Financing Child Care in the United States: An Illustrative Catalog of Current Strategies

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Summary

There are many opportunities for families to find revenue for child care through both public and private means. In *Financing Child Care*, Louis Stoney examines current strategies at both the state and local level that generate new revenue or increase the share of current revenue allocated to child care. She examines programs related to tax credits, higher education, and health care in order to provide insight as to how child care programs could be better structured. Ultimately, child care needs to reach economies of scale for the sake of the providers and their costs and parents' concerns for quality child care.

Generating Public Revenue. This includes two federal financing mechanisms: the federal income tax credit for child care and dependent care and the federal provisions which authorize employer-sponsored child care and dependent care assistance plans.

Allocating Public Revenue. Child care can be financed though existing state revenue streams and can focus on the impact of child care on social and human services, health services, education, higher education, and local government.

Financing Child Care in the Private Sector. Business and labor-initiated programs can be used to improve access to child care, as well as make efforts to improve its quality and supply.

Financing Child Care Via Public-Private Partnerships. Public and private sector funds can be combined to support child care. In addition, capital investment partnerships can be created for financing child care facilities.

Looking to the Future. There are also strategies that have not been tested which could provide the basis for creating economies of scale in the child care field.

Chapter One: "Generating Public Revenue"

Establishing child care as a public responsibility could present the most important step in creating universal, affordable, quality child care services. Listed below are several methods to raise the consciousness of the population, establish child care as a public responsibility and generate public revenue for the advancement of child care.

Methods of public revenue generation for child care fall mainly into these categories:

- Local Property Taxes
- State and Local Sales Taxes
- Excise Taxes
- State Income Taxes

- Personal Income Tax Credits and Deductions
- Personal Income and Employment Tax Benefits
- Employer Income Taxes
- Fees
- Lotteries and Gaming Fees

- States and communities have chosen to increase sales and property taxes for the exclusive use of early education. These taxes use familiar models from temporary sales tax increases to special property taxing zones to promote child care quality enhancement.
  A California initiative adopted an increase in taxes on tobacco products; it raises $719 million a year.
  Aspen, Colorado approved a .45% increase in sales tax for ten years to create a fund for child care and low income housing. Residents re-approved this for another ten years in 1999.

- Reimbursable tax credits, deductions and exemptions work well for those who use them, especially parents who can plan their child care spending. Some of these programs are universal, while others target lower income families who need assistance, or provide incentives for individuals who donate money or other assets to child care.
  Bank of America invested $22 million in support of 26,561 children. This program is structured as a DCAP and is a tax-free benefit. Eligible associates can receive up to $152 per month, per child, toward child care expenses in addition to their regular pay.
  Colorado recently began giving tax credits of 25% of the value of any in-kind donation to the child care industry.

- Fees are an alternative to increasing taxes and can be used for any service or product. They can be voluntary or involuntary.
  The Georgia State Lottery contributed $224 million towards pre-kindergarten in 2000.
  In Santa Cruz, California, the Child Care Developer Fee Loan Program requires any new real estate development projects to pay a fair share of the costs resulting from an adverse impact on child care.

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Chapter Two: "Allocating Public Revenues"

Many states are using alternative means for allocating public revenue to finance child care services in their jurisdiction. For example, a number of states are using welfare funds known as Temporary Assistance for Needy Families (TANF) in order to subsidize child care programs. Health insurance coverage is another important issue for child care employees and many states are tackling this through public health, tobacco and Medicaid financing streams. In addition, several local governments are focusing on capital investment which is designed to increase the supply of child care and after school programs. It is important that these programs and their functions be understood in order to make child care programs more effective and more universal in the future.

Funding Allocated through Social and Human Services

- Many state programs are offering subsidies to parents to help finance child care using vouchers and sliding fee programs.

- Grants are being given to child care centers that have large numbers of low-income families and are to be used to support high-quality child care and facility expansion.
- Several states are supporting child care teachers and providers with salary supplements.
- In Connecticut, low-interest loans are being given to child care providers in order to expand and improve the quality of their facilities.

Funds Allocated through Health Programs

- Pennsylvania established an educational program in order to provide health and safety advice to child care providers.
- Rhode Island offers health insurance to child care providers.
- In Maine, funding and programs are available to help improve child care quality and affordability. These programs also provide opportunities for businesses and individuals to invest in child care.

