Report on Child Care Quality Expenditures in Texas

The mission of the Texas Workforce Commission (TWC) is to promote and support a workforce system that offers employers, individuals, and communities the opportunity to achieve and sustain economic prosperity. Historically, one of the greatest barriers to achieving and maintaining employment is the lack of affordable and reliable child care. Therefore, providing child care for those who are working or training for work is an integral part of TWC's workforce system.

Having sufficient funding for child care services is an ongoing challenge for Texas. Even though Texas is one of the few states that does not use TANF funds in addition to federal child care dollars, the state does use every available child care dollar, including drawing down all federal matching funds, to keep as many children in care as possible. TWC, through local workforce development boards (Boards), partner with child care providers across the state to provide this much needed work support.

Historical Overview

In 1993, the 72nd Legislature passed HCR 82 in response to extensive testimony concerning child care services in Texas. The House resolution encouraged appropriations to the Department of Human Services (which was the child care program lead agency) sufficient to reimburse child care facilities above the federally mandated 75th percentile payment levels.

Realizing that child care is a vital work support and key to economic development, the Texas Legislature enacted H.B. 1863 in ***1995*** that merged 28 workforce programs--including the state's subsidized child care program--into the Texas Workforce Commission (TWC), comprehensively reforming the state's workforce and welfare systems.

The following year, Congress enacted federal welfare reform, PL 104-193, or the Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) of ***1996***. Congress combined federal child care funds authorized under several different grants and acts into the Child Care and Development Fund (CCDF). At the same time, Congress dramatically increased funding for CCDF child care services to support states as they implemented welfare reform. Lawmakers realized that the ultimate success of welfare reform, achieving economic self-sufficiency for those dependent upon welfare, is greatly dependent upon states' ability to provide child care services.

In ***1998,*** the U.S. Department of Health and Human Services, Administration for Children and Families published final rules (federal CCDF regulations, Section 98.51) that requires at least 4 percent of the aggregate CCDF expenditures by the state in a fiscal year be spent for quality improvement activities.[1]

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[1] Quality activities listed in the CCDF federal regulations include activities to: provide consumer education; increase parental choice; develop and expand child care resource and referral programs; provide loans and grants to assist providers in meeting state and local health and safety requirements; improve the monitoring and compliance with state and local requirements; provide health and safety training for child care providers; and improve salaries or other compensation for child care staff.

HB 2673, enacted in ***2001*** by the 77th Legislature, charged TWC to "… collect state and local information relating to the effectiveness of the use of 4 percent quality dollars by the local workforce development boards" and to "… produce a report that highlights promising practices in expanding quality early education." That same charge was reiterated by the 77th Legislature in TWC's appropriation in Senate Bill 1, Article VII, Rider 46. In addition, the Texas Labor Code, Section 302.0045, charged TWC to produce a report on how Boards spent the 4 percent quality funds.

At the same time, the Legislature determined that a majority of the state's 4 percent quality expenditure requirement could be fulfilled by the Department of Protective and Regulatory Services' (PRS) child care licensing activities, and consequently appropriated CCDF funds to that agency. Texas now meets more than the federal 4 percent requirement through this appropriation to PRS.

Although the Legislature appropriated the 4 percent quality funds directly to PRS, all twenty-eight Boards maintained quality budgets in fiscal ***2002***, although not required,[2] and quality improvement initiatives continued. In fiscal 2003, however, four Boards eliminated quality activities in order to provide critical direct child care services and meet the contracted performance measure for the number of children served.[3] Even though Boards reduced their quality expenditures in fiscal 2003, they did continue to pay higher reimbursement rates to providers who achieve quality accreditation, as mandated by 1999 state law, and these expenditures count toward the state's overall quality spending level.

Dollars spent on quality provide a combination of activities: PRS for licensing activities, higher reimbursement rates paid to child care facilities that achieve quality accreditation, training and scholarships for certifications for child care workers, and other such quality improvement activities.

