Arkansas Advocates for Children & Families
State Fiscal Analysis Initiative

PAYCHECK$ and POLITICS

Richard Huddleston, Project Director
Amy L. Rossi, Executive Director
James Metzger, Consulting Economist

State Government & Your Family's Budget
Issue V, September 2000

SUMMARY

- Access to quality child care must be part of the continuum of lifelong learning opportunities available to Arkansans of all ages.
- The cost of child care comprises 18%-24% of the basic daily living needs facing Arkansas families. In some cases, the cost of child care equals over half of a working family's income.
- In the average month, an estimated 28,961 Arkansas children receive state- or federally-subsidized child care services on a full or regular part-time basis.
- Currently, only 21% of eligible children (families with incomes below 156% of the federal poverty line) receive subsidized child care. Less than 16% of children in working poor families (185% of poverty) receive subsidized care.
- An estimated $147 million is spent annually on subsidized care through all state and federal programs.
- To increase the percent of eligible children receiving subsidized care from 21% to 50%, it would cost the state an additional $109 million annually.
- To provide subsidized "quality" child care to 50% of all eligible children, it would cost the state an additional $145-$515 million annually ("quality" care is care that meets state- or nationally-accredited quality standards).

Quality Child Care in Arkansas:
What Is Our Unmet Need? How Will We Fund It?

by Richard Huddleston

This edition of "Paycheck$ and Politics" is devoted to a critical issue facing the state's working families: access to quality child care.

New work requirements imposed by welfare reform; a strong state economy that has created many employment opportunities for those who may not have been employed in the past; low wages earned by many working families; and a growing number of single-parent families have increased the need for subsidized child care for the state's working families. This need has become more apparent during the past year, as demonstrated by the large increase in the number of low-income working families on the state's waiting list for subsidized care. This backlog is projected to grow in the future as more and more families make the transition from welfare to work, joining the ranks of other low-income working families who also need subsidized care.

The families needing care are often young families in the earliest stages of their income-generating capacity (most families do not reach their peak earnings potential until well into their 30s or 40s). These families are least able to earn enough income to pay the cost of child care without subsidized government programs.

While access to subsidized care is a critical need, there also has been a growing recognition that increased access must be accompanied by quality care that promotes child well-being and development. Most experts agree that quality care has positive effects on the intellectual, verbal, cognitive, behavioral, and social development of children, especially for those in low-income families.[1] In contrast, poor quality care may actually result in heightened behavioral problems. *Any long-term strategy designed to promote access to subsidized care for low-income working families must promote quality as well.*

The research on the need for quality child care and early childhood education supports another growing recognition among public policymakers: that quality child care must be part of a continuum of lifelong learning opportunities that should be available to families at all ages and income levels. In recent years, Governor Huckabee and the

Arkansas General Assembly have taken important steps to develop other parts of this continuum:

- The "Smart Start" initiative for grades K-4 to help ensure that all children meet or exceed grade level requirements in reading and mathematics by grade 4;

- Raising family income eligibility levels so that more graduating seniors who wish to attend an Arkansas college or university are eligible for "Academic Challenge Grants;"

- Mandating that the state's welfare reform effort (known as the Transitional Employment Program, or TEA) require greater assessment of client educational levels and educational barriers (such as learning disabilities), as well as greater client access to educational opportunities (such as GED, vocational training, and higher education) to improve skills, long-term earnings, and employability;

- The development of "one-stop shopping centers" to improve citizen access to education and training services;

- The development of a new state-level workforce investment plan and system to create a more comprehensive, coordinated, and customer-focused system for providing education and training services;

The state's commitment to other parts of the life-long learning continuum is reflected in funding of these programs. Act 1463 (the Revenue Stabilization Law) of 1999 allocated more than $1.4 billion in state general revenue to the Public School Fund; $503 million to the Arkansas' institutions of higher education; and over $60 million to the General Education Fund.

In contrast, the Arkansas Better Chance program, the state's major early childhood education initiative, receives less than $10 million from the Educational Excellence Trust Fund and has received no major increase in years. Similarly, the Division of Child Care and Early Childhood Education receives very little state support other than the $5.6 million it receives annually to draw down the state's federal Child Care Development Fund grant.

During 1999-2000, several groups, including the Arkansas Department of Child Care and Early Childhood Education, the Arkansas Kids Count Coalition and others, have focused much time and energy on improving the state's understanding of the need and demand for quality child care, its existing capacity, current service delivery and utilization patterns, and potential strategies for improving access and quality. The purpose of this brief is to build on these efforts by examining Arkansas' unmet needs for working families with children. The objectives of this brief are to:

- Provide an overview of why subsidized child care is such a critical need for low-income families;

- Examine how many of the state's children living in low-income working families are eligible for subsidized care and are, in fact, receiving it;

- Identify the state's unmet funding needs for subsidized quality care; and

- Discuss funding sources that might be used to help meet the needs of low-income working families.

Why Do Families Need Subsidized Child Care?

Child care is a critical need for many of Arkansas' working families. More than 1 in 4 (28%) of Arkansas families with children is headed by single parents, most of whom need some form of child care to work.[2] The need for child care, however, is not limited to single parents. Because of low incomes, both parents in two-parent families often must work to meet their basic needs. Nearly 1 in 4 Arkansas families with children lives in poverty.[3] Many of the families living in poverty are two-parent families (43.5%).[4]

These facts, combined with the desire of many women to enter the workforce, help explain why nearly 2 out of every 3 (65%) Arkansas mothers with children under age five are in the workforce, or why nearly 3 in 4 children (72%) under age 6 live in families with all parents working.[5]

The high cost of child care makes it inaccessible for many working families. The cost of typical pre-school, center-based care (average annual cost of $3,432 for one child, $6,846 for two children) — coupled with the high costs of other basic necessities such as health care, housing, food, etc. — makes it unaffordable for many families.

