



## **Connecticut Lags Behind Most States in Support to Low Income Working Families through the Child Care Subsidy Program**

**November 2006**

### **I. Despite Great Wealth, Connecticut Lags Behind Most States in its Child Care Subsidy Policy**

Care4Kids, Connecticut's child care subsidy program, was established to provide monetary support for moderate- and low-income families who need help paying for care for their infants, toddlers, preschoolers and school-age children while parents are at work or in school or training.<sup>1</sup> Care4Kids gives children from low-income families a better chance at having a high quality early care and education experience, and the benefits of that experience for years after.

However, funding cuts and eligibility restrictions have diluted the effectiveness of Care4Kids in supporting low-income parents in paying for child care so they can work. Despite small increases in spending in the last two years, overall spending on Care4Kids was still \$48.6 million (or 40%) less in SFY 06 than in SFY 02. On average, 48% (13,520 per month on average) fewer children received the help of the child care subsidy per month in 2005 than in 2002 (from 28,175 to 14,655 children served per month on average). In sum, as shown in the chart below, Connecticut is lagging behind most states in adopting child care subsidy policies that best meet the needs of low-wage working families.

<b>Comparing Connecticut to Other States in Investing in the Child Care Subsidy Program.<sup>2</sup></b>		
	<b>CT</b>	<b>How bad is that among all states?</b>
<b>Income Eligibility for a Family of Three</b>	Initial eligibility is set at 50% of State Median Income (SMI)	13 <sup>th</sup> lowest threshold
	The income threshold of \$47,586 in 2001 was reduced to \$36,120 in 2006	2 <sup>nd</sup> largest decrease
<b>Reimbursement Rates</b>	Rates are set at the 60 <sup>th</sup> percentile of the price of care	12 <sup>th</sup> lowest rate
	Rates are based on a 2001 market rate survey	6 <sup>th</sup> oldest survey
	Rates have not been updated since 2002	11 <sup>th</sup> longest lag
	There is a \$212/month/child gap, on average, between CT's current rates, which are set at the 60 <sup>th</sup> percentile of 2001 market rates, and federal recommendations.	8 <sup>th</sup> largest gap

<sup>1</sup> Only very low income parents, receiving Temporary Family Assistance, are able to use Care4Kids to help pay for child care during time spent in pre-approved education and training.

<sup>2</sup> K. Schulman and H. Blank, *State Child Care Assistance Policies 2006: Gaps Remain, With New Challenges Ahead* (National Women's Law Center, 2006), available at <http://www.nwlc.org/pdf/StateChildCareAssistancePoliciesReport2006.pdf>

## II. Care4Kids Funding Has Been Cut and Fewer Children are Being Served

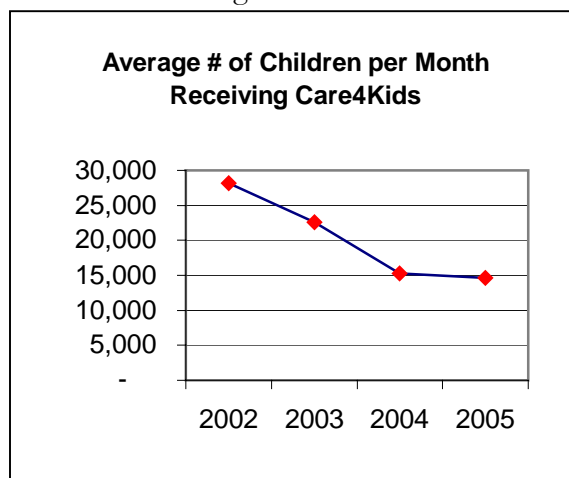
*Between SFY 02 and SFY 07, funding for Care4Kids was cut by \$50.4 million (or 41%).* Adjusting for inflation, the reduction was nearly half of all funding. The FY 07 Care4Kids budget is nearly \$2 million less than what DSS spent in the Care4Kids program in SFY 06. This deficit is to be covered by \$4 million available in a one-time allotment of federal funds from the previous year's unspent TANF bonus. As shown in the chart below, in the last two years some small steps have been taken in recovering funding cuts between SFY 02 and SFY 05. However, even when including the \$4 million TANF bonus, available SFY 07 funding for Care4Kids remains \$46.4 million (or 38%) less than was spent on this program in FY 02, *not even adjusting for inflation.*

