



# **WASHINGTON STATE CHILD CARE SUBSIDY POLICY REPORT**

**Submitted to:  
THE DEPARTMENT OF EARLY LEARNING**

**BY  
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# WASHINGTON CHILD CARE SUBSIDY POLICY STUDY

## 1. INTRODUCTION

The Washington Department of Early Learning (DEL), established just one year ago on July 1, 2006, consolidated child care and early learning policy and program support into one agency. DEL now houses responsibility for child care programs and initiatives, including licensing, general program policy, subsidy policy, Head Start Collaboration, child care provider professional development, quality improvement initiatives and fiscal and management support for all child care programs. DEL is charged with the responsibility to ensure policies and program implementation are effective and efficient and integrated with other child and family services.

The Governor has clearly challenged DEL to ensure child care policy and services are seamlessly aligned to best serve the children and families of the state. To do so, DEL is reviewing all aspects of subsidized child care policy, programs and operations to ensure the goals and objectives of the administration are met. DEL chose the first areas of concentration to be four aspects of subsidized child care: Use of Market Rate Surveys, Quality of Care for Exempt Providers, Payment Authorization and Processing, and Seasonal Child Care.

DEL engaged **Public Works** to investigate practices in other states in these four distinct areas of subsidized child care. DEL defined its questions and interests as follows:

- **How do states conduct the Market Rate Survey (MRS) and what role does the MRS play in rate setting?** Beyond simply identifying the methodology used for the MRS, DEL is also interested in response rates to surveys, what actions are taken to increase response rates, and how the MRS is used in the rate setting process. DEL expressed particular interest in how states with union representation of providers, similar to recent action in Washington State, uses the MRS in the rate setting process. Therefore, **Public Works** placed specific emphasis on states with similar union representation and how this affected the rate setting process.
- **What are states doing to improve the quality of care of exempt providers?** States' policies concerning the use of exempt providers in the subsidized child care program vary greatly. For those states with larger percentages of exempt care, initiatives to improve care, encourage providers to become licensed, and communication with exempt providers is a challenge. Therefore, this investigation focused on what initiatives other states have designed or are using to improve the quality of care for exempt providers.
- **How do states calculate, authorize and process subsidized child care payments?** States also vary greatly in the way in which authorization and payment systems work. It is a hugely complicated operation. This



investigation concentrated on four areas: degree of automation available to support processing, the billing process, the calculation of payment amounts, and rules and regulations concerning eligibility and processing of changes in family circumstances.

- **What are states' policies concerning seasonal child care and how are these programs operated and funded?** DEL's focus for seasonal programs centers primarily on funding issues and how states manage resources to achieve the most benefit. This includes investigation of how states manage the program (voucher or contract), as well as flow of money to agencies and/or providers, and how shortfalls in funding are managed.

This report is, therefore, divided into the sections as follows:

- Section 2: Approach
- Section 3: The Market Rate Survey and Rate Setting Process
- Section 4: Improving Quality of Care for Exempt Providers
- Section 5: Payment Calculation and Authorization
- Section 6: Seasonal Care
- Section 7: Conclusion

Each section discusses the challenges faced by targeted states, commonalities found in states' approaches and highlights steps taken to address the issues. At the end of this report, we list References/Sources to identify the documents and reports reviewed and also the long list of program administrators willing to give their time to share experiences.

It was clear in discussions with program administrators that all states are struggling to manage a program that is not sufficiently funded to meet the need. Each state must balance competing interests and make difficult policy decisions in order to operate within funding limits. Increased payment rates to promote greater access and quality of care may result in the creation or expansion of waiting lists and fewer families being served. Some states have established a policy of no waiting lists for services. This has meant, however, that the rates paid for subsidized care are significantly lower than the federal targeted 75<sup>th</sup> percentile. Similarly, states make decisions to trade off strict enforcement of regulations in order to reduce administrative burdens and, most importantly, to meet the goal of continuity of care for children receiving services. Strict enforcement of rules regarding eligibility and changes in circumstances can prevent inappropriate expenditures of funds; however, it can also increase the cost of administration and work against the child's best interest when care is disrupted. All states weigh decisions about rates against the ability of low income families to meet co-pay requirements. All states reported the need to juggle these factors, plus the level of appropriated funds, to make decisions about rate calculation, program eligibility, handling changes in family circumstances, points of ineligibility and the role of exempt providers.



## 2. APPROACH

**Public Works'** approach to this investigation included both reviews of reports and written documentation at the state and national level, as well as extensive interviews and follow up with key program administrators. The first requirement was to determine which states should be included in the review. DEL provided guidance to **Public Works** in this selection, and we took into account the following considerations:

- **Global Challenge States.** Since 2002, Washington has been one of ten states identified in the Progressive Policy Institute's New Economy Index. This index rates each state's potential to perform in the new economy based on 21 factors such as knowledge jobs, economic dynamism and competitiveness, digital economy and technological innovation. As one of the top ten states on this index, Washington remains interested in comparisons of its programs and policies to the other states on the index. Therefore, **Public Works** chose five of the ten Global Challenge States for review: New Jersey, North Carolina, Virginia, Minnesota and Connecticut.
- **Union Activity.** Because the unionization of providers has a significant impact on the rate setting process, two states were chosen with similar circumstances: Oregon and Illinois. Three Global Challenge states also have union representation of child care providers: New Jersey, Minnesota and Connecticut. These five states provided specific insight into the affect of unionization of providers on the child care system in each of those states.
- **Seasonal programs.** Since Washington State operates a seasonal program in addition to the Federal Migrant Head Start Program, **Public Works** sought to target states with similar programs. At first, this was thought to include Texas and New Jersey; however, these states do not have programs apart from Migrant Head Start. **Public Works** ultimately focused on three states: California and Oregon, which like Washington have a separate state program for seasonal and migrant workers, and Illinois, which actually operates the Head Start migrant program in that state.

Research of subsidized child care policies and programs in the targeted states consisted of a review of Child Care Development Fund (CCDF) Plans, state program manuals, state reports and program statistical data and state web sites. Most importantly, state program managers were very generous in giving us their time to conduct extensive interviews and follow up discussions as needed. They provided a wealth of information and opinion about their own struggles to balance good public policy and program demands in light of limited funding and shared both solutions implemented and ideas in the planning stages.

Finally, we reviewed federal reports from the Administration for Children and Families, reports from national child care organizations such as the National Child Care Resource and Referral Networks and other research conducted by national research and policy groups.



### 3. THE MARKET RATE SURVEY AND RATE SETTING PROCESS

**Public Works** was asked to focus on two primary questions related to the Market Rate Survey (MRS)—how states use the MRS in setting subsidy payment rates and how, if at all, states encourage providers to respond to the survey. Research revealed strong similarities among the states in their use of the MRS, however, we observed considerable variation in how states conducted the survey and handled provider response.

#### Use of the Market Rate Survey

Federal Child Care Development Fund (CCDF) rules require states to conduct a market rate survey every two years to inform the rate setting process. Although the method of surveying providers varies, the use of the market rate survey in the rate setting process is very similar across states. Every state views the survey as a tool, however, actual rates are determined by available funding through the legislative process.

Moreover, in deciding how to adjust rates, states consider a variety of policy concerns, going well beyond the data contained in the MRS. All states use a tiered rate structure that pays licensed providers differently and typically better than exempt providers; some states also differentiated among categories of licensed providers based on quality. When determining rate increases, some states targeted the increases to certain types of providers (for example, providing a larger rate increase for licensed providers) to further a policy in favor of that kind of care. Several states eschewed a rate increase dictated by the most recent market rate survey because of concern that rates in certain geographic regions would actually decrease. Rather, states chose to implement across-the-board increases to ensure that no providers suffered a decline in rates. States were also aware that using the MRS to define rate increases can have unintended and undesirable consequences. For example, rate increases may create a ripple effect, driving prices upward and making care too costly for low- or middle income families who are not eligible for subsidies. At the same time, rate increases may do little to assist providers who will lose their private clients if they raise rates to match the subsidy payment rate. This problem emerges particularly in rural areas in some states that are subject to a statewide or regional reimbursement rate.

A look at the history of rate increases in several of the states demonstrates the process.