Funds Allocated to Prekindergarten Programs and After School Programs

- A grant is available in Massachusetts to provide funds for children between 3 and 4 years old in families that earn less than 75% of the median income.
- After school programs are offered in several states and are financed through a monthly fee paid on a sliding scale or by matching grants.
- Many states are focusing on low-income families by increasing fiscal resources for early education programs in low-income school districts.

Funds Allocated through Higher Education Funds

- New York State uses higher education funds and federal funds for child care and development to provide campus based child care centers. This fund is intended to help students who are also parents.
- The University of California at Santa Cruz established a financial aid policy that gives more financial aid to students who are parents. This policy is intended to take into account child care costs incurred by students while in school.

Funds Allocated through Local Governments

- The City of New York has school-based community centers that provide children, youth, and families with activities and programs in the after-school, evening and weekend hours.
- Fairfax, Virginia has established a program that requires every new school or schools that are being renovated to reserve space for after school care.
- San Francisco, California pays a stipend to all child care providers and educators who want to improve their qualification.
- Montgomery County-Maryland has a working parents assistance program that gives these parents subsidized child care. The program is funded by a volunteer-run private-public trust fund that raises money from different sources.

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Chapter Three: "Financing Child Care in the Private Sector"

Why would a business care about child care? Simply stated, because their employees do. Businesses often need to attract and retain workers, especially those with more specialized education or skills. Offering child care benefits to employees makes an individual company a more desirable place to work, while supporting child care in the community as a whole can help make a city or region a more desirable place to live.

- Businesses often focus their spending efforts on programs which directly benefit only their own employees. This brings indirect benefits to the business in the form of employee productivity, retention, etc. AT&T has a Target Cities Initiative program which assesses AT&T family needs and helps identify appropriate service agencies in communities. (*AT&T Care Development Fund p. 115)*
- Experience suggests that businesses are willing to contribute money to worthy community causes which give them some visibility as a donor. For example, think of the donor lists of many symphonies and art museums. If a similar "expectation" of giving to child care funds could be created, then companies might give money to something like a general endowment fund.
- Businesses may be more comfortable giving money when it is through a collaborative effort of businesses. The ABC, or the "Champions", consist of 21 U.S. national and international corporations. "By working together, we can do more to meet the needs of our employees than if we worked alone." *(American Business Collaboration for Quality Dependent Care p.116)*
- Unions can include child care benefits in their negotiations with management. "Establishing the fund under the [union] umbrella . . . allows the resources of many employers to be combined." In New York, this has resulted in enrichment grants to centers to subsidize costs (*New York State Labor/Management Child Care Advisory Committee p. 118)* and child care vouchers *(1199 Employer Child Care Fund, NYC p.119).*
- Some funds pool money from both government and private agencies. To receive money from a fund, parents may have to make commitments such as participating in education programs or paying part of the cost. *(Allegheny County Early Childhood Initiative 'ECI' in Pittsburgh, Penn. p.121)* The ECI is a public-private partnership created to help low-income children up to 5 years old obtain high quality early care and educational services.
- Other funds use only private money. One fund provides short-term (less than two year) scholarships to low-and middle-income families. *(Child Care Scholarship Fund of the Marin Community Foundation, Marin County, CA p.128)*

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Chapter Four: "Financing Child Care Via Public-Private Partnerships"

Three types of public-private partnerships are examined in this chapter; capital investment, community and public sector, and employer and public sector partnerships. Each form is discussed in light of how the scope and depth of these arrangements has changed in the past few years from short-term, employee oriented to long-term, multi-sourced funding.

The funds distributed by employer and public sector partnerships are largely gathered by the employer or a collection of employers and include some matching federal funds. Funds are then allocated to child care facilities that enroll children of the parents employed by those companies. This form of partnership illustrates an important point: that businesses prefer that funds they contribute be spent in communities where their employees live. Having recognized this, businesses have also realized that investments and investment decisions are most effective if made jointly with community-based child care programs. An interesting case study involves a subsidy to mothers that is financed through an employer and employee paid disability insurance (Temporary Disability Insurance Coverage For Maternity Leave, New Jersey; p.142).

