



Issue Brief
The Child Care Crisis & Potential Remedies
-- DRAFT --

Introduction

Nearly 65 percent of all American families have two parents in the workforce, or for single-parents families the parent is in the workforce; yet, these families are finding it more and more difficult to remain in the job market because of the rising cost of child care.ⁱ While low-income families tend to be the most impacted by the rising costs, the problem has even begun to affect the middle-class and their ability to maintain normal work hours and a family. Child care not only provides a work support for parents, but also provides an early education experience for children, which has been shown to have significant benefits for future the child's academic future.ⁱⁱ

Currently there are measures in place to help working parents afford child care. Child and Dependant Care Tax Credits are available to qualifying families to help pay for child care services. Also, some state have been able to use some funding from the Temporary Assistance for Needy Families fund to help struggling parents afford child care services by granting eligible families child care subsidies.ⁱⁱⁱ While these funds are available to states, costs continue to rise and the funding has been cut, leaving thousands of families without the support that is needed to maintain a work and home life.

National Context

Most of the nation's 13.5 million low-income families with children (households below 200 percent of the federal poverty level) have at least one full-time, year-round worker. Low-income working families are less likely to pay for formal child care than are higher-income families^{iv}; which can result in a less dependable source for the care of their child, and could result in absence from work, and even termination of employment for excessive tardiness and absenteeism.^v

In 1990, the federal government passed the Child Care and Development Block Grant (CCDBG) to target low-income families, and offer them financial assistance to ensure that all children had the ability to receive safe and high quality child care. However, since 2000, funding has remained relatively flat causing nearly 150,000 children to lose their funding for child care. If funding levels remain the same, it is expected that 300,000 children will lose funding by 2010, meaning 450,000 children would have been affected by budget cuts in just 10 years. For budget years 2008 and 2009, the Bush Administration froze CCDBG funding at the 2007 level (\$2.062 billion); which, once adjusted for inflation, is a significant decrease, greatly impacting states and recipients. These national subsidies allow states to provide needy families with financial support so that the cost of child care is not a significant portion of their income.^{vi}

The federal government does provide personal tax incentives for child care. Individuals can apply for a tax credit for some of the expenses of work-related child care. The federal credit was increased in 2003 to \$3,000 for one child or \$6,000 for two or more. The maximum a taxpayer can claim is 35 percent of their expenses for child care if their income is below \$15,000, and only 20 percent for those with an income over \$43,000. While tax credits for individual exist at the national level, corporate tax incentives have not been adopted at the national level; yet, several states have adopted corporate tax incentives for the businesses operating in their state.^{vii}

Child Care in the States

As a result of the lack of federal funding, states have been forced to bear the brunt of the cost of child care subsidies. States are able to add to the CCDBG by transferring up to 30 percent of their TANF funds to child care subsidies. States may also allocate some of their own general fund money to support child care services; but, in 2007, only 14 states were able to increase funding by providing additional general fund money to child care services.^{viii}

In 2007, in the state of Colorado, the income eligibility limit for families to receive child care subsidies was nearly eight thousand dollars less than the national average. In Colorado the income eligibility limit was \$21,580, and the national average was \$30,029. The average monthly fee for child care, as a percent of income (for a family at 150% of the federal poverty level) was 11% in Colorado, and the national average was 7.1%. In 2007, Colorado was able to serve 19,100 children with child care subsidies, and the national average was 34,133. Colorado spent \$101,710,029.00 on child care subsidy programs.^{ix}

Other measures have been taken by states to increase child care services to needy families. Between 2006 and 2007, twenty-three states raised their income eligibility limits for child care assistance to surpass inflation; five states were able to eliminate waiting lists for child care spots; and only nine states had reimbursement rates for providers offering child care at the federally recommended level.^x

There is still a huge deficit in many states, and little has been done to increase: accessibility funding, and quality of child care services. Thirty-three states still have income limits that are lower, as a percent of poverty, than in 2001. In over twenty-five states, parents were paying a greater percentage of their income in copayments than they were six years ago. Also, reimbursement rates in twenty-two states were lower than they were six years ago. Tax based approaches to child care funding have been more successful at the state level than the federal level. Twenty-two states and the District of Columbia have child care income tax credits; five states have income tax deductions; and Maryland is the only state offering both tax credits and tax deductions for child care services. Many states have also begun to offer tax provisions for employers that provide or subsidize child care for their employees. Nearly half of all the states have established some form of tax assistance for employers. Employers are still able to deduct expenditures for child care programs from their corporate income as a reasonable and necessary business expense, if the state law does not grant them specific tax breaks. While states may offer these incentives, few employers actually claim the tax, due to a lack of awareness about the tax deduction.^{xi}

