

**REPORT OF THE
JOINT SUBCOMMITTEE STUDYING**

**The Role of State and Local
Governments, Including School
Divisions, in Competing with
Private For-Profit Day Care
Centers and Programs**

**TO THE GOVERNOR AND
THE GENERAL ASSEMBLY OF VIRGINIA**



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Report of the
Joint Subcommittee Studying the
Role of State and Local Governments, Including
School Divisions, in Competing with Private For-Profit
Day Care Centers and Programs
To
The Governor and the General Assembly of Virginia
Richmond, Virginia
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To: Honorable Gerald L. Baliles, Governor of Virginia
and
The General Assembly of Virginia

AUTHORITY FOR STUDY

The joint subcommittee was created pursuant to House Joint Resolution No. 306, agreed to by the 1987 Session of the General Assembly. The resolution directed the joint subcommittee to study the role of state and local governments, including school divisions, in competing with private for-profit day care centers and programs. Increasing government involvement in providing day care for the children of the Commonwealth was seen to be unfair competition by for-profit entities who desired some conditions or terms to equalize business conditions between themselves and non-profit or government-subsidized groups.

BACKGROUND

Child care is now "big business" in the United States. This care constitutes the fourth largest expenditure for families with children, after food, housing, and taxes. It is a \$20 billion industry annually. This business reflects the radical changes in our work force and work ethic in that many women work for the same reason that men do, i.e., career and financial stability.¹ In 1940, 8.6 percent of America's women with children under age 18 were in the labor forces, 40 percent in 1970, and 63 percent in 1986. This figure continues to grow and 1980 estimates show that approximately 600,000 children in Virginia lived in homes where the mother worked and two out of five were aged two and under. The number of families maintained by women grew almost 90 percent between 1970 and 1985 and these families live at a poverty rate which is three times that of all families and five times the rate for married-couple families.

Child care has become a concern not only for parents but for business as well. The executive search firm Heidrich & Struggles recently did a study of corporate women officers who ranked quality time with their children as the primary personal sacrifice they made because of their careers. Fathers were almost as likely to say that their job interferes with family life, and corporations are finding that workers are becoming

more willing to sacrifice productivity and careers for family. Child care has been shown to be as strong an influence on a worker's performance as other more predictable factors such as job security, hours worked and relationship with one's supervisor. No child care at all is also an increasingly difficult problem to address with an estimated half-million preschool children at home alone during at least part of the day and 7 million "latchkey" children from 6 to 12 years old who fend for themselves after school until their parents arrive home.²

Some facts about child care in general have emerged:

- There is no national comprehensive policy on child care. Responsibility for child care policy has been shifted to the states.
- Many federal minimum standards for child care have been eliminated.
- The guiding federal principle in federal child care policy during the 1980's has been decentralization, privatization and deregulation.
- There is a general absence of any type of consumer or supply survey to determine not only the numbers for supply and demand, but also the quality of the program.³
- Title XX was turned into a social services block grant which eliminated most spending and reporting requirements.
- "Demand subsidies," which is financial assistance provided directly to the purchaser or consumer of services, has been increased in recent years as opposed to "supply" subsidies, which are subsidies given to service producers or providers.⁴ Demand subsidies include the Dependent Care Tax Credit which has expanded greatly in recent years. This generally provides a tax credit to families where both parents work or where one parent works and the other is a student, and is based on income. 4.6 million families claimed this credit in 1981 for a total of \$1 billion; in 1985-86 it totaled \$3 billion. Unfortunately, it was not seen to benefit lower-income families. This has since been expanded and does provide a more varied way of spending funds on child care.
- Federal grants, such as the social services block grant (SSBG), have been reduced so the states have less to spend on child care. The SSBG (Title XX) is the major source of money to provide day care to economically disadvantaged families where federal dollars are matched with 15 percent state funds and 10 percent local funds. In 1980-81 annual expenditures for day care through Title XX in Virginia exceeded \$8 million annually. This has declined steadily to less than \$3 million by 1983/84. The 1985 Virginia General Assembly appropriated \$3 million for the biennium to institute the Child Day Care Fee System for low-income working parents. Spending has been increasing but

only to \$4.5 million by 1985/86. Localities routinely run out of funds for mandated programs and therefore must cut other programs, and rates paid for child care are reflective of what funds a locality has to spend for services, not necessarily the current prevailing rate. It has been estimated that \$12 million is needed just to return the state to 1981 levels.

- Recent tax provisions, which relate to employer-sponsored or supported child care, have been passed to stimulate employers to provide or pay for child care for their employees. These plans are few at present, but growing, and the concept is gaining in popularity when employers see the many benefits to their employees. States are also recognizing the benefits arising from a good child care policy and how it accrues in drawing industry into the state. In 1987, Governor Gerald Baliles formed the Governor's Corporate Advisory Commission on Employer's Initiatives for Child Day Care to examine methods to stimulate corporate interest and participation in this area. Their recommendations are being formulated at the time of this document.

A salary reduction plan, or "cafeteria" plan is another tax related subsidy where taxable income is lowered and the difference in "pretax" dollars is set aside for spending on child care, medical costs, retirements, etc.

- Voucher programs, discussed in greater detail at a later place in this document, are alternative methods of shifting money from direct public delivery (publicly operated programs) to direct purchase of service contracts.
- Demand subsidies, along with other factors such as deregulation, has probably helped increase the supply of services, but it has not been proven that it was a clear increase or possibly just market shift. Many states have had to retain both demand and supply subsidies because they recognize that private providers do not enter the low income and/or minority communities and it is recognized that these communities have to be served as well. The decline in direct funding has led to fewer low-income children being served within the system while options and subsidies have increased for the middle class.⁵
- Quality assessment of various programs in general shows no consistency with regard to type of program. Good quality programs, as well as bad, can be found everywhere. Unfortunately, there has been no strict research which compares profit to nonprofit.⁶
- Many other states have begun their own push to deal with the child care issue. An example of this is the Day Care Partnership Initiative formed in Massachusetts in 1985 to create a model system of affordable, quality care through partnerships with businesses, schools, public housing authorities and local governments. In its second year, the Partnership instituted the nation's first publicly sponsored loan fund for the development

of employer-sponsored child care facilities. The pilot program will receive an initial \$750,000 from the Massachusetts Industrial Finance Agency to offer below-market loans for start-up funds for child care facilities. As a part of this, New England Telephone established a matching grant to help nonprofit centers pay for capital improvement and equipment. Fourteen new employer-sponsored child care projects have been established with the assistance of the Executive Office of Economic Affairs. And, during the first year of the Partnership, state funding for child care was increased 22 percent with an additional 20 percent scheduled the next year.

