final Summary Report

March 2008

Prepared by

Deanna Schexnayder
Ray Marshall Center for the Study of Human Resources
The University of Texas at Austin

Laura Lein
Center for Social Work Research
The University of Texas at Austin

Prepared for

Ivelisse Martinez-Beck, Ph.D.
Child Care Research Coordinator

Office of Planning, Research and Evaluation
U.S. Department of Health and Human Services
Administration for Children and Families
370 L'Enfant Promenade
7th Floor West
Washington, DC 20447

This report was prepared for the U.S. Department of Health and Human Services under Contract No. GS23F0297K and Order No. HHSP233200600404G. The project monitor was Ivelisse Martinez-Beck in the Office of Policy, Research and Evaluation, within the Administration for Children and Families. The views expressed in the report are those of the authors. No official endorsement by the U.S. Department of Health and Human Services is intended or should be inferred.

Table of Contents

List of Tables	ii
List of Figures	ii
Chapter 1. Background and Study Overview	1
Background.....	1
The Study.....	2
Report Contents	3
Chapter 2. Variation in Local Policies Following Devolution	4
Baseline Child Care Policies	4
Local Policy Changes Following Devolution.....	5
Income Eligibility Ceilings.....	5
Parental Co-payments.....	6
Reimbursement Rates	8
Policy Combinations Adopted by Local Boards	9
Chapter 3. Process by Which Local Boards Set Policies.....	10
Autonomy	12
Matching Funds	13
Child Care Quality.....	13
Chapter 4. The Relationship between Child Care Policies and Subsidy, Employment and Market Durations	15
Subsidy Duration	15
Employment Duration	16
Turnover Among Child Care Facilities	17
Chapter 5. Conclusions and Policy Implications	19
Conclusions.....	19
Policy Implications	20
Future Research Needed	21
Bibliography	23

List of Tables

Table 1. Changing Features of Co-payment Policies over Time	7
Table 2. Changes in Reimbursement Rates over Time.....	9
Table 3. Changes in Child Care Policies from September 1999 - August 2003.....	9
Table 4. Odds of Ending Subsidy Spells for Policy Combinations Used by Local Boards After Devolution	16
Table 5. Odds of Ending Employment Spells for Policy Combinations Used by Local Boards After Devolution	17
Table 6. Odds of Facility Turnover for Policy Combinations Used by Local Boards After Devolution	18

List of Figures

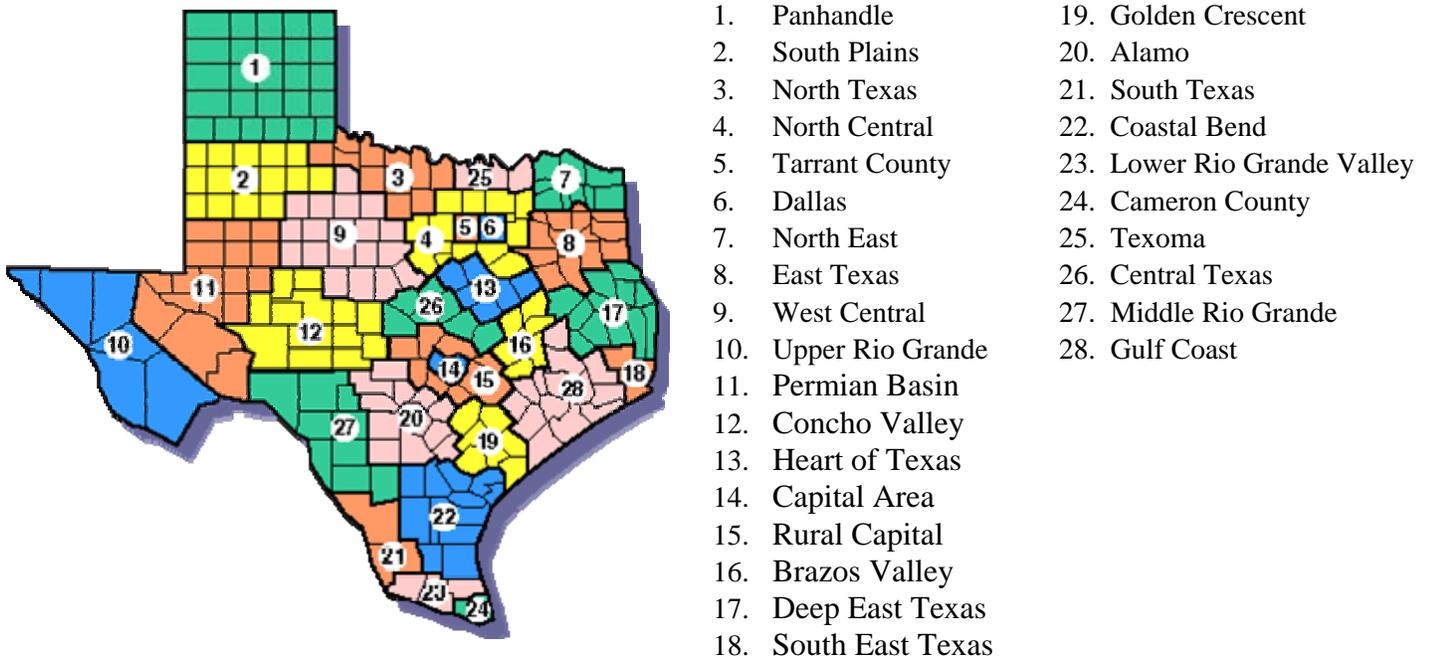
Figure 1. Map of Texas Local Workforce Development Areas.....	1
Figure 2. Changes in Income Eligibility Policies Over Time.....	6
Figure 3. Co-payment Policy Variation, 2003.....	8
Figure 4. A Conceptual Model of Policy Decision-Making by Local Boards.....	11