- In **Connecticut**, the last rate change occurred in June 2002; rates in effect at that time dated back to 1991. The change was prompted by the convergence of several forces: the consolidation of various programs into one subsidy program, the outsourcing of the program to a single vendor, and advocacy by providers, the public and legislators. The amount of the increase was determined by looking at existing funds and caseload trends, and the 60<sup>th</sup> percentile of the 2001 MRS was selected as the benchmark. At the same time, Connecticut also shifted policy for exempt settings. Previously, the state paid exempt providers at the lowest rate setting for a licensed family day care home. Under the new rates, exempt providers would be reimbursed at 1/3 of



the minimum wage. This change marked a significant shift, aimed at making unlicensed care less attractive while fulfilling guidelines around the minimum wage. Hence funding, need and policy choices determined the rate increase, not the MRS.

- Two states, **New Jersey and Oregon**, pegged past rate increases to the cost of living and implemented them across-the-board.
- In **North Carolina**, a 2006 report to the legislature had considered the cost of various options for implementing a rate increase, including an across the board increase to full market rates, some percentage of the full market rate or an increase targeted to higher quality facilities (3-Star to 5-Star facilities as rated by North Carolina's 5-Star Licensing System).<sup>1</sup> Matching the results of the 2005 MRS would have cost the state approximately \$33 million. Instead; the legislature allocated \$8.4 million and approved incremental increases for 3- to 5-Star facilities, in line with North Carolina's strong policy in favor of high quality, licensed facilities and reflecting the fact that 85 percent of children receiving subsidized care attend 3- to 5- Star facilities.

The relationship of current rates to market rates further evidences the relatively minor role played by the MRS in setting rates. As *Table 1: State Profiles* shows, in every state, current rates fall well below the 75<sup>th</sup> percentile and are often based on data from older market rate surveys.

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<sup>1</sup> "Report to the North Carolina Senate and House Appropriations Committees on Health and Human Services and the Fiscal Research Division Regarding Subsidized Child Care Reimbursement," NC Division of Child Development, March 2006.



**Table 1: State Profiles**

State	Average Monthly Enrollment*	Estimated Expenditures*	Current Percentile	Wait List	Union
Connecticut	9,600	\$85.3 million	60 <sup>th</sup> percentile (2001)	No	SEIU – Exempt and Family
Illinois	84,000	\$688.1 million	75 <sup>th</sup> percentile for 24 to 30 month old in some regions As low as 25 <sup>th</sup> percentile for other age groups and regions	No	SEIU
Minnesota	25,500	\$154.5 million	54.5 percentile – Licensed Centers 65.3 percentile – Licensed Family (2006)	Yes	AFSCME SEIU Not bargaining
New Jersey	37,800	\$280.3 million	40 <sup>th</sup> percentile (2004)	Yes	CC Workers Union Partnership between CWA and AFSCME
North Carolina	104,200	\$379.9 million	75 <sup>th</sup> percentile (2001)	Yes	None
Oregon	21,300	\$82.2 million	26 <sup>th</sup> percentile (2006)	No	AFSCME – Licensed SEIU – Exempt
Virginia	29,300	\$160.7 million	N/A	Yes	None
Washington	53,900	\$315.9 million	38 <sup>th</sup> percentile (2004)	No	SEIU – Licensed Family and Exempt

\*ACF 801 FFY 2005

\*CCDF Plans

Given these realities, it comes as no surprise that all states report provider dissatisfaction with the inadequacy of rates, as well as frustration that the MRS does not translate into increased rates. Although no state systematically collects data related to providers' satisfaction with rates, department representatives are well aware of the providers' views through complaints from providers and advocates. These complaints reveal a rather striking disconnect between some providers' perceptions of the rate setting process and the guiding principles and goals of the subsidy system. Providers expect that the market rate survey will result in increased rates, which rarely happens. Moreover, providers believe that rates should be determined by other factors—namely the cost of providing care, particularly of higher quality, and/or the need for providers to earn a living wage. Providers may fail to grasp that the guiding principle of the subsidy program is to provide access to parents seeking child care, which the federal government has determined is best done through market pricing. These misperceptions can breed discontent, which in turn, can affect providers' willingness to respond to the MRS and to provide accurate information, a topic we consider next.

### **MRS Methodologies and Response Rates**

States use one of three basic methods for conducting the MRS:

- **Surveying all providers:** In this model, the state or contractor attempts to survey as many licensed providers as possible, usually by mailing surveys and conducting phone interviews, and, more recently, by offering an on-line option. Two of the target states—North Carolina and Minnesota--use this method. North Carolina keeps the results of the survey confidential, while Minnesota's information is entered into the state's Child Care Resource and Referral (CCR&R) database.
- **Sampling:** States using this method seek to obtain a statistically valid sample, rather than survey all providers. Three states, Connecticut, New Jersey and Virginia, use this method.
- **Using CCR&R Data:** States using this method do not conduct a separate market rate survey; rather they rely on data already reported to CCR&R offices. Local CCR&Rs typically update information from providers annually, then download the data into a state database, from which data are drawn to calculate the market rates. Two of the targeted states, Illinois and Oregon, use this method.

The relative significance of the response rate depends to some degree on the choice of method. *Table 2: MRS Method and Response Rates* shows the method used by each state, who conducted the survey and the response rate.



**Table 2: MRS Method and Response Rates**

State	Method	Conducted By	Response Rate
<b>Connecticut</b>	Sampling	University of CT	Statistically valid sample by region
<b>Illinois</b>	CCR&R Data	State agency	INCCRA database – 85 percent updated
<b>Minnesota</b>	All Providers	CCR&R Institute for Applied Research	60 – 70 percent
<b>New Jersey</b>	Sampling	State agency	Centers:64 percent Family: 51 percent
<b>North Carolina</b>	All Providers	NC State University	96 percent
<b>Oregon</b>	CCR&R Data	Oregon State University	CCR&R database – 93 percent updated
<b>Virginia</b>	Sampling	State agency	Centers:96 percent Family: 83 percent
<b>Washington</b>	Hybrid: Sample families All centers	Washington State University	Centers: 69% Family: 66%

Note: States using the CCR&R method use already-collected data, so there is no true “response rate.” However, for the CCR&R method to be valid, a high proportion of licensed providers must be included in the database and information must be updated in a timely manner.

## Methods of Encouraging Provider Response and Accuracy of Data

Each state generally seeks to obtain a high response rate to its survey to maximize the quality of the data. Beyond that, though, Washington is not alone in wondering if declining response rates represent a conscious choice by providers not to participate in the process as a way to express their dissatisfaction with rates. Minnesota has on occasion noticed fluctuations in response rate in certain areas, which suggested that providers might be banding together and refusing to respond. Consequently, the department checks for evidence of collusion in reviewing data. Declining response rates in Minnesota also coincided with a rate freeze, suggesting that providers understood that responding to the survey would not translate into increased payment.

In general, states employ three basic strategies related to provider response rate:

- Avoid the issue through choice of methodology
- Provide incentives
- Conduct outreach and education to providers about the importance of responding

### Methods that minimize the importance of response rate

Although states doubtless choose a particular market rate survey method for a variety of reasons, one byproduct of using the CCR&R method is that provider response ceases to be an issue. States that rely on CCR&R data essentially avoid the issue of response rate, since providers regularly provide information to obtain referrals and other resources provided by the CCR&Rs. Nonetheless, Oregon's CCR&R trainers do host orientation sessions where they explain the importance of presenting accurate rate information, and Illinois provides information through a state newsletter sent to providers in its database.

States using the sampling method also deemphasized the importance of provider response to an extent, since none of these states attempts to survey the entire universe of licensed providers. However, these states still need to achieve a certain response rate to ensure valid results, and each made efforts to encourage responses. For example, Connecticut does not see provider response as an issue; the vendor does not get paid unless it obtains a statistically valid sample, and most providers want to respond. Nonetheless, DSS sends a letter explaining that responding to the survey works to the provider's advantage.

### Incentives

Some states have turned to incentives to improve response rates.

- Although **New Jersey** uses the sampling method, its response rate in prior years was quite low, around 30 percent. In response, the Department offered an incentive: the first 100 providers to respond to the survey received a gift of professional packets with pre-printed agreement forms. Since most providers

lacked such agreements for their private pay families, the providers saw the forms as filling a need, which made them more eager to respond. The department viewed the incentive as a good investment, as the packets cost only \$7.95 a piece, and the response rate did improve.