TYPES OF CHILD CARE

There are various types of child care available in the Commonwealth for use by parents:

- Family day care occurs when an individual cares for several children in that home. It is defined in Virginia Code § 63.1-195 as a "private family home in which more than five children, except children related by blood or marriage to the person who maintains the home, are received for care, protection and guidance during only a part of the twenty-four hour day, except (i) homes which accept children exclusively from local departments of welfare or social services, (ii) homes which have been approved by a licensed day-care system or (iii) homes which accept up to ten children, at least five of whom are of school age and are not in the home for longer than three hours immediately before and three hours immediately after school hours each day." The homes meeting these requirements must be licensed; those who do not have to be licensed and these constitute a large percentage of child care arrangements.
- "Child-care center means any facility operated for the purpose of providing care, protection and guidance to a group of children separated from their parents or guardian during a part of the day only except a facility required to be licensed as a summer camp under § 35.1-1 et seq.; a public school or a private school unless the Commissioner determines that such private school is operating a child-care center outside the scope of regular classes; a school operated primarily for the educational instruction of children from two to five years of age which children two through four years of age do not attend in excess of four hours per day and children five years of age do not attend in excess of six and one-half hours per day; a facility operated by a hospital on the hospital's premises, which provides care to the children of the hospital's employees, while such employees are engaged in performing work for the hospital; and a Sunday school conducted by a religious institution or a facility operated by a religious organization where children are cared for during short periods of time while persons responsible for such children are attending religious services. An hourly child-care service providing care to children on an occasional basis shall

be subject to applicable child-care center standards; on applying those standards, due consideration shall be given to the number of children in care, the maximum hours any child is in care and the type of service provided."

These centers are required to be licensed generally unless specifically exempted, such as child care centers operated by religious institutions, and they can be voluntarily licensed if they so choose.

- Employer-sponsored day care consists of an on-site day care center run by the employer. The facility is usually provided by the employer as well as start-up expenses. Operating costs can be paid by the employer as well or have user fees to cover such expenses. This type of day care is rare at present due to the expense, but the concept is growing. Corporations are discovering the positive aspects of providing child care in some form which translates into an increase in productivity and employer morale, a decrease in absenteeism, stress and job turnover, and a positive image for the company.⁷ Alternative employer involvement includes a voucher program and flexible personnel policies.
- School-based programs for school age children which are run either by the schools or an outside agency. Programs before and after school are generally limited to children enrolled in that school and fees vary. Positive aspects of this type of child care include: (i) care for those children who need supervision but rebel at the idea of "day care"; (ii) they use the school buildings and facilities when they would otherwise be empty; (iii) school vandalism has been reduced; (iv) they are convenient and require no transportation; and (v) the facilities at the school are more appropriately designed to meet the needs of school-age children.
- Check-in or self-care programs have been developed in areas where formal child care does not meet the need. Children are taught basic "survival" skills and are acquainted with someone they can call for instructions in an emergency and also for reassurance if necessary. These children, basically "latchkey" children, are left at home alone for various portions of the day while his parent(s) work. Much evidence points to the undesirability of this method, namely: (i) accidental deaths are the leading cause of death among school-age children; (ii) many latchkey children experience great feelings of apprehension and loneliness which directly affects their emotional development; and (iii) delinquency increases.

CHARACTERISTICS OF FOR-PROFIT AND NON-PROFIT CHILD CARE

Proprietary (For-profit)

Prior to 1970, nearly all center-based care was provided by nonprofit organizations or small "mom and pop" centers. With the dramatic increase

in demand for child care, many entrepreneurs identified a new market. More than half of the child care centers in the country are operated on a for-profit basis.⁸ Thus, the proprietary industry can be broken into three types: chains, franchises and independent ownership. Approximately 86 percent of for-profit centers fall into the independently owned category.⁹

- Chains - Organizations which own and run many day care centers either regionally or nationally. Uniformity is stressed and standardization achieved through bulk buying and central production. But all money is not put back into services but rather back into capital to satisfy investors. This allows them to accumulate capital to buy more centers and to advertise, a decided business advantage.
- Franchises - an investor buys the use of a name of a large national chain and purchases instructional or play materials offered by the parent company. These have not proven to be successful to a large extent and the number of franchises is decreasing.
- Independent centers - These constitute the most numerous type of for-profit centers. They differ from chains in that, while they may take advantage of the various business incentives available to small business, they are not able to utilize the scale economics available to chains. They are owned by independent individuals, usually in their home communities. Competition with major chains is a worrisome issue, especially with increasing insurance rates and the rise in staffing costs. But, it is pointed out that by 1995, an estimated 14.6 million children under six will have working mothers and the market should accommodate all types of centers. Quality of services will be the crucial determination for business survival.¹⁰

Non-Profit

Non-profit organizations have traditionally been formed for charitable, educational, scientific or religious reasons but many are providing services currently being provided by small businesses and are increasingly engaging in commercial activities to make up for lost revenues due to federal cutbacks in spending and a decrease in donations due to revamped tax reduction laws.

Tax exempt (all nonprofits are not necessarily tax exempt) organizations are one of the fastest growing segments of the economy with annual revenues of more than \$300 billion or 8 percent of the gross national product (GNP).¹¹ As of the mid-1970's, the volunteer labor pool, who provide a vital service to nonprofit organizations, accounted for over 20 percent of their labor resources. This totaled six billion hours which translates into three million full-time workers.¹²

Nonprofit organizations, according to the Internal Revenue Service, are not restricted in the amount of profit they may make as long as the profits are channelled to the activity for which the organization was

granted an exemption. The destination rather than the source is the key (Trinidad v. Sagrotto).¹³

Nonprofits were traditionally granted tax exemptions for two reasons: (i) that they would serve the "public good" by providing services that would not be provided by private enterprise and would otherwise have to be provided by the government; and (ii) that nonprofits provide "quality assurance" in service areas where consumers are ill-equipped to judge the quality of the service before the purchase is made.¹⁴

Virginia's tax laws during the last fifteen years have conformed to federal tax laws, to a great extent, to facilitate filing of taxes. Therefore, tax exemptions are basically the same for nonprofit organizations. Additionally, property tax exemptions may be granted by the General Assembly to certain charitable and eleemosynary organizations based on certain procedures whereby a locality must decide, on the basis of certain criteria, whether to recommend the exemption and to specify for which classification (Chapter 36 of Title 359.1).

A sales tax is imposed on all tangible personal property purchased by religions, charitable, civic or other nonprofit organizations except those specifically exempted by § 58.1-608 of the Code of Virginia.

DIFFERENCES BETWEEN PROPRIETARY AND NONPROFIT DAY CARE CENTERS

Based on recent research, data shows the following distinctions between proprietary and nonprofit child care centers:

Staff wages - on the average, for-profit centers consistently spend 10 percent less of their budget on salaries than nonprofits in a labor-intensive industry. (Whether the center receives federal funding is not seen to be a decisive factor.)

Staff turnover - Due to low wages, well-qualified individuals, including a recent surplus of teachers, are attracted to day care centers but turnovers are very high in both proprietary and nonprofit centers.

Expenditure per child - There is a lack of precise data to pinpoint price differentials between different centers but general information states that proprietary centers generally spend less per child than nonprofit centers and that nonprofit centers, in many cases, equalize the cost differential by providing more support and specialized services.