Chapter 1. Background and Study Overview

Background

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 (local boards) shown in Figure 1. 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.

Figure 1. Map of Texas Local Workforce Development Areas



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 local boards 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 assumed responsibility for these activities by January 2000.

The Study

In September 2001, the Administration for Children and Families in the U.S. Department of Health and Human Services (HHS) awarded a 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 local boards. This research project examined the Texas subsidized child care program from Fiscal Years (FYs) 1998 through 2003, a time period that began two years before policies were devolved to the local level and ended four years after this change in authority. It described the processes by which local boards develop child care policies and determined the extent to which local boards policy changes are associated with changes in subsidy participation patterns, family outcomes and child care markets in these local geographic areas.

The study addressed the following specific research questions:

1. How did local child care policies in Texas vary following the devolution of responsibilities for child care policies to the local boards?
2. What was the process by which local policy changes governing the provision of publicly subsidized child care were decided upon and implemented?
3. Which changes in the patterns of child care use and family outcomes are statistically associated with local policy variation?
4. Which changes in local child care markets 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 local boards. Researchers also conducted two rounds of telephone interviews with local board 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 were 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 were 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 were developed from the local site visits to better explain the diversity of views held by local stakeholders regarding the local boards' handling of their new policy authority. And, finally, a series of regression equations were developed to explore the relationship of local policy variations to the outcomes of interest. Cox proportional regression models with time-varying covariates were used to measure the probability of ending a period of subsidized child care for families who were already receiving a subsidy, the probability of leaving employment for adults who received child care subsidies while employed, and the probability of child care facilities closing their businesses.

Report Contents

This report summarizes findings from three research reports that analyzed the four research questions. Chapter 2 describes the policies over which the local boards had discretion and how they changed after devolution. In Chapter 3, the authors discuss the process by which local boards made these policy decisions, based on qualitative interviews with local child care staff members and site visits in three workforce board areas. Chapter 4 summarizes findings from the econometric analysis that related the policy changes to subsidy and employment duration and facility turnover. The final chapter presents conclusions from all aspects of this study and offers both policy recommendations and suggestions for future research.

Chapter 2. Variation in Local Policies Following Devolution

This chapter describes how local child care subsidy policies changed following devolution, the first research question of this study. The chapter summarizes the policies in existence prior to devolution, specific changes within the three policies of interest — income eligibility ceilings, parental co-payments and provider reimbursement rates — and the actual policy combinations used by local boards after they gained authority to set policies. This research question is discussed more thoroughly in the June 2004 report, *The Texas Child Care Subsidy Program After Devolution to the Local Level*, and the March 2008 report, *The Relationship of Child Care Policies to Subsidy, Employment and Market Durations*.

Baseline Child Care Policies

Prior to September 1999, all Texas subsidized child care policies were set at the state level. For the purposes of this study, these policies are called “baseline policies.” The baseline definitions of the three major policies addressed in this study are described below.

Income eligibility ceilings. Following the passage of the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) in 1996 through September 1999, Texas working families were eligible for child care subsidies if their income was less than the lower of 85% of the state median income (SMI) or 150% of the federal poverty income level (FPIL). Families participating in the state’s Temporary Assistance for Needy Families (TANF) workforce program (Choices) received priority for service during this time period, a practice that continues to this day. In general, insufficient funding was available to serve all eligible working families and some parts of the state maintained a waiting list for income-eligible families.

Parental co-payments. All Texas families who receive child care subsidies must pay for a portion of that care unless the family is also participating in Choices, the Food Stamp Employment and Training program or child protective services. Prior to the fall of 1999, all income-eligible families with one child paid 9% of their gross monthly family income for subsidized child care. Families with two or more children contributed 11% of their income toward the cost of this care.

Provider reimbursement rates. Child Care Development Fund (CCDF) regulations require that each state commission a survey of child care market rates each year to guide them in setting maximum rates for reimbursing providers of subsidized child care. 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. However, prior to devolution, although reimbursement rates varied to account for the differing child care costs in local areas, all reimbursement rates were set by the state agency.

