

## Improving public childcare: It's getting better. There's still more to do

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Ohio's public childcare program was improved in the current budget. Legislators eliminated charges for the poorest working families, allowed families to remain enrolled up to 300 percent of poverty, and implemented new federal requirements that allow a parent who loses a job extended time for a job search once a year. They also raised the ceiling at which a family can get into the program from 125 percent of the poverty level (\$25,200 for a parent with two children) to about 130 percent (\$26,208 for this three-person family).

These changes help. But there is much more to do. It's preposterous that a mother of two offered at job at just \$26,500 would earn too much to become eligible for help with childcare. Her monthly earnings are just \$2,208 (before taxes); childcare on average costs \$895 for two kids in Cleveland,<sup>1</sup> which is 40 percent of her gross monthly earnings - but if the children are very young (an infant and a three year old) it costs on average \$1,742<sup>2</sup> for care, most of her take-home pay.

Childcare is expensive but for working parents, it's an absolute necessity. Legislators need to let families making up to twice the poverty level (about \$40,000 for a family of three) enter the program. The quality of the childcare provided by the state is too frequently poor, because state payments for children in the public program are among the lowest in the nation. Legislators need to raise reimbursement rates, so childcare providers can keep qualified staff, ensure safe facilities and make it on their earnings.

### Childcare is a critical state investment

Quality childcare is an essential state investment, with one of the highest returns that can be made for children, families, communities and the economy.

**Childcare helps employers:** In New York, studies found that parents with dependable child care had 20 percent to 30 percent fewer absences from work. Turnover dropped by between 37 and 60 percent when childcare subsidies were available.<sup>3</sup>

#### Key findings: Childcare in Ohio

##### Checked off:

- Co-pays have been eliminated for the poorest;
- The cliff is smoothed;
- Up to 13 weeks for job search is allowed once a year.

##### To do:

- Restore initial eligibility to 200 percent of poverty.
- Boost quality with adequate reimbursement to the small businesses providing state-funded childcare.

<sup>1</sup> Economic Policy Institute Basic Family Budget Calculator, for zip code 44114 at <http://www.epi.org/resources/budget/>

<sup>2</sup> Center for Women's Welfare, University of Washington, Self Sufficiency Standard for Ohio 2015 at <http://selfsufficiencystandard.org/ohio>

<sup>3</sup> Karen Shellenback, Child Care & Parent Productivity (Ithaca: Cornell Cooperative Extension, December 2004).

**Multiplier effect:** An investment in childcare has a positive multiplier effect in the regional economy. One study estimates that Ohio could see an additional \$1.92 generated for each dollar invested in childcare as economic activity related to childcare ripples through the economy. In states with higher quality childcare, multipliers are higher.<sup>4</sup>

**Return on investment:** Quality childcare supports the future workforce and community. Vulnerable children given quality early learning see life-changing positive impacts: they are less likely to drop out of high school, to require welfare or financial assistance, or to become a teen parent. This leads to a more prepared workforce, while reaping savings for taxpayers. Nobel Prize winner James Heckman and coauthors found that investment in quality early childcare generated financial returns above the historical return on equity.<sup>5</sup>

### Childcare and the family budget

Public childcare aid makes a huge difference to families of modest means on the path to self-sufficiency. The Economic Policy Institute pegs self-sufficiency for a safe, modest, decent lifestyle for a parent with two small children in Cleveland at \$4,417 a month or \$53,014 a year. Figure 1 illustrates how even families that get all public assistance for which they are eligible (something that rarely happens)<sup>6</sup> have a monthly budget shortfall at most income levels up to about 265 percent of poverty.<sup>7</sup> Childcare aid is critical. For families who get in at Ohio's low level of initial eligibility – 130 percent of poverty or less – financial struggles diminish as earnings rise. But for a family with that needs childcare but earns just a little more than the ceiling for initial eligibility, there is a big monthly shortfall, illustrated by the red line in Figure 1.