- In **Minnesota**, some local CCR&Rs offered gift certificates donated by local merchants for providers who responded to the survey; statewide, providers who completed the survey on-line were entered into a drawing for a web-based training certificate. The latter incentive served two goals—encouraging response to the MRS and promoting training to improve quality among providers.

### **Outreach and education**

Every state uses some form of outreach and education, ranging from a postcard or letter to providers to extensive use of multiple channels to inform providers of the importance of responding.

- **North Carolina** attributes its high response rate (only a 2 percent refusal rate) in part to the persistence of the university that conducted the study (described as “adamant” about getting response) and to efforts through various channels to explain to providers the importance of the study. The Department worked closely with CCR&Rs, county DSS directors and day care coordinators, and Smart Start local partnerships to get the message to providers. Information about the survey was also included when checks were mailed to providers. Moreover, the outreach efforts directly addressed the frustration of providers with the process. The cover letter sent with the survey emphasized the benefit to the provider of completing the survey, and the packet included FAQs that explained why the previous survey had not resulted in an increase in rates and that completion of a new survey was a necessary prerequisite to asking for a rate increase.
- **Minnesota’s** outreach efforts include trainings with CCR&R staff on how to solicit input from providers. County level administrators, who have more interaction with providers, also try to educate providers and encourage response.

We should note that one state considered a more drastic option—requiring completion of the survey as a condition of licensing—but never pursued it.

### **Verification of Rates**

In addition to concerns about concerted or coordinated efforts by providers to refuse to respond to the survey, several states acknowledge the possibility that providers were purposely reporting inflated rates. The states that use the CCR&R method do not share this concern. In their view, providers’ self interest would ensure accurate rates are reported. Since the CCR&R makes the reported data available to parents seeking



referrals, providers who inflate rates risk losing business due to overpricing.<sup>2</sup> For other states, though, the opportunity for manipulation is inherent in survey methods based on provider response. Nonetheless, no state makes any attempt to systematically verify the accuracy of rates reported, though some address the problem when prompted by seemingly anomalous results.

- In **Virginia**, the research unit that conducts the MRS places additional phone calls to survey respondents whose rates seem unusually high or low for their region.
- In **Minnesota**, concerns were raised about rate inflation in provider reporting. In 2005, the Legislative Auditor's Office investigated the claim. However, the findings ultimately did not confirm the suspicion.<sup>3</sup> At this point, the Department is not concerned about rate inflation because, as in those states that use the CCR&R method, the data collected for the MRS by the CCR&R is not confidential and is entered into the database that forms the basis for referrals to parents.
- In **Connecticut**, DSS compares data from the CCR&Rs for providers in certain geographic areas to detect evidence that providers are working together to inflate rates.

### Related Issues

A low response rate to the market survey, particularly one caused by intentional refusal to respond, creates the possibility of skewing the results. A low response rate might also cause another problem — depriving the state of valuable information about providers unrelated to rates. We did not find this to be the case in the target states. Most states use the MRS exclusively for rate information or, in some cases, for related information, such as information about vacancies and access. For example, North Carolina has included questions about providers' willingness to accept subsidized children in care, and New Jersey included geographic information designed to ascertain if parents had access to care in reasonable proximity. Moreover, states have other means of obtaining information unrelated to rates. Several states use CCR&R data for collection of information related to vacancies, accreditation and business matters. In Minnesota, the CCR&Rs conduct an annual survey regarding a host of issues, in addition to the annual market survey. Using separate surveys thus offers one way to mitigate any collateral loss of data due to a suboptimal response to the market rate survey.

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<sup>2</sup> Thus there are two potential advantages to using the CCR&R rate survey method—reducing concerns over response rate and accuracy. An assessment of the best method for conducting the market rate survey is a complex question, beyond the scope of this report, but one that might be a subject for future exploration.

<sup>3</sup> State of Minnesota, Office of the Legislative Auditor, "Child Care Reimbursement Rates," (Jan. 2005).



## Union Activity

In Washington, the recognition of a collective bargaining unit, Service Employees International Union 925 (SEIU), pursuant to RCW 41.56 has affected the market rate survey and the rate-setting process. The SEIU represents licensed family child care and exempt providers. In light of this development, **Public Works** targeted states with union activity. Three states have officially recognized unions or are on the verge of doing so: Illinois, New Jersey and Oregon. Two other states—Connecticut and Minnesota--report union activity in the state, however, the unions have not yet achieved official recognition. In all these states, the impact of the unions is felt in some respect.

### The Status of the Unions

- In **Illinois** the SEIU represents family child care providers. In 2005, Governor Rod Blagojevich signed an executive order allowing the providers to unionize.
- In **New Jersey**, home-based care providers are represented by the Child Care Workers Union (CCWU)—a partnership of the Communications Workers of America (CWA) and the American Federation of State, County, and Municipal Employees (AFSCME). Governor Jon S. Corzine signed an executive order recognizing the union in 2006.
- In 2006, the National Labor Relations Board certified two unions in **Oregon** as representatives of child care providers. Under an order from the Governor, AFSCME represents licensed providers, while SEIU represents exempt providers. An Executive Order called for a “meet and confer” – a nonbinding discussion between DHS and the unions. Legislation establishing collective bargaining rights on behalf of the providers is currently pending and is expected to pass easily.
- In **Minnesota**, two unions – AFSCME and SEIU – are active, though neither has been officially recognized by the state. To avoid conflict, the unions have divided up the state geographically. Official recognition does not appear likely in the near future.
- In **Connecticut**, SEIU is organizing exempt and family providers and the United Auto Workers has unionized workers in a few centers. Official recognition is anticipated in the future.

### Union influence on rate setting and the subsidy program

The advent of unionization has had a significant impact on the rate-setting process and has the potential to influence the program in other ways as well.

- In **Illinois**, negotiations between the state and the union have now become the driving force in rate-setting. In fact, in 2006, the parties agreed to a three-year contract, calling for a 35 percent increase in subsidy rates, implemented in four separate increases over the life of the contract. Centers, which are not

part of the union or bargaining agreement, continue to lobby independently for rate increases.

- In **New Jersey**, negotiations regarding rates are currently ongoing, with the union's initial offer seeking a 15 percent annual increase in rates for registered and exempt caregivers in each of the next three years, for a total 45 percent increase.
- In **Oregon**, DHS reached agreement with the unions to propose a substantial rate increase, currently pending, which may result in rates increased to at or near the 75<sup>th</sup> percentile. DHS and the unions worked well together in advocating for funding to improve the child care system, though there were some tensions between the unions. In Oregon, SEIU represents exempt providers. It views its members as minimum wage workers and advocated for treatment as quasi-state employees, with uniform increases for licensed and exempt providers. ACFSME, by contrast, represents licensed providers and views its members as professional, independent contractors with an emphasis on improving quality. AFSCME advocated for increased pay to reflect increased training. AFSCME's perspective aligned more closely with that of DHS, as the ultimate goal of the subsidy program is to ensure parent access to quality child care, not to provide a living wage for workers. Moreover, DHS was able to educate the unions about the policy goals of the program, the rate-setting process and the role of the legislature. For example, the unions initially argued for a rate increase based on the actual costs of providing care, rather than market driven geographic distinctions. The Department was able to explain that the goal of the program is market access, and the union dropped that claim. The department expects that the unions will convey the information to their members.
- In **Minnesota**, the unions have had little impact at the state level, however last year, they were visible in discussions about rate setting for the first time.

Beyond their involvement in advocating for rate increases, unions have the potential to influence the subsidy program in other ways.

- In **Minnesota**, unions have been active largely at the local level to ensure that counties comply with program policies and that providers understand the policies.
- In **Oregon**, DHS views the unions as allies in promoting the importance of training and quality for child care providers. Indeed, the unions will be working with the state in a pilot project aimed at improving the quality of care among exempt providers—a project we discuss in detail in the next section.



#### 4. IMPROVING QUALITY OF CARE FOR EXEMPT PROVIDERS

DEL asked **Public Works** to research how other states define the category of exempt provider and whether other states have made efforts to improve the quality of care offered by those providers. All states pay subsidies to some form of exempt care, though each state uses a different pay scale for exempt providers. Most states pay providers a percentage of the rate applicable to licensed providers, though Connecticut pays a percentage of the minimum wage, based on the number of children in care.