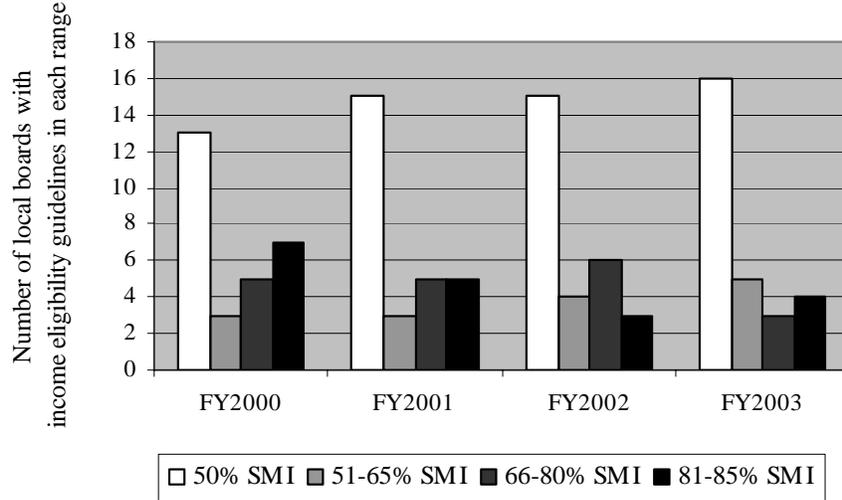
Local Policy Changes Following Devolution

After local boards gained authority to set some policies for subsidized child care within their geographical areas, their decisions produced a wide degree of variation among policies governing the operation of subsidized child care programs across the state. This section will briefly describe the degree of change that occurred in three policies for which local boards gained policy-setting authority: income eligibility ceilings for working parents, co-payments required of parents and reimbursement rates for the most common type of care.

Income Eligibility Ceilings

After gaining the authority to set their own income eligibility ceilings, the 28 local areas adopted a number of different eligibility ceilings, as shown in Figure 2. Some continued to change these limits each year, with the limits generally becoming more restrictive over time. For example, in FY 2000, only 13 local boards restricted eligibility to families with incomes less than 50% of the SMI. This number increased to 16 by FY 2003. Conversely, seven Local boards set eligibility ceilings at or near the federal ceiling of 85% of SMI in FY 2000, while only four boards allowed eligibility for families at this income level in FY 2003.

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

As mentioned above, prior to the fall of 1999, all families with one child who were required to pay a co-payment paid 9% of their gross monthly family income for subsidized child care. Families with two or more children contributed 11% 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 1, 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% and 11% levels by the end of that time period.

Table 1. Changing Features of Co-payment Policies over Time

Co-payment policy features	Number of local boards with each feature	
	End of FY 2001	End of FY 2003
Co-payment is lower than 9% and 11%	3	2
Co-payment is higher than 9% and 11%	2	12
Co-payment increases the longer family receives subsidy	2	7
Co-payment is reduced for large families	22	25
Co-payment varies for different eligibility groups ¹	0	3
Co-payment is prorated for part-time care	2	12

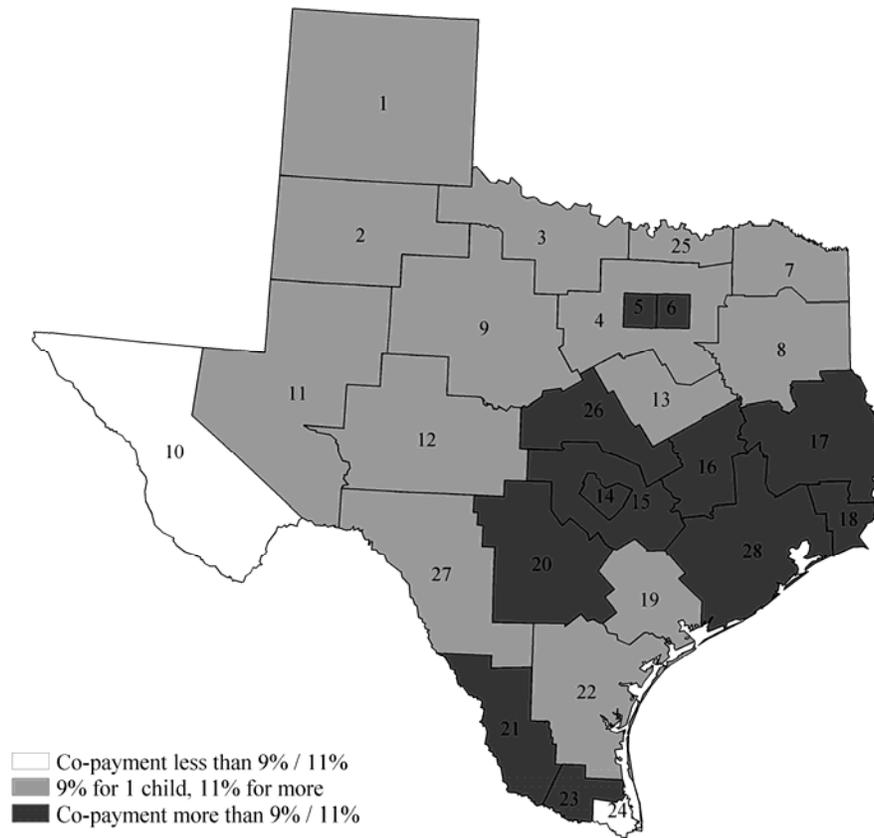
Source: U.T. analysis of local board policies from FY 2000 through FY 2003.