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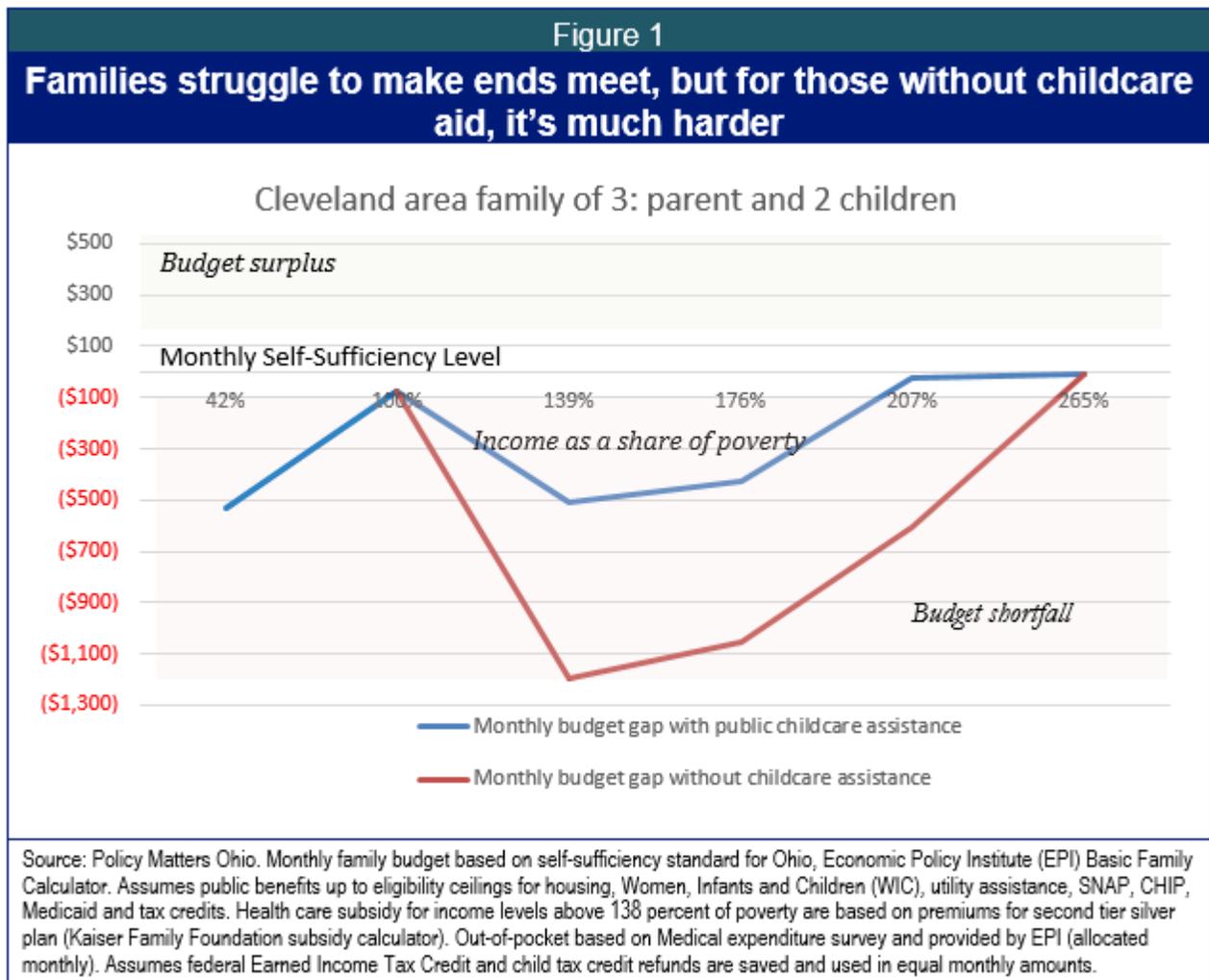
<http://government.cce.cornell.edu/doc/pdf/ChildCareParentProductivity.pdf>

<sup>4</sup> Liu, Zhilin, Rosaria Ribeiro and Mildred Warner, 2004. "Comparing Child Care Multipliers in the Regional Economy: Analysis from 50 States," Ithaca, NY: Cornell University Department of City and Regional Planning. <http://cms.mildredwarner.org/p/64>

<sup>5</sup> James J. Heckman, Seong Hyeok Moona, Rodrigo Pintoa, Peter A. Savelyeva, Adam Yavitzza, "The Rate of Return to the High/Scope Perry Preschool Program," National Bureau of Economic Research Working Paper No. 15471, November 2009 at <http://www.nber.org/papers/w15471.pdf>. The High/Scope Perry Preschool Program was an early intervention for disadvantaged children in the early 1960s. Analysis of that program makes a strong economic case for expanding preschool for children in poverty. Children were randomly assigned to treatment and control groups and have been systematically followed through age 40 to monitor earnings, employment, education, crime and other outcomes.