As the table below indicates, the amount of the Boards' quality expenditures for fiscal 2001 through 2003 has decreased since 2001 after the Legislature began to appropriate the 4 percent quality funds directly to PRS.

Fiscal Year	Quality Expenditures (millions)	% of Board CCDF Expenditures
2001	$23.4	6.4
2002	$20.4	4.4
2003	$10.7	2.5

The 78th Legislature continued the appropriation to PRS in the fiscal ***2004-05*** biennium. However, recognizing the growing need for child care services with the expiration of the state's welfare waiver, but lacking additional dollars for these services, the Legislature lowered its quality activity expectation and decreased the performance targets for the number of child care workers trained and the number of child care facilities that achieve Texas Rising Star (TRS) certification.

[2] For fiscal 2000 and 2001, TWC required that Boards spend at least 4 percent of their child care expenditures on quality activities. In order to provide Boards with maximum flexibility to fund direct child care services, TWC repealed this requirement effective in fiscal year 2002.

[3] Rural Capital, Brazos Valley, Coastal Bend, Middle Rio Grande, "Reported Quality Expenditures from the FY2003 CCF and CCM Contracts."

This report summarizes information from local workforce development boards on their quality activities and highlights promising practices as required by HB 2673. The practices highlighted in this report reflect expenditures over and above the 4 percent requirement that is fulfilled by PRS.

TWC Service Delivery

As with the majority of the TWC's workforce programs, twenty-eight local workforce development boards (Boards) are responsible for the planning, management, and oversight of the child care services. Within the parameters of federal law and regulations, state statutes and Commission rules, Boards have the flexibility to set policy that best supports the needs of local families and employers. By law, Texas grants priority for child care services to families who receive Temporary Assistance for Needy Families (TANF) cash assistance and who are working or participating in work activities, and families who are transitioning from welfare to work.

In fiscal 2003, an average of 112,550 children a day received subsidized child care services, a *sixty-two percent increase since 1996*. TWC has individual performance-based contracts with each of the 28 Boards for the administration of child care services. Each contract specifies the amount of funds allocated to the Board for the provision of child care services, and also includes three of TWC's nine legislative child care performance measures:

- Average number of children served per day;
- Number of child care workers trained in early care and education; and,
- The percent of eligible child care facilities that have met the Texas Rising Star (formerly Designated Vendor) voluntary certification.

Boards enter into competitively procured contracts with for-profit and not-for-profit organizations for the delivery of child care services and quality activities in accordance with the performance measures.

Texas Rising Star Certification Program

Because very few child care facilities were participating in the designated vendor program enacted in **1993** (HCR 82), the 76th Legislature **(1999)** enacted H.B. 3333, which required that each Board "establish graduated reimbursement rates for child care based on TWC's designated vendor program."[4] The Legislature, however, was careful to note that in no way should this law be interpreted to limit parental choice. The Legislature further required that the "minimum reimbursement rate for designated vendors must be at least five percent greater than the maximum rate established for non-designated vendors." It was understood that additional costs would be incurred by child care facilities attempting to exceed Texas' child care licensing standards, although no funds were appropriated specifically to implement the bill.

In fall 1999, TWC formed a workgroup charged with identifying ways to update and improve the Designated Vendor Program criteria and certification process, as well as creating a more marketable name. The workgroup consisted of TWC and Board staff, child care contractors, and child care providers from across the state.

[4] Texas Government Code, Chapter 2308, Section 2308.315

In October 2000, TWC published the revised *Texas Rising Star (TRS) Provider Certification Guidelines*, incorporating the recommendations of the workgroup with guidance by the Commission. TWC established in the TRS guidelines three graduated levels of certification for licensed centers and two graduated levels of certification for licensed group day homes and registered family homes.