Care4Kids Funding: SFY 02 – SFY 07 (in millions)								
FY 02 Actual	FY 03 Actual	FY 04 Actual	FY 05 Actual	FY 06 Actual	FY 07 As Adopted in 2005	FY 07 Gov. Revised	FY 07 As Revised in 2006	FY 07 Including TANF Bonus
\$121.6	\$99.1	\$60.9	\$59.6	\$73	\$69.5	\$69.7	\$71.2	\$75.2

In SFY 06 Connecticut invested about \$38 million of its own state dollars in the Care4Kids program (52% of total Care4Kids funds). Additionally, federal funds are available to Connecticut for the child care subsidy program through the Child Care and Development Block Grant (CCDBG) as well as from the Temporary Assistance for Needy Families (TANF) Block Grant. In SFY 06 the other 48% of Care4Kids funding came from the CCDBG.

Although states also may transfer up to 30% of their funds from the TANF Block Grant to the CCDBG, or use TANF funds for child care directly, Connecticut is not doing either now. Instead, Connecticut is diverting a significant proportion of its TANF funds (55% in FFY 2007) to the CT Department of Children and Families (DCF).<sup>3</sup> Moreover, since 2002 Connecticut has spent no TANF grant<sup>4</sup> funds directly on child care (down from \$35.8 in 1999).<sup>5</sup>

A consequence of these funding cuts is that, on average, 48% (13,520) fewer Connecticut children received a child care subsidy per month in 2005 than in 2002 (from 28,175 to 14,655), as shown in the graph.<sup>6</sup>



## III. Care4Kids Reimbursement Rates Are Inadequate

**A. Licensed Child Care Providers.** Under federal law, DSS must conduct a market rate survey of child care providers every two years. The United States Department of Health and Human Services (HHS) requires states to set subsidy rates high enough to ensure that families using subsidies have sufficient access to child care. HHS specifies that reimbursement rates that are set at the 75<sup>th</sup> percentile of the market rate are considered adequate to

<sup>3</sup> This issue will be discussed in more detail later in this report.

<sup>4</sup> As stated, \$4 million was available for Care4Kids from TANF bonus funds carried forward to 2006.

<sup>5</sup> *The Impact of TANF Funding on State Child Care Subsidy Programs* (Center for Law and Social Policy, 2001), available at [www.clasp.org/publications/the\\_impact\\_of\\_tanf.pdf](http://www.clasp.org/publications/the_impact_of_tanf.pdf). This report uses HHS data.

<sup>6</sup> *The Status of Child Care in Connecticut* (CT Department of Social Services, 2002, 2003, 2004, 2005).

provide sufficient access to child care.<sup>7</sup> (At the 75th percentile, the rate cap would equal the rates charged for 75 percent of the care available in the market.) ***In Connecticut the subsidy is set much lower-- at the 60<sup>th</sup> percentile.*** Less than a dozen other states have rates set at a level lower than the 60<sup>th</sup> percentile, including Georgia, Alaska, Mississippi, Missouri and Tennessee.<sup>8</sup>

Although DSS is mandated to undertake this market rate survey every two years (at the cost of \$62,000 per survey) to determine the fees charged locally by child care centers, neither federal nor state law requires the Department of Social Services to increase the reimbursement rate to reflect the results of the survey. Consistently, Connecticut has delayed updating reimbursement rates to reflect current market rates. For example, Connecticut did not increase reimbursement rates for almost a decade between 1991 and 2001. Presently, the 2006 subsidy reimbursement rates are based on the 2001 market survey. Only five other states base their reimbursement rates on market rate surveys older than 2001, including Kansas and Missouri. Only ten states have greater than a five-year lag in updating reimbursement rates, including Utah, North Dakota, New Mexico, and Idaho.<sup>9</sup>

Not only does this lag in updating rates result in spending \$62,000 every other year on a survey that is not used, but also it results in a cut in the subsidy being provided to parents and providers, once inflation in rates is taken into account. For example, currently the average reimbursement rate for a preschooler in a child care center in Connecticut is \$157 per week. This rate reflects the 60<sup>th</sup> percentile of the price of care according to the 2001 Market Rate Survey (the last time rates were updated). Because Care4Kids rates have not been increased in five years, when they are compared to the 2005 Market Rate Survey, as shown in the chart below, the current rates are well below even the 50<sup>th</sup> percentile (\$165), and 13% below the 60<sup>th</sup> percentile market rate in 2005.