According to a study by Arkansas Advocates for Children & Families, the average annual income (called the Family Income Standard) that families must earn to meet all of heir basic daily living needs — including child care, health care, transportation, food, housing, taxes, and other costs — ranges from $18,805 for a one-parent family with one child to $28,541 for a two-parent family with two children.[6] The cost of child care represents 18-24 percent of this cost (depending on the number of children and type of household).

Many of the state's low-income working families do not earn an income equal to the Family Income Standard. The hourly wage needed to meet the FIS ranges from $8.90 for a one-parent family with one child to $13.51 for a two-parent family with two children.[7] However, 20 percent of all Arkansas workers earn less than $6.47 an hour and half of all workers earn less than $9.84 an hour.[8]

The poorest 20 percent of Arkansas families had an average annual income of $10,771 in the late 1990s.[9] At this income level, it is virtually impossible for a family to pay the cost of child care out of their own pocket. Child care for one child would consume about 32 percent of the family's income, while child care for two children would consume about 64 percent of the family's income.

While some families are able to access subsidized child care, the demand for subsidized child care outweighs the supply (more on that later). Lacking access to subsidized care, many low-income families are often faced with tough choices. Should they pay for child care and cut back on other basic daily living expenses such as food, housing, clothing, etc.? Or, should they forgo the expense of child care and use some other informal arrangement, such as unpaid relative care, leaving children with friends or neighbors, depending on an older siblings to care for their younger brother or sister, or in some extreme cases, leaving children alone and unsupervised. These are tough choices that families should not have to make.

How Many Family Currently Receive Subsidized Child Care?

The only way that many low-income families can access child care is through subsidized child care programs funded by the state or federal governments. It is difficult to know exactly how many Arkansas children are receiving subsidized child care services. There is a wide assortment of early care programs that fund services for low-income families. Some, such as the Division of Child Care and Early Childhood Education's low-income voucher program, pay for full-time care or regular part-time care (10 hours or more per week). Others, such as HIPPY (Home Instruction Program for Preschool Youngsters), typically do not provide full-time or regular part-time care but provide intensive early childhood education services for 2-5 hours per week.

It is possible for some children to receive care from multiple programs during the same day (such as might be the case for a child who receives services via Head Start in the morning and voucher-funded services in the afternoon); or receive services only during part of the year (i.e., only during the regular school year but not during the summer).

Consequently, some children may be counted in the caseload of more than one program. A major challenge in estimating the number of children receiving subsidized care is to develop an unduplicated count of children in such programs.

For the purposes of this analysis, we defined child care as full-time or regular part-time (10 hours or more week) that allow parents to work. Using information provided by state agency officials, there are an estimated 28,961 children in Arkansas under age 13 receiving subsidized early care services on a full-time or regular part-time basis in a typical month.[10] Children under age 5 typically receive full-time care (8 hours per day), while school-age children (ages 5-12) require part-time care (2 or more hours per day). Three state and federal programs provide funding that serve over 85 percent of the state's children receiving full-time or regular part-time early care services. One is the low-income voucher program administered by the Arkansas Division of Child Care and Early Childhood Education. This program is funded by the federal Child Care Development Fund (CCDF, a

Struggling to Pay the Bills

Consider "Julie," a single mom with a 2-year-old child.

Julie has a full-time job in a fast food restaurant. At $6 an hour, she earns a little more than minimum wage. Before taxes, she earns about $1,040 in an average month. Her bills in the typical month average about $1,567:

food	$221
housing and utilities	$423
transportation	$203
health care	$243
child care	$284
federal, state, and local taxes	$262
miscellaneous costs	$137
TOTAL	**$1,567**

At the end of the year, she claims a number of federal and state tax credits (EITC, child tax credit, child care tax credit, etc.) that help offset the taxes she pays during the year. She also recently began receiving Food Stamps and Medicaid. Even with this assistance, Julie struggles to meet all of her bills.

Child care is a major expense for Julie and her child. She has applied for subsidized child care, but has been put on a waiting list because there are not enough subsidized slots in her local area. Without subsidized child care, Julie has three choices:

- she can continue paying for child care and put off some of her other bills;
- she can find an alternative child care arrangement, such as leaving her child with a friend or neighbor; or
- she can quit her job and go on the TEA program where she will be given priority for subsidized child care.

What would you do?

combination of federal dollars and a state match) and by TEA dollars (the Transitional Employment Assistance program — the state's welfare reform program funded by federal dollars and a state maintenance of effort). It has two major components:

1) low-income families currently on TEA or making the transition from TEA; and
2) low-income working families who are not on TEA. The voucher program serves about 11,229 in an average month.

The next largest program is the Head Start program. This program is funded completely by federal dollars and serves about 9,470 children in an average month.

The third major program is the Arkansas Better Chance (ABC) Program. Funded by state general revenue, the ABC program provides full-time or regular part-time care (generally 10 hours or more per week) to 4,521 children monthly. Absent from the list of subsidized early care programs in Table 1 are programs that do not provide full-time or regular part-time care. For example, programs such as HIPPY and Parents as Teachers (PAT), while vital links in the state's system of quality early education services, typically do not provide full-time or regular part-time care for children that enable parents to work (nor are they designed to do so). These estimates also do not include the approximately 9,032 children receiving special education services (at an average per child cost of $1,500 annually). Such children receive special education services in a variety of early care settings that are subsidized by other programs included in these estimates (such as CCDF, Head Start, etc.) or paid for on-a-care-for-fee basis. To include them in these estimates would, in effect, be double-counting children receiving subsidized services.