Exempt providers typically include friends, family or neighbors caring for a child in the child's home and relatives caring for a child in the relative's home. In some states, non-relatives providing care in their own home who serve a limited number of children are considered exempt as well. Each state also has some number of unlicensed centers; these are typically school-based or recreational programs, including summer camps. We focus here on the exempt family providers.

The target states generally require criminal and abuse and neglect (CPS) checks, compliance with minimum health and safety requirements and that the provider sign the standard agreement affirming their compliance with subsidy program policies. A few states have added training requirements. The specific definitions of exempt care and requirements for each state are detailed in *Table 3: Exempt Provider Definition and Requirements*.

##### **Efforts to Improve Quality among Exempt Providers**

In contrast to basic requirements, which are fairly uniform among the states, the proportion of children in exempt care varies significantly, as also shown in *Table 3: Exempt Provider Definition and Requirements*, as does the state's interest in enhancing the quality of care offered by exempt providers. A state's decision not to expend significant resources on exempt care may reflect the relative proportion of children in that kind of care, as well as an intentional policy choice to favor licensed providers. North Carolina exemplifies this point. North Carolina has adopted a strong policy in favor of quality, licensed care, and focuses its resources accordingly. North Carolina thus devotes few resources to improve the quality of exempt providers; instead, the state directs its efforts primarily at drawing non-licensed providers into the licensing system. Not surprisingly, less than 1 percent of subsidized children in North Carolina are in exempt care. Other states, like Minnesota, have taken the opposite tack; they have declared policies to improve quality among exempt providers as a priority. Ultimately, to some degree, all of these states favor licensed providers, as evidenced by the payment structure, however most states also recognize that parents want this option, and use it and that one of the governing CCDF principles is that states preserve parental choice.

**Table 3: Exempt Provider Definition and Requirements**

State	Who Is Exempt	Criminal Check	CPS Check	Health and Safety	Other	Percent of Subsidized Children in Exempt Care
<b>Connecticut</b>	<ul style="list-style-type: none"> <li>▪ Child's own home</li> <li>▪ Relative</li> </ul>	Yes	Yes	Yes		46 percent (includes centers such as summer camps)
<b>Illinois</b>	<ul style="list-style-type: none"> <li>▪ Child's own home</li> <li>▪ Non-relative &lt; 4 children unless sibs</li> <li>▪ Relatives</li> </ul>	Yes	Yes	Yes		Substantial
<b>Minnesota</b>	<ul style="list-style-type: none"> <li>▪ Child's own home</li> <li>▪ Non-relative caring for children of single family</li> </ul>	Yes	Yes	Yes		27 percent
<b>New Jersey</b>	<ul style="list-style-type: none"> <li>▪ Child's own home</li> <li>▪ FFN &lt; 3 children (or sibs)</li> </ul>	Disclosure	Yes	Yes	Home inspection	
<b>North Carolina</b>	<ul style="list-style-type: none"> <li>▪ Relatives</li> <li>▪ Caring for &lt; 3 children &gt; 4 hours/day</li> <li>▪ Unlimited part time</li> </ul>	Yes	Yes	Yes	First aid course	Less than 1 percent
<b>Oregon</b>	<ul style="list-style-type: none"> <li>▪ Child's own home</li> <li>▪ Relatives</li> <li>▪ Children from same family</li> <li>▪ Care for &lt; 3 children</li> <li>▪ Providers care &lt; 70 days/year</li> </ul>	Yes	Yes	Yes		60 percent
<b>Virginia</b>	<ul style="list-style-type: none"> <li>▪ In or out of home &lt; 6 children</li> <li>▪ In or out of home &lt; 5 children under age 2</li> </ul>	Yes	Yes	Yes	First aid course 4 hours skills training	
<b>Washington</b>	<ul style="list-style-type: none"> <li>▪ Child's own home if &lt; 7 children</li> <li>▪ Relative's home if &lt; 7 children</li> </ul>	Yes	Yes Via criminal check	No	Subsidy training	20 percent



Most states at a minimum make some training activities offered to licensed providers available to exempt providers as well. For example, Connecticut Charts-A-Course is a comprehensive early caregiver career development system that includes trainings and a scholarship program for income eligible providers. The program targets early childhood caregivers, which include FFN. These opportunities are advertised to FFN providers who are in the state database. Likewise, the Wheeler Clinic training program, which promotes a developmentally appropriate curriculum on basic child health and development issues, is open to exempt providers in Connecticut. However, a Minnesota study suggests that inviting exempt providers to trainings designed for licensed providers is not particularly effective.<sup>4</sup> States also “encourage” exempt providers to become licensed.

In the sections that follow, we highlight some of the more interesting initiatives.

### Enhanced Rates

Two states pay exempt providers who complete designated trainings an enhanced rate.

- **Minnesota** pays a 15 percent differential above the maximum subsidy rate to providers with a current early childhood development credential or accreditation by designated organizations.
  
- **Oregon** has a two-tier payment structure. Providers who qualify for the enhanced rate earn 7 percent more than those billing at the standard rate. The enhanced rate also allows eligible providers to use more flexible billing practices; they can bill for part-time care and count fewer hours as full time care. For a non-licensed provider to qualify, the provider must:
  - Complete two hours of abuse/neglect training and first aid/CPR training;
  - Have a food handlers’ permit; and
  - Agree to complete 8 additional hours of training within two years.
  
- The **Oregon** Child Care Resource and Referral Network (OCCRN) sponsors free trainings and, in some cases, assists with fees for providers seeking registration or enhanced rates. During FY 05-06, nearly 10,000 providers participated in trainings to get the enhanced rate, supported by approximately \$50,000 in DHS funding. New rate structures currently pending before the legislature would maintain the 7 percent differential.
  
- **Connecticut** is currently planning a new program, keyed to the Child Development Associate credential, which will pay a bonus to those who complete trainings. The initial trainings will be free; and scholarships will be available for subsequent trainings.

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<sup>4</sup> Minnesota Sparking Connections: Child Care Resource and Referral Strategies for Supporting Family, Friend and Neighbor Caregivers,” Minnesota Child Care Resource &Referral Network (2006), at p. 11.



### Equipment/Facilities

- **Connecticut and New Jersey** fund various projects designed to assist with equipment and facilities, including distribution of smoke alarms and educational/health kits.
- In **Oregon**, DHS contracts with the OCRRN to allocate \$5,000 to assist providers in meeting health and safety requirements necessary to become listed (eligible for subsidies). For example, providers who lack covers for electrical outlets or a phone may apply for assistance and receive up to \$200 in reimbursement. DHS is trying to publicize the availability of these funds through the CCR&Rs and the union, and the department has changed the listing form to let providers know help is available and that they are encouraged to seek it without fear of automatic denial of the listing application.

### Financial support (scholarship, grants)

- **North Carolina** offers financial assistance for providers enrolled in pre-licensing trainings offered by Smart Start. Smart Start is a national model program for a comprehensive early childhood system, based on local public/private partnerships. Eighty-two percent of providers who completed the training earned a 3-star license.
- **Illinois** also provides grants for in-home providers to improve care.

### Outreach and other kinds of support

Four states have multiple examples of programs aimed at improving quality among exempt providers.

- **Oregon: Family, Friends and Neighbors (FFN) Project:** This initiative is a pilot project operating in two counties and run by the local CCR&R in partnership with Chemeketa Community College, DHS, County Health, Health Start, Nutrition 1<sup>st</sup> and the SEIU. The goal of the project is to strengthen education and support for child care and early childhood education non-licensed providers receiving subsidies. The FFN project assigns a staff person to do home visits and mentor exempt providers. Participants in the program attend weekly one-hour trainings for ten weeks with an additional half hour with refreshments to encourage networking among providers. Participants receive a \$250 stipend as an incentive. DHS provided initial funding of slightly more than \$30,000, and other sources may have provided additional funding.
- **Oregon: Tool Kit/Training Project:** The Commission on Children and Families received a grant to purchase more than 4,000 tool kits for FFN from a program created in Michigan. The kits contain books and activities for infants, toddlers and preschoolers and resources for parents working with young children. The Commission plans to distribute the kits to all local CCR&Rs, which will sponsor orientation sessions. These sessions will advise providers on basic

information about the subsidy system, such as mandatory reporting requirements, health and safety issues for the USDA food program, billing and payment procedures. The orientations will also highlight the availability of the enhanced rates to encourage participants to take further trainings. Exempt providers have a genuine interest in child development issues, such as working with special needs children and preparing children for school, so the session will address those types of topics as well. Providers who wish to continue with further training will not have to pay a fee, and the Commission is working on providing reimbursement for travel and child care costs related to attending the session. Participants will receive the kits as an incentive, and the union will assist with outreach and marketing. The CCR&Rs plan to schedule frequent sessions at convenient times for providers.