Connecticut Care4Kids Subsidy Weekly Reimbursement Rates at 50 <sup>th</sup> , 60 <sup>th</sup> and 75 <sup>th</sup> Percentile of 2005 Market Rate Survey Costs				
Full Time Center Care	2005 Average <sup>10</sup> Weekly Reimbursement Rate	50 <sup>th</sup> Percentile of 2005 Market Rate	60 <sup>th</sup> Percentile of 2005 Market Rate	75 <sup>th</sup> Percentile of 2005 Market Rate
Infant/Toddler	\$199	\$203	\$220	\$243
Preschool	\$157	\$165	\$180	\$203

Thus, if you subtract what families with preschoolers are receiving today, on average (\$157), from what they could be receiving if reimbursement rates were updated (\$180 if reimbursement rates were set at the 60<sup>th</sup> percentile of 2005 rates), families are being denied about \$23 per week per pre-school aged child (or nearly \$100 per month) of what current legislation intends. ***And worse, families are receiving on average about 25% less (almost \$200 less per month) than federal recommendations consider sufficient for Connecticut to provide adequate access to child care for a preschooler (75<sup>th</sup> percentile of current market rates). Only seven other states have a gap greater than 25%, including Missouri, Nevada and New Mexico.***

Importantly, there also is a significant difference between the “price” charged by providers for child care, as measured by the Market Rate Survey, and the actual “cost” of providing care. The average price of child care for a preschooler in a center in Connecticut is about \$8,700 per year.<sup>11</sup> However, the actual *cost* of providing care is estimated to run well over \$10,000 annually. For infants and toddlers the cost is even greater.

<sup>7</sup> United States General Accounting Office, *Child Care: State Exercises Flexibility in Setting Reimbursement Rates and Providing Access for Low-Income Children., Report to Congressional Requesters*, GAO-02-894 (2002).

<sup>8</sup> K. Schulman and H. Blank, *State Child Care Assistance Policies 2006: Gaps Remain, With New Challenges Ahead* (National Women’s Law Center, 2006), available at <http://www.nwlc.org/pdf/StateChildCareAssistancePoliciesReport2006.pdf>

<sup>9</sup> K. Schulman and H. Blank, *State Child Care Assistance Policies 2006: Gaps Remain, With New Challenges Ahead* (National Women’s Law Center, 2006), available at <http://www.nwlc.org/pdf/StateChildCareAssistancePoliciesReport2006.pdf>

<sup>10</sup> Care4Kids reimbursement rates vary by age of child, duration of care and geography.

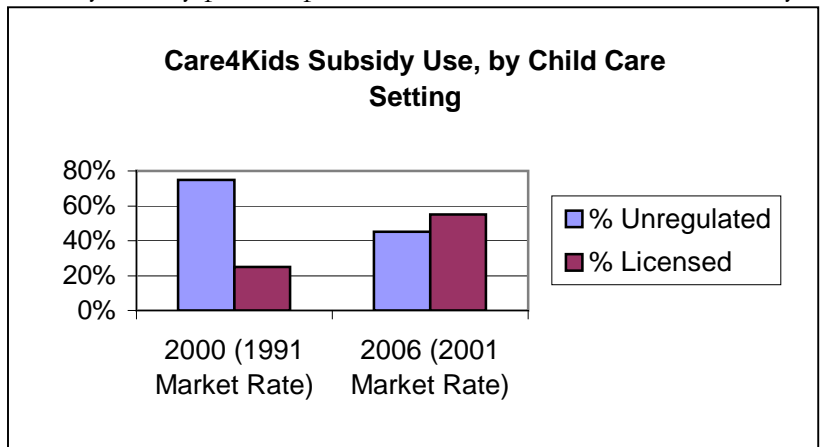
<sup>11</sup> Child Care Infoline, Average Costs- Statewide, May 3, 2006, available at [www.childcareinfoline.org/professionals/FeeCt.asp](http://www.childcareinfoline.org/professionals/FeeCt.asp)

**B. Family, Friend and Neighbor Care (unlicensed providers).** DSS regulations index unlicensed family child care provider reimbursement rates to Connecticut’s minimum wage, such that for each child, a provider receives one-third of the state minimum wage. In 2002, the family child care reimbursement rate for full time care (35 – 50 hours per week) was \$89 per week per child. Despite an increase in the state minimum wage in 2004 and in 2006, the Care4Kids reimbursement rate has not been adjusted to reflect these increases. If the reimbursement rate were updated to reflect increases in the state minimum wage, in 2006 the weekly rate would have been increased to \$99 per child per week, or \$10 more per child per week than current rates. On January 1, 2007, Connecticut’s minimum wage will increase to \$7.65/hour. For the Care4Kids family child care rate to be consistent with DSS regulations, it will need to be increased from the current \$89 per week per child to \$102 per week per child, an increase of \$13 per week per child (a 15% increase).