Below is a table showing the appropriation changes between FY 2007 and FY 2008, and ranks the states based on the level of appropriations.^{xii}

FEDERAL CHILD CARE APPROPRIATIONS TO THE STATES, 2007 & 2008

State	2007 Approps.	2008 Approps.	Difference	2007 Rank	2008 Rank
Alabama	\$22,147,169	\$25,760,116	+\$3,612,947	35	35
Alaska	\$29,216,288	\$29,464,388	+\$248,100	30	33
Arizona	\$83,503,200	\$92,503,200	+\$9,000,000	20	19
Arkansas	\$6,264,998	\$6,264,998	+\$0	40	43
California	\$1,570,000,000	\$1,610,000,000	+\$40,000,000	1	1
Colorado	\$16,118,916	\$18,651,536	+\$2,532,620	37	37
Connecticut	\$93,349,865	\$102,819,507	+\$9,469,642	17	18
Delaware	\$36,141,000	\$40,707,000	+\$4,566,000	29	31
Florida	\$422,711,782	\$423,495,102	+\$783,320	7	8
Georgia	\$87,505,665	\$87,505,665	+\$0	18	21
Hawaii	\$23,567,603	\$43,557,461	+\$19,989,858	34	30
Idaho	\$4,338,700	\$4,781,500	+\$442,800	33	45
Illinois	\$734,305,400	\$737,383,900	+\$3,078,500	2	2
Indiana	\$168,000,000	\$168,000,000	+\$0	14	14
Iowa	\$44,907,758	\$64,211,878	+\$19,304,120	28	24
Kansas	\$45,822,522	\$56,136,003	+\$10,313,481	27	27
Kentucky	\$104,727,600	\$104,420,100	-\$307,500	16	17
Louisiana	\$51,817,116	\$53,971,988	+\$2,154,872	26	28
Maine	N/A	N/A	+\$0	44	48
Maryland	\$155,573,402	\$166,230,417	+\$10,657,015	15	15
Massachusetts	\$415,880,054	\$444,068,975	+\$28,188,921	8	7
Michigan	\$321,850,600	\$292,481,200	-\$29,369,400	9	9
Minnesota	\$68,102,000	\$117,649,000	+\$49,547,000	22	16
Mississippi	\$21,946,338	\$5,840,498	-\$16,105,840	34	44
Missouri	\$85,283,882	\$91,987,725	+\$6,703,843	19	20
Montana	\$11,363,086	\$16,641,511	+\$5,278,425	38	39
Nebraska	\$64,169,412	\$69,532,859	+\$5,363,447	24	23
Nevada	N/A	N/A	+\$0	46	49
New Hampshire	\$16,458,635	\$17,316,495	+\$857,860	36	38
New Jersey	N/A	N/A	+\$0	48	50
New Mexico	\$44,925,500	\$49,550,600	+\$4,625,100	29	29
New York	\$505,404,763	\$522,454,286	+\$17,049,523	5	6
North Carolina	\$273,170,093	\$284,908,283	+\$11,738,190	10	10
North Dakota	Not provided	\$1,078,715	+\$0	49	47
Ohio	\$544,727,260	\$608,739,475	+\$64,012,215	4	3
Oklahoma	\$173,922,732	\$180,678,923	+\$6,756,191	13	13
Oregon	\$1,857,004	\$21,485,162	+\$19,628,158	47	36
Pennsylvania	\$478,688,000	\$555,351,000	+\$76,663,000	5	5
Rhode Island	\$71,574,500	\$60,515,952	-\$11,058,548	21	26
South Carolina	\$4,400,000	\$10,000,000	+\$5,600,000	41	40
South Dakota	\$2,050,977	\$2,114,954	+\$63,977	43	46
Tennessee	\$67,563,800	\$83,021,700	+\$15,457,900	23	22
Texas	\$567,165,191	\$565,462,659	-\$1,702,532	3	4
Utah	\$7,142,000	\$7,647,923	+\$505,923	39	42
Vermont	\$32,210,000	\$33,460,000	+\$1,250,000	31	32
Virginia	\$52,700,000	\$62,500,000	+\$9,800,000	25	25
Washington	\$177,353,000	\$219,906,000	+\$42,553,000	12	12
West Virginia	\$25,528,802	\$26,957,456	+\$1,428,654	32	34
Wisconsin	\$238,080,200	\$264,305,900	+\$26,225,700	11	11
Wyoming	\$4,181,541	\$8,632,126	+\$4,450,585	42	41