Boards also tinkered with co-payment policies in other ways that reflected their differing philosophies regarding the allocation of scarce child care resources. For example, seven boards increased a family's share of costs the longer they receive subsidies and 12 boards prorated 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 Mexican border (Upper Rio Grande and Cameron County) required parents to pay less than the historic 9% and 11% co-payments. Among those requiring working parents to pay higher percentages of their income were another two boards along the border, as well as a large cluster of boards scattered from central to southeast Texas that includes nearly every large urban area in the state.

¹ 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

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. Table 2 compares the differences between the baseline rates and changes that occurred after the boards assumed responsibility for setting reimbursement rates for child care providers. Eight boards did not raise their reimbursement rates for full-time pre-school center care (the most common type of care in Texas) in the four years after they received the authority to do so. However, as shown below, 16 boards raised their rates by more than 10% in the first two years after receiving the authority to set rates. The lack of rate increases in FY 2002 and FY 2003 was due to the tightened demand for subsidized child care funds during the time period and a temporary rate

freeze put into effect by the Texas Workforce Commission during FY 2002 that remained in effect through the end of the study period.

Table 2. 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)	12.20%	0.30%
Count of Local boards with no rate increase	8	26
Count of Local boards with rate increase < 10%	4	2
Count of Local boards with 10% or greater rate increase	16	0

Source: U.T. analysis of local policies for 28 Texas workforce boards from FY 1999 through FY 2003.

Policy Combinations Adopted by Local Boards

In practice, local boards often changed several subsidy policies simultaneously to reflect their assessments of how such policy changes would assist them in meeting their local objectives. As shown in Table 3, five of the 28 boards never modified the baseline policies in effect when they gained authority to set their own policies. Some of the other boards changed policies once and a few boards changed policies multiple times in the 4-year post-devolution period of the study. Table 3 also indicates the share of time following devolution that each combination of policies was used.²

Table 3. Changes in Child Care Policies from September 1999 - August 2003

Local Board Action	Number of Boards*	Share of Board-Months
Kept baseline policies	5	45%
Increased maximum reimbursement rates (to moderate levels)	12	14%
Increased reimbursement rates and income eligibility ceiling	7	11%
Increased co-payment	8	8%
Increased income eligibility ceilings	5	7%
Increased income eligibility and family co-payments	4	7%
Increased income eligibility limits and reduced family co-payments	3	8%

*N>28 because some boards changed policies more than once during this time period.

² The study included 1,344 board-months following devolution, computed by multiplying 28 boards by the 48-month post-devolution study period