Legislative Charge – Purpose of the Report

Rider 46 (***2001***) mandated TWC to "… collect state and local information relating to the effectiveness of the use of 4 percent quality dollars by the local workforce development boards" and to "… produce a report that highlights promising practices in expanding quality early education." To fulfill the legislative mandate, TWC's Child Care Services staff developed a *Quality Initiatives* survey that was mailed to each Board. The survey asked Boards to report the total expenditures for fiscal 2001 quality activities using the following categories of expense:

- Provider training and qualifications;
- Texas Rising Star (TRS) Provider recruitment and recognition;
- Graduated reimbursements to TRS Providers;
- Improvements to the physical environments of child care facilities; and
- Other quality expenditures.

In February 2002, CCS staff sent a follow-up questionnaire to Boards requesting descriptions of promising or best practices directed at increasing the availability and quality of child care services in each workforce area. A selection of some of the promising practices Boards submitted is highlighted in the Best Practices section of this report.

Results of the Quality Initiatives Survey

In fiscal 2001, Boards spent a total of $368.3 million for child care services, providing care for an average of 101,142 children.[5]

Of the $368.3 million, 6.4 percent or $23.4 million was spent on quality activities:

- Of the $23.4 million Boards spent on quality activities, $14.6 million or 60 percent funded the higher reimbursement rates for TRS Providers; and
- $2.7 million or 11 percent funded the recruitment and recognition of TRS Providers for a total of $17.3 million.[6]

During that same year, Texas had an average of 40,000 children on waiting lists for child care services.

Boards also spent a portion of their quality dollars on improving the physical environment in many child care facilities and on child care worker training and increased qualifications.

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[5] Texas Workforce Commission's FY 2001 Update for ABEST
[6] Local Workforce Development Board Survey of Fiscal 2001 Quality Expenditures

Examples of quality improvements to the physical environment included culturally diverse equipment, age-appropriate books, toys, games, bookshelves, cribs, and changing tables.

To encourage TRS facilities to maintain the TRS status, Boards spent quality dollars on marketing, incentives, awards, bonuses, and other types of recognition. Additionally, Boards also paid for the training, certifications, and other credentials for non-TRS certified child care providers as well. The majority of Board-reported expenditures in the "other" category was for consumer education related to assisting parents in making informed choices when selecting a child care provider.

In fiscal 2001, an average of 41.1 percent of the eligible child care facilities achieved or maintained TRS Provider certification, which exceeded the TWC's legislative performance target of 39 percent. During the same year, 84,361 child care providers received CCDF subsidized training, dramatically exceeding TWC's performance target of 39,520.[7]

In August 1999, the number of TRS Providers statewide totaled 914. By August 2000, that number had increased to 1,361; by August 2001, it had risen to 1,793 and by August 2002, it increased to 1,915, an increase of 110 percent over the three-year period. By August 2003, however, the number of TRS providers dropped slightly to 1,887.[8]

Best Practices

The *Quality Initiatives* survey asked Boards to report any promising initiatives or best practices using quality dollars. TWC recognizes a best practice when:

- Boards have exceeded the two quality performance measures and have made investments in other research-based quality improvement activities that expand quality early education;
- Boards have actively engaged in community-based collaborations and/or partnerships and have thereby maximized allocated federal child care funds;
- Boards have developed and implemented results-oriented, quality early education initiatives;
- Boards have developed and implemented such quality early education program that may be replicated in other parts of the state; or
- Boards have developed and implemented quality early education programs that are self-sustaining.

The majority of initiatives and efforts highlighted in the following synopses of the survey results meet one or more of the above criteria; however, only one of the initiatives, the Alamo Workforce Development Board's Infant/Toddler Model Classroom initiative, met the criteria of a self-sustaining quality early education program.

The Alamo Workforce Development Board

The Alamo Workforce Development Board, City of San Antonio, Corporate Child Care Collaborative, and small foundation grants funded *SMART START for Teachers*. Working with the City of San Antonio, *SMART START for Teachers* is a collaborative program within Family

[7] Texas Workforce Commission's FY 2001 Update for ABEST
[8] Texas Workforce Commission, Performance Reporting

Service Association's Children's Resource and Referral whose main focus is providing quality early care and education to child care workers. Along with providing child care training, scholarships, professional development awards, materials and equipment, several programs use mentor program models. Mentors help to follow up with implementation from training and include the following initiatives.