<sup>6</sup> Few families take advantage of all public assistance. Housing aid is so sparse that in many places, including Cleveland, new families are not being accepted for aid. Nationally, cash assistance helps only 23 of every 100 eligible families. See <http://www.cbpp.org/research/family-income-support/chart-book-tanf-at-20>

<sup>7</sup> Economic Policy Institute, Basic Family Budget calculator at <http://www.epi.org/resources/budget/>



Ohio has disinvested in early care and learning. State reimbursement of childcare providers plunged from the recommended level of 75<sup>th</sup> market percentile in 2001<sup>8</sup> to 16<sup>th</sup>.<sup>9</sup> Initial eligibility dropped from 200 percent of poverty in 2010<sup>10</sup> - the level at which families are eligible for help from food banks - to 130 percent today.

Investment this low threatens the future of children and diminishes the effectiveness of other state spending. For example, Ohio has funded an increasing number of pre-K slots. But eligibility standards do not match – pre-K can be provided to families up to 200 percent of poverty, but public

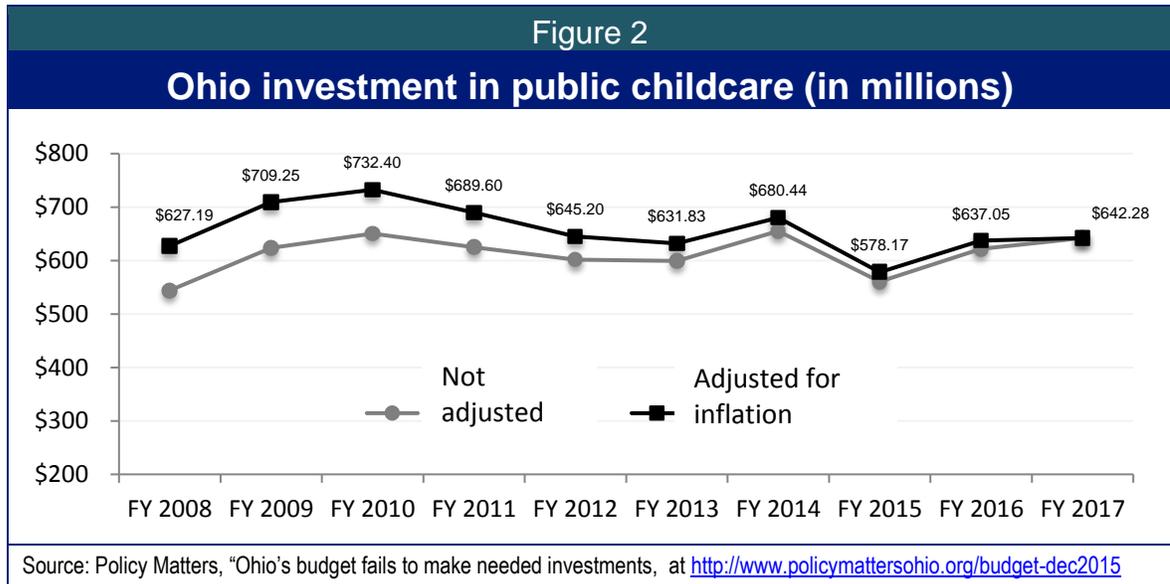
<sup>8</sup> Policy Agenda, Groundwork Ohio, October 2016; provided in e-mail from Devin Keithly dated October 14, 2016. Groundworks web page may be accessed at <http://www.groundworkohio.org/latest-news>