Chapter 3. Process by Which Local Boards Set Policies

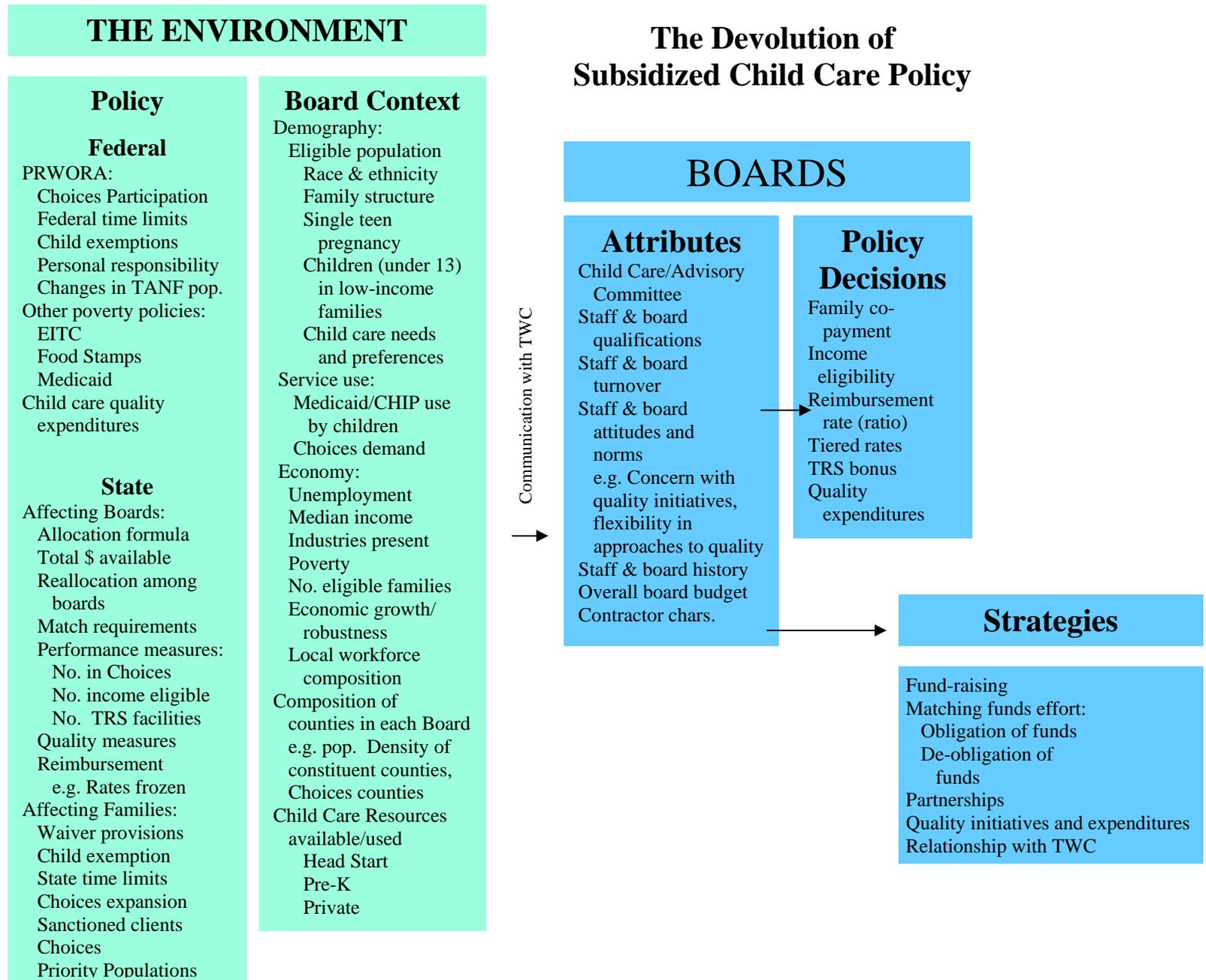
This chapter addresses the second research question. It describes the factors that local boards cited as influencing their decision-making when setting subsidized child care policies and also portrays a conceptual model that the research team developed to describe the decision-making process. Details regarding these analyses and descriptions of the site visits in three local board areas can be found in the June 2004 report, *The Texas Child Care Subsidy Program After Devolution to the Local Level*, and the October 2007 report, *The Process of Devolution: Perceptions from Local Boards*.

Overall, the 28 workforce development boards represented a range of responses to the policy environments created by federal legislation and then devolved by the state agency to the local boards. Board staff felt they wrestled with the requirements imposed from the state, including allocations, performance standards (including changing standards for investment in quality) and requirements for matching funds. Their ability to provide child care was also affected by other poverty policies, including the granting of waivers to TANF families, sanctions against those families and state priorities among populations of impoverished families with children. Thus, the process by which local boards set policies and the resulting policies varied considerably.

In order to understand the processes by which local boards operated, the research team undertook telephone interviews in 2002 and 2003 with a total of 35 child care management staff at the 28 boards. They also engaged in more detailed site visits at three boards and spoke to staff, board members, and other stakeholders. Data from interviews and site visits was transcribed, coded and entered into a database for analysis. From this analysis emerged a picture of the factors that board staff and others saw as related to how they made decisions and accounting for some of the variation among local boards.

The factors contributing to boards' decision-making are portrayed in the model in Figure 4.

Figure 4. A Conceptual Model of Policy Decision-Making by Local Boards



The boards operating in this policy environment varied in their structure, including staffing and organization. They had different management strategies and different contracting arrangements. They were different in their characterization of their relationships with the managing state agency. The prominence of child care in the board's administrative structure varied.

At least as important to their experiences in managing child care were the demography and other factors related to the area they serve. Board child care staff indicated that their responses to this policy environment were related not just to the natures of the policies and regulations themselves, but to a range of other environmental factors, including the size and diversity of the poverty population they served, the degree to which they were rural or urban, the condition of the child care market and the kinds of jobs to which parents had access. These variables are reflected in the model.

In response to these different contexts, boards responded with a range of programs and strategies. They varied in the degree to which they experienced autonomy in decision-making. They varied considerably in the degree to which they felt they had access to opportunities for fund-raising for matching funds and additional child care-related programs. They perceived child care policies as exercising a significant effect on the degree to which parents had access to child care and the outcomes for children themselves, in terms of the quality of care available.

Autonomy

Local entities, while operating with some autonomy in a devolved system, must meet the requirements of the state agency providing both funds and oversight. That state agency is, in turn, responsible to the federal agency from which it receives both funds and oversight. While the devolution of child care policy to local boards was designed to increase local autonomy in designing solutions to problems, this autonomy was also limited somewhat by both federal and state regulations. Furthermore, the demands of federal and state government changed from year to year, requiring considerable flexibility on the part of local agencies trying to respond to them.