Kindergarten Readiness. Seven mentors are used for the Kindergarten Readiness projects. These mentors work with 16 child care facilities and with 32 pre-school child care teachers. On average, 500 children in care are involved with this program (all 16 child care facilities participating serve TWC-subsidized children).

Infant/Toddler Model Classroom. Six mentors are assigned to 10 teachers at 10 child care centers, involving more than 100 children. The Board funds this initiative and measures its outcomes using TRS standards. The outcome of this initiative is that five of the 10 centers with model classrooms have achieved TRS Provider status with guidance from the mentors, thus increasing the reimbursement rates to these centers. This initiative meets the criteria of self-sufficiency since the Board funds only one classroom within a facility. The government funds used for this initiative are viewed as "seed" money with the expectation that the center will continue the improvements in the remaining classrooms.

The Capital Area Workforce Development Board

The Capital Area Workforce Development Board teamed up with the City of Austin to provide the Connections Van, a mobile van filled with child care resources, such as books, age-appropriate games and toys, and other child development materials. The Connections Van travels on a routine basis throughout the greater Austin area and takes child care resources to child care centers and registered family homes (RFHs).

The Board also led an area-wide collaboration with Texas Department of Protective and Regulatory Services, Austin Families, Inc., and the Rural Capital Workforce Development Board to sponsor a two-day training event for child care workers on business management. Directors of approximately 250 child care facilities attended the conference.

Training included workshops on fiscal management, staff development, and legal issues. Many directors are promoted into their positions from the classroom with little or no experience in operating a business. By offering this training, new directors are more prepared to operate their facility from a business perspective and to understand the business side of child care, such as budgets, staff management, and planning. Due to the success of this conference, the Board sought and won a community-collaboration grant to offer for another symposium in March 2004.

The Coastal Bend Workforce Development Board

Recognizing that its child care funds represent only one small piece of the community's child care pie, the Coastal Bend Workforce Development Board focuses its efforts on building effective collaborations that support working parents. The following represent only two of several Board-led collaborations.

City of Alice Directors' Group. Providers located in rural areas are often cut off from support and training opportunities to enhance their professional development. This Board collaboration consists of rural counties' child care facilities, two community action agencies, the Regional Education Service Center, and Coastal Bend Community College. The group sponsors bimonthly meetings for directors, as well as an annual conference, which focus on improving business practices for child care providers. The Board's child care contractor was instrumental in providing in-kind support through staff time and travel in order to facilitate the group's activities and also to provide staff support for the conference.

Texas A&M University Grandparents Training. Recognizing that a growing number of grandparents are providing child care so parents can work, the Board, Texas A&M University, the Cooperative Extension Service, Texas Department of Protective and Regulatory Services, and American Association of Retired Persons (AARP) sponsored a day-long event on child development and children's health and safety issues for 300 grandparents. The Board's child care contractor provided in-kind support to market this event. Grandparents and relatives stepping in to care for children in the family is not a new concept; but as the cost of contracted child care rises, more and more parents are leaving children with grandparents so they can work.

The Gulf Coast Workforce Development Board

In June 2001, Tropical Storm Allison, wreaked havoc on the Greater Houston area. Thirty-nine child care centers and 36 RFHs sustained more than $1.1 million in both material and structural damages. Through the Child Care Recovery Fund, the Gulf Coast Workforce Development Board matched local dollars through the Houston-Galveston Area Council to generate more than $330,000 that was distributed to devastated child care centers and RFHs. The fund was instrumental in helping these child care facilities recover and reopen quickly, so parents could return to work. In addition, affected RFHs were eligible for grants up to $2,500 each; child care centers could receive up to $5,000 each. Eighty-four RFHs and 35 child care centers applied for grants. Child care providers also learned how to access information and funds through Federal Emergency Management Agency and other disaster recovery efforts.

