

Child Care and Early Education Funding in Pennsylvania

INTRODUCTION

Pennsylvania's Pre-K Counts and Child Care Works programs provide no-cost pre-kindergarten and subsidized child care to low-income families meeting specified criteria. For fiscal year (FY) 2015-16, state spending on these programs totaled \$429.8 million (\$119.8 million for no-cost pre-kindergarten and \$309.9 million for subsidized child care).¹ In addition to state spending, federal grants provided another \$458.2 million to fund subsidized child care for Pennsylvania residents. This research brief provides an overview of both programs, explains the state and federal funding provisions for each program and estimates the economic impact of state spending for these purposes.

PROGRAM DESCRIPTIONS

Pennsylvania's pre-kindergarten (Pre-K Counts) and subsidized child care (Child Care Works) programs are administered by the Pennsylvania Departments of Education (PDE) and Human Services (DHS), respectively. Since both programs generally provide benefits to a common population, services are coordinated through the Office of Child Development and Early Learning (OCDEL). OCDEL utilizes a centralized early learning data management system (PELICAN) to determine eligibility and track data related to recipients and providers.

Pre-K Counts

The Pennsylvania Pre-K Counts program was created by Act 45 of 2007 to provide no-cost, high quality pre-kindergarten education to resident children from low-income families. Children age three through kindergarten entry age and living in families earning up to 300 percent of the federal poverty level (FPL) guidelines are eligible for the program.² Grants are awarded to approved providers on a per-child basis for each eligible student served by the provider.

Eligible providers are school districts, Keystone STARS 3 or 4 child care centers, licensed nursery schools, Head Start agencies or a third-party entity serving as a lead agency for partner agencies that would otherwise qualify as an eligible provider.³ Grant funds may only be used to offset direct expenses associated with providing services to eligible students enrolled in the program. Allowable expenses include the design and maintenance of curriculum, student transportation, professional development and meals or snacks. Funds may not be used to offset administrative or indirect costs.

The Pre-K Counts program may be provided on a half-day or full-day basis, but must be conducted for a minimum of 180 days per year and at no cost to the student's family. Eligible Pre-K Counts programs must generally meet the quality standards recommended by the National Institute for Early Education Research. These requirements include a maximum ratio of one teacher and one assistant per 20 students, where the teacher has a minimum of a bachelor's degree and Early Childhood Education Certification and the aide has a minimum of a Child Development Associate credential or equivalent certification.

For FY 2015-16, approved providers were eligible for a grant of \$8,500 per full-day student (minimum of five hours per day of instructional time) and \$4,250 per half-day student (minimum of 2.5 hours per day of instructional time). The program provided services to approximately 16,900 children at more than 300 locations.⁴

Subsidized Child Care

Pennsylvania's Child Care Works (CCW) program provides subsidized child care for children in low-income families while their parents work or attend approved training. Families may qualify for benefits by meeting any of the following criteria:

- *Low-Income* – Gross annual income falls within the eligibility guidelines for entry into the program. Entry is currently limited to working families earning up to 200 percent of FPL. Once qualified, a family remains eligible until annual income exceeds 235 percent of FPL.
- *TANF* – Parents receive Temporary Assistance for Needy Families (TANF) and participate in approved employment and training programs.
- *Former TANF* – Working parents transitioned from TANF during the past 183 days.
- *SNAP* – Parents receive Supplemental Nutrition and Assistance Program (SNAP) benefits, but not TANF, and participate in approved employment or training activities.

Subsidies are available for eligible children from birth to age 13, and may be available for children through age 19 if the child is incapable of self-care. Live-in parents must work a minimum of 20 hours per week, or 10 hours of work if also attending a minimum of 10 hours of training. For children living in a two-parent family, both parents must work unless the second parent is disabled and unable to care for the children. A parent under the age of 18 meets the work requirement if the parent attends school on a full-time basis.

