STATE OF WASHINGTON
DEPARTMENT OF CHILDREN, YOUTH, AND FAMILIES
1500 Jefferson Street, SE ● P.O. Box 40975 ● Olympia WA 98504-0975

Aug. 12, 2020

Improving Child Care Affordability and Sustainability House Bill 1391

This progress report is prepared in compliance with House Bill (HB) 1391, Section (6), which directs the Washington State Department of Children, Youth, and Families (DCYF) to (a) conduct an analysis of Working Connections Child Care (WCCC) consumer copays, (b) make recommendations related to Early Childhood Education and Assistance Program (ECEAP) slot rates and (c) provide a plan for blending Child Care Development Funds for ECEAP extended day slots. This report also addresses the issue of the sustainability of subsidy child care (d). A final report on these topics is due to the Legislature on July 1, 2021.

Introduction

The COVID-19 pandemic has highlighted the critical nature of having a sustainable, high-quality child care system. We know that the child care market was fragile before the COVID-19 pandemic, and the impact of stay-at-home orders, social distancing and school closures have exacerbated existing problems in the system. The state must mitigate the impact of rising costs of child care on low-income families. Additionally, child care is an essential element to Washington's economic recovery from the pandemic. In alignment with the directives of HB 1391 and in light of the economic forecast, DCYF is making recommendations that:

- Support access to stable, high-quality child care for families and children furthest from opportunity and families with incomes at the higher end of poverty.
- Stabilize the child care industry now and into the future by facilitating a functional and resilient system.
- Help families experiencing financial crises to regain stability.
- Support undoing institutional racism in the child care system.

A. Consumer Copayments

Background

The nationally recognized book on child care financing, Cradle to Kindergarten,[1] recommends increasing the income eligibility limit for child care subsidies to at least 250% of the Federal Poverty Level (FPL), limiting copayments to between 3-10% of household income, increasing subsidy payments for quality child care and only providing subsidy for quality, licensed environments.

A 1997 report from the Washington State Institute for Public Policy (WSIPP)[2] addressed how copayments compete with basic living expenses for families living under the poverty level. The study also identified the point where families lose eligibility for benefits (137% FPL), including

[1] Chaudry, A., Morrissey, T., Weiland, C., & Yoshikawa, H. (2017). *Cradle to Kindergarten: A New Plan to Combat Ine*quality. New York: Russell Sage Foundation.
[2] Child Care Copayment Affordability Study (PDF)

food assistance, and have lower total resources than families earning less but still eligible for benefits.

The U.S. Department of Health and Human Services recommends limiting family copayments to 7% of family income in the Child Care Development Fund (CCDF) final rule.[3] Tying eligibility and/or copays to a percentage of family income is a means of reducing or eliminating the "cliff effect." A cliff effect occurs when a small increase in a family's earned income causes a significantly larger increase in the family's child care expenditure and, therefore, a reduction in the family's total resources. This cliff can happen at either the subsidy income eligibility cutoff or within eligibility if the copayment structure is not set for a proportional and gradual increase.

Considerations
A copayment strategy based on the percentage of income, rather than FPL, will provide greater equity for families with smaller household sizes. Household size is currently a driving factor in eligibility determination, as the FPL thresholds increase with household size.[4] Smaller families currently pay more of their household income toward their copay than larger families.

DCYF recommends implementing a copay structure to increase affordability and mitigate the cliff effect by lowering copayments overall, and smoothing the benefit cliff families experience when losing Child Care Subsidy eligibility by January 2022. DCYF's copay restructuring strategies include both limiting copayments to a percentage of the family's income and preserving the $15 and $65 copayments for very low-income families under 137.5% FPL.

Copay Tiers
DCYF recommends modifying the copay structure as follows:

- $15 copay for families at and below 82% FPL.
- $65 copay for families between 82% and 137.5% FPL.
- Seven percent of household income for household incomes between 137.5% and 220% FPL. The highest income eligibility threshold available for parents who reapply is 220%. The income limit for new applicants is 200% FPL.

This strategy mitigates the copay cliff effect experienced by families under the current income eligibility limits and supports participation for more families if income eligibility is expanded. It should be noted that HB 1344 asked the Child Care Collaborative Task Force to come up with an implementation plan to reach the goal of accessible, affordable child care for all families by 2025. Per this legislation, the task force's plan must consider expanding income eligibility to 300% FPL or 85% State Median Income (SMI).

B. Differential Slot Rates for ECEAP

ECEAP is a high-quality preschool and comprehensive services program for Washington's lowest-income and most at-risk families. Unlike WCCC which reimburses providers in a voucher-like model, ECEAP contracts with providers for a specific number of slots to be filled by eligible children.
The Washington State Department of Commerce and DCYF engaged national early childhood program and financing experts in a research contract to:

[3] Child Care and Development Fund (CCDF) Program
[4] Child Care Subsidy Copay Calculation Table (PDF)

- Make recommendations related to differential slot rates for ECEAP based on geographic regions, child risk factors and teacher credentials.
- Evaluate the advantages and disadvantages of linking ECEAP and other child care subsidy rates.
- Review department designated subsidy regions and adjust as necessary.

DCYF continues to evaluate the findings from this research product and to further gather information related to ECEAP services. Data compiled will include current ECEAP rates and fee structures. A cost study assessment will identify activity costs, both direct and indirect, and assess how costs vary in relation to regional geography, facility and contractor type. It will also provide an analysis of the cost of core ECEAP program services:

- Classroom educational support.
- Family support.
- Child health and nutritional coordination.
- Recruitment, eligibility and enrollment of children.
- Management of all services delivered.

The results of this study and analysis will be presented in the final version of this report.