CHILDREN RECEIVING SUBSIDIZED EARLY CARE

	Children Served (Monthly Average)	% of Total	Per Child Cost Full-time Care	Projected Expenditures
CCDF/TEA	11,229	38.8	$3,432	$27,861,241
Head Start	9,470	32.7	$5,241	$39,811,128
Early Head Start	440	1.5	$6,496	$3,958,655
ABC	4,521	15.6	$4,139	$6,000,000
DDTCS* (0-5)	2,239	7.8	$19,204	$42,996,860
CHMS**	1,062	3.7	$25,080	$26,634,960
TOTAL	**28,961**			**$147,262,844**

* Developmental Day Treatment Center Sites
** Children's Health Medical Services

Source: AACF estimates based on information supplied by agency officials from the DHS Division of Child Care and Early Childhood Education, the Arkansas Head Start Association, the Arkansas Department of Education, and the DHS Division of Medical Services.

Usage of Subsidized Child Care Has Increased Dramatically

In recent years, there has been a large increase in the number of families receiving subsidized child care. One of the reasons is welfare reform. In response to new federal welfare reform laws passed in 1996, Arkansas implemented its new welfare reform program, TEA, in July 1997.

New work requirements, a two-year lifetime limit on cash assistance, and state-mandated access to transitional child care have dramatically increased the need for subsidized care by families (nearly all of whom are single parents) making the transition from welfare to work. The annual number of children in welfare families receiving subsidized care increased from just 60 children in SFY 97 to 8,257 children in SFY 99.[11] The number will almost certainly be higher when SFY 2000 ends June 30 because of the additional children in families who left TEA for work during the past year and are now receiving transitional TEA child care.

At the same time, there has been a significant increase in the number of non-TEA, low-income working families receiving subsidized child care from the Arkansas Division of Child Care and Early Childhood Education (DCCECE). The number of children in non-TEA, low-income working families receiving subsidized care from DCCECE increased from 6,422 in SFY 97 to 13,272, an increase of 107 percent in just two years![12]

Much of this increase is probably due to a strong Arkansas economy and low unemployment rate. Not only are more Arkansans working than ever before, but many of the jobs being created don't pay wages that allow families to purchase child care.[13] This has increased the number of low-income working families needing and accessing subsidized care.

The Demand for Subsidized Care Exceeds the Supply

One measure of the unmet need for subsidized child care is the waiting list. The waiting list for subsidized child care at the Division of Child Care has grown from 984 families (1,751 children) in March 1999 to nearly 4,000 families (6,800 children) by April 2000.[14] This represents an increase of 306 percent in families on the waiting list in a little over a year.

While these numbers are staggering, it is important to note that most experts agree that the waiting list is an incomplete measure of the unmet need for subsidized child care by low-

ARKANSAS' UNMET NEED FOR SUBSIDIZED CHILD CARE
(# of Children)

156% Eligibles (0-12)	Take-up Rate*	Total Need (0-12)	Children Served** (Monthly Average)	Unmet Need (Monthly Average)
135,762	**21% (Current)**	**28,961**	**28,961**	**0**
135,762	40%	54,305	28,961	25,344
135,762	50%	67,881	28,961	38,920
135,762	60%	81,457	28,961	52,496
135,762	80%	108,610	28,961	79,649
135,762	100%	135,762	28,961	106,801

185% Eligibles (0-12)	Take-up Rate	Total Need (0-12)	Children Served (Monthly Average)	Unmet Need (Monthly Average)
180,600	**16% (Current)**	**28,961**	**28,961**	**0**
180,600	40%	72,240	28,961	43,270
180,600	50%	90,300	28,961	61,339
180,600	60%	108,360	28,961	79,399
180,600	80%	144,480	28,961	115,519
180,600	100%	180,600	28,961	151,639

*A "Take-up Rate" is the percent of eligibles who would use a service if adequate funding were available, all barriers removed, and all families wanted to use the service. There is no definitive estimate of take-up rates in the literature, so this analysis presents a range of possible take-up rate.

**"Children Served" is the number of children currently being served by the state's child care and early care programs that provide full-time care or regular part-time care (10 hours or more per week).

Source: Arkansas Advocates for Children & Families

income families. Many families who need subsidized care either don't know about its availability, don't think they are eligible, or are discouraged by the waiting list and don't bother applying for subsidized care.

What is The Real Unmet Need for Subsidized Care?

What is the real unmet need for subsidized child care for the state's low-income working families? Under federal rules governing the state's largest subsidized care program for low-income working families (the CCDF/TEA voucher program), Arkansas has the option to serve families with incomes up to about 185 percent of the federal poverty line.[15] Because of funding limitations, Arkansas has set its eligibility standard at 156 percent of the federal poverty line.[16] At this income level, there are an estimated 135,762 children eligible for subsidized care.[17]

As noted earlier, an estimated 28,961 children receive services monthly in all of Arkansas' subsidized care programs, suggesting that *Arkansas serves about 21 percent of all eligible children*. To serve half of all eligible children, the state would need to serve 67,881 children monthly, an increase of 38,920 children (67,881 - 28,961 = 38,920). To meet the needs of all children who are eligible for care up to 156 percent of the poverty line, the state would have to serve 135,762 children monthly, an increase of 106,801 children (135,762 - 28,961 = 106,801).