- **Oregon:** Multnomah County Pilot Project: The Commission on Children and Families is also piloting a project to work with Spanish speaking exempt providers around health and literacy. A community nurse will work 12 hours per week in the program. S/he will receive extra literacy training from the county library to encourage reading. The nurse will then contact providers, do home visits, provide health and safety consultation and help providers get set up. The providers will receive \$25 worth of books from the library and the FFN provider toolkit. The program will cost approximately \$36,000.
- **Oregon:** Health Consultation Project: Several areas of the state are piloting a partnership between CCR&Rs and local health departments to work with exempt and licensed providers on health issues, such as immunizations and behavioral issues. The project includes hotlines, access to training and one-on-one consultation with a nurse through home visits. The project currently serves four Service District Areas and is anticipated to expand to six.
- **Illinois** operates the Quality Counts Van—a program that facilitates outreach and provides material to in-home providers. The van carries literature, materials and developmentally appropriate toys and games. Outreach workers also engage in literacy activities with children in exempt facilities.
- **Connecticut:** A pilot project allows exempt providers to claim reimbursement for food provided to children in their care to ensure nutritional needs of low-income kids met. The providers receive information on child nutrition, food safety and other child development issues during the course of required food program agency monitoring. The project serves approximately 50 providers and will expand to three major communities.
- **Connecticut:** Exempt providers receive a newsletter published by the University of Connecticut Cooperative Extension System and distributed to all providers.

- **Connecticut:** The state supports additional services to FFN by funding 19 communities to carry out quality enhancement programs. Each locality is required to target 10 percent of the funds (approximately \$100,000) to support FFN providers. The state distributes funds to the towns, who select local vendors to provide the services. These services have included:
  - Counseling,
  - Play groups,
  - Home visits,
  - Collaboration with museums and libraries for field trips facilitated by trained early care and education staff who model teaching practices and suggest follow up activities to complete at home with the children;
  - Resource libraries;
  - Health screenings;
  - Literacy and/or health care events at housing projects;
  - Training workshops on child developmental and safety issues;
  - Distribution of teaching materials, books and public school reading lists; and
  - Other forms of outreach and support.
  
- **Minnesota** has made improving quality of FFN care a statewide priority during the last three years. Prior to that time, support came mostly in the form of individual, grant-funded efforts without any organized state involvement. For the coming biennium, the state will provide an additional \$200,000 in each of the next two years from CCDF funds specifically for FFN. In addition, the state continues to look to foundations and other sources for grants to support their efforts. These initiatives are run by local CCR&R offices, supported by the statewide Minnesota CCR&R Network.
  
- **Minnesota** stands out for its emphasis on research in this area. The Department published a series of in depth studies of FFN care in Minnesota, surveying the characteristics and interests of FFN providers. In the *Sparking Connections* report the state identified “promising practices” for CCR&Rs reaching out to exempt providers. Based on the national Sparking Connections model, the Minnesota program was supported by the McKnight Foundation and supplemented with state funds.
  
- **Minnesota’s Eager to Learn:** The CCR&RN received a grant to provide Minnesota’s “Seeds to Early Literacy” training on-line and in Spanish. The program enrolled 15 Spanish speaking exempt providers, and 14 will graduate from the course. The program includes in-home instruction and tech support over the course of several months. Participants who complete the program are given the laptop computer used in the training. Quotes from a child cared for by one of the participants suggest the success of the program. When asked where he was going at the start of the program, the child said “to the lady’s house.” When the program was completed, the child would ask “Are we going to school today?”

- Other **Minnesota** initiatives offered by various local CCR&Rs include:
  - Child safety seat training where the provider received the car seat as an incentive;
  - Outreach efforts, including trainings around literacy, directed at the Hmong, Somali, Ethiopian and Latino populations;
  - Partnership activities with local Head Start agencies, libraries and community action agencies;
  - CPR/First Aid and Nutrition classes specifically targeted to FFN providers;
  - Play and Learn groups;
  - Newsletters sent to all providers, including FFN;
  - Engaging the retail and business community in outreach to FFN providers and families. Since retail employees often have non-standard hours and low wages, many may look to FFN care.

### **Considerations in Designing Initiatives for Exempt Providers**

Efforts to improve quality of care among exempt providers face myriad challenges from the providers. Exempt providers frequently do not identify as child care professionals and may pride themselves on self-sufficiency: They do not think they need assistance. Some are resistant to intrusion, especially since they are working in their own homes. High turnover and cultural and language barriers can also impede progress. However, a study of FFN care in Minnesota suggests that FFN providers have a strong interest in receiving support for improved quality, such as funds to pay for books, educational games and toys, safety equipment or supplies and access to a subsidized food program.<sup>5</sup>

A review of the initiatives described above, as well as the recommendations put forth in the “Sparking Connections” report, yields some useful guidelines for designing a program targeted to exempt providers:

- Locate programs and events at convenient points of access for providers;
- Schedule programming at convenient times for providers;
- Address providers’ interests and needs;
  - Consider alternatives to or modification of traditional classroom trainings;
  - Tailor newsletters to FFN
- Establish a personal connection.

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<sup>5</sup> “Family, Friends and Neighbors Caring for Children through the MN Child Care Assistance Program: A Survey of Caregivers and Parents,” Minnesota Department of Human Services (Feb. 2006), summarized in Fact Sheets #DHS-4824 and #DHS-4826.



## 5. PAYMENT CALCULATION AND AUTHORIZATION

DEL expressed specific interest in the billing and payment authorization process in other states in order to generate ideas for simplifying the process, improving customer service, reducing payment errors and encouraging continuity of care for the child. **Public Works** focused on three specific issues: the degree of automation, the billing process for providers, particularly the calculation of the payment amount, and rules and practices governing changes in eligibility. On some of these issues, we noted substantial similarities; others were marked by sharp distinctions among the states. In several instances, we found practices that were complex and not functioning optimally. In the sections that follow, we highlight states that have something noteworthy and positive to offer on each of these issues.

All states follow a similar process to determine eligibility for parents: a parent applies for assistance; a caseworker determines eligibility based on income and activity; the parent and/or caseworker verifies the information as needed; the caseworker calculates authorized hours, and a voucher or certificate is issued.

Providers typically have to enroll by completing and signing a parent-provider agreement form and meeting any licensing requirements or requirements for exempt providers. Some states refer to this process as “getting listed” or registering.

### Automation

The extent of automation varies dramatically across states. For example, Virginia has no centralized computer system; rather it has a patchwork of multiple systems run by 120 local agencies – a few Virginia localities operate without any automation at all. Likewise, Minnesota has no centralized system. Although approximately half of the 87 counties use a state system, others do not, and each county develops its own forms. Minnesota is in the process of designing a uniform statewide system. At the other end of the spectrum lie Connecticut, Oregon, Illinois and New Jersey, with highly centralized and automated systems. States with more effective and centralized automation tend to have some advantages. Systems in these states are reported as more efficient and easier to use for providers and workers, and states with the ability to link to other systems such as employment, food stamps and public assistance have an effective way of reducing error. We provide details about these systems in the sections that follow.

### Connecticut

One vendor (United Way of Connecticut) runs the entire Care4Kids child care subsidy program from one centralized office. The program operates by mail and fax, and on-line capability is currently under development. The parent and provider fill out an application that identifies the hours of care needed, the setting and other pertinent information. Once the worker determines eligibility, the computer generates a certificate of payment, valid for six months, which indicates the payment amount and the parent’s co-pay. This certificate is contained in an e-file. The process is largely paperless, as all documents are digitally imaged and electronically sent directly to workers. All payments are likewise computer-generated; providers receive checks by mail or through electronic deposit.



Moreover, the computer system is linked to other agencies and programs. Workers have direct access to the public assistance system to check if parents are receiving other benefits, as well as to the Departments of Corrections and Motor Vehicle systems to conduct background checks. The computer system is also linked to the CCR&R network, NACCRA database, and the licensing database, which enables workers to ensure providers are in good standing.