Families may select the participating child care provider that best meets their needs in a variety of child care settings. Qualified providers fall into one of the following four categories:

- *Child Care Centers* – Out-of-home care is provided to seven or more children, 15 years of age or younger. A child care center must have a qualified individual in the role of director who is physically on-site at least 30 hours per week and has a minimum of an associate’s degree.
- *Group Child Care Facilities* – Out-of-home care is provided to more than six but fewer than 16 school-age children or more than six but less than 13 children of any other age. A group child care facility must have a primary staff person, but that person is not required to have a college degree.
- *Family Child Care Home* – In-home child care is

provided to no less than four and no more than six children who are not relatives of the caregiver.

- *Relative Care* – Care is provided by a grandparent, great-grandparent, aunt, uncle or sibling. The caregiver must be 18 years of age or older and not live in the child’s home. Care provided by step-relatives is not considered “relative care.”

The cost of the provided child care is offset by a weekly parental co-payment and a government subsidy. Both payments are made directly to the child care provider. The amount of the co-payment varies based on the family’s size and income. Government subsidy rates are regionalized and tiered based on the quality of care.⁵ Overall reimbursement rates are generally considered to be low in comparison to total costs. The gap may be filled with private funds, other government programs or offset by higher income families using the same provider.

CCW is administered at the local level by a network of 42 Child Care Information Services (CCIS) agencies located throughout the Commonwealth. CCIS responsibilities include: case and provider management, determination of eligibility, managing wait lists, disbursing provider payments and facilitation of sound child care choices through parental education and support. All providers must have a signed agreement with the local CCIS prior to receiving funds. Participating child care programs submit monthly statements of child attendance to the local CCIS to avoid overpayment.

CCW served an average of approximately 117,700 children per month in FY 2015-16.⁶ Families qualifying for subsidized care as TANF, SNAP or former TANF receive immediate assistance and are not subject to a waiting list. As of April 2017, the waiting list for subsidized (low-income) care included approximately 13,000 children.

SOURCES OF FUNDING

While Pennsylvania’s Pre-K Counts is funded entirely by the state, federal grants provide approximately 60 percent of CCW funding. (See Table 1.) The bulk of these funds come from the Child Care and Development Fund Block Grant (CCDFBG) and reprogrammed funds from the Temporary Assistance

for Needy Families Block Grant (TANFBG). In addition, state spending on both Pre-K Counts and CCW allow Pennsylvania to meet maintenance of effort (MOE) requirements necessary to qualify for other federal monies that are not used in either program.

State Funds

Pre-K Counts is funded via a specified line item in PDE's budget. In FY 2015-16, funding for this program totaled \$119.8 million.⁷ State funding for CCW is provided in two parts. The Child Care Services line item in DHS's budget provides funding for recipients qualifying for subsidized child care based on income. Subsidies provided to TANF, former TANF or SNAP families are provided through the Child Care Assistance line. In FY 2015-16, state funding for CCW totaled \$309.9 million.⁸

Federal Funds

For FY 2015-16, Pennsylvania received no federal funding related to the Pre-K Counts program, but did utilize \$458.2 million in federal funds for CCW. Most federal child care assistance funding is provided through the CCDFBG (\$200.1 million), TANFBG reprogrammed as CCDFBG (\$177.0 million), TANFBG direct spending (\$29.4 million) and the Social Services Block Grant (\$31.0 million).⁹ For continued federal funding, states are generally required to meet or exceed annual minimum spending thresholds related to the specified program. This is known as MOE and is discussed further in a later section (*Impact of State Spending – Federal Grants*).

IMPACT OF STATE SPENDING

Economic Impacts

Table 2 displays Pre-K Counts and CCW payments to child care providers and for associated program costs.¹⁰ For FY 2015-16, the state funding generated a total of \$474.9 million in spending on Pennsylvania child care and early education (includes \$45.4 million in parent co-payments associated with the state spending and excludes all payments to out-of-state providers). The state funding triggered an additional \$69.9 million in spending from federal CCDFBG matching funds (includes \$9.1 million in parent co-payments associated with the federal spending and excludes all payments to out-of-state providers).¹¹ Combined, this amount (\$544.8 million) represents direct spending on the Pre-K Counts and CCW programs.