<sup>9</sup> The Ohio Child Care and Development Plan for 2016-18 identifies the 16<sup>th</sup> percentile as the level of reimbursement (of the most recent market rate survey) on page 85. On Page 91, it clarifies the targeting of the base rate: “Market rates have been established at the twenty sixth (26th) percentile statewide of the 2008 Market Rate Survey for all provider types and age groups. Due to funding constraints and other policy considerations, the rates have not increased since 2008.” <http://jfs.ohio.gov/cdc/docs/2016StatePlan.stm>

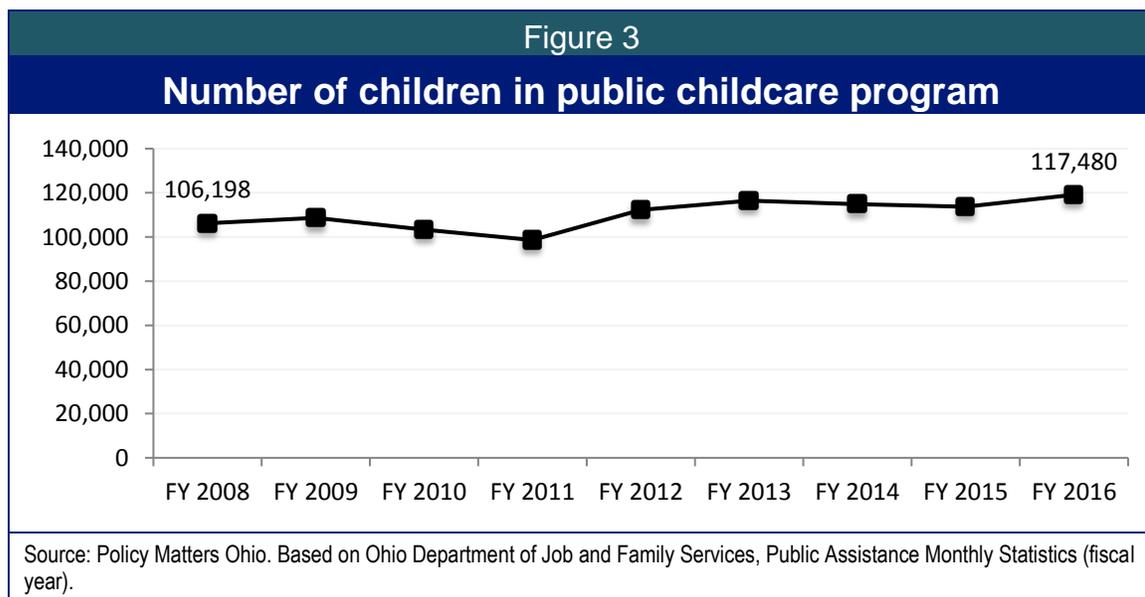
<sup>10</sup> Ohio Legislative Service Commission, HB 153: Redbook for Ohio Department of Job and Family Services at <http://www.lsc.ohio.gov/fiscal/redbooks129/jfs.pdf>

childcare cannot. Many pre-K slots are part time, meaning the parents must have childcare to allow them to take advantage of the pre-K. The eligibility mismatch makes it difficult to fill slots.<sup>11</sup>

We are spending less on public childcare in 2017 than we did earlier in the decade (Figure 2). Funding has fallen by \$90 million a year since 2010.



Yet Ohio is serving more children than ever (Figure 3). More children and less funding highlights why quality has suffered.



<sup>11</sup> Gongwer Ohio, "Senator Peggy Lehner to continue efforts to fund, overhaul early childhood programs, 11/6/2014 at <http://www.gongwer-oh.com/programming/news.cfm?article> Cited in "A Budget that Works," Policy Matters Ohio, January 29, 2015 at <http://www.policymattersohio.org/budget-jan2015>

High quality childcare is particularly crucial to children from low-income families, but it is also essential to parents, families, communities, employers and the economy. Ohio has made some improvement in public childcare. But we are investing less than we did - \$90 million a year less, inflation-adjusted. We need to do better.