### **Oregon**

In Oregon, much of the process for obtaining subsidy payments is automated and run via three computer systems. Eligibility workers input all parent information into the Client Maintenance System (CMS). This system automatically calculates authorized hours (adding 25 percent for travel and meal time). Another computer system, the Provider Pay System (PPS), contains all provider information for those listed to receive subsidies. The Direct Pay Unit (DPU) accesses the provider listing from the PPS, and an automatic link combines the PPS and CMS to generate a bill, which is sent to the provider automatically before the end of the month. Providers fill in their actual charges and send the bill to the Direct Pay Unit. A data entry worker then records the charges on the PPS, and approximately 7-10 days later, the check is mailed. The DPU also has an automated system that allows providers to call to check on the status of payments.

### **Illinois**

Illinois' system is very similar to Oregon's. DHS maintains a centralized system for generating billing forms and issuing checks. Illinois' system also allows workers to access child support, TANF, Medicaid, state employment and other databases. Providers can use a touch-tone phone billing system in lieu of completing a paper billing certificate, though this works well only for providers with very few children in their care.

### **New Jersey**

New Jersey's automated system determines eligibility, manages the waiting list and issues payments.

### **Some Key Points Related to Automation**

Despite the benefits apparent from these systems, automation is no panacea; even the best systems report glitches and challenges. The strongest approach seems to combine four characteristics: a centralized computer system operating under uniform policies; flexibility allowed where needed; on-line capability to eliminate paper where possible; and support for providers to navigate the system. A system with these attributes can compensate for other program deficiencies.

For example, according to the Oregon CCDF Plan, the efficiency and reliability of Oregon's payment system has played a significant role in ensuring continuing access for subsidized families, despite the state's very low subsidy payment rate. Providers can rely on the subsidy portion of their bill being paid, while payment from non-subsidy clients, especially in low-income areas, is less assured. Oregon attributes the success of its payment system in part to its investment in the Child Care Resource and Referral system. Oregon has provided greater support to its CCR&Rs than many other states.



The subsidy program expects to pay \$1.8 million for the 2007-2009 biennium to CCR&Rs for enhanced services to DHS clients and listed providers. CCR&R staff members provide technical assistance, respond to questions regarding the subsidy program, help providers navigate the payment system, troubleshoot payment problems, and advocate with the client and caseworker on behalf of the provider.

Connecticut's program also reflects a synergy of automation and user-friendly policies. Connecticut's payment authorization system is highly automated and marked by simplicity, while its policies regarding absences and changes in eligibility stand out for their flexibility, subjects to which we now turn.

We should also note that some states have adopted a debit card system for public assistance that can be adapted for child care subsidies. Although none of our target states currently use this system, a recent conference on automation has sparked interest in it.

### **The Billing Process and Calculation of the Subsidy**

Two potentially problematic points of complexity are apparent in Washington's calculation of the child care subsidy and the billing process – the requirement that providers consult a chart (or pages of illustrations) to determine how many days they can bill for under Washington's absence policy, and a calculation method that uses "units" of time, instead of more commonly understood blocks of time. In light of these issues, our scrutiny of the billing process for providers focuses on the method of calculating payment, the provider's role in doing the calculation, and the state's policy regarding absences.

#### **Calculation of the Subsidy Payment**

States reviewed use several categories to calculate time and rates. In general, the states frame payment in commonly understood blocks of time. For example, in Connecticut, the provider merely has to report the charges in monthly form. If the provider's usual method of billing is on a weekly basis, the worker assists the provider in converting the charges, if necessary. Payment is then based on blocks of time, ranging from ¼ time to Full Time Plus, based on the number of hours of care authorized per week. The payment is based on enrollment and figured by a simple computer calculation. Other states, like Virginia, use hourly, daily and weekly rates, whichever is less. So if a child is in care for fewer than 6 hours per day, the payment would be calculated using the hourly rate, unless that exceeds the daily rate, in which case, the daily rate would apply. Although the cutoffs for defining different blocks of time vary among the target states, each uses essentially the same approach.

#### **Absences**

Treatment of absences varies across the states. The states below have policies and procedures that emphasize continuity of care to support what is in the best interest of the child.

- **Connecticut's** billing process and absence policy are the most flexible and least burdensome for provider and caseworker. The program essentially pays

based on enrollment, not attendance. The provider is paid for occasional absences, as long as the provider charges private paying clients for absences as well. However, if a child misses 25 percent or more of scheduled days, the parent may be required to document the reasons for the absences. Continued absences for two or more months or exceeding 25 percent may cause recalculation of approval. Providers report the number of days attended on the invoice, however, they are not required to submit attendance records.

In practice, providers are expected to identify if a child did not attend, but it is an honor system. Workers “eyeball” reports to note any extended absences; absences at the level described in the regulations will trigger the caseworker to investigate, however the Department still pays the provider. Connecticut officials realize that they may have slightly higher costs of care, however, ease of operation, and perhaps lower administrative costs, justifies the procedure. In addition, this policy can promote continuity of care for children. It is also one of the reasons for a six month certification period. We should note, as well, that Connecticut operates by far the smallest program in terms of number of children served compared to our other target states and Washington. Thus Connecticut’s relatively relaxed policies may involve other policy trade-offs that may be unacceptable to other states.

- In **Oregon**, the billing form generated by the automated information system lists the time period, co-pay that will be deducted, names of children and ages, and maximum authorized hours. Providers fill in total actual charges, on either a monthly or hourly basis, and send the form for processing. Payment is based on actual attendance, though DHS will pay for up to five absent days for scheduled care per month, as long as the provider’s policy requires private clients to pay for absent days. The billing form does not require the provider to identify these days, however, the provider must log the absence and retain attendance records for a year.
- **New Jersey**: To receive payment in New Jersey, providers fill in attendance and service information and return the voucher to the county CCR&R. Providers can receive payment for five absent days per month or up to ten days with a doctor’s note.
- In **Illinois**, the provider fills in the number of days of care actually provided on the computer-generated billing form. The state allows licensed providers to be paid in full when a child attends at least 80 percent of the month. Exempt providers are paid only for days attended.

### **Changes in Eligibility**

All states have periodic reviews and redeterminations of eligibility. The length of the review period varies, and agencies typically have discretion to choose a shorter period than the standard if family circumstances are deemed unstable. Between reviews, every state requires parents to report changes that would affect eligibility and payment. These usually include changes in job, income, family composition, or provider. They may also



include changes in work hours. However, the reporting requirement does not necessarily dictate the agency's response to the new information. The triggers for affecting a change vary, though, with rare exceptions, all states will act if a parent is no longer eligible. Most states at a minimum preserve eligibility for some period of transition, so families can avoid placement on the waiting list. Most states also provide temporary assistance while a parent looks for another job or school is on break. In general, workers will act on changes that benefit the family, for example, by decreasing the co-pay, however states' policies differ when changes would negatively impact a family.

The reporting and redetermination requirements are designed to ensure proper disbursement of funds to eligible participants and to avoid overpayments. While fiscal integrity is a laudable goal, it can come at the expense of other important policy goals. Frequent changes can interrupt or disrupt continuity of care for the child; burdensome requirements can deter families from utilizing subsidies, while increasing the administrative burdens on workers and the risk to providers. Agency policies reflect an effort to balance these competing goals in an acceptable manner.

*Table 4: Eligibility and Change in Circumstance* summarizes the relevant policies in each of the target states.