Because of the financial burdens faced by many low-income working families, a growing number of experts believe that working families with incomes up to 185 or 200 percent of the federal poverty line should be eligible for subsidized child care services. If Arkansas increased its income eligibility limit from its current limit of 60 percent of state median income ($26,683 or 156% of the federal poverty line) up to 85 percent of state median income (about 185% of poverty), the number of low-income children eligible for subsidized care would increase from 135,762 to 180,600 children.[18] At current levels, the state would be serving about 16 percent of all eligible children below 185 percent of the federal poverty line.

What Happens if All Eligible Children Aren't Served?

As part of the state's welfare reform effort, current TEA families and former TEA families making the transition from welfare to work have priority access to subsidized child care. These policies, coupled with inadequate funding to serve all low-income families, have reduced the capacity to serve non-TEA, low-income working families. Given the multiple barriers facing many TEA families (lack of child care or transportation, substance abuse, domestic violence, mental illness, low education and/or poor work histories), it has been easy to justify giving TEA families priority access to subsidized care. However, such policies have not been without consequences. Some low-income working families have quit their existing jobs and signed up for TEA in order to access subsidized child care.

Obviously, policies that restrict the ability of one low-income group to access child care in favor of another are not in the state's best long-term interest. After all, once TEA families have left the program and have made the transition from welfare to work, they join the ranks of a much larger group of working poor families. Similarly, many non-TEA, low-income working families depend on subsidized child care to stay employed and meet other basic needs.

In the long term, it is in the best interests of all Arkansans (including

(Continued on Page 7)

THE ROLE OF STATE AND FEDERAL CHILD CARE TAX CREDITS

Tax credits can be an important tool in helping low-income families meet the high cost of child care. However, current state and federal tax credits are inadequate in meeting the need.

During federal tax year 1997, about 50,000 Arkansas families claimed the federal child care tax credit on their federal income tax returns.[19] Of these, less than 17,000 families (33%) were low-income families with incomes below $30,000. Arkansas' low-income families claimed about $6 million in federal credits. Moreover, the average federal child care tax credit was only $375, not enough to pay the average family's annual child care bill ($3,430 for full-time care)! The federal credit is non-refundable, so it does not provide relief to families with no federal income tax liability, and it does not benefit those low-income families who receive care that is fully subsidized.

In addition to the federal credit, Arkansas has a child care tax credit that may be claimed on state income taxes. The state credit is equal to 20 percent of the federal credit.[20] During state tax year 1998, 45,362 Arkansas families claimed $3.4 million in child care tax credits on their state income tax returns.[21] Similar to the federal credit, about 30 percent of families claiming the credit had incomes below $30,000. The total amount of child care credits claimed by low-income families was only about $1 million. The average credit claimed by all families was only $76.

A major problem with these credits is that they do little to help the many low-income families who have no state income tax liability. While the state does have an alternative child care tax credit that is refundable (a refundable credit provides a refund to the family if the amount of the credit is greater than taxes owed), it is only for children in approved-quality care settings. This credit is also equal to 20 percent of the federal credit.

Under state law, families are not allowed to claim both credits. Currently, very few families claim the quality credit (during tax year 1998, families claimed less than $85,000 in credits for quality-approved setting). The reason? Only 10 percent of the state's programs meet state accredited quality standards.[22] Most of these centers are subsidized Head Start or ABC centers which serve very low-income families who do not pay for care (and thus would not be eligible for the tax credit).

(Continued on Page 7)

ARKANSAS' USAGE OF CHILD CARE TAX CREDITS

FEDERAL CHILD CARE TAX CREDIT, 1997

	# of Returns Claiming Credit	% Claiming (Of All Returns)	Amount of Credit	% of Credits Claimed	Average Credit
Under $20,000	7,608	14.9	$2,546,000	13.3	$335
$20,000-$30,000	9,208	18.1	$3,552,000	18.6	$386
$30,000-$50,000	16,835	33.1	$6,228,000	32.6	$370
$50,000-$75,000	11,851	23.3	$4,628,000	24.2	$390
$75,000-$100,000	3,321	6.5	$1,306,000	6.8	$393
$100,000-$200,000	1,804	3.5	$706,000	3.7	$391
$200,000 +	282	0.6	$128,000	0.7	$454
All Returns	**50,910**		**$19,093,000**		**$375**

Source: IRS, Statistics of Income Bulletin, 1999.

STATE CHILD CARE TAX CREDITS, 1998

	# of Returns Claiming Credit	% Claiming (Of All Returns)	Amount of Credit	% of Credits Claimed	Average Credit
Under $20,000	6,025	13.3	$431,079	12.5	$71
$20,000-$30,000	7,679	16.9	$579,130	16.8	$75
$30,000-$50,000	14,611	32.2	$1,071,871	31.2	$73
$50,000-$75,000	11,142	24.6	$881,990	25.7	$79
$75,000-$100,000	3,517	7.8	$278,433	8.1	$79
$100,000-$200,000	1,993	4.4	$160,384	4.7	$80
$200,000 +	395	0.9	$34,095	0.9	$86
All Returns	**45,362**		**$3,436,982**		**$76**

Note: These figures do not include tax credits for "quality"-approved facilities. For state tax year 1999, the credits for quality-approved facilities were estimated at only $85,000.

Source: Arkansas Department of Finance and Administration

(Continued from Page 5)
low-income families, employers, and society) that we find the resources to provide access to child care for all low-income working families, regardless of whether they have ever been on TEA. However, policies that simply improve access to any type of subsidized child care, without regard to quality are also not the answer. Poor quality care can do more harm than good for a child's well-being and development.