Sources of income and clientele - Most proprietary centers are found in suburban areas which are considered "prime market" with their high employment rate and high percentage of children under six years of age. There are few proprietary centers in rural or inner-city areas. They rely mainly on parent fees for income and generally do not receive volunteer time or donated space. Many for-profit centers are now eligible to receive Title XX money, but not all are interested due to low reimbursement rates, paperwork and state fiscal review. Nonprofits rely heavily on donations of time, equipment and space as well as state and federal funds. They

generally are located in areas to serve low to middle income families and most have fees based on a sliding scale. A 1979 study showed that 42 percent of the families using proprietary day care had incomes over \$15,000 while nonprofits cared for 84% of the children in centers with family incomes under \$6,000.¹⁵

ISSUE

The joint subcommittee was charged with examining only a small part of a large problem, i.e., government competition, either directly or through nonprofit organizations, with small businesses. (A concurrent study authorized by House Joint Resolution No. 303 in 1987 and the Governor's Task Force on Efficiency in Government are addressing the large issue.)

Nonprofit organizations have traditionally and continue to provide important services, tangible and intangible, to the community, many of which may not be provided elsewhere. But due to many monetary changes, many have had to resort to more commercial activities to continue their funding level and supply these services. It is when these nonprofits are perceived to overstepping an invisible boundary and competing, some say with unfair advantages, with for-profit business that a difficult situation has arisen.

To further complicate and cloud the issue, child care is a very sensitive area due to the very fact that one is dealing with the care, supervision and nurturing of the children of the Commonwealth. There is a lack of statistical data, but there seems to be a general consensus that there is a great lack of affordable and accessible quality child care. Child care is necessary for parents to be able to work and, in many cases, the only way an individual can work or receive training to enable them to be removed from state welfare rolls. Child care is becoming a hotly debated issue as to whether it is or should become an entitlement like education and highways.

For-Profit Viewpoint

Some small businesses do not find the usual reasons for granting tax exemption to be viable ones in all cases and instead of providing an even system, it is seen to be an inducement for companies to adopt a nonprofit form and compete with for-profits in providing identical services. For-profits see this as using their own tax dollar to compete with or put them out of business. The federal government, in an attempt to equalize, has adopted an Unrelated Business Income Tax (UBIT) which taxes the gross income of a nonprofit from an unrelated trade or business, but it is difficult, at best, to define what is not "substantially related" to the accomplishment of the nonprofits' purpose.¹⁶

Areas in which nonprofit corporations, not limited to day cares are seen to have an unfair advantage include:

- Operational Resources - resources possessed by nonprofits that are unavailable to for-profits:

"Halo effect" - their status simply as nonprofit garners community support. Original goals carry over into unrelated business activities;

Exemption from bidding - not required to solicit bids for subcontracts;

Tax exemption - includes unemployment compensation which does not have to be paid until a worker is let go;

Postage rates - enjoy bulk rates of anywhere from one-quarter to one-half general rates;

Volunteers - represent savings in labor costs;

Tax treatment of services - donations of services, goods, contributions and expenses are tax deductible;

Access to mailing lists

Improper use of facilities - many nonprofit firms use facilities or other material paid for by government or donation for unrelated business activity;

Use of surplus funds to expand - allegations that nonprofit dollar surpluses have been used to expand into unrelated business activities;

Captured referrals - clients who are receiving one service from a nonprofit firm are referred to in-house operations for other services.

- Multiple Source of Income - the ability to receive money from many tax exempt sources (government grants, government contracts, tax free bonds, low interest loans, charitable donations and volunteer services) allow nonprofits to charge below market or even cost prices.
- Changes in Corporate Structure - creating new corporate structures in which the original corporate firm becomes only one of many entities.
- Rules and Standards - allowing some non-profits, such as sheltered workshops in some state, preferential treatment in awarding bids and then renegotiating with only that firm.¹⁷

Nonprofit Viewpoint

Nonprofit and for-profit organizations have traditionally not been "equal" by legislative and judicial intent and each was intended to possess certain advantages over the other. Nonprofits have existed as a "third sector" between the purely public and private worlds - they are private in organization and public in mission.¹⁸

Responses to claims of "unfair competition" include:

- nonprofits argue that, in many cases, they are responding to mandates from government when moving in to areas previously exclusive to for-profit firms;
- differences in operating rules and standards such as preferential treatment on bids mirror public sentiment and policy (such as hiring people that for-profits do not hire in the community);
- many nonprofits feel that they are being forced into these commercial enterprises due to cutbacks or loss of government support;
- tax laws have increased competition for charitable donations;
- that the government supports profit-making social services through deductions, credits and programs administered by the Small Business Administration which are unavailable to nonprofits, such as:
 1. Many commercial providers of social services pay little or no corporate income tax. Net taxable income for all human service corporations in 1984 equaled two percent of gross receipts. Net tax paid, after credits, amounted to one-quarter of one percent of gross receipts.
 2. Guaranteed loans and as SBA "set aside" loan program permits only small business to compete for certain federal contracts.
 3. New federal regulations issued by U.S. OMB requires federal agencies to add lost taxes to the cost of contracts awarded to nonprofit organizations.
 4. Other types of advantages could include investment tax credits, research and development credits, depreciation allowances or deductibility of interest on other types of loan payments.
- community organizations often compete by establishing nonprofit businesses that create jobs for people regular businesses won't employ;
- nonprofits usually have a connection to the community they serve and have staying power and will continue to provide needed services after they are no longer profitable and the for-profit organizations have moved on.¹⁹

SUGGESTIONS FOR CHANGE

During the course of this study, many suggestions for change were made. Briefly, they include:

- establishing a division to determine if nonprofits are engaging in activities beyond the realm of purpose for which they were incorporated and, by virtue thereof, may be unfairly competing with private enterprise
- require all nonprofits to register a copy of its federal tax returns with the state
- require all nonprofits to declare any affiliation with other nonprofits or for-profits
- require all nonprofits to declare sources of revenue generated to fund their nonprofit states
- restrict nonprofit entities from performing commercial business ventures in a nonprofit environment
- increase the state appropriation to the child care fee system to enable the state to pay the prevailing rate for child care for low income working parents in the localities
- restrict child care to nonprofits to the low income family or those children with special need
- require licensure by all child care facilities to ensure minimum standards of quality
- adopt a procurement formula which would provide equal treatment for nonprofits and for-profits for rate negotiation purposes when placing a subsidized child in a facility
- adopt a voucher system to enable parents whose children are being subsidized under the Child Care Fee System to have free choice of selection of child care centers, thereby creating a situation where the money subsidizes the child rather than the provider
- institute a resource and referral system which would provide a comprehensive approach to day care which could include, among other things, a "free-choice" listing of available day care in a given area, education in selecting day care, and aid for employers and individuals who desire to provide daycare
- a comprehensive data collection on day care to enable the state and affected individuals to plan and prepare for day care needs
- establish a state office for child care to provide for a stronger administrative presence on the state level to provide a focal point for the whole child care issue, as well as local advisory boards who would provide on-going needs assessment
- establish a statewide procedure for the awarding of contracts for before-and after-school programs located in school buildings to provide the option to any interested provider

- that licensing specialists be more consistently trained to eliminate the discrepancies in regulation interpretation

In addition to these individual suggestions, several recommendations were reported from the 1987 Governor's Conference on Child Day Care, entitled "Child Care" Everybody's Business." The conference was attended by child care professionals, employers, local and state government officials, health and social service professionals, educators, parents and advocates who worked together to issue these recommendations:

- A state office for child day care. This office would handle development and implementation of funding programs, provide technical support and resource services for day care providers, develop and implement training and outreach programs for providers, develop and implement training and outreach programs for providers, develop a parent consumer information system, and develop community education programs to inform the public regarding the role of early childhood education in our society. The central office would also serve as a resource for the establishment of local "community child care commissions" which would address local child care concerns.
- Increased funding for low income children in the child day care fee system. In addition, conferees encourage an examination of a free shopping voucher system to allow parents a choice of appropriate, licensed child care options for state government, employers and private funding sources.
- A coordinated licensing system with no exemptions. A single licensing agency for all child care providers and programs was recommended.
- Development and implementation of a study investigating child care worker salaries and training in the state with emphasis on solutions for the early childhood profession.
- An exemplary state initiative in provision of model programs. One part of this initiative would be the development of child care and family related policies by the state for its 80,000 employees. Participants also recommended research, funding and development of six other model programs to address the needs of specialized groups such as infants/toddlers, school-age children, sick children, disabled children, and children and the elderly.
- Establishment of a "one-stop" office for employers interested in developing child care and family oriented benefits. Under the direction of the Secretary of Economic Development, this office would serve as an information and referral resource for businesses.

In addition, the conferees recognized the need for on-going publicity regarding child care needs in the state and recommended continuing focus on the issue of liability insurance for child care providers.

Why Schools are Involved

Schools today are being involved in day care in a multitude of ways. One way is early childhood development programs which have shown to serve children "at-risk" due to the fact that poverty is a much better predictor of school failure than any existing screening procedure. There is increasing activity and financial commitment in this area. In 1984, eight states appropriated approximately \$160 million to fund these programs; in 1986, 22 states spent \$330 million. These programs provide some 150,000 families with early childhood education and day care or with parent education.²⁰ The cost-benefit documented in these programs by the Perry Preschool Project include, but are not limited to: a cost of \$2,992 per year per child, \$668 per child benefited from the mother's released time, \$3,353 per child saved by school because the children with preschool required fewer years of special education, and a \$10,798 per child increased lifetime earnings projected (all in 1979 dollars). The benefits totaled \$14,819 per child and amounted to a 248 percent return on the original investment.²¹

Children are being affected by the changing pattern of work and family life for many reasons. The most significant development from this is growing interest in establishing formal child care programs for school age children for various reasons which include:

- children who regularly spend many hours each day without adult supervision are less well-prepared for school, experience more depression, fear and loneliness, and evidence points to a possible causal connection between a lack of supervision and poor self-esteem.
- schools have been identified by parents, community agencies, day care providers and school administrators as the logical sites for such programs.
- Wellesley College Center for Research on Women conducted a reader survey in which 63 percent of the respondents said that the public schools should provide after-school child care.
- such programs could help offset declining enrollment in the schools and contribute to a more efficient use of school buildings.²²
- the National Governor's Association Task Force on School Facilities has placed in the number one position on their action agenda the recommendation that states should center existing community education initiatives on programs that involve the shared use of facilities and that particular attention be given to community groups providing day care and latchkey services.²³

Most school based after school programs are administered as partnerships or collaborations between the school and nonschool organizations. Others, such as New Orleans, Arlington, Virginia and Dade County, Florida share their administrative responsibility with community agencies. In reaction to this, proprietary day-care operators have filed

suits against the schools in a number of places but they have not been successful (Kiddie Korner Day Schools, Inc. et al. v. Charlotte-Mecklenburg Board of Education, N.C. App. 285 S.E. 2d 110, 1981, Clara V. Clark v. Jefferson County Board of Education, 410 So 2d. 23, 1982). In Virginia, the attorney general did rule in 1978 against the establishment of any new school-administered programs, but those already in operation were allowed to stand and the way was cleared for the school to allow a day care center on school property operated by another entity (Appendix).

COMMITTEE RECOMMENDATIONS

Some issues regarding day care have remained constant over the past decade, including increasing numbers of women with children entering the workforce, insufficient public funds to expand day care slots, patchwork programs to serve fragments of the population, little reliable data on need or availability, and an absence of coherent public policy.

Other things have changed which serve only to intensify those shortcomings - inflation has strained budgets, both family and government, child care rates and quality cannot usually rise to match inflation, old sources of child care such as extended families are disappearing, public spending cuts have hit social program hard and the national trend away from categorical grants to block grants leaves much discretion to state-level authorities, other issues have replaced child care in the national political arena and opposition to federal involvement in child care is well-organized, and there is skepticism about the government's ability to run social programs.²⁴

These things create a difficult stalemate and one for which there is no easy or simple solution.

Children are a minority group who cannot represent themselves and they must look to others for their protection and care. Many people remember families as they used to be, a nuclear unit, but that is not reality. Policy cannot be based on that misconception. Lives of families and children have changed dramatically and policy must be based on what exists. The goal here is not necessarily one of government removing itself from the system nor mandating a single system, but one of making a number of options available. The government's role should be supportive of parents, providing assistance to a wide range of efforts and developing a system where all children in need of day care can find it, and to set standards for quality of service and training of personnel.²⁵

The issue of unfair competition between for-profit and nonprofit day care is but one part of a much large and complex issue. It is the feeling of the joint subcommittee that the welfare of the child is the first priority, and, although private enterprise is crucial to our system, there is a role for government participation. To some extent and in some instances, nonprofits are competing with an unfair advantage and public monies should not be used to compete directly with small business. For the first time, there has been developed a clear procedure for addressing situations where state government may be competing unfairly with Virginia businesses. The Governor's Commission on Efficiency in Government has

recommended and the Governor has implemented by an executive memorandum, a procedure where each agency must examine its activities to determine and then eliminate those that compete with Virginia businesses. A procedure was also established whereby allegations of unfair competition are investigated and the findings reported to the Governor. This in no way diminishes, though, the proper state role in the provision of child care assistance for those who are in need and cannot afford the rates charged by the day care system. Even with the situation as it exists, there is insufficient day care to meet the needs of the children of the Commonwealth and there is a crucial lack of meaningful data on child care availability, affordability, accessibility and quality. There is also a gap in comprehensive state planning for child care. Parents in large numbers are demanding local and state government services with their tax dollars.

The recommendations by this study are recognized not to be inclusive nor a "cure-all". They, hopefully, provide a beginning for the solution to a very difficult issue with the hope that as smaller problems are evaluated and attempts are made to solve them that the solution to the much larger problem will evolve. Recognizing this, the joint subcommittee made the following recommendations:

- That the Department of Social Services implement several pilot programs to study and evaluate a voucher system for payment of child care subsidies for children of low income parents. The study would use the Child Day Care Fee System as the vehicle and evaluate key issues, many of which have arisen during this study including: (i) development of an equitable information and referral system with a free-choice mandate from a complete list of services available with the exception of therapeutic services which might require specific placement; (ii) determination of exempt parents; (iii) development of auditing procedures to ensure proper expenditure of funds; (iv) determination of payment amount, method, variances and other system questions; (v) licensure requirement; (vi) consumer education; and (vii) determination of level of funding to develop fee payment that is reflective of market rates. The study will begin in 1987 and report to the 1989 General Assembly. (A complete description and evaluation of the voucher system as completed by the Virginia Department for Children is found in Appendix).
- A resolution which states that, while recognizing that local school boards have the authority to determine the use of their school buildings within statutory guidelines, local governments should encourage free enterprise for the provision of before-and after-school programs by providing a system where all qualified providers are given equal opportunity to bid on and conduct programs for the children who attend those schools and that there be no discrimination between nonprofit or for-profit providers.
- In maintaining a proper government stance on the provision of day care, the state and its related agencies should adopt a policy of open bidding for the procurement of providers to operate day care facilities located within state entities and encourage participation by all forms of providers regardless of their profit status.