Matching Funds

Second, local agencies representing geographic areas with widely different constraints faced a considerable range of problems in responding to the dual demands of local child care needs, on the one hand, and state and federal requirements, on the other hand. The funding available to boards, as well as the restrictions on their expenditures, had considerable impact on the policy decisions that local boards made. However, boards 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 tripled in Texas since 1996, Texas has never had sufficient funding to meet all of its demand for subsidized child care. Boards continued 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 required 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 decreased as boards became better at securing matching funds. However, boards continued to vary considerably in their experience with obtaining matches: large boards in economically active areas reported considerably less trouble in obtaining matching funds than did boards in smaller, more impoverished and economically limited areas.

Local areas with fewer resources and higher proportions of children in poverty may face considerable difficulty in meeting federal and state requirements while providing adequate care for children in need. Other areas with either more resources or a smaller population requiring service may feel less constrained.

Child Care Quality

Local entities wrestled with the implications of two different motives for subsidized child care. Child care policies are implemented in the context of tension between two roles generally assigned to child care. First, child care is often implemented as an educational and

school preparatory system for young children, particularly young impoverished children. However, it is also considered a service for employed parents who need supervision and care for their children during working hours. These two emphases may demand different qualities or aspects of child care, one more oriented toward the cognitive and social development of children and the other more motivated toward the needs of parents as employees.

The Texas devolution of child care policy occurred in the context of the transfer of child care policy from a human resources agency to one oriented toward workplace issues. Over the period of this research, state government requirements concerning local quality initiatives changed. Boards unable to raise additional funds saw their quality-oriented initiatives reduced when the state's emphasis on quality-oriented expenditures declined. Boards with greater access to diverse resources felt more able to maintain at least some of their child care quality initiatives.

Interview and site visit data indicated the overall complexities of the policy, demographic and economic environment within which the Boards operate, and some of the ways in which child care managers perceived the impact of these variations. The reports from different boards indicated, in this context, considerable variation in the degree to which child care managers experienced autonomy in the context of federal and state regulation and devolution; their confidence about their funding, both the match funding required by the state and additional funding for more diverse programming; and, more specifically, their ability to continue child care quality initiatives in the face of declining state support.

Chapter 4. The Relationship between Child Care Policies and Subsidy, Employment and Market Durations

This chapter summarizes findings from the statistical analysis of the relationships between the subsidy policy choices adopted by local boards and several outcomes of interest. Through the use of several statistical models, researchers measured the extent to which different policy combinations were statistically linked to changes in child care use (defined as length of subsidy use), changes in family outcomes (defined as employment duration) and changes in local child care markets (defined as turnover among formal child care facilities). These analyses answered the third and fourth research questions of the study. More details about these analyses can be found in the March 2008 report, *The Relationship of Child Care Policies to Subsidy, Employment and Market Durations*.

Subsidy Duration

Length of subsidy duration. Families who started using child care subsidies to support their employment had longer subsidy spells than TANF families who began using subsidies for job search purposes. This pattern was true both prior to and after policy devolution. For all spells beginning after October 1999, the overall median spell length was 6.2 months. However, the median length of child care subsidy spells used for employment was 7.5 months, compared to only 5.0 months for subsidy spells that began as TANF Choices spells.

The length of new employment-related spells decreased in the first several years after devolution but began increasing in FY 2002 prior to increasing substantially in the final year of the study (FY 2003). Conversely, the length of new spells for persons in the Choices program increased through FY 2001 then became shorter in the last two years of the study. Because of the priority that Texas gives to Choices recipients and the flattening of new funding for subsidies after FY 2001, these patterns probably reflect the adoption of tighter rules for child care subsidy use by Choices recipients toward the end of the study period.

Relationship of subsidy policies to subsidy duration. Two different regressions were run — one for subsidy spells starting for employment purposes and one for spells starting for TANF Choices — to measure the relationship of the local policy choices following devolution to changes in the length of child care subsidy spells. Research cited in the full

technical report suggests that subsidies are linked to more stable child care arrangements, which in turn are linked to better child development. After controlling for family demographics, differences in child care needed by parents and child care providers, and economic and geographic factors, almost all of the policy changes from the baseline policies were related to longer subsidy duration (Table 4). Local policy variables had stronger effects on subsidy spells that began for employment purposes than for TANF Choices job search. Increasing co-payments and income eligibility limits were associated with the longest spells of subsidy receipt for families who used subsidies for employment.

Table 4. Odds of Ending Subsidy Spells for Policy Combinations Used by Local Boards After Devolution

	Spells starting as employment related	Spells starting as TANF related
	N=104,613	N=99,452
Local child care policy		
Moderate reimbursement rate	1.00	0.95 **
Moderate reimbursement and increased income eligibility limit	0.94 **	0.95 *
Increased co-payment	0.73 **	0.90 **
Increased income eligibility limit	0.78 **	0.91 **
Increased income eligibility limit and increased co-payment	0.76 **	0.87 **
Increased income eligibility limit and reduced co-payment	0.97 *	0.93 **

Notes: 1) Statistical significance, *=p<.05, **=p<.01.

2) Lower odds of ending a spell can be equated to longer subsidy spells.

3) The complete list of variables included in these regression models can be found in: *The Relationship of Child Care Policies to Subsidy, Employment and Market Durations*, March 2008.