## Checked off: What we've fixed

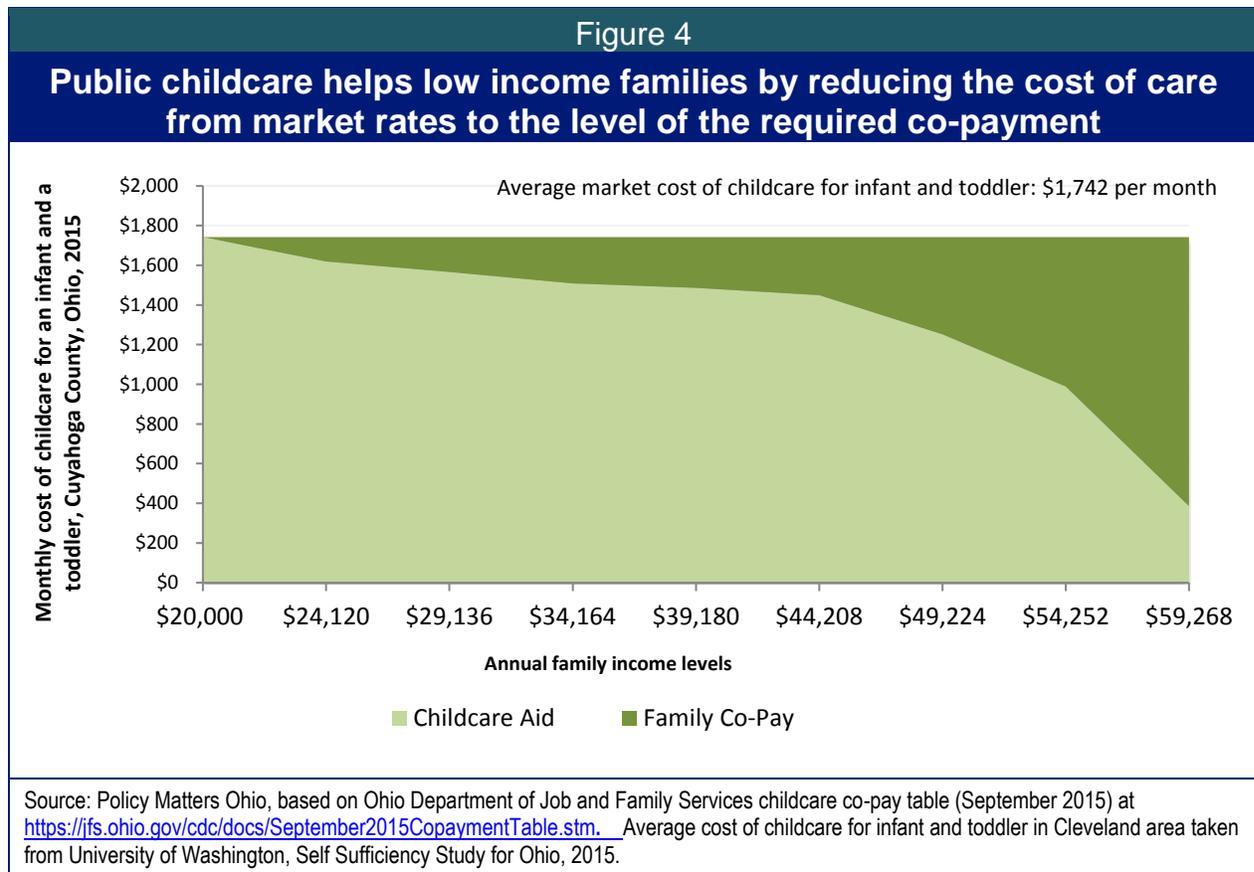
**Eliminated co-pays for the poorest families:** Ohio's funding for public childcare is mostly federal. The state provides matching funds. Parents also contribute a co-pay. For example, a family with a baby and a toddler earning around \$25,000 a year will have a co-pay of about \$176 a month. In 2015, Ohio legislators accepted the Governor's proposal to eliminate all co-pays for families earning less than the federal poverty line (which was just over \$20,000 a year for a family of three).