The best option is to have a program that provides all low-income families (including TEA and non-TEA families) with access to child care and early childhood education programs that meet "quality" standards. This would include enough funding to serve all low-income families who are currently eligible under state rules (up to 156% of poverty). It would also include funding for the many low-income working families who can't afford child care but who are not eligible for subsidized care under current state rules (such as those from 156% to 185% of poverty). It would also include enough funding for subsidies that cover the cost of "quality" programs that may be 2 to 3 times the cost of typical care. Currently, less than 10 percent of the state's child care programs meet state accredited quality standards.

What Does it the Cost to Meet Unmet Child Care Needs?

As part of this study, Arkansas Advocates for Children & Families developed a model to estimate how much it would cost to meet the state's needs for subsidized care for low-income families.[23]

As discussed earlier, about 28,961 Arkansas children who are eligible for subsidized care (ages 0-12 up to 156% of poverty) currently receive full-time or regular part-time care of 10 hours or more per week. This represents 21 percent of eligibles. Arkansas spends about $147.3 million annually in federal and state funds (in all programs) to serve this caseload (see table below).

Based on these estimates, it would cost the state an additional $109 million annually to serve half of all eligible children up to 156 percent of poverty. But what if Arkansas wanted to expand eligibility from the

COST OF PROVIDING SUBSIDIZED CHILD CARE TO ALL LOW-INCOME WORKING FAMILIES[1]

156% Eligibles[2] (0-12)	Take-up Rate[3]	Total Money Needed (Annually)	Current Annual Expenditures[4]	$ Gap (Annually)
135,762	**21% (Current)**	**$147,262,844**	**$147,262,844**	**$0**
135,762	40%	$218,728,711	$147,262,844	$71,465,866
135,762	50%	$257,011,640	$147,262,844	$109,748,796
135,762	60%	$295,294,569	$147,262,8444	$148,031,725
135,762	80%	$371,860,427	$147,262,844	$224,597,583
135,762	100%	$448,426,285	$147,262,844	$301,163,441
185% Eligibles (0-12)	**Take-up Rate**	**Total Money Needed (Annually)**	**Current Annual Expenditure**	**$ Gap (Annually)**
180,600	**16% (Current)**	**$147,262,844**	**$147,262,844**	**$0**
180,600	40%	$284,076,978	$147,262,844	$136,814,133
180,600	50%	$335,003,577	$147,262,844	$187,740,733
180,600	60%	$371,156,591	$147,262,844	$223,893,747
180,600	80%	$473,009,790	$147,262,844	$325,746,945
180,600	100%	$574,862,988	$147,262,844	$427,600,144

1. Cost of providing care at DCCECE's current average annualized rate for center-based care of $3,423.
2. 67% of eligibles are 0-5 years, while 33% are 6-12 years. 0-5 years are assumed to need full-time care, while 6-12 are assumed to need part-time care.
3. A "Take-up Rate" is equal to the percentage of eligibles who would use subsidized care if adequate funding were available, barriers to access were removed, and families wanted to utilize care.
4. Includes only those expenditures for programs that provide full-time care or regular part-time care (10 hours or more per week).

Source: Arkansas Advocates for Children & Families

State and Federal Child Care Tax Credits

(Continued from Page 6)
The state's current state child care tax credits have little impact on the ability of low-income families to obtain child care. They are far too small (only 20% of the federal credit) to have much of an impact. Moreover, the family-based credits do little to help the many low-income families who have no state income tax liability because the credits are non-refundable.

To increase access to care for low-income families, Arkansas' state child care tax credit would need to be increased significantly (at least to 100% of the federal credit) and would need to be refundable. The current structure of the credit, however, makes it unlikely this will happen anytime soon. Families at all income levels are currently eligible for the credit. Unless the credit were targeted to low-income families, establishing a meaningful state-level credit would be cost prohibitive for the state.

current level of 156 percent to 185 percent of the federal poverty line? To serve half of all children who would be eligible for subsidized care up to 185 percent of poverty, it would cost the state an additional $187 million annually.

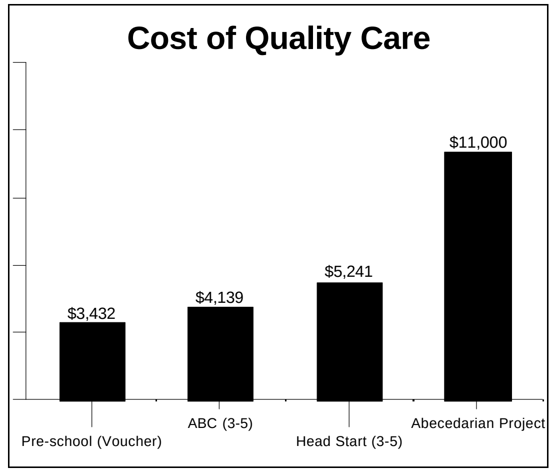
But What About the Cost of Quality Child Care?

These estimates, however, only cover DCCECE's average reimbursement to providers for subsidized child care ($3,432 annually for center-based care, based on market rate surveys). They do not include the cost of providing "quality" child care. According to national experts, the cost of a quality program is two to four times the cost of typical center-based care. Experts with the Abecedarian Project, recognized nationally as a state-of-the-art model for providing quality early childhood education, estimate that the per-child cost of a full-time early program is $11,000 annually.