The Critical Role of Child Care

Quality and affordable child care serves four very important purposes. Child care enables working families to maintain a job, allowing them to live comfortably and provide necessary things for their family; allows employers to retain employees and decrease absenteeism in the office; the child care industry benefits the economy by adding revenue and jobs; and finally, quality child care benefits a child's cognitive abilities, which has been shown to improve academic performance and job success in the future.^{xiii}

Almost 12 million children under the age of five in the United States are in some type of child care arrangement every week. Nearly two-thirds of the nation's lower-income families with children have at least one parent in the work-force year round; yet many of these families are not able to afford the child care services necessary to maintain a full time working schedule and have their kids properly cared for.^{xiv} When forced with the decision to work or take care of their children, some families resort to quitting their jobs and enrolling in welfare services to provide for their families. Work and family responsibilities compete for a worker's attention, and there are few options in the way of maintaining a balance for those who are struggling to support their family. Studies have shown that low-income parents who receive help meeting their child care needs are more likely to get and keep work, decreasing the number of people who may enter the welfare system or return to it.^{xv}

On average the children of working mothers spend 36 hours a week in child care. The average annual fee paid for full-time care of an infant is between \$4,020 and \$14,225, depending on the center. The average annual fee paid for full-time care for a child at the age of four is between \$3,900 and \$10,200, depending on the center.^{xvi} The average American working parent misses nine days of work per year as a result of some kind of child care breakdown. As children move through daycare and into elementary school the number of days missed increases to thirteen. Child care subsidies enable poor families to earn \$111 million per year by decreasing the number of vacation days taken, and allowing working parents to advance in their occupations and earn higher wages.^{xvii}

Child care assistance programs and tax incentives not only benefit working families, but companies have also seen great benefits. Employee absences are costly to employers, breakdowns in child care cost business \$3 billion annually in the U.S. Business also benefits from child care programs by decreasing employee turnover, saving the company training and recruiting costs.^{xviii} It can cost 150 percent of a salaried worker's pay for a company to find, hire, and train a new person.^{xix} Work place flexibility is key to addressing the issues associated with child care and working parents. Companies offering solutions to child care problems have seen 73 percent of their employees in the same job the next year. However, only about 8 percent of workers in the private sector have access to flexible schedules and assistance programs; and many of those who benefit from these flexible schedules are those that can afford to provide their own child care services to their family.^{xx}

The child care industry is also very important because of the economic benefits it brings to local economies. A study released in 2006 showed that child care is one of the top-ten fastest growing industries in the nation, and contributes nearly \$1.062 billion dollars to the Colorado economy alone. The industry itself paid nearly \$12.3 million in taxes in fiscal year 2005, and \$31.8 million in wages to its employees. The industry provided nearly 18,919 jobs to Colorado in 2005, and a significant number of centers were locally owned and operated by minorities.^{xxi}

The human capital investment is also significant. A study claims that the government return on each dollar spent on early child care produces a return of \$7.50 during the first 20 years of the child's life. Quality child care has been proven to aid children in cognitive development, which paves the way for greater success in the future.^{xxii} In 2005 Colorado school districts estimated that they saved nearly \$22.8 million dollars, because there were more children who had received early childhood care enabling them to avoid special education programs.^{xxiii} A landmark study concluded that nearly all aspects of early human development are shaped by a

child's experiences in their early years. Not only is cognitive development critical at a young age; but, research has indicated that caregivers have a significant affect on children. A caregiver's education, training, and ability to provide a safe and stimulating environment have a huge impact on children's cognitive and emotional development.^{xxiv}

Potential Remedies

Child and Dependant Care Tax Credit - A non-refundable tax credit that is designed to help offset the expenses of providing child care for those under the age of 13. One-earner couples are not eligible for the credit. Eligible expenses are limited to \$3,000 per child, and up to \$6,000 for two or more children. The credit rate applied to eligible expenses is 35 percent for those with adjusted gross incomes that are less than \$15,000, going down to as little as 30 percent for those with adjusted gross incomes exceeding \$43,000.

State administered corporate tax credits - Franchise tax assistance to employers who provide or pay for child care for their employees. Employers may get additional benefits for implementing a dependant care assistance plan, or for deducting child care assistance to employees as a business expense. Typically the assistance is an income tax credit, equal to the percentage of the employer's expenses in creating a child care center, operating the center, purchasing child care for employees, or reimbursing their employees for the cost of child care. States determine the specific maximum credit available. Currently twenty-five states provide some sort of corporate tax credit.