Of particular interest are the numbers of community and public sector partnerships that are concerned with the accreditation of child care programs and the rating systems that have emerged from these processes (usually on a five star basis). The accreditation process in general seems to be framed as a way providing parents with consumer-friendly tools to help assess and select programs, something that has been difficult to initiate in the child care field. For a good description of exactly what goes into the rating process and contact information for those interested see the EDUCARE (Colorado) case study on page 147.

Several factors including insufficient equity to secure loans, low appraisal value of child care centers (due to design for specific use) and the inadequate knowledge of child care operators of financial management prevent child care businesses from borrowing funds from banks and other lending institutions at market rates. In response many state and local governments have 'established initiatives to help child care businesses secure the capital they need to build and maintain quality facilities and/or programs.' (p.154). Partnerships have included initiatives led by both the state and private sector and have begun to include schools, banks and employers. In the case studies examined in this section all partnerships involved leverage funds from private sector lenders and many are using this funding to promote accountability and quality improvement. The case of Kennebec Valley Community Action Program (KVCAP, p. 161) in Maine illustrates how its Child and Family Services and Housing Program have both benefited from a strong partnership. While KVCAP's Housing Program offers the expertise on capital investment finance and the ability to attract investors, the Child and Family Services Program has ability to raise funds from a variety of sources to pay the operating costs of running child care facilities.
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Chapter Five: "Looking to the Future"
There are many strategies that states and communities use to finance child care. There are also many strategies that have not been tested that could be a strong link in creating an economies of scale in the child care field. Some of these strategies are listed below.

Tax Policy
Louise Stoney explains how the existing Dependent Care Tax Credit represents only a small portion of the cost of child care. These tax credits have failed to significantly affect consumer behavior. In order to better understand why these tax credits are not working the way they should, other programs can be examined in order to begin thinking about new and unique ways of developing effective tax policy.

- Low-income housing tax credit (LIHTC) is a large federal program used to fund the development and rehabilitation of low-income housing. LIHTC is complex and expensive to administer, however, it is possible that the child care field would benefit from having large organizations become involved in helping finance child care projects.
- Maine has an Employment Tax Increment Financing program (ETIF) which is available to businesses that create at least 15 new jobs in 2 years and pay employees an income that exceeds the average per capita income in that county. Maine's Department of Economic Development is looking at the feasibility of adapting this program for the child care industry.

Unemployment Insurance and other Social Investment Strategies
Although generating funds to support out-of-home care is critical, it is important to find ways for families to stay at home and care for their own children. The U.S. Department of Labor has developed rules that will allow states to use Unemployment Insurance (UI) benefits to make family leave more affordable. In addition, there is Temporary Disability Insurance (TDI), which is used by many states and employers to support "pregnancy-related disability".

Higher Education Strategies
The higher education model has several things in common with early child care. They both support similar values: family choice and quality. They both encompass a full range of providers, both public and private. Most importantly, higher education may offer some solutions to problems currently facing early child care, from combining direct and portable aid to full-cost pricing and funding standards. The following discuss higher education strategies that could be used for child care:

- Higher education uses a scale designed to stretch limited funds over a large pool of families. Families are required to pay an expected family contribution (EFC).
- Higher education uses general (or direct) aid in the form of government appropriations, grants, contracts, and revenue from endowments. This direct aid is received directly by institutions and reduces the price of tuition for some or all of the students.
- Higher education sets tuition prices based on the cost of quality education. Early child care sets prices based on perceptions of the average family's ability to pay, which keeps wages low and limits quality. In order to obtain the true cost of quality child care, prices must be set to include compensation to retain skilled staff and cover other essential elements of a quality program.

Strategies to Promote Economies of Scale
Early child care programs serve small groups of children (70 children on average) and providing support to these small programs can be challenging. Universities, on the other hand, can serve up to 50,000 students and can afford to support a financial aid office that focuses on helping students' access assistance. Early childhood programs can obtain these economies of scale without merging. It is possible that a group of child care providers in a particular region could employ a single entity to handle billing, marketing, and enrollment of families. This would help to streamline administrative costs, reduce accounts receivable and improve cash flow.
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