Estimates of the amount of new funding needed to provide quality care for all eligible children in low-income working families varies significantly, depending on the assumptions used. A major issue in determining this amount is how much it costs per child to provide a quality early care program. Is the cost of quality equal to the per child cost of the Arkansas Better Chance Program ($4,139 annually)? The Head Start program ($5,241 annually)? Or is it equal to the cost of a state-of-the art program such as the Abecedarian Project ($11,000 annually)?

No matter which of these rates is used as the standard of quality, the amount of new funding needed to provide full-time or regular part-time quality care for all eligible children is staggering. The amount of new funding needed annually to provide quality care for children who are currently receiving subsidized care varies from $11 million (at the ABC annual per child rate of $4,139) to $158 million (at the Abecedarian Project annual per child rate of $11,000).

To provide quality care for half of all eligible children in families with incomes below 156 percecnt of poverty varies from $145 million (at the ABC annual per child rate of $4,139) to $515 million (at the Abecedarian Project annual per child rate of $11,000). To serve half of all children up to 185 percent of poverty, the amount of new funding needed annually ranges from $187 million (at the ABC rate) to $721 million (at the Abecedarian rate).



NEW FUNDS[1] NEEDED FOR QUALITY CARE FOR CURRENT USERS[2]
At Various Quality Levels

	Per Child Annual Quality Rate[3]	New Money Needed Annually Statewide
ABC Rate	$4,139	$11,014,792
Head Start Rate	$5,241	$33,185,704
Abecedarian Rate	$11,000	$158,479,466

1. "New Funds" is over and above the $147.3 million in state and federal funds currently being spent annually on subsidized care programs in Arkansas.
2. In an average month, there are about 28,961 children being served on a full-time or regular part-time basis (10 hours or more per week) by state- or federally-subsidized care programs.
3. Estimates from DCCECE, the Arkansas Head Start Association and the Abecedarian Project.

NEW FUNDS NEEDED TO EXPAND QUALITY CARE FOR ALL LOW-INCOME FAMILIES
At Various Take-up and Quality Rates

	AT 156% OF FEDERAL POVERTY LINE		AT 185% OF FEDERAL POVERTY LINE	
Annual Quality Rate	50% Take-up	100% Take-up	50% Take-up	100% Take-up
Scenario #1 Quality = $3,432 Rate (DCCECE Average Rate)	$109,748,796	$301,163,441	$187,740,733	$427,600,144
Scenario #2 Quality = $4,139 Rate (ABC Rate)	$145,760,113	$380,771,602	$223,377,157	$536,005,690
Scenario #3 Quality = $5,241 Rate (Head Start Rate)	$205,808,376	$503,394,132	$304,091,770	$699,960,920
Scenario #4 Quality = $11,000 Rate (Abecedarian Project)	$515,603,422	$1,140,210,444	$721,891,851	$1,552,787,301

Notes:
"New Funds" are those over and above the $147.3 million in state and federal funds currently being spent on subsidized care programs.
"Take-up" is the percent of children who would access care if sufficient funds were available and all barriers removed.
Currently, there are about 28,961 children accessing subsidized care in a typical month. This equals about 21% of eligible children up to 156% of the federal poverty line.
Current income eligibility is restricted to 156% of poverty. If it were equal to 185% of poverty, about 16% of eligibles would currently be served.

Source: Arkansas Advocates for Children & Families

Funding Arkansas' Unmet Child Care Needs

There are no easy solutions for funding the state's unmet subsidized child care needs for low-income working families. Below is a discussion of some possible options.

The Child Care Development Fund The state receives over $29 million annually in federal funds for subsidized child care services (about $24.5 million net of admin costs and the 4% quality enhancement set aside). This federal grant requires a state match of about $5.6 million annually to drawn down federal funding.

In 1999, the Arkansas General Assembly passed special language in the Arkansas state budget requiring the Department of Human Services to transfer, from the Division of County Operations (DCO) to the Division of Child Care (DCCECE), the amount of state general revenue necessary to drawn down federal funds. During the most recent fiscal year, DCO transferred $2.7 million to DCCECE to use for the state match. Once transferred, this amount becomes part of DCCECE's future baseline budget. Under federal regs, DCO is also allowed to count this transfer toward their state maintenance of effort required to drawn down the state's federal TANF (welfare reform) grant.

Currently, the state is drawing down all of its federal funds for child care. Unless the U.S. Congress increases federal funding for all states, there are no steps the state can take to increase its share of federal funding under this program. At press time, there appeared to be strong support at the federal level, both in the Clinton Administration and in Congress, for significant increases in the budgets of the Child Care Development Block Grant Program (CCDBG) and the Head Start Program (the two primary sources of federal funding for child care for low-income families). Early indications are that there may be a $817 million increase nationally in CCDBG and a $400 million to $1 billion increase in Head Start. For Arkansas, this would mean an increase in of about $9.8 million annually in CCDBG funding and an increase of $4-$10 million annually in Head Start funding. If these budget increases do occur, this funding would be available to the state in October.

State Child Care Tax Credits Tax credits can be an important tool for helping families offset the cost of purchasing child care. However, as discussed earlier, the state's existing child care credit for families is so small that it does little to improve access to child care for low-income families. Because the credit is generally non-refundable (i.e., the family doesn't get a refund back if the credit is larger than the tax owed), it does little to help the many low-income families who have no state income tax liability. Moreover, because the credit is available to all families at all income levels, it would be cost prohibitive to make the credit large enough to help offset a major of the cost of child care for low-income families.