Child care subsidy programs - Currently the Child Care and Development Block Grant is provided at the federal level, and works in accordance with funding matched by the state. States are entitled to also use up to 30 percent of the states Temporary Assistance for Needy Families (TANF) funding. Funding for the CCDBG has been frozen since 2001, putting more pressure on states to pick up the extra costs. Many states have not been able to do so, and so funding for these grant programs has decreased significantly. These funds provide subsidies to qualifying families to assist them with the costs associated with child care. Families receiving these funds must meet certain state income eligibility thresholds, and are subject to losing the funding if there is a change in income level.^{xxv} While the added assistance aids some families, the cost associated with child care have increased steadily over the last seven years, causing many parents to resort to lower quality, more affordable services.

Employer provided child care vouchers - Some employers have begun to offer their employees a flexible spending account for child care services; with matching donations made by the company. This allows employees to set aside pre-taxed money each month for the care of their children, with the reassurance that their employer will be matching their contribution. If the employer has not set up a flexible spending account, they will add additional money to the employee's pay-check each month to help them pay for child care. Many small companies offer vouchers as a benefit if they are not large enough to provide a full child care center. These vouchers are subject to tax breaks at the state level.

Employer administered co-op care- Since the cost of opening and operating an on-site child care center is very high; some smaller businesses have partnered with other businesses to open child care centers that are available to employees of each of the companies. This decreases the costs to each company, and allows the employees to enjoy the benefits of having their child care facility close by. Employers will then offer the service at a discounted rate for their employees.

Employer provided "back-up" services - "Back-up" child care is an increasing trend in the child care world. In 1993, 5 percent of large U.S. employers offered backup child care, and by 2002, that percentage had grown to 15 percent. Several new child care companies have begun to offer an on-call child care service of sorts. An employer will contract with one of these child care companies, and give each employee a "budget" on the number of hours used by these back-up services, and the company will pay for the services. It is designed so that if a parent has child care emergency, like their usual center has closed down for the day, they can call

their contracted service to come to their home and provide child care, or have the employee bring the child to one of their centers.^{xxvi}

Employer on-site child care services - Some employers, mainly those with large numbers of employees, have started building on-site child care centers for their employees. The company often provides the employees a much lower rate for child care than traditional centers; and gives their employees the peace of mind knowing that their children are close by. In 2007, 32 of the top 100 Fortune 500 companies offered on-site child care to their employees.^{xxvii}

Policy Suggestions

While there is not one policy that stands out as a model for all states to implement, there are several policies that could be effective if used in combination with others.

- First, lawmakers need to reform the Child and Dependent Care Tax Credit (CDCTC) so that the tax is refundable, and is expanded to cover at least 50 percent of allowable expenditures for lower-income families, and indexed for inflation. An estimate by Leonard Burman, Elaine Maag, and Jeffrey Rohaly, found that if the CDCTC was made refundable, 1.5 million more households would have a greater percent of their income returned back to them.
- Corporate tax incentives need to be increased so that businesses can begin to offer much needed services to their employees. Lawmakers need to encourage the twenty-five states without corporate tax incentives to adopt the policy. Georgia has been the most successful at increasing the corporate tax incentive in the state. Georgia currently offers credits for up to 75 percent of the cost of employee child care benefits and 95 percent of the cost of establishing an on-site facility. By doing this, companies will have a larger incentive to begin to offer their employees vouchers, on-site care, or back-up care options.
- Current state and federal lawmakers are going to have to overhaul the current funding stream and allocation method for child care subsidy programs, and provide a flat guarantee for all needy families. The government should guarantee that all working families with incomes below 200% of the federal poverty limit will receive aid. The families would only be required to pay a small co-payment (amount increases with income level), and the rest of the cost of care would be provided by the government. This would enable families to have more choices when determining the type of care they would like to put their children in; and, it would release them of a higher financial burden that has been seen under the current block grant system. By making this change it would enable all states to have the same income eligibility thresholds and keep pace with inflation. In 2007 only ten states were successful at raising their income eligibility limits. In 2007, thirty-three states saw income eligibility limits far below the national poverty limit.
- Finally, states need to increase reimbursement rates for child care centers offering services to those receiving federal aid. Currently only nine states have reimbursement rates that are at the federally recommended level. If states can increase these rates, child care centers would be able to ensure higher quality standards in their facilities, be able to afford more highly qualified employees, and increase the number of spots available to children.
- States must also work to decrease the number of children on waiting lists for child care services by increasing the number of children that can be served. Currently only seventeen states have waiting lists for child care services, down from eighteen just a year before.

Conclusion

The nation is currently experiencing a crisis in the child care system; one that needs to be addressed at the local, state and federal levels. Without major reforms the nation will continue to see low-income families struggling to maintain their work and family lives; and more children falling victim to poor quality care, and subsequently poor cognitive development, hindering their achievements later in life.

ENDNOTES

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