Employment Duration

Length of employment duration. New spells of employment for families receiving child care subsidies after devolution lasted approximately 6 months longer for those families who began using subsidies for employment purposes than for TANF Choices families who began using subsidies for job search, even after restricting the TANF sample only to those who obtained jobs. Median employment for the first group was 7.6 calendar quarters compared to only 5.2 quarters for persons who began using subsidized care while in the Choices program.

Relationship of subsidy policies to employment duration. Results from the regression models that measured the relationship of explanatory variables to employment duration are shown in Table 5. After accounting for family demographics, features of child care arrangements, and economic and geographic features, few local child care policies were linked to the length of employment duration. Only one of the local subsidy policy changes — increasing both income eligibility limits and co-payments — was associated with longer employment duration than the baseline policies and one other policy — raising reimbursement rates to moderate levels — with shorter employment duration for families who initially received child care subsidies for employment. None of the policy variables had much of an effect on employment duration for TANF Choices recipients. Non-policy variables explained more of the variation in employment length than local policy variables did.

Table 5. Odds of Ending Employment Spells for Policy Combinations Used by Local Boards After Devolution

	Spells starting as employment related	Spells starting as TANF related
	N=21,440	N=34,965
Local child care policy		
Moderate reimbursement rate	1.14 **	1.02
Moderate reimbursement and increased income eligibility limit	1.03	1.04
Increased co-payment	1.05	0.95 *
Increased income eligibility limit	1.04	0.99
Increased income eligibility limit and increased co-payment	0.82 **	0.95
Increased income eligibility limit and reduced co-payment	0.99	0.98

Notes: 1) Statistical significance, *= $p < .05$, **= $p < .01$.

2) Lower odds of ending a spell can be equated to longer employment duration.

3) The complete list of variables included in these regression models can be found in: *The Relationship of Child Care Policies to Subsidy, Employment and Market Durations*, March 2008.

Turnover Among Child Care Facilities

Rates of turnover among child care facilities. The overall turnover of child care facilities varied by facility type. Child care centers were the most stable, with 65% of facilities remaining in business over the five years of the study. While staff turnover within these child care centers may have occurred at higher rates, the facilities themselves were

relatively stable. Conversely, registered family homes were the least stable of all types of facilities in the formal Texas child care market. Only one third of the registered homes present at the beginning of the study period were still in operation five years later.

Relationship of subsidy policies to facility turnover. Two separate regressions were run — one for child care centers and one for registered or licensed family home providers — to measure the relationship of the local policy choices following devolution to the length of time that facilities remained in business. Two local policy clusters — increasing both the maximum reimbursement rates and the income eligibility limits, as well as increasing only the maximum reimbursement rates — were statistically associated with reducing the odds that either centers or family homes would leave the child care business. For centers only, increasing the income eligibility limits was also associated with longer facility durations. A different policy combination — both increasing income eligibility *and* reducing co-payments — was associated with longer facility lifetimes for family homes but not centers. Among non-policy factors, both newer facilities and those located in small workforce board areas were less likely to stay in business than other facilities.

Table 6. Odds of Facility Turnover for Policy Combinations Used by Local Boards After Devolution

Variable description	Centers	Family home facilities
	N=9675	N=18,394
Local Child Care Policy		
Moderate reimbursement rate	0.81 **	0.86 **
Moderate reimbursement and increased income eligibility limit	0.73 *	0.75 **
Increased co-payment	1.07	0.96
Increased income eligibility limit	0.71 *	0.95
Increased income eligibility limit and increased co-payment	0.87	1.00
Increased income eligibility limit and reduced co-payment	0.80	0.83 **

Notes: 1) Statistical significance, *= $p < .05$, **= $p < .01$.

2) Lower odds of ending a spell can be equated to longer facility lifetimes.

3) The complete list of variables included in these regression models can be found in: *The Relationship of Child Care Policies to Subsidy, Employment and Market Durations*, March 2008.

Chapter 5. Conclusions and Policy Implications

By analyzing both the process of child care policy decision-making and the factors associated with child care subsidy duration, employment duration and the turnover of child care facilities, this study has addressed a number of research questions that are rarely all tackled together. Local changes in child care policies addressed within this study occurred within the context of a welfare program that continued to be managed from the state level. Thus, the changes associated with individual child care policy changes could be disentangled from welfare policy changes occurring after welfare reform. The case studies and qualitative interviews helped to identify the different types of factors that influenced local governing bodies when they made policy decisions after receiving the authority to do so.

This study also has advanced the current state of the research literature on child care subsidies by measuring the extent to which various subsidy policies are associated with positive outcomes. Conclusions and policy implications that can be drawn from these analyses are discussed below. The chapter concludes by identifying the limitations of the current analysis and future research needed.