Respectfully submitted,

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Footnotes

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SCHOOLS. DAY CARE CENTERS. LOCAL SCHOOL BOARDS DO NOT HAVE LEGAL AUTHORITY TO OPERATE DAY CARE CENTERS UPON SCHOOL PROPERTY WITH SCHOOL BOARD EMPLOYED PERSONNEL.

December 11, 1978

The Honorable Vincent F. Callahan, Jr.
Member, House of Delegates

You advise that counsel for the Fairfax County School Board has advised the board that it may not operate a day care center, and you ask my opinion whether that advice is correct. You state that the school board currently operates three day care centers in certain elementary schools. These centers are operated from approximately 7 a.m. until 6:15 p.m., with children through the sixth grade eligible to attend. The centers are equipped with educational games and books and are staffed by day care center teachers who are not required to be certified, although they do fulfill some educational functions incidental to the operation of the center.

The powers of school boards are limited to those expressly granted, necessarily implied, or essential and indispensable to the functions of such board. Commonwealth v. Arlington County Bd., 217 Va. 558, 232 S.E.2d 30 (1977). No statute expressly authorizes county school boards to provide day care centers. For a power to be necessarily or fairly implied, it must be consistent with, and directly related to, a stated power or function of the board.

The nature of day care activities is essentially custodial in nature by providing care and supervision for children in the place of their parents or guardians. Day care centers are not essentially related to education, nor are its functions primarily directed toward education. Therefore, there is no necessarily implied relationship between the authority granted by the Virginia Constitution to the local school board to supervise the schools in the division and the operation of day care centers.

Therefore, it is my opinion that the local school board is not presently legally authorized to operate the day care centers which you describe.

Section 22-164.1 of the Code of Virginia (1950), as amended, authorizes the board to permit other uses of school property. This would not give the board the authority to engage in an activity not otherwise authorized by law. However, the board could allow a day care center operated by another entity to use school property. This would suggest a possibility that the school board could develop a relationship with some appropriate party which would permit the operation of the center by that party on school property.

1 D 12/9/87 Nowell C 1/12/88 owj

2 HOUSE JOINT RESOLUTION NO.....

3 Requesting the Department of Social Services to implement and study a
4 voucher system for subsidized child care.

5

6 WHEREAS, affordable quality child care has become a crucial link
7 in the work place today to enable more parents to be employed and
8 provide for their families; and

9 WHEREAS, in many cases subsidies for child care are provided to
10 Department of Social Services client families who have low incomes,
11 are seeking employment or are under-employed; and

12 WHEREAS, a subsidy can be in the form of a voucher, which is
13 defined as a coupon issued by a sponsoring entity to an eligible
14 family who then takes the voucher to any approved day care provider to
15 pay all or part of child care expenses. The provider then sends the
16 invoices to the agency to recover the value of the coupon; and

17 WHEREAS, vouchers are a payment alternative under current
18 administrative guidelines, but there are many variables to be
19 considered in the implementation of such a program to maximize the
20 value to dollars spent by the state for child care; now, therefore, be
21 it

22 RESOLVED by the House of Delegates, the Senate concurring, That
23 the Department of Social Services develop several pilot programs
24 throughout the Commonwealth using current dollars in the child care
25 fee system in order to study and evaluate the use of a voucher system

1 to pay for child care.

2 The study should evaluate pertinent issues including, but not
3 limited to: (i) development of an information and referral system t
4 replace current guidance provided by the Department of Social Servic
5 in selecting and obtaining child care; (ii) determination of whether
6 the program should be limited to independent working parents or shou
7 encompass all parents, including protective services clients and ADC
8 families; (iii) development of auditing procedures to ensure proper
9 expenditure of funds and (iv) determination of payment amount, metho
10 variances and other system questions.

11 The Department of Social Services, after making its evaluation,
12 shall report its findings and recommendations to the 1990 Session of
13 the General Assembly; and, be it

14 RESOLVED FURTHER, That the Clerk of the House of Delegates
15 prepare a copy of this resolution for presentation to the Secretary
16 Human Resources and the Commissioner of the Department of Social
17 Services.

18

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OK
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1 D 1/12/88 Nowell C 1/13/88 drc

2 HOUSE JOINT RESOLUTION NO.....

3 Expressing the sense of the General Assembly regarding procedures used
4 by local school boards to select outside providers for programs
5 utilizing school buildings.

6
7 WHEREAS, school boards in localities are authorized by § 22.1-131
8 of the Code to permit other uses of school property which does not
9 impair the efficiency of the schools and to set proper conditions; and

10 WHEREAS, many localities, as a result of need and taxpayer
11 authorization, have allowed the school ground and buildings to be used
12 both for recreational and care services; and

13 WHEREAS, the health, safety and well-being of the children must
14 be a primary consideration by parents and local governments; and

15 WHEREAS, due to the large numbers of working parents many
16 children are either left alone before and after school and have
17 basically unstructured and unsupervised time; and

18 WHEREAS, in reaction to this, localities have begun many programs
19 for before- and after-school care by contractual arrangement, except
20 when statutorily exempted; now, therefore, be it

21 RESOLVED by the House of Delegates, the Senate concurring, That
22 it is the sense of the General Assembly that localities who do provide
23 school age child care should establish their programs within the
24 boundaries of the essence of free enterprise by providing the
25 opportunity for all qualified providers, regardless of their profit
26 status, to offer to contract for such services, and also establish

1987 SESSION

LD9151410

HOUSE JOINT RESOLUTION NO. 306
AMENDMENT IN THE NATURE OF A SUBSTITUTE
(Proposed by the Joint Conference Committee on
February 28, 1987)

Requesting the establishment of a joint subcommittee to study the role of state and local governments, including school divisions, in competing with private for-profit day-care centers and programs.

WHEREAS, day-care centers perform a valuable service in providing care for the younger citizens of the Commonwealth; and

WHEREAS, the role of child-care facilities changes as society's needs and work patterns change; and

WHEREAS, there have been increasing efforts in some respects to have more government involvement in day-care; and

WHEREAS, any such government involvement in providing day-care will compete with privately owned for-profit businesses operated by taxpayers of the Commonwealth; and

WHEREAS, such competition should also be on terms and conditions fair to the private business sector; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That a joint subcommittee be established to study the role of state and local government, including school divisions, in competing with the private business sector day-care programs.

The joint subcommittee shall consist of seven members who shall be appointed as follows: four members of the House Committee on Health, Welfare and Institutions, to be appointed by the Speaker of the House of Delegates; and three members of the Senate Committee on Rehabilitation and Social Services, to be appointed by the Senate Committee on Privileges and Elections.