**Smoothed the "cliff:"** The 2014 reauthorization of the federal Child Care and Development Block Grant required states to address the "cliff:" the point at which a family's income is too high to be eligible for childcare aid, but too low to pay for childcare without severely damaging the family budget. Loss of childcare aid is so important to some family budgets that a raise or promotion could be economically harmful if it threatens eligibility for public childcare. Governor Kasich explained it this way: "The sudden loss of subsidized childcare if a family's income exceeds 200 percent of the federal poverty level... can actually prevent some parents from taking a better-paying job and moving up on the economic ladder."<sup>12</sup>

Before this year, families could stay in Ohio's public childcare program as income increased to up to 200 percent of poverty. In 2015, Ohio raised the ceiling from 200 percent of poverty (about \$40,000 for a parent with two kids) to 300 percent of poverty (\$60,000). However, the parent co-pay rises as income grows. When the subsidy ends, the loss is not catastrophic to the family budget, because at 300 percent of poverty, the family is at the level of self-sufficiency in most places in Ohio and can pay for childcare on their own (Figure 4).

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<sup>12</sup> Ohio Office of Budget and Management, Executive Budget, <http://obm.ohio.gov/Budget/>



“Smoothing the cliff” gets attention, but because of other problems in the program, it helps few families. In 12 months during fiscal year 2016, the families of just 973 children took advantage of the smoothed cliff<sup>13</sup> -- out of 119,000 children in public childcare.<sup>14</sup>

**More attention than investment in quality of care:** Ohio’s payment for public childcare is one of the lowest in the nation. The state of Ohio pays far less than the market rate for child care. In Cuyahoga County, for example, infant care will be reimbursed at \$164 per week but the market rate is \$222.<sup>15</sup>

Incentive financing was provided in the last budget to encourage quality improvement in childcare – toys, facilities, teacher preparedness, and other factors. Ohio’s incentive program is called ‘Step Up to Quality (SUTQ).’ About 22 percent of providers who serve the public program are engaged in Step Up to Quality,<sup>16</sup> but only about 15 percent of the children in public childcare were enrolled in SUTQ programs by September 2016.<sup>17</sup>

<sup>13</sup> E-mailed information from Angela Terez of the Ohio Department of Job and Family Services, August 16, 2016.

<sup>14</sup> Ohio Department of Job and Family Services, Public Assistance Monthly Statistics (April, 2016)

<sup>15</sup> State childcare plan for 2016-18, Op.Cit., and Center for Women’s Welfare at the University of Washington, Self-Sufficiency Standard for Ohio 2015 <http://selfsufficiencystandard.org/ohio>

<sup>16</sup> Information provided by Kara Berte-Wenke, Ohio Department of Job and Family Services, October 20, 2016.

<sup>17</sup> E-mail from Karen Lampe, President CWCC, Inc. and member of the Ohio Advisory Council on Early Childhood (September 16, 2016).

## Work left to do

**Help more families:** Ohio has one of the lowest eligibility levels in the nation. A single parent with two children can make no more than about 130 percent of poverty (\$26,208) to get childcare aid.<sup>18</sup> Yet about a third of Ohio families are low-income,<sup>19</sup> earning no more than 200 percent of the federal poverty level. While not technically in poverty, they can't afford the high cost of childcare. An Ohio family with a baby and a toddler can face childcare costs of more than \$1,500 a month, almost half the monthly earnings of a family of three at 200 percent of poverty (about \$40,000 a year).<sup>20</sup> Ohio needs to provide childcare aid to more struggling, working families.

Ohio's stingy initial eligibility means that it is easier to get childcare aid in 42 states than in Ohio.<sup>21</sup> In state fiscal year 2016, 117,480 children were served by Ohio's public childcare program.<sup>22</sup> All entered the program when their families were very poor. Children stay in public childcare as parent income rises. However, working parents making, say, 150 percent of poverty, cannot be accepted into the program unless they take a lower-paid job, at or under 130 percent of poverty.

The program would be more fair and better utilized if initial eligibility were restored to 200 percent of poverty.