Conclusions

The following conclusions can be drawn from this analysis:

1. All policy changes from the baseline policies resulted in longer subsidy duration than the baseline policies. This suggests that the local boards that experimented with their new policy authority understood the relationship between their policy choices and subsidy use well enough to make decisions that enhanced the duration of child care for those families using subsidies.
2. The effect of local policy variables on increasing subsidy duration was stronger for families who began using subsidies for employment purposes rather than TANF job search purposes. Among all of the policy combinations used by the local boards, increasing family co-payments and income eligibility limits were the most strongly associated with longer periods of subsidy use.

3. In general, fewer child care subsidy policies had any effects on employment duration than on subsidy duration. Furthermore, effects were found only for non-Choices families. Only one policy combination — higher income eligibility limits and increased family co-payments — was linked to longer employment spells for families who started using subsidies for employment purposes. Another — increasing reimbursement rates — was linked to shorter employment for these same families. Non-policy factors explained far more of the variation in length of employment than policy factors.
4. Child care centers were found to be more stable businesses than family home providers. Although this finding is not surprising, it is useful to mention here because facility stability is related to families' ability to obtain reliable care while working. The overall cost of care was highest in centers but the flexibility of hours offered by family homes is often more compatible with the types of jobs available to low-income families who use subsidies. Among family homes, licensed homes were more stable than those that merely registered with the state.
5. The combination of increasing provider reimbursement rates and income eligibility limits were linked to more stable facilities, regardless of facility type. Increasing only the income eligibility limits was associated with longer facility durations for centers, while increasing income eligibility and reducing co-payments increased facility lifetimes for family homes but not centers.

Policy Implications

The variation in size, complexity and characteristics of local boards are comparable to the diversity faced by states in selecting combinations of subsidy policies. However, before discussing the policy implications of these findings, it is important to note that the overall policy and funding context within which this study was conducted varies considerably from a number of other states in the U.S. Specifically, this study was conducted within a statewide policy environment that did not guarantee child care subsidies to all eligible applicants and that gave priority for limited subsidy dollars to TANF Choices recipients. As a result of these policy decisions and available funding, families in some regions of the state who

requested child care subsidies to support employment were sometimes placed on waiting lists for services. Thus, the findings from this study are most applicable to those states with similar policy environments.

Given these caveats, this study fills a gap in literature by highlighting the types of factors that child care administrators consider when choosing among the array of policy choices available to them within the federal regulations governing the subsidized child care program. It also highlights how local differences in community demographics and resources can influence the ability to obtain the matching funds needed to draw down a portion of the federal funds available under this legislation.

This study also identifies those policy combinations within the child care subsidy program that are associated with longer subsidy and employment duration for families already receiving subsidies and reduced turnover of child care facilities in communities that offer subsidized care. Some policy combinations (e.g., increasing income eligibility limits, both alone and in combination with other policies) were linked to longer subsidy duration, increased employment and less facility turnover. While these all seem to be positive and desirable findings, within Texas' limited funding environment, deciding to increase income eligibility limits would also increase the pool of eligible applicants, which could mean that more applicants for employment-related care would end up on a waiting list for subsidized care. Another policy decision — increasing provider reimbursement rates — was positively linked to the longevity of formal child care providers but had no effect on the length of time that families used subsidies or the length of employment for families with subsidies. Thus, in a limited funding environment, policy makers who choose to raise reimbursement rates are also choosing to serve fewer families with subsidies.

Future Research Needed

This study adds to the literature both by informing the process that governing entities use to select specific child care policies within the flexibility given to them under the CCDF rules and by suggesting policy combinations within the subsidy program that are more likely to improve outcomes both for families served by the subsidy program and for child care providers. However, with the data available in this study and the reduced-form regression methods used in this analysis, it was not possible to measure why families choose to begin

using a subsidy in the first place, why someone decides to start a new child care business, or the relationship between the overall environment within which child care policy decisions were made and the ultimate family and market outcomes resulting from the selected policies. Additional research incorporating the level of detailed policy information available in this study with the more sophisticated models and data sets used in some other studies would be needed to address such questions.

This study also adds to a growing body of literature which has linked subsidy use for employment purposes to more successful employment outcomes and identifies specific subsidy policy choices associated with successful employment outcomes. However, given the complex relationship between employment, child care, and the use of subsidies, it is very difficult to determine which decision causes another action to occur. Random assignment studies would be needed to determine causality. Findings from this study point to possible policy combinations to be included in future random assignment studies designed in policy environments that do not guarantee a child care subsidy to all applicants.

Bibliography

Lein, L, J. Beausoleil and Y. Tang. (October 2007) *The process of devolution: perceptions from local boards*. Ray Marshall Center for the Study of Human Resources and the Center for Social Work Research, The University of Texas at Austin.

Schexnayder, D., Lein, L et al. (June 2004) *The Texas child care subsidy program after devolution to the local level*. Ray Marshall Center for the Study of Human Resources and the Center for Social Work Research, The University of Texas at Austin.

Schexnayder, D. and D. Schroeder. (March 2008) The relationship of child care policies to subsidy, employment and market durations. Prepared for the Office of Planning, Research and Evaluation, U.S. Department of Health and Human Services, Administration for Children and Families, Washington, D.C.