The joint subcommittee shall complete its work prior to November 15, 1987.

The indirect costs of this study are estimated to be \$10,650; the direct costs of this study shall not exceed \$5,040.

Official Use By Clerks

Agreed to By
The House of Delegates
without amendment
with amendment
substitute
substitute w/amdt

Agreed to By The Senate
without amendment
with amendment
substitute
substitute w/amdt

Date: _____

Date: _____

Clerk of the House of Delegates

Clerk of the Senate

SECTION III

VOUCHER SYSTEMS

The 1987 Governor's Conference participants recommended the examination of "free shopping vouchers" which, when utilized in a subsidy system, allow parental choice among various child day care programs. A definition and a review of voucher systems is offered to promote informed decision-making.

A voucher is defined as a coupon or certificate that is issued by a sponsoring entity to a family based on specific criteria (e.g., low income or employment). The recipient takes the voucher to any licensed or agency-approved day care provider to pay all or part of a child's day care expenses. The day care provider invoices the sponsoring agency to recover the value of the coupon (voucher).

While voucher systems have been generally successful, most programs have reported several problem areas including lack of adequate subsidy and administrative funding, poor support services for parents, increased paperwork, and lack of quality control in the use of vouchers. Most States with voucher systems tend to continue the use of the established contract systems to control quality for specific needy groups (e.g., abused, neglected). Please see Appendix E for specific information on existing voucher programs, eligibility requirements, rate setting, and pros and cons.

At the Governor's Conference, Dr. Joan Hildebrand, Visiting Assistant Professor, Towson State University, Maryland, described two types of voucher systems - open and closed. In the open system, recipients have complete freedom of choice in choosing a day care provider (vendor). The intention is

to convey unconditional regard for the recipients' decision-making abilities in regard to their children. In the closed system, the sponsoring agency allows a choice from a specified list of vendors. Closed systems are usually designed to limit choices to programs or services of high quality. This promotes the wise use of subsidy funds in terms of meeting the long term needs of children. Closed systems which limit choices to low-cost programs may result in negative consequences for children who receive poor quality care.

Rationale for Voucher Systems

Other States use voucher systems to increase the number of child care services available to low income parents, to reduce the costs of providing direct child day care services, and to utilize available federal grant funds to develop model voucher systems. (These federal funds are no longer available.) Employers offer voucher systems primarily as an employee benefit.

The Virginia Experience

Because Virginia currently has no statewide information regarding supply and demand, it is difficult to determine comprehensive statewide availability needs. The Department of Social Services reports that before the Child Day Care Fee System Program was implemented, several sections of the State had limited Title XX day care resources for ADC-eligible families. The Child Day Care Fee System Program, mandated in 1986, allows low-income, working families to freely choose child day care services from any licensed or certified child care provider. If a family day care home which is outside the licensing definition is chosen by a subsidy recipient, then a local social services worker will visit and certify the provider to allow placement into care.

Localities utilizing the Child Day Care Fee System Program have reported an increase in the number of available spaces for low income families; except

areas with limited funding. Localities with limited funding and low rates of reimbursement have experienced a decrease in the number of providers recruited and maintained.

An example may help to illustrate how such decreases occur. A city may set a cap of \$5.00 of reimbursement for nine hours of child care per day. It costs a center a minimum of \$8 to \$15 per child per day to provide care. If a center accepts the capped rate from one locality, by law it must accept the same rate from other localities wishing to place a subsidized child in the center. Proprietary centers would not break even and, therefore, could not accept any subsidized children. Non-profits could not break even either, and most may then limit the number of subsidized children allowed or refuse to accept children from low-paying localities. Centers which accept the low rates must usually cut their budgets to the minimum and thereby reduce the quality of care which subsidized children receive. In these areas, free choice is not the key to increasing availability -- increased funding is.

Two Virginia local public social service agencies operate full-time child day care centers for low income families in need of child day care -- Alexandria and Tazewell County. The Alexandria Department of Social Services has operated a day care center for 23 years. The Alexandria Day Care Center charges for services according to a local sliding fee scale; over 60% of the children served are subsidized with local or Title XX funds. The center is also participating in the Child Day Care Fee System Program. The program is certified to enroll 35 children. Offering an adult to child ratio of 1:5, the center has just earned accreditation by the National Academy of Early Childhood Programs.

The Tazewell County Department of Social Services sponsors the Raven Day Care Center which opened in March, 1987. The Department became aware of the

community need for child day care when two proprietary centers closed. At this point, the Department of Social Services made the decision to operate its own center. The center is certified to serve 27 children and is filled to capacity with a waiting list of nine children. Seventy-four percent of the children receiving services in the center are subsidized by Title XX funds.

Methodology

For the purposes of this report, several voucher systems in other States were examined. Information received has been synthesized into three models to inform decision makers regarding the advantages of each.

Major systems that have been examined for this study include the Maryland Department of Social Services Voucher Day Care Project; Montgomery County, Maryland, Working Parents' Assistance Program; Hennepin County, Minnesota, Community Services Department Program; Louisville, Kentucky, Community Coordinated Child Care Program; Massachusetts Department of Social Services Voucher Day Care Program; Hudson County, New Jersey, Voucher Subsidized Child Care Program; and Wisconsin Division of Community Services Voucher Day Care Program. In addition, a review of literature related to vouchers used by charitable organizations and employers was conducted.

The remainder of this section will examine the focus, goals, services, and activities, as well as advantages and disadvantages, of voucher systems appropriate to the three models. Detailed information regarding specific State and local voucher systems may be found in the appendices.

Voucher System Models

The three basic models for child day care voucher systems are: **Family Support, Self-Sufficiency, and Employer Benefits**. Each model has goals and

services that overlap in the delivery of child care subsidies, although each has a different primary focus. The focus of the program determines how all goals and activities in the program are implemented. In the **Family Support Model**, the focus is to help those who cannot help themselves. The **Self-Sufficiency Model** focuses on promoting economic self-sufficiency. The **Employer Benefits Model** primarily emphasizes child care as a benefit to the company which would increase employee morale, job satisfaction, and productivity. It is important to note that the sponsorship of voucher systems does not automatically determine the type of model for the system. For example, an employer may sponsor a program that is in reality the Self-Sufficiency Model or the Family Support Model in concept.

There are several types of recipients which each voucher model assists. In the **Family Support Model**, the clients are families in crisis. Typically, the voucher is utilized as an intervention technique by providing services. Some children in this model are "at-risk" due to child abuse or neglect, teenage parenting, or temporary hospitalization or imprisonment of a parent or guardian. The focus of this model is primarily on serving the child.

Parental choice in this model is a controversial topic. The model assumes that most families in crisis need help in decision-making, having had a previous history of making poor choices. Many sponsors of this model strongly favor a closed system which limits the day care choice to programs of high quality or to programs of a specific nature. Proponents of the closed system argue that this ensures that the family will make an appropriate choice regarding the type of care a child needs, thus protecting the child from further potential harm. Opponents of the closed system approach point out that limiting a parent's choice suggests parental incompetence.