An alternative to child care tax credits for families is a credit for employers that provide care. In some states, employers receive a tax credit equal to some share of expenditures they incur in providing child care for their employees. Oregon, for example, has a 50 percent tax credit (up to $2,500 per full-time employee) for corporations that provide funds for child care services for their employees. An advantage of employer-based credits is that they are designed to leverage greater spending on child care by employers.Unlike credits for families that offset existing spending by families, employer-based credits can be used to leverage new spending by sources (employers) that typically contribute few dollars to the child care funding stream.

Employer-based credits are not without shortcomings. Most employer-based tax credits do not benefit the many businesses that have no state corporate tax liability. To make such credits more accessible, a different structure would have to be developed (i.e., developing a credit that gives companies a credit against their payroll taxes). Such a credit would be more visible and a greater incentive for companies to invest in child care for their employees. The biggest problem with an employer-based credit is ensuring that low-income families (the families that can least afford to pay for care) are the ones served. Employer-based credits benefit low-income families only to the extent that the employers that use utilize the credits employ low-wage workers rather than higher-wage workers.

An often over-looked fact about child care tax credits (like all tax credits) is that they are neither "free money," nor a source of revenue to fund child care. Child care tax credits, like subsidized voucher slots, require a funding source. Tax credits represent a loss to the state treasury and must be funded through some revenue source, usually lost state general revenue.

TANF/TEA Funds The state currently receives about $59 million annually in funding from the federal TANF block grant program. This money is used to fund the state's welfare reform program, known as TEA. Under federal law, states are allowed to transfer up to 30 percent of their federal TANF block grant funding to child care.[24] Thirty-eight states have transferred funds to child care. Of those transferring funds, the average state has transferred 9.3 percent to child care.

Under federal law, Arkansas could transfer from $17-$18 million of its $59 million annual TANF funds to child care. During the first two years of the Arkansas TEA program, no TANF funds were transferred to child care. This fiscal year (SFY 2000 ending June 20), $1 million in TANF funds were transferred directly from the Division of County Operations (DCO) to the Division of Child Care. In addition to these direct transfers, 34 local TEA coalitions (local collabratives responsible for implementing welfare reform) have re-allocated $4.4 million in TEA money in their local counties to serve the child care waiting list during the current fiscal counties to serve the child care waiting list during the current fiscal year. At press time, it was unknown how much of this funding would be available for child care for the 2001 fiscal year (beginning July 1, 2000) or how much coalitions will transfer to child care during the year.

There is much controversy over how much of the state's TANF funds should be transferred to child care. The controversy stems from the lack of agreement about the availability of unspent TANF funds. During the first two years of Arkansas' TEA program, significant amounts of the state's TANF funds were obligated, but not spent (unspent TANF funds ranged from 40% to 50% of amounts budgeted during the first two years).

For state fiscal year 2000 (July 1, 2000-June 30, 2000), only 70 percent of the state's budgeted TANF funds had been spent. According to DCO, nearly all TANF funds are now obligated for specific purposes and actual spending has increased during the last half of the current fiscal year. According to DCO estimates, spending by local TEA coalitions and DCO spending on statewide TEA contracts for employment services have increased considerably during early 2000. DCO estimates that of the $42 million in TANF funds allocated to local TEA coalitions during the first three years of the program, less than $20 million will carryover at the end of the current fiscal year. The Transitional Employment Board recently decided to allocate $20 million of these unspent funds for use by local TEA coalitions again next year.

During fiscal year 2000 (ending June 30), there was an estimated $39 million in budgeted TEA funds that were not spent, but that could be carried over to the 2001 fiscal year (July 1, 2000-June 30, 2001). DCO estimates that most of these funds are already obligated for specific purposes an are not available for reallocation for other purposes. However, at press time, it was expected that a small portion of this money would be made available for child care. At the May meeting of the Budget Committee of the State Transitional Employment Board, the recommendation was made, with support from DHS, that about $4 million of this TANF money would be transferred to the Division of Child Care. At press time, this recommendation was expected to be approved by the full Board.

It is important to note, however, that using any or all of these unspent funds for child care is, at best, only a short-term fix for the upcoming fiscal year. Beginning in fiscal year 2002 (which begins July 1, 2001), there will likely be little or no unspent TANF funds that could be used for child care. The only way that TANF funds could be made available for transfer to child care is if there is a change in existing priorities for the TEA program. This will require changes in the amounts currently budgeted for TEA expenditures by DCO or in existing TEA contracts. Under state law, any such decision would have to be made by the state Transitional Employment Board.

The controversy over unspent TANF funds notwithstanding, the TANF block grant remains one of the best potential sources of funding for the state's child care needs. Even if there are no unspent TANF funds available for redistribution to child care in future years, the state Transitional Employment Board has the authority to re-examine the TEA program's existing spending priorities and make changes in how TANF funds are used. This, of course, would require the Board to make tough decisions about which TEA contracts, if any, should be cut or eliminated to free up TANF funds for child care.

State General Revenue Even if the state decides to transfer a large share of its TANF funds to child care and/or the U.S. Congress provides more federal funding, there will not be enough funds to meet the state's low-income child care needs. Over the long-term, Arkansas will not be able to significantly improve access to subsidized child care unless there is a major new commitment of state general revenue. The earliest Arkansas could increase its general revenue commitment to child care would be the 2002 fiscal year (beginning July 1, 2001).