**Improve quality by boosting reimbursement rates:** Quality childcare benefits children, particularly those from low-income families. The National Institute of Child Health and Development's long-term study found we can help low-income children with good childcare, or we can hurt them with poor quality care.<sup>23</sup>

Quality depends in part on what childcare providers are paid for care. Higher reimbursement rates for providers means more stable staffing, better facilities and enriched learning environment. What the state pays is referred to as the reimbursement rate. Rates vary by region, age of the child, type of care, and other factors. Reimbursement rates determine whether providers have sufficient resources to sustain the business, offer salaries that attract and retain qualified staff, set low child-staff ratios, maintain facilities, and buy materials and supplies for activities that encourage learning and development. Just as Ohio has reduced the level of initial eligibility for childcare assistance, it has also cut its reimbursement rate. Our reimbursement rate plunged from the 75<sup>th</sup> percentile in 2001 to 16<sup>th</sup> percentile today.<sup>24</sup> The gap between market rates and what the state pays for a 4 year-old is better (smaller) in 44 states than in Ohio; for a one-year old, Ohio's gap between the market rate for infant care and what the state pays is worse (larger) than in 48 other states.

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<sup>18</sup> Ohio Department of Job and Family Services, Publicly Funded Childcare Gross Monthly Chart, October 1, 2016 at <http://jfs.ohio.gov/WorkArea/DownloadAsset.aspx?id=2147647496>

<sup>19</sup> Kaiser Family Foundation at <http://kaiserf.am/2eXrZ0d>

<sup>20</sup> Center for Women's Welfare, University of Washington, Self Sufficiency Standard for Ohio for 2015 <http://selfsufficiencystandard.org/ohio>

<sup>21</sup> National Womens Law Center, "Red Light Green Light: State childcare assistance policies 2016," Table 1a: Income Eligibility Limits for a Family of Three in 2016 and 2015 at <https://nwlc.org/wp-content/uploads/2016/10/NWLC-State-Child-Care-Assistance-Policies-2016-final.pdf>

<sup>22</sup> Ohio Department of Job and Family Services, Public Assistance Monthly Statistics at <https://jfs.ohio.gov/pams/index.stm>

<sup>23</sup> The NICHD study of Early Childcare and Youth Development, U.S. Department of Health and Human Services, National Institutes of Health and National Institute of Child Health and Human Development at [https://www.nichd.nih.gov/publications/pubs/Documents/SECCYD\\_06.pdf#search=child care](https://www.nichd.nih.gov/publications/pubs/Documents/SECCYD_06.pdf#search=child%20care).

<sup>24</sup> Groundwork Ohio, Policy Agenda 2016.

The squeeze is reflected in the low wages of Ohio's early education workforce. Childcare worker wages in Ohio tumbled by 10 percent between 2010 and 2015, adjusted for inflation.<sup>25</sup> Inadequate wages, driven by inadequate reimbursement rates, deprive childcare providers – small businesses or franchises - of resources needed to offer high-quality care: The childcare providers serving on the Governor's Early Childhood Advisory Council report high turnover and difficulty finding and keeping quality, trained professionals. Professionals with degrees move on to elementary schools, where pay is higher, or leave the field because they cannot afford to stay. The low rates also mean that high-quality providers can't afford to enroll families who receive child care assistance.<sup>26</sup>

### **Summary**

Ohio's made some progress in public childcare. We've smoothed the cliff, eliminated co-pays for the poorest, raised initial eligibility ever so little and put a little bit of funding to boosting pay for childcare providers. Much more is needed. It's harder to get into Ohio's childcare program than in 44 other states. Our payment for childcare services is among the lowest in the nation, impacting quality. We need to restore payment to the nationally recommended level of 75 percent of market rates. We need to restore initial program eligibility to 200 percent of poverty, which is the level at which struggling families can get help at foodbanks.

These are not inexpensive recommendations. But they are needed in today's low-income economy, in which wages do not cover the cost of raising a family. The time to lay out a plan for necessary investment and start investing is now.

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<sup>25</sup> UC Berkeley, <http://cscce.berkeley.edu/files/2016/Early-Childhood-Workforce-Index-2016.pdf>; see also [https://www.acf.hhs.gov/sites/default/files/ece/ohio\\_wage\\_profile.pdf](https://www.acf.hhs.gov/sites/default/files/ece/ohio_wage_profile.pdf)

<sup>26</sup> Discussion held at the Early Childhood Advisory Council, October 20, 2016.