The typical client family served by the **Self-Sufficiency Model** is low income, seeking employment, or underemployed. These families are striving to become self-sufficient, and the day care subsidy is used temporarily while the parent searches for work, attends job training, or begins a new job. The focus of this model is primarily on serving the working parent and the family. Complete free choice of day care services in an open system is encouraged, although the sponsoring agency sometimes contracts for resource and referral services for parents from an independent, private, or community-based service. Proponents of this open system maintain that choice is the prerogative of the parent. Opponents of complete freedom of choice believe that many times a low price may be considered first when choosing child care, and therefore, a child may be forced into a poor quality program which might eventually cause emotional stress, creating problems for society at a later point.

In the **Employer Benefits Model**, the child care voucher is a benefit which is usually awarded to employees who have maintained productivity or have attained a specific professional level in the organization. Occasionally, the entry level worker may receive this benefit as part of a recruiting effort. The focus of this model is to bind the worker to the company. Both open and closed systems are used by the Employer Benefits Model.

Goals of Voucher Systems

Stated goals of voucher day care models are often the same; interpretation of goals differ. See the chart below:

<u>Goals</u>	<u>Family Support</u>	<u>Self Sufficiency</u>	<u>Employer Benefits</u>
<u>Process Oriented Goals:</u>			
12. Gain better fiscal control over "purchase of day care" funds	X	X	
13. Establish realistic subsidy levels according to what parents can afford to pay	NA	X	X*
14. Increase the number of participating providers by reducing red tape	X	X	X
15. Reduce administrative costs by computerizing the subsidy system	X	X	X

*When affordable to the company

As the chart indicates, and as stated previously, goals do overlap among the models. However, each program prioritizes and interprets the goals differently in direct relation to program focus. For example:

Goals 2 and 3 -- increasing recipient awareness and promoting parent participation, respectively.

- The **Family Support Model** ideally encourages the parent to "buy into" the therapeutic placement of a child into a day care program so that the parent becomes a supportive member of the "treatment team."
- The **Self-Sufficiency Model** focuses on parental responsibilities for obtaining day care services so that the parent can earn his/her way in society independently of the helping relationship.
- The **Employer Benefits Model** assumes that employees are already self-sufficient and they are being rewarded for work-oriented accomplishments or abilities.

Eligibility for Participation in Voucher Programs

Initial eligibility for **Family Support Voucher System Models** targets two areas: 1) the identified needs of the child; and 2) income level of the family. Typically, the child must be labeled to receive services. Labels are

often prioritized, with child protective services cases necessarily receiving first priority. Problems have arisen, however, when low income children must be denied services in order to serve children in a higher priority category. Usually, federal guidelines which establish the poverty line for differing family sizes are utilized to determine eligibility. For example:

Chart 8

**1987 Poverty Income
Guidelines**

<u>Size Family</u>	<u>Annual Income</u>
1	\$ 5,500
2	7,400
3	9,300
4	11,200
5	13,100
6	15,000

Source: CDF Reports, April, 1987 (excludes Alaska and Hawaii)

Continuing eligibility is most often determined annually. If a family becomes financially ineligible by exceeding the federal poverty line, services may be discontinued unless a child is in physical danger.

In the **Self-Sufficiency Voucher System Model**, emphasis is placed on income level in determining eligibility. What is distinctive in the Self-Sufficiency Model is that levels of need are considered in terms of family composition rather than family size. For example, a family of three could be two adults and a child or one adult and two children. The earning capacities of these two families are vastly different and the cost of child care differs in spite of the fact that both families are the same size. Local cost of living levels must also be considered in this model when determining eligibility.

Emphasizing the self-sufficiency goal, this model requires the parent to pursue child support petitions unless there is physical danger from such pursuit. In addition, eligibility for vouchers is based on a limited period

for training or the search for employment. A maximum of three months is usually granted for this transitional period.

Once a parent is employed, he or she is required to earn at least minimum wage and be employed for at least thirty hours per week. The premium, then, is on work: to continue to receive the voucher, one must work. On-going eligibility in the **Self-Sufficiency Model** is redetermined every six months, granting six month extensions when indicated. In this model, subsidy levels are reduced gradually and are granted for a full six-month period even if the income should change during that period. The philosophy guiding this policy is that raises in income do not usually bring instant financial stability to families. This policy encourages families to become economically stable by valuing their efforts to improve their economic status.

The primary determinant of eligibility in the **Employer Benefits Voucher System Model** is company employment. Some companies may limit eligibility to income level, full-time employed staff, or staff in specified positions so as to limit the company's financial liability for this expensive benefit.

Rate Setting

Two basic payment types are used by all three models in payment of vouchers: 1) flat rate; and 2) percentage. Within these two types, a variety of methods is utilized in determining the amount to be paid to providers.

In some areas, a daily flat rate is established and everyone accepting the voucher receives the same amount per child. Any costs above that rate must be paid by the parent or the provider. Some voucher programs negotiate flat rates with each provider. Areas that use flat rates have experienced problems in changing rates, especially if rates have to be approved by legislatures.

In areas where the rates are too low or have not been adjusted for inflation in several years, providers are reluctant to accept vouchers since parents cannot afford to close the resulting gap between rate and fee. This limits the choice of care which the voucher system was intended to expand.

Other rate-setting methods utilize a sliding fee scale that will pay a percentage of the actual child care fee, usually up to a maximum ceiling rate. This will allow the parent to choose from up to 90% of the available child care providers. In most areas where percentage rates are utilized, a local rate survey is conducted regularly to determine median and ceiling rates. This method tends to be more sensitive to the market rate and is more acceptable to providers than the flat rate. Generally, families pay part of the fee according to what they can afford. This emphasizes parental responsibilities in choosing and maintaining child day care. Unfortunately, it may mean that a parent will choose less expensive poor-quality child care to increase the family cash flow.

Employers tend to use a flat rate because it is easier to administer. It also easily identifies levels of benefits that are equitable in determining company benefit packages. Since all company employees may not need the child care benefit, a flat rate can set a fair standard benefit level by which employees can receive other equal dollar compensation.

Related Parental Activities and Services

To support the family in making appropriate choices of child care arrangements, most voucher systems provide or contract for resource and referral services. Some voucher systems offer such materials as educational brochures, booklets, slide programs, movies, and videocassettes regarding high quality child care. Sometimes the resource and referral system operates the

voucher system. Another important activity of some voucher systems is recruitment and training of providers. This is especially true in areas which do not have enough licensed child care providers to meet local needs.

The more consumer-oriented the program, the more likely it is to make its services available at the consumer's convenience. Office hours are often arranged beyond the traditional work hours so that parents do not have to miss work. Office locations may be spread out over an area to reduce transportation problems of low-income clients.

Some voucher systems, typically utilizing the **Self-Sufficiency** or **Employer Benefits Models**, offer career counseling services to encourage and support the recipient concerning in his or her work-related problems. This is believed to promote productivity and self-sufficiency.

Marketing the Voucher Model

Marketing the availability of the subsidy is another important activity of voucher system models. For the **Family Support Model**, limited marketing is conducted by public agencies. Most marketing efforts may be directed toward professionals to promote the voucher system as an intervention technique. In promoting voucher systems to legislatures, government officials, and private and public donors to obtain funding sponsors, the **Family Support Model** relies on the need to help the child who is in poverty or in an unhealthy situation. Emphasis is on helping in a charitable manner.