The Arkansas Department of Finance and Administration recently revised its general revenue forecast for the upcoming 2001 state fiscal year downward from $3.338 billion (which would have been a 5.1% increase over 2000 fiscal year) to $3.261 billion (a 2.3% increase). As is usually the custom, the official state general revenue forecast for the 2002 biennium will not be available until later this year. However, based on past history, it is safe to assume that net state general revenues for the 2002 fiscal year will increase by 2 percent to 4 percent over the upcoming 2001 fiscal year. This suggests that anywhere from $65-$130 million in new general revenue will be available for programmatic expansions and or salary increases for the first year of the next biennium (2002 fiscal year).

As always, child care will be one of the many programmatic needs competing for state general revenue during the 2001 legislative session. Although the budget requests of state agencies have not yet been made public, it is widely known that major requests for state dollars will be made for state prisons, salary raises for teachers, state equalization aid for public schools, and state spending for Medicaid services, as well as the usual inflation-related increases for state agencies and raises for state employees.

Because of the fierce competition for state general revenue, it is unrealistic to expect that the state will devote all the resources needed for the state to fully meet its child care needs for low-income families. A more realistic hope is that the state will develop a long-term strategy of gradually increasing its general revenue commitment to child care over the course of the next decade. A reasonable expectation might be for the state to immediately increase its commitment to child care by $10-$20 million (beginning with 2002 fiscal year), and then increasing it by $5-$10 million annually during the next decade or by dedicating that a percentage of any new state general revenues, maybe 5 percent, be set aside for increases for child care.

Endnotes

1. For a recent comprehensive summary of this research, see Deborah Lowe Vandell and Barbara Wolfe, “Child Care Quality: Does It Matter and Koes It Need to be Improved?” Report prepared for the U.S. Department of health and Human Services, May 2000.
2. Annie E. Casey Foundation, *2000 Kids Count Data Book*, Baltimore, Md., 2000.
3. 1996 estimates, U.S. Bureau of the Census, Small Area Income and Poverty Estimates Program.
4. Christina Smith FitzPatrick and Edward Lazere, *The Poverty Despite Work Handbook*, Center on Budget and Policy Priorities, Washington, D.C., 1999.
5. Working mothers from unpublished data from the 1995-97 Current Population Survey. Calculations by the Institute for Women’s Policy Research. Children under age 6 in families with all parent working from the Annie E. Casey Foundation, *2000 Kids Count Data Book*.
6. Richard Huddleston, *Making It Day-to-Day: A New Family Income Standard for Arkansas*, Arkansas Advocates for Children & Families, Little Rock, Ark., 1999.
7. Ibid.
8. Economic Policy Institute calculations of Current Population Survey data, 1998.
9. See Jared Berstein, Elizabeth C. McNichol, et al., *Pulling Apart: A State-by-State Analysis of Income Trends*, Center on Budget and Policy Priorities and the Economic Policy Institute, Washington, D.C., January 2000.
10. Estimates provided by Arkansas Division of Child Care and Early Childhood Education, the Arkansas Head Start Association, the Arkansas Department of Education, and the DHS Division of Medical Services, April 2000.
11. Data provided by the Division of Child Care and Early Childhood Education, Arkansas Department of Human Services.
12. Ibid.
13. See, for example, Angela Duran and Richard Huddleston, *The State of Working Arkansas: How Families are Faring in the Booming Economy*, Arkansas Advocates for Children & Families and the Good Faith Fund, 2000.
14. Ibid.
15. Technically, states can serve up to 85 percent of the state median income. In Arkansas, this translates to about 185 percent of the federal poverty line for a family of four. Because of funding limitations, Arkansas has set its income eligibility limit at 60 percent of state median income, a level equal to about 156 percent of the federal poverty line for a family of 4.
16. Prior to July 1, the income eligibility limit had been 133 percent of poverty. It was raised to 156 percent to be consistent with Arkansas’ CCDF plan, which specifies an income eligibility level of 60 percent of state median income.
17. AACF estimates based on data from the U.S. Department of Health and Human Services, Child Care Bureau, *Access to Child Care for Low-Income Working Families*, Washington, D.C., 1999. According to that study, there are approximately 100,200 children eligible for subsidized care under state CCDF rules in effect as of October 1997 (income eligibility level equal to about 133 percent of the federal poverty line).
18. According to the HHS-Child Care Bureau study, about 180,600 children would be eligible for subsidized care if the state adopted the federal maximum income eligibility standard of 85 percent of state median income (a level equal to about 185 percent of the federal poverty line). See U.S. Department of Health Human Services, Child Care Bureau, *Access to Child Care for Low-Income Working Families*, Washington, D.C., 1999.
19. Federal data is from the Internal Revenue Service, *Statistics of Income Bulletin*, Spring 1999.
20. See Ark. Code Annotate, §26-51-502.
21. State child care tax credit data is from unpublished data, Arkansas Department of Finance and Administration.
22. Estimates from the Division of Child Care and Early Childhood Education, Arkansas Department of Human Services.
23. A description of the model is available upon request from the author.
24. See Table G: Part 1 — “Combined Spending from All Federal TANF Grants for FYs 97, 98 and 99,” available on the U.S. Health and Human Services Web site at http://www.acf.dhhs.gov/programs/ofs/data.

For More Information
Rich Huddleston, Project Director
501/ 371-9678 • richhudd@swbell.net • www.aradvocates.org/ SFTI

The State Fiscal Analysis Initiative at Arkansas Advocates for Children & Families is jointly funded by the Ford Foundation, the Annie E. Casey Foundation, the Charles Stewart Mott Foundation and the Open Society Institute. Technical assistance and support is provided by the Center on Budget and Policy Priorities and the Center for Study of the States.

Arkansas Advocates for Children & Families
523 S. Louisiana, Suite 700
Little Rock, AR 72201