**Table 4: Eligibility and Change in Circumstance**

State	Eligibility Period	Change in Circumstance	Extended Eligibility	Entrance and Exit
<b>Connecticut</b>	6 months	<ul style="list-style-type: none"> <li>▪ Change at 6 month review unless ineligible</li> <li>▪ Favorable change immediate</li> <li>▪ No change for temporary increase above eligibility limits</li> </ul>	2 months loss of job 4 months for pregnancy 3 months FMLA for licensed care	Entrance: 50 percent SMI Exit 75 percent SMI
<b>Illinois</b>	6 months 12 months Head Start	20 percent change in income	30 day grace period when family becomes ineligible	> 20 percent of eligibility limit
<b>Minnesota</b>	6 months		30 days not working for medical reasons 90 days reserve slot, no payment	Entrance: 175 percent FPL Exit: 250 percent FPL
<b>New Jersey</b>	12 months	Parents not required to report minor changes		Entrance: 200 percent FPL Exit: 250 percent FPL
<b>North Carolina</b>	12 months Contact quarterly	<ul style="list-style-type: none"> <li>▪ Change of &gt; \$100, adjustment made</li> <li>▪ Change &lt; \$100, adjustment if favorable to family</li> </ul>	Up to 60 days if loss of job, school break	
<b>Oregon</b>	6 months 12 months Head Start	<ul style="list-style-type: none"> <li>▪ Worker discretion</li> <li>▪ Only substantial changes reported</li> <li>▪ Workers trained to weigh impact on child</li> <li>▪ Policy to keep co-pay stable, reduce administrative costs.</li> </ul>	End of month of ineligibility	
<b>Virginia</b>	12 months Contact 3X's year	Any change		
<b>Washington</b>	6 months	<ul style="list-style-type: none"> <li>▪ Any change reported</li> <li>▪ Favorable changes effective the month following receiving the information.</li> <li>▪ No negative change during eligibility period unless ineligible</li> </ul>	One month for job search	

### **Period of Review**

The period of review typically ranges from six months to 12 months, though two of the three states with 12 month intervals require regular contact at several points during the year. The length of the recertification period appears to be a significant factor affecting subsidy access and retention. A 2006 study of subsidy use in Oregon found that, counter to expectations, families using subsidies had high levels of employment and geographic stability, and they were not exiting the system because of ineligibility. Rather, the end of the eligibility period was a critical factor in families leaving the subsidy system.<sup>6</sup> An earlier study of five states likewise observed that families in states that required more frequent recertification had shorter spells of subsidy use, which may impact the stability of child care arrangements.<sup>7</sup>

### **Triggers for Changes**

Some states ignore minor changes in income, and others grant workers considerable discretion in deciding whether to act on reported changes. For example, in Connecticut, although the rules suggest the worker should act within 10 days of learning of a change, in practice, the worker will not change the certificate of payment within the six month review period if it would disadvantage the parent or provider, unless the parent has become ineligible. Moreover, a temporary increase in income that exceeds eligibility limits during a one-month period does not render a family ineligible. Changes in a family's favor, however, are implemented immediately.

Likewise, Oregon's rules are flexible, and workers have discretion whether to act on reported changes. Families need not report changes unless they expect the change to continue, and only substantial changes require agency action. The Department prefers that the parent's co-pay remain stable, so both the provider and the parent know what is expected. According to the subsidy program manual, workers should weigh this goal, as well as the impact on the family and the potential for increased workload from frequent requests for adjustment due to minor income fluctuations, against the cost to the program if no adjustment is made.

### **Extended program eligibility/assistance**

Most states provided for some period of extended eligibility during which a family may continue to receive subsidies even though the parent is no longer employed. These periods range from a few weeks in Oregon, to as long as four months in Connecticut if the unemployment is due to pregnancy. In some cases, the program allows for extended eligibility, even though the subsidy is discontinued. This policy saves the family the trouble of reapplying and protects the family from being wait-listed, however since the state does not pay the subsidy during that period, there is no guarantee that the child will have a slot with the same provider.

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<sup>6</sup> Grobe, Weber & Davis, "Why Do They Leave?": Child Care Subsidy Use in Oregon," Child Care Policy Research Issue Brief (March 2006), at p. 4.

<sup>7</sup> Marcia Meyers, et. al., "The Dynamics of Child Care Subsidy Use: A Collaborative Study of Five States," (July 2002).



### **Different entrance/exit levels**

Four of the seven target states have higher eligibility limits for exiting the program than for entering the program. Although these states did not necessarily adopt the differentiated eligibility levels in order to foster continuity of care, allowing families to remain on the program past the original eligibility limits may have that result.

### **Lessons from The Urban Institute study: “Strategies to Support Child Care Subsidy Access and Retention: Ideas from Seven Midwestern States”<sup>8</sup>**

This 2006 study researched policies in Illinois, Indiana, Iowa, Michigan, Minnesota, Ohio and Wisconsin related to subsidy access and retention. The report focused specifically on how these states treat recertifications, how they respond to and manage reporting of changes, and how they manage breaks in eligibility. As we observed in reviewing the target states that are part of this investigation, these states use a variety of diverse strategies to deal with these issues. Moreover, in researching these practices, the researchers sought feedback related to the policy tradeoffs inherent in efforts to support families’ access and retention. They sought information specifically about how states balance the policy goals of access and retention with concerns related to administrative workload, minimizing improper payments and managing program costs.

The report noted a plethora of strategies aimed at simplifying reporting of changes, which echoed those we have seen. For example, in Wisconsin, families only have to report an increase in income of \$250 or more per month. In Indiana, families must only report changes triggering loss of service, such as unemployment. Likewise, some states require adjustment of the subsidy only with certain changes; minor changes are not reported. Some states use simplified change forms to ease the process.

The study also identified a few practices not noted previously. In Illinois, a local agency sends workers to provider sites to process changes. Some local agencies in Wisconsin established change centers that handle all reporting and implementation of changes, relieving caseworkers of that responsibility. Families report changes to the change center by mail or phone, and are required to report only when the change would render them ineligible or the family has moved. It is reported that parent complaints decreased dramatically after the creation of the centers. Caseworkers had more time for other work, and their error rates dropped as well.

The Urban Institute study also affirms that other states beyond the group in this investigation have devised means of managing breaks in employment to attempt to minimize disruption in care. All of the study states allow TANF participants to receive subsidies during a job search, and five of the seven did so for non-TANF recipients as well, typically for up to 30 days. Six of the seven states offer subsidies for parents on medical leave, ranging from four to twelve weeks. The study further found some agencies do not act on temporary changes in increased income, and some back-date eligibility if re-certification has been delayed.

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<sup>8</sup> Snyder, Banhart, & Adams, “Strategies to Support Child Care Subsidy Access and Retention: Ideas from Seven Midwestern States,” The Urban Institute (2006).

## 6. SEASONAL CHILD CARE PROGRAMS

**Public Works** conducted a review of state policy and operations of seasonal programs in other states. We initially targeted California, New Jersey and Texas; however, neither New Jersey nor Texas has a seasonal program other than the Federal Head Start Migrant Program. In these states, as in all other jurisdictions, Head Start contracts with an agency in each state to operate a program for migrant workers, thus bypassing the state itself. In the states we reviewed, however, Illinois is an exception, as the state is the coordinating agency for the Migrant Head Start program. Therefore, we reviewed California, and in place of New Jersey and Texas, we targeted Illinois and Oregon. These states, like Washington, have an additional seasonal program attempting to expand and enhance the federal initiative.

DEL's interest in seasonal programs includes: how other state programs and operations work, how states maintain adequate funding given sharply fluctuating need, eligibility requirements and if there are efforts to coordinate the seasonal/migrant programs with other services and the educational system, similar to the Head Start model on which they are based. Responses to these questions are summarized in *Table 5: Seasonal Programs*.

### Program Operations

Each of the target states operates a contracted seasonal child care program; only California offered an alternative voucher program.

- **California's** Migrant Child Care and Development Program is a center-based program operated by non-profits and community based organizations that contract with the state for funding provided on a standard reimbursement rate for a day of enrollment. Centers open and close based on the agricultural season.

California's voucher program – the Migrant Alternative Payment program – operates through a single contract with the Community Action Partnership of Kern, headquartered in Kern County, the heart of the agricultural region in California. The program enrolls families in ten counties in the central valley, and vouchers travel with the families as they move through the state.

- **Oregon** contracts with three contractors; one has a single location; another has multiple locations in three counties; the third has 29 certified providers plus multiple family providers. The number of subcontracted providers varies based on agricultural labor needs.