For the **Self-Sufficiency Model**, marketing the subsidy as a method for returning tax dollars to the community is vital. It is stressed that these subsidies result in spending less welfare dollars and increasing the number of local tax-paying citizens. One marketing strategy is to deliberately house

the subsidy program in quarters that are not associated with social services or welfare programs. When promoting this system to government officials and legislatures the emphasis is on the real economic returns to the community.

The **Employer Benefits Model** utilizes the voucher system to recruit competent staff and to market the company as a caring, family-oriented employer. The emphasis of this marketing effort relates directly to the public image of the employer.

Discussion of the Voucher Systems Experience

Assessment of other States' efforts indicate that there is a place in the Commonwealth for the three voucher system models. Each serves a distinct purpose. Each has its limitations. Several common experiences surfaced in the three models examined.

1. Parents who were allowed a free choice expressed a high rate of satisfaction in being able to make their own choices for child day care.
2. Costs of various voucher projects were lower than providing direct day care services.
3. The accessibility of all types of child care greatly increased for low income children.
4. Geographic accessibility of child care providers improved.
5. The number of families being subsidized increased.
6. There was an increase in the number of families choosing family day care over center based day care.
7. The success rate in finding child care arrangements has increased.
8. Increased job stability and higher income levels resulted from voucher subsidies, causing a decrease in the number of voucher recipients who were receiving ADC payments.

Problem areas common to all models are:

1. Once a voucher program is implemented, the demand for subsidies greatly increases. Typically, funding levels in other States have been unable to keep pace with the demand. (Some States started with a minimal spending level but have had to expand the program based on the needs of working families. Massachusetts, which offers an entitled day care voucher system, will spend \$34,000,000 in '87-'88 for subsidized care. California's voucher program is spending \$26,000,000 for child care subsidies.)
2. Model programs typically limit voucher usage to licensed centers and providers. (In Virginia, several types of care are outside the licensing definition which may be appropriate for children, including family day care homes with less than five children, hospital-sponsored programs, part-time nursery schools, and some religiously-sponsored programs. Professionals advise that extension of the voucher subsidy to cover unlicensed care is not appropriate since the quality of such programs or providers cannot be monitored in any way. Controls such as certification or registration of these forms of care are needed to ensure quality.)

Problem areas which are related to specific models are as follows: In the **Family Support Model**, the helping relationship often encourages dependency on others (government) to solve family problems. In the **Self-Sufficiency Model**, the recipient, who typically pays for a portion of the care, may be forced to choose the least expensive care to conserve resources for other necessities. This may result in a child receiving care that is less than high quality. Making the least expensive choice is not to the government's advantage since poor quality care can have consequences that represent a significant cost to society.¹¹

For both the **Family Support** and **Self-Sufficiency Models**, the demand for child care subsidies has presented considerable administrative stress to current subsidy systems, especially when no administrative funds were allocated.

Most voucher programs experience a great increase in the amount of paperwork needed to administer the programs. For that reason, most successful

programs started as pilot projects prior to statewide implementation. Sufficient funds were also invested to computerize several voucher systems. Additional staff were needed to handle the increased paperwork. Other administrative problems included an increased amount of time in application procedures to determine eligibility. Delay in payments to providers is another administrative burden. Delays of four to eight weeks place financial stress on day care programs and providers. Some areas have noticed that providers have refused to serve voucher-subsidized recipients.

Problem areas for the **Employer Benefits Model** include high cost factors, especially for large companies, unless limitations are established. Those limitations may create problems related to benefit equity. Also, if available day care services are insufficient in number or quality, then the child care problems of employees may not be relieved.

Summary

Three models of voucher systems have been identified: **Family Support, Self-Sufficiency, and Employer Benefits.** These models have overlapping goals. The Family Support Model is primarily a helping model with emphasis on the child to be served (family intervention). The Self-Sufficiency Model promotes economic sufficiency, and the Employer Benefits Model rewards employees for performance relating directly to company productivity.

Voucher systems generally increase the amount of child care services available to eligible recipients, promote accessibility of services to recipients, stress parental responsibility for their child(ren), and assist low income families in becoming self-sufficient. Correspondingly, there are serious concerns regarding appropriate funding for both subsidy levels and administrative management. A voucher system does not necessarily support

quality care programs unless safeguards are built in to address this concern. (Please see Appendix E for specific State programs.)

To protect the interests of children, a voucher program must have the following structure:

1. Adequate funding;
2. Appropriate choice system (one limited to licensed or certified providers only);
3. Adequate and equitable licensing standards to improve the quality of care available;
4. A supportive resource and referral system network;
5. Appropriate rate setting procedures which are consistent with the published rate of the services;
6. Simplified administrative procedures for timely receipt of services to parents and reimbursement to providers;
7. Appropriate administrative staffing; and
8. Statewide marketing efforts to inform the public about subsidies and the selection of quality programs.

Without these components, a voucher program would be ineffective and, in the long term, costly to the State. It is fiscally wise to devise a program with quality from the beginning.

The current Child Day Care Fee System Program is a voucher model, although only one locality is using a voucher certificate. A few States have voucher programs, but do not actually use the voucher form (See Appendix E). One of the major problems with the Child Day Care Fee System Program has been lack of administrative funds. No State funds have been available to train social workers regarding the program and parental choice. No State funds were

available to develop a comprehensive subsidy delivery system in localities and, therefore, social workers have relied on the old (Title XX) subsidy methods. No statewide resource and referral program exists to assist parents in their decision-making. This means parents may have to depend on social workers who have not been trained concerning the liability issues of resource and referral services.

These Program deficiencies have created two serious misperceptions. Many parents, child day care providers, and even some social workers are still not aware of the availability of the Program. Many of those who know about the Program are not clear that clients are allowed to choose any licensed or certified provider. To correct these misperceptions, a voucher pilot project should be designed which would utilize the Child Day Care Fee System Program prior to possible statewide adoption.

Design features of a voucher pilot project:

- To encourage informed decision-making among Fee System Program recipients, three types of resource and referral services need to be tested as a part of the pilot project:
 - a. independent resource and referral services, contracted to a private or public agency separate from the subsidy sponsor;
 - b. resource and referral services offered by the agency sponsoring the subsidy; and
 - c. regional information and referral services with no counseling component.

- Experimental and matching control groups need to be established to evaluate whether the voucher or the type of referral service is a determining factor in the increased accessibility and availability of services, especially in light of the fact that the Child Day Care Fee System Program already permits free choice by recipients. Sufficient time for such an evaluation may be as long as two years.
- To ensure that results are not related to funding levels, equal funding for administrative costs and subsidies should be granted to all experimental and control groups.
- Evaluation outcomes should measure:
 - a. child day care availability and accessibility;
 - b. consumer satisfaction with vouchers and referral services; and
 - c. day care provider satisfaction with vouchers and referral services.
- Pilot project evaluation needs to be conducted by an unbiased agent.

In addition, the Department of Social Services should actively support, promote, and administer the Child Day Care Fee System Program to maximize the rights of parents to a free choice of licensed or certified child care providers.