**IV. Adequate Care4Kids Reimbursement Rates Help Parents Work, Empower Parental Choice and Encourage Child Care Quality**

A unique benefit of the child care subsidy is that, unlike School Readiness, Head Start and State-Funded Center grants that can only support center based care, Care4Kids is a “voucher” that gives parents some flexibility in choice of child care setting. A family can use the Care4Kids subsidy at child care centers, licensed family day care homes, or also for unlicensed family and neighbor care. This flexibility benefits Connecticut’s child care system in a number of ways: (1) it allows parents to choose the child care setting that best fits their needs; (2) it provides funding, beyond parent fees, that can be used by providers to enhance quality; and (3) it encourages child care providers to offer high quality care, to win and keep parents who have the choice to go elsewhere.

However, when reimbursement rates are too low to cover the majority of the cost of care, these benefits are illusory, as parental preference is trumped by affordability. Many parents place their children in unlicensed family, friend and neighbor care (kith and kin), which is less costly than both licensed family home care or licensed center care. While it is essential to protect parents’ right to *choose* family, friend and neighbor care for their children, particularly in the earliest years, it is in contradiction to the intention of protecting choice if parents are *forced* into this setting for economic reasons.



For example, in 2000, Care4Kids reimbursement rates had not been increased for nearly a decade. In that year, 75% of the children using the child care subsidy were in unlicensed care, compared to 25% in licensed care.<sup>12</sup> In 2002, the reimbursement rates were increased to reflect 2001 Market Rates. The result was an increase in the proportion of families able to afford, and choosing licensed care. In 2002, the percentage of children in unlicensed subsidized care dropped from 75% to 62%. Slowly the proportion of children using the subsidy in licensed care caught up to the proportion using unlicensed care. Now, in 2006, a majority (55%) of children receiving the child care subsidy are in licensed care.<sup>13</sup>

Importantly, depressed subsidy rates can keep families from working, if the subsidy does not adequately cover the cost of care and a low-income working parent cannot afford the parent portion of the child care fee. However, when Care4Kids reimbursement rates are closer to the actual cost of child care fees, parents are better able to work and to choose from the full range of care options. They also have the economic power to demand quality,

<sup>12</sup> Connecticut State Department of Social Services, Child Care Team. (2006).

<sup>13</sup> Connecticut State Department of Social Services, Child Care Team. (2006).

and providers have more revenue to spend on quality enhancement initiatives. In sum, adequate Care4Kids reimbursement rates help parents work, drive quality up, and move children into quality care settings.

**V. Demand For Care4Kids Remains High, and is Increasing**

Between November 2005 and January 2006, Care4Kids processed 5,622 applications from parents applying for a child care subsidy. Of these, 52% were denied. This means that 2,923 children coming forward seeking child care assistance were turned away in these three months alone. Only 12% of the children denied were rejected because family income was above the eligibility threshold. The other 88% were income-eligible, but were denied for other reasons. Therefore, in just one three month period, approximately 2,572 children *from poor, income-eligible families seeking financial aid for child care from Care4Kids were rejected.*

Annually, of the 88% of families who are income-eligible, but are denied the child care subsidy for other reasons, 58% are rejected because they are unable to comply with the application rules and process. These families are missing information such as work schedules, pay stubs, the name of a provider, or are late in providing the necessary documents. Another 19% of denied families are rejected because they admit that the other parent is home and not working, and as such is assumed by regulation to be both capable and willing to provide the needed child care. These rules keep thousands of poor families from accessing the child care subsidy.