In fiscal 2001, the Board also matched a contribution of $43,500 in local funds, which resulted in $62,500 in federal matching child care funds that provided child care provider training and development through Corporate HANDS, a Houston-area employer collaborative. The Board helped fund quality activities including equipment and supplies to TRS Providers, training and technical assistance, consultation on child development issues, and scholarships.

The Heart of Texas Workforce Development Board

Through one of its local match efforts, the Heart of Texas Workforce Development Board invested $39,000 of federal matching child care funds into SMART START, a nationally recognized mentoring program. Specifically, the Board funds the salary of a master teacher who conducts on-site training to more than 20 child care facilities per year, as well as provides guidance in establishing age-appropriate classrooms with age-appropriate materials and equipment. Through this initiative, each classroom was able to improve by at least one category on the Early Childhood Environmental Rating Scale (ECERS) or Infant Toddler Environmental Rating Scale (ITERS) measurement. Both tools assess the quality of early childhood programs.

The Tarrant County Workforce Development Board

Using quality dollars, the Tarrant County Workforce Development Board and the Arlington Independent School District (AISD) funded the salary and benefits for a full-time nurse consultant who disseminated procedures and standards on healthy infants and toddlers to teen parents and child care providers in local child care facilities.

This effort also resulted in an increased awareness of the importance of well-baby checks and prevention measures and provided child care assistance to teen moms and other parents in the programs. Approximately 130 teens and 12 child care centers participated in this initiative. Because the children of teens were located in centers with other subsidized children, all staff and families at the 12 child care centers benefited from this initiative. The Board spent $39,000 on the nurse's salary and AISD assumed the fringe benefits cost.

Conclusions

From fiscal 2001 through fiscal 2003, the Boards have spent $54.5 million on quality improvement activities. As a result, TWC has exceeded its two "quality" performance targets:

- Fiscal 2001 – 41.1% TRS providers and 84,361 child care workers trained
- Fiscal 2002 – 46.5% TRS providers and 82,969 child care workers trained
- Fiscal 2003 – 44.5% TRS providers and 79,859 child care workers trained

The majority of the Boards' quality expenditures support the achievement of these two contracted performance measures. And at first glance, the results seem promising. And yet, by fiscal 2003, only an estimated 9 percent of all child care facilities in Texas have achieved TRS status,[9] and only 28 percent of the children in subsidized child care receive care in TRS facilities.[10]

Also troubling is that only seven Boards have identified quality improvement activities that expand the quality of early education, and of those, only one can be deemed as a truly self-sustaining activity.

The quality improvement activities funded during the last three fiscal years may have merit and may have improved the early education of the children who benefited. However, it appears that only a few children have, indeed, benefited. Furthermore, TWC is already seeing a decline in the number of child care facilities maintaining TRS status as the Boards' funding for this quality improvement program has begun to decline. This implies that the Boards' quality funding has been sustaining these child care facilities' ability to maintain the TRS certification.

As Texas works to implement President Bush's No Child Left Behind Act as well as Governor Perry's Early Education goals, we must ensure that the limited government funds available are maximized and benefit as many children and working families as possible, and are used as seed

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[9] In August 2003, there were 1,887 TRS providers. In August 2002, PRS's Data Book has a total of 20,204 licensed centers, group day care homes and registered family homes, a 1 percent increase from 2001. Assuming this same 1 percent increase for 2003, the estimated number of providers in August 2003 would be 20,406. Therefore, approximately 9 percent of providers were TRS providers by August 2003.

[10] 31,584 of the 112,547 children in TWC subsidized child care were cared for in TRS provider facilities.

or start-up funds for sustainable activities. Clearly, the dollars spent on quality activities thus far have not achieved these results.

After much research, staff meetings, and consultation, TWC began systematically evaluating why so few of the quality activities and initiatives were self-sustaining and benefitted so few children and working families. As a result of this evaluation, TWC has embarked on developing a new strategy that ensures that quality initiatives are sustainable and not totally dependent on federal and state taxpayer dollars. Additionally, TWC has developed a recommendation regarding how early education can be expanded to benefit more Texas children and families.