C. Blending CCDF and ECEAP Funds

DCYF is exploring options to blend federal CCDF, which pay for a portion of WCCC, and state funds, which pay for ECEAP to meet the needs of children of ECEAP eligible families. CCDF funds are fully committed for child care and early learning expenditures and DCYF has not realized cost savings from transferring eligibility to DCYF. While allowable under federal guidance, the blending or braiding of CCDF funds in ECEAP would incur additional administrative costs associated with increased requirements for scrutiny of payments.

Additionally, WCCC and ECEAP have different eligibility and payment processes, rules and eligibility systems. Therefore, at this time, we are not recommending the braiding of these funds in DCYF's systems, but rather improved coordination between the two programs to simplify processes for providers serving children who qualify for both funding streams.

Subsidy Reimbursements – Moving to a Monthly Rate Reimbursement Model

DCYF recommends mirroring the private market to improve the sustainability of subsidized child care. This will increase provider supply and increase family choice. The first step in this process is implementing a monthly rate structure for licensed care. Monthly rates would decrease the amount of administrative time for providers who accept subsidy while reducing overpayments through improved payment accuracy. A monthly rate structure will also reduce the administrative burden of auditing and correcting the current high rate of payment errors. As outlined in DCYF's Monthly Rate Report,[5] monthly rates provide:

- Simplification of claiming process.
- Simplification of authorizations and reduction of over-authorization.
- Reduced risk of overpayments.
- Transparency of child care subsidy eligibility.
- Better financial planning for providers.

---

[5] Child Care Subsidy Monthly Rates (PDF)

Current State – Daily Child Care Authorizations for Licensed Care
Aside from the partial-day monthly rate, DCYF authorizes care in a combination of full-day and half-day units based on family eligibility. DCYF authorizes 23 full-day units for licensed care when consumers need at least 110 hours a month and the child is expected to need five or more hours of care per day. DCYF authorizes 23 days to allow working families enough care to cover the months in which families working five days a week do not need to call and request additional care.

DCYF authorizes a number of half-day or full-day authorizations when consumers need less than 110 hours of care a month. DCYF authorizes a partial-day monthly rate for licensed family home providers when a school-age child needs at least 110 hours a month and the child is expected to attend care before and after school. This partial day monthly rate is based on the average number of full-days and partial-days during the year from September through June, and 22 full-time days in July and August.

Recommended Monthly Rate Structure
DCYF recommends transitioning to monthly rates for all licensed providers to better align with center private pay practices and capture the administrative efficiencies of a simplified subsidy program for all licensed care.

With a monthly rate structure, providers may simply claim for one unit of care when a child attends care in the month for the base unit. Necessary overtime care will be averaged and claimed as a separate monthly unit. Current rules regarding holidays, special needs and fees such as non-standard bonus hours for evening and weekend care remain.

DCYF would calculate monthly rates on the current regional structure and age ranges for daily rates. The monthly rate would be prorated in the month that care is first authorized and when authorizations for a child is transferred from one provider to another.

As recommended in the DCYF Monthly Rate Report, full-time care for school-age children in licensed family home care would be authorized for a full-time monthly unit or school-age partial-day monthly unit. DCYF is not making a recommendation to align part-time care with anticipated actual needed of care averaged over 12 months (or 10 months with summer authorization for school-age children) instead of the flat part-time monthly rate recommended in DCYF's previous report. This better supports families and providers for families that are not eligible for full-time care. Full-time care with multiple providers would be authorized based on the family's schedule with each provider, consistent with the current procedure for authorizing care for multiple providers.

D. Additional Steps Needed for a Sustainable Child Care System
Access to high-quality child care is not only necessary for economic recovery, it is vital to provide equity for low-income families. DCYF believes that to fundamentally solve the issues with the subsidy system and to meet the needs of Washington families, more broad-scale change is necessary. While we recognize that new funding will not be likely for the next few years, now is a critical time to put in place key policies that will allow us to focus our recovery efforts on a significantly improved model for providing subsidized child care in Washington.

DCYF has developed additional fundamental policy proposals needed to build a robust child care subsidy system. It should be noted that these proposals are not in response to the COVID-19 pandemic, nor were they developed in a vacuum. They build on the multi-year effort of the DCYF subsidy team since the passage of the Early Start Act, the priorities set out for the Child Care Collaborative Task Force and numerous other state-local-community planning efforts. **There is no silver bullet to fixing subsidized child care in Washington.** COVID-19 has exacerbated existing flaws, but the systemic solutions necessary before the pandemic are the same ones that will help the system recover and help families thrive after the crisis abates.

Strategic Implementation of Subsidy Policy Recommendations
The order of these recommendations is critical – each proposal builds on the previous. This strategic layering of changes is the best approach to adapting the system that is currently in place to provide an equitable approach to increasing access to high-quality care essential for economic recovery. This order will allow for the technology and human systems to make fundamental shifts while preventing major unintended consequences.

Order	Supporting Families	Operational Improvements
1.	Establish monthly rates for child care providers	
2.	Fix copay cliff – cap family contributions to 7% of family income	Changes to subsidy geographic regions that can flexibly adapt to changing regional conditions
3.	Tie child care for children/families involved with Child Welfare to WCCC for seamless/systematic connections	Revamp/replacement of SSPS that is fully/primary digital and link to all other provider systems
4.	Increase program income eligibility to 85% SMI – gets us past minimum wage/working families	Raising subsidy rate to cover full cost of high-quality care – includes base rates, tiered reimbursements and other add-ons to afford quality and specialties
5.	Increase allowances for approved activities – higher-ed pursuits, job search, and number of hours	Replace barcode with improved eligibility system that is fully/primary digital and link to all other eligibility systems[6]

[6] *This work must be done as part of the Health and Human Services Coalition – Integrated Eligibility Workgroup*