Importantly, this snapshot look does not *begin* to measure the true picture of need, as it neglects to include the hundreds of families just over Connecticut’s Care4Kids income eligibility threshold that are also struggling to meet the high costs of child care. Under federal regulations, a state may designate any family earning up to 85% of the State Median Income (SMI) as eligible for a federally-subsidized child care subsidy. If set at the federal recommendation of 85%, a Connecticut family of three earning less than \$61,404 would be eligible. Connecticut’s threshold has fluctuated over the last decade (with changes in available funding). As shown below, the income cutoff in 2001 was 75% of SMI (\$47,586 annual income for a family of three, or 325% of the Federal Poverty Level [FPL]). In 2006, it is set at 50% of SMI for new families.<sup>14</sup> As such, the maximum annual income for child care assistance for a family of three in Connecticut in 2006 is \$36,120 (or 218% FPL).<sup>15</sup> This is a reduction of \$11,466 (not adjusted for inflation) in the annual income eligibility threshold. *According to an analysis by the National Women’s Law Center, this makes Connecticut (the wealthiest state in the nation) the state with the second largest reduction in income eligibility for child care assistance since 2001, after Minnesota.*

Connecticut Care4Kids Subsidy Family Income Eligibility Compared to Eligibility Allowed by Federal Law <sup>16</sup>			
Income Eligibility Guideline	CT in 2001	CT in 2006	Allowed by Federal Law
% State Median Income	75%	50%	85%
Income in Dollars	\$47,586	\$36,120	\$61,404
% Federal Poverty (for family of three)	325%	218%	370%

Whether the intent or not, Connecticut’s restrictive eligibility limits, as well as barriers in the application process itself, make it difficult for families to access the subsidy. As a result, despite the demonstrated continued need for help in paying for child care, the number of Connecticut children receiving the child care subsidy has declined by half over the past five years, as previously noted.

<sup>14</sup> A family is eligible to enroll at 50% SMI or less, and can remain eligible until their income reaches 75% SMI.

<sup>15</sup> K. Schulman and H. Blank, *State Child Care Assistance Policies 2006: Gaps Remain, With New Challenges Ahead* (National Women’s Law Center, 2006), available at <http://www.nwlc.org/pdf/StateChildCareAssistancePoliciesReport2006.pdf>

<sup>16</sup> K. Schulman and H. Blank, *State Child Care Assistance Policies 2006: Gaps Remain, With New Challenges Ahead* (National Women’s Law Center, 2006), available at <http://www.nwlc.org/pdf/StateChildCareAssistancePoliciesReport2006.pdf>

This decline is particularly troubling in light of the fact that the *need* for child care funding for low income families is expected to further increase due to recent changes in the TANF (Temporary Assistance for Needy Families) program. Federal reauthorization of TANF significantly increases Connecticut's requirements regarding the number of eligible families who must be in training or working -- by about 22% (from 28% to 50% of families). This means 3,000 additional *Jobs First* families (from 3,018 to 6,053, on October 1, 2006) need to meet work requirements. This *doubles* the number of TANF families who need child care.<sup>17</sup> If Connecticut is unable to meet mandated participation rates, the state will incur a fine. Yet, these increased work requirements for TANF recipients are not being met by concomitant increases in child care funding

A primary purpose of TANF is "to provide assistance to needy families" and "to end dependence of needy parents by promoting job preparation, work and marriage." According to the 2005 Self-Sufficiency Standard for Connecticut, for families with two children or more, child care costs alone typically make up the single largest part of a basic needs family budget (about 30%). In the last six years the cost for child care for families with two children or more increased over 70%. Since child care is one of the major expenses for families with children, a child care subsidy (like Care4Kids), by substantially reducing this expense, provides parents with the greatest financial relief of any single work support program.

Despite this, Connecticut has reduced its spending of federal TANF dollars on child care. Since 2002 Connecticut has spent *no* TANF funds directly on child care<sup>18</sup>(down from \$35.8 million in 1999).<sup>19</sup> Importantly, although federal law allows 30% of TANF funds to be transferred to CCDF to provide additional funding for child care, unlike most other states, Connecticut does not do so.

TANF Funds Spent Directly on Child Care in Connecticut <sup>20</sup> (in millions)			
1999	2000	2002	2006
\$35.8 M	\$21 M	\$0	\$0

***Connecticut is diverting a significant proportion of its TANF funds (55% in FFY 2007) to the CT Department of Children and Families (DCF).***<sup>21</sup> Although TANF funds are claimed by the Department of Social Services (DSS) and deposited in the General Fund as revenues, they have become an increasingly significant part of DCF's budget (more than 18% of total DCF spending in SFY 07). Connecticut increasingly has chosen not to invest TANF funds directly in child care and other supports for low-wage families, but rather to *divert these funds* from DSS to the Department of Children and Families (DCF). Ironically, the funds being diverted are intended to support at risk and low-income families and help *prevent* referrals to DCF. Instead, significant amounts of Connecticut's TANF funds are being used not for prevention and the provision of services that help families on welfare and in low-wage jobs achieve economic self-sufficiency, but rather become available only when families reach crisis and children are placed at significant risk of harm.