Building Sustainable Quality Early Education Programs

In reviewing the results of the TRS Provider Certification program over the last three fiscal years, a common theme began to develop – the majority of child care facilities that had obtained and maintained the certification had done so as a result of Boards' quality funding. While it was understood that additional costs would be incurred by child care facilities attempting to exceed Texas' child care licensing standards, the graduated reimbursement schedule was to cover these costs. Unfortunately, however, for the Boards and TWC to meet the performance measure for the percent of eligible child care facilities that obtain TRS Provider Certification, Boards invested a substantial amount of funding, in addition to the increased reimbursement, to assisting child care facilities in actually achieving the increased TRS standards.

A child care facility's financial health directly affects the quality of care provided in that facility. TWC's experience with the TRS Provider Certification program indicates that a large number of the facilities participating as TRS Providers do not have the financial resources to sustain and thereby maintain the certification. TWC needed to develop a strategy where an initial investment of taxpayer dollars could reap long term benefits.

In the spring of 2003, the Development Corporation for Children (DCC), a non-profit organization in Minnesota that provides low-interest loans to child care providers, approached TWC about expanding its child care loan fund into Texas. On May 23, 2003, TWC along with Wells Fargo Bank hosted a meeting between several child care organizations, the leadership of the Texas Licensed Child Care Association, three other banking institutions, and the Texas Department of Economic Development. The DCC presented information about its loan fund and its activities in Minnesota for the past several years.

The consensus from the meeting was that a child care loan fund could be very beneficial to existing child care facilities – both center-based and home-based – as well as new child care facilities. Everyone involved also agreed that a loan without adequate business development training and technical assistance could be more harmful than good. It was determined that if the DCC decided to expand its loan fund into Texas, a business plan that addressed the business development training and technical assistance needs of child care owners would have to be developed.

In August 2003, the DCC Board voted to expand its child care loan fund into four states, including Texas. TWC has since met with staff from Texas Cooperative Extension, Texas A&M University System, about a pilot program to link Cooperative Extension's existing, successful child care business development curriculum to child care loan applicants. TWC is also exploring how a part of the Linked Deposit Program in the Governor's Office of Economic Development and Tourism could be leveraged to bring more private, Texas funding into the child care loan fund.

By using government funds to leverage private funds into a child care loan fund and providing much needed business development training and technical assistance to child care businesses, TWC can achieve a better return on its investment of government funds. This assistance will help existing and new child care businesses improve their financial health and better sustain such quality improvements as exceeding the state's licensing standards and successfully participating in the TRS Provider Certification program.

Recommendation

Only thirty-two percent of the state's licensed and registered child care facilities participate in TWC's subsidized child care program and only 13 percent of the total number of children enrolled in licensed and registered facilities are receiving TWC subsidies.[11]

In light of this as well as the fact that only 28 percent of all children receiving subsidized care are benefiting from care provided in TRS facilities, TWC recommends that the Texas Department of Protective and Regulatory Services (PRS) consider that the TRS Provider Certification program be expanded to all licensed and registered child care facilities. Many states have a tiered child care licensing standards and a graduated payment schedule that supports the increased standards. TWC proposes that the TRS Provider Certification program be re-evaluated and transferred to PRS, the agency responsible for the licensing of child care facilities.

As SB 76 requires the State Center for Early Education in conjunction with an advisory committee to develop a quality rating system for early care and education programs, it seems plausible that the work on this rating system could incorporate a re-evaluation and expansion of the TRS Provider Certification program.

By having tiered licensing standards that focus on quality early education, Texas would be able to effectively expand quality early education for all of its children.

[11] TWC estimates that 762,500 children under age 13 are in licensed or registered child care facilities. In fiscal 2002, approximately 99,600 children in subsidized child care received care in these settings.