**Table 5: Seasonal Programs**

State	Program	Eligibility	Type of Program	Point of Application	Before- and After-School	Bundling/Other
California	Migrant Program	<ul style="list-style-type: none"> <li>▪ &gt;50 percent of income – fishing, agriculture or ag-related</li> <li>▪ Live and work within state</li> </ul>	Contract	<ul style="list-style-type: none"> <li>▪ County CCR&amp;R</li> <li>▪ Provider</li> </ul>	Some run by school districts	Social, health, other School programs operated by DOE
California	Alternative Payment	+ Family must move	Voucher through contract in Kern County		None	Operated by one county, voucher follows family
Illinois	Head Start	<ul style="list-style-type: none"> <li>▪ Migrant: Come from other states, agriculture work</li> <li>▪ Seasonal: live in state</li> </ul>	Contract	<ul style="list-style-type: none"> <li>▪ Migrant: Contracted agencies</li> <li>▪ Seasonal: Contracted or CCR&amp;R</li> </ul>	None	<ul style="list-style-type: none"> <li>▪ Head Start services</li> <li>▪ Transition office, off season in TX</li> <li>▪ State: coordinating agency</li> </ul>
Oregon	3 contracts, multiple sites	<p>Migrant: move away at least 2 months</p> <p>Seasonal: transitional, 2 years maximum</p>	Contract	Provider locations	Contractors work with schools, WIC, health	None
Washington	Seasonal Child Care	Parents must meet seasonal agriculture work requirements	Contract	Contracted Community Based Organizations	None targeting seasonal care but eligible for any program	Migrant Head Start serves some children for part of the day



- **Illinois** operates a contract system, partnering with delegate agencies that provide a combination of Head Start and child care services to migrant families. Illinois' program relies on federal funding through Head Start.

## Funding

Washington's Seasonal Care Program is a contract-based system. In 2007, demand exceeded funding levels and there is uncertainty about future demand levels. The state has responded by transferring funds from other sources when possible, however, the shortfall is never completely covered. In addition, the terms of the contract provide that contractors who exceed their budget will be subject to repayment of the funds plus a 10 percent penalty imposed by the state. This may happen because the program allows contractors essentially to subcontract with licensed providers who can bill the state reimbursement system independently. Contractors, who simultaneously bill the state on a monthly basis, may not have timely information to know that one of their subcontractors billed directly. In addition, seasonal program families experience frequent changes in circumstances, and the contracted agencies do not always receive this information in a timely manner. Hence, contractors may spend more than their contracted amount, risking a penalty. In response, some contractors limit the number of children served, creating waiting lists for eligible families.

Migrant and seasonal programs often suffer from inadequate funding; however two of the target states have processes that might suggest useful strategies for managing the funding that is available.

- **California:** For the contracted programs in California, funding is decided on an annual basis, however, the funds are not disbursed all at one time. Each center contracts for a maximum reimbursable amount for the year; thus, the centers know how many children they can support in the coming fiscal year. The centers then receive funding through an apportionment system that releases funding at intervals throughout the fiscal year based on enrollment. Funds are disbursed based on highs and lows of the program, since the state knows historically that the bulk of the funds need to be released during the five to seven months of the picking season.
- In **Oregon**, program funding is determined for each biennium. Each contractor enters into an annual contract that identifies the contractor's responsibility to manage allocated funding and includes language recognizing the variability of enrollment and its impact on the usage of funds. Essentially, this provides the state with the flexibility to move funds as needed. Each year the state holds back a portion of the funding in the event a contractor has a shortfall due to unforeseen program needs; some of the held-back money can then be disbursed to meet the additional demand. Within the two year period, unused funds from the previous year can be added to the hold-back in order to increase allocations for contractors as needed.

Contractors work closely with the Department on many aspects of the program, including budgeting, billing, contract development, and program

technical support. This interaction results in a close relationship between the entities. If the coordinator sees a contractor depleting funds, the coordinator will contact the contractor about releasing “hold back” funds.

Contractors bill monthly against the earmarked amount, submitting an invoice and a monthly service report. Once the state approves these documents, the contractor receives payment. Each payment is subtracted from the total allocated funds. The state only pays up to the total funds left in the contract, so if a contractor submits an invoice in an amount larger than the remaining funds, the state only pays the amount actually remaining in the contractor’s allocation.

Despite the hold back and rollover provisions, contractors often run out of money during the year. Contractors serve families on a first-come, first-served basis, until completely exhausting their funds.

### **Accessing the Program: Eligibility and Application**

Each of the states had income limits that matched the general subsidy program. The states commonly distinguish between seasonal care – for workers who earn income from agriculture or related industries and are relatively settled – and migrant care – for workers who move either from out of state or within the state. Families typically apply through the contracted agency or provider, or through a local CCR&R. *Table 5: Seasonal Programs* details the particular requirements of each state.

### **Bundling of Services and Connections to Other School Program**

The programs vary regarding bundling of services or connections to school programs.

- **California’s** center-based programs do bundle services, including social, health and other referral services; they also coordinate with other local programs providing services. The centers provide before and after school programs. Some center-based preschool programs are run by school districts; others by private non-profit agencies. In either case, all pre-school programs must follow a curriculum.

The voucher program does not bundle services, however, ten percent of the Migrant AP fee is supposed to include payment for other services, such as health and social services referrals. This portion can also include services to providers, for example, distribution of instructional materials. In addition, although there is no formal connection between the voucher program and school districts, the department encourages providers to make connections to school systems.

- In **Illinois**, families receive a full complement of Head Start services and transition services in the off-season via a transition office located in Texas. No before or after school care specifically for migrant or seasonal children is offered.



- **Oregon** does not bundle services, however Oregon contractors do work with schools, WIC and health departments to coordinate care for children. The state has no dedicated before or after school programs for migrant children.



## 7. CONCLUSION

**Public Works** reviewed subsidized child care policies and programs in eight states chosen in conjunction with Washington State's Department of Early Learning: California (seasonal only), Connecticut, Minnesota, New Jersey, North Carolina, Oregon, Illinois and Virginia. These states are either one of the Global Challenge states, have providers (similar to Washington) who are represented by union bargaining units, or in the case of seasonal programs, have systems that are similar to Washington, that is, contracted seasonal programs.

**Public Works'** reviewed policies and practices in the target states in the four areas of interest to Washington—market rate surveys and the rate setting process, improving quality for exempt providers, payment authorizations and processing, and seasonal programs. We reviewed a wide range of documents and plans for each state, as well as national research and federal reports. Our investigation revealed that all states are struggling to manage a subsidized child care program that is not sufficiently funded. In addition, states are continually challenged to balance good public policy such as supporting the best interest of a child and family with the realities of program restrictions in both federal and state regulations. We provided significant detail on the operations and policy choices of the target states so that DEL has sufficient background to compare and contrast these states to Washington's program. There are a few general lessons learned that we highlight below.

### **Market Rate Survey and the Rate Setting Process**

The value of the Market Rate Survey seems to have diminished considerably over the last few years.

- Among all states, the market rate survey plays a relatively minor role in setting rates, yet it contributes to provider misperceptions and frustrations. Consequently, a method that satisfies the CCDF requirement in the simplest, most cost-effective manner bears further study.
- Unions undoubtedly have an impact on the rate-setting process; they also have the potential to serve as allies in promoting the importance of training and communicating with providers about rates.

### **Exempt Providers**

All states in this review favored licensed care over exempt care. Some states, however, made very clear policy choices to dedicate resources to bringing exempt providers into the licensing system rather than support quality initiatives for exempt providers.

Those states that do have initiatives targeted to improving the quality of exempt providers use several similar approaches.

- Some states offer financial incentives in the form of enhanced rates to encourage providers to complete relevant training.
- Most states engage in some form of outreach, combined with incentives, to support providers and encourage training. Effective programs typically use some or all of the following strategies:
  - Provide convenient access for providers
  - Tailor programs and publications to providers needs and interests
  - Offer incentives to reward participation
  - Establish a personal connection.
  - Partner with local agencies and community organizations.

### **Payment Authorizations**

Many states struggle with how to simplify the process, improve customer service and foster continuity of care for the child. The best-functioning programs share some of the following attributes:

- A centralized automation system with uniform policies and connectivity to other agencies.
- A straightforward, easily understandable payment calculation and billing process that requires providers merely to report charges and absences.
- Flexible policies regarding the reporting and processing of changes with lengthier recertification periods.

### **Seasonal Programs**

Inadequate funding presents a chronic problem for seasonal/migrant programs. With that limitation in mind, our research suggests the opportunity for improved program functioning in the following ways.

- Establishing a centralized accounting system, rather than allowing providers to bill independently, may alleviate some of the miscalculation of expenditures by contractors and improve efficiency.
- Establishing a funding method that anticipates cyclical changes in needs may smooth the operation of the system, even if it does not completely prevent funding shortages.

The Washington Department of Early Learning is undertaking a major initiative to review all aspects of its subsidized child care program. The policy decisions, program operations and examples from the targeted states provide some insight into the alternative approaches available. Remaining is the most difficult step – deciding what policies and program changes Washington will undertake to continue its quest to improve subsidized child care for its most vulnerable citizens.



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