## VI. Recommendations

In addition to Connecticut's current, and proposed, investment in School Readiness programs and other areas of early care and education, Connecticut must do more to help low-income families who are struggling to get off and stay off of welfare to afford the child care that is necessary for them to work. Despite a clear indication of continued need and demand for assistance in paying for child care, the child care subsidy program has not grown.

<sup>17</sup> *New TANF Caseload Reduction Provisions to Put Pressure on States*. (Federal Funds Information for States, January 2006). Available at: [www.ffs.org](http://www.ffs.org)

<sup>18</sup> \$4 million in one-time TANF bonus funds was available for Care4Kids in FY 06..

<sup>19</sup> *The Impact of TANF Funding on State Child Care Subsidy Programs* (Center for Law and Social Policy, 2001), available at [www.clasp.org/publications/the\\_impact\\_of\\_tanf.pdf](http://www.clasp.org/publications/the_impact_of_tanf.pdf). This report uses HHS data.

<sup>20</sup> *Use of TANF and MOE Funds* (Center for Law and Social Policy, 2005), available at [www.clasp.org/publications/connecticut03.pdf](http://www.clasp.org/publications/connecticut03.pdf).

<sup>21</sup> For a full explanation of the use of TANF funds in DCF's budget, see S. Geballe & J. Solomon, *Careening Toward Crisis: State and Federal Funding of Child Welfare Services in Connecticut* (CT Voices for Children, 2004), available at [www.ctkidslink.org/pub\\_detail\\_203.html](http://www.ctkidslink.org/pub_detail_203.html).

In fact, there have been cuts in Care4Kids funding. These cuts are falling on the backs of low-income families who are struggling to find safe, quality care for their children so they can work. By reducing Care4Kids funding and implementing restrictive eligibility levels, Connecticut has denied this much-needed subsidy to thousands of families and helped put their children into harm's way. While the state of Connecticut may have achieved some short term "savings," it also has incurred much higher longer-term costs --- to the state, as well as the children and families involved.

***In summary, over the past several years Connecticut has chosen to:***

1. Significantly reduce state funding for the Care4Kids program.
2. Allow reimbursement rates to stagnate, thus reducing the amount families receive in assistance from Care4Kids.
3. Make it difficult for low-wage working families to be eligible for and access Care4Kids subsidies.
4. Divert a significant proportion of TANF funds to the CT Department of Children and Families.

**To reverse these detrimental choices, Connecticut must increase state funding for Care4Kids with a dependable funding stream. Specifically, returning to Connecticut's SFY 02 investment of \$122 million in the Care4Kids program is an essential step toward the implementation of the following specific policy and regulatory changes:**

**A. Require Care4Kids Reimbursement Rates to Reflect the Biennial Market Rate Survey for Licensed Providers and the Current State Minimum Wage for Unlicensed Providers.**

- a. Require an incremental increase in the Care4Kids reimbursement rate, over the next four years, to bring the current rate (set at the 60<sup>th</sup> percentile of Market Rates) up to the federal recommended rate (75<sup>th</sup> percentile) by 2009 (i.e., 60<sup>th</sup> percentile of 2007 Market Rates in 2008, 65<sup>th</sup> percentile of 2009 Market Rates in 2009, 70<sup>th</sup> percentile of 2009 Market Rates in 2010, and 75<sup>th</sup> percentile of 2011 market rates in 2011).
- b. Mandate an automatic change in the Care4Kids reimbursement rate commensurate with the biennial market rate survey results.
- c. Adhere to the regulation that reimbursement rates to unlicensed providers be increased commensurate with increases in the state minimum wage.

**B. Restore Care4Kids Income Eligibility Limits.** Restore open enrollment to all new families with incomes at or below 75% of the State Median Income (up from the current 50% of State Median Income), including all income-eligible families who are not now receiving Temporary Family Assistance benefits.

**C. Improve Administration of the Care4Kids Program.** Review, and reform or eliminate as needed, the regulatory and administrative barriers that contribute to a 52% denial rate of families who have applied for the Care4Kids subsidy, including but not limited to the following:

1. Simplify enrollment procedures and paperwork, including enabling online applications.
2. Allow for child care providers to be listed as an additional contact for all Care4Kids correspondence if the family agrees to help encourage DSS to make timely eligibility determinations and subsidy payments.