The initial round of economic activity (direct spending) generates additional impacts as it ripples through the economy. For example, as a result of the increased direct spending, providers of Pennsylvania child care and pre-kindergarten programs purchase goods and services from businesses in other industries (indirect spending). The additional direct and indirect spending increases earnings, as new jobs are created, existing wages are increased and enhanced profits flow through to owners. The economic activity generated by the increased earnings creates yet another round of effects (induced spending). A simplified way to measure the impacts of

Table 1
Total Funding for Pre-K Counts and Child Care Works
FY 2015-16

	State	Federal ¹	Total
Pre-K Counts	\$119.8	\$0.0	\$119.8
Child Care Services	155.7	294.3	450.0
Child Care Assistance	<u>154.3</u>	<u>163.9</u>	<u>318.2</u>
Total Spending	429.8	458.2	888.0

Note: in millions of dollars.

¹ Includes funds placed in budgetary reserve.

Source: 2017-18 Executive Budget and supplemental reports supplied by the Pennsylvania Departments of Education and Human Services.

direct spending on the state economy is through the use of Regional Input-Output Modeling System (RIMS II) multipliers.

RIMS II multipliers provide an estimate of the change in total economic output for a given change in direct spending. For example, an output multiplier of 2.2 implies that \$1 in direct spending could be expected to increase total spending or output by \$2.20, as the funds are spent and re-spent throughout the economy. The additional \$1.20 of spending activity reflects the impact of the indirect and induced spending.

This analysis uses multipliers computed by the U.S. Bureau of Economic Analysis based on input-output data for 2007 and local industry data from 2015 (RIMS II, Type 2 multipliers).¹² The values for relevant

Pennsylvania-specific output or spending multipliers are: 2.08 (elementary and secondary schools) used for payments to school districts and Head Starts, 2.15 (child day care services) used for payments to child care providers and 2.28 (other government enterprises) used for government expenditures related to administrative and program costs. The multipliers for elementary and secondary schools and child day care services are relatively high due to (1) the disproportionate number of low-paying jobs characteristic of the early childhood education (ECE) industry (i.e., any increase in wages is primarily spent not saved), and (2) most of the spending remains in-state by nature of the ECE industry.

The application of these multipliers yields \$1.2 billion in economic output. Note that the analysis utilizes

**Table 2
Pre-K Counts and Child Care Works Spending and Resulting Economic Output
FY 2015-16**

	Schools ¹	Child Care Centers ²	Program ³	Total
Pre-K Counts ⁴	\$61.5	\$58.1	\$0.2	\$119.8
Child Care Works ⁵	<u>0.0</u>	<u>312.7</u>	<u>42.4</u>	<u>355.1</u>
Total	61.5	370.8	42.6	474.9
CCDFBG Federal Matching Funds ⁶	<u>0.0</u>	<u>63.0</u>	<u>6.9</u>	<u>69.9</u>
Direct Spending	61.5	433.8	49.5	544.8
Applicable Multiplier ⁷	2.08	2.15	2.28	
Economic Output	127.8	932.4	113.1	1,173.3

Note: in millions of dollars. Totals may be impacted by rounding.

¹ Includes distributions to school districts and Head-Start programs.

² Includes Child Care Works distributions to relative providers and entities characterized as "other" for purposes of the Pre-K Counts program.

³ The program expenditures related to Pre-K Counts reflect a representative share of PDE operating costs (\$0.2 million). The program expenditures related to CCW include administrative costs, as well as ancillary costs related to the program (i.e., parent education, child care quality initiatives, provider training, etc.).

⁴ According to data provided by PDE, all payments appear to be distributed to in-state providers.

⁵ Reflects state funding only. Includes \$45.4 million in parent co-payments associated with the state funding. This amount is reduced for payments to out-of-state providers (less than \$250,000 for FY 2015-16).

⁶ Reflects federal matching funds triggered by state spending sufficient to meet the CCDFBG MOE. Includes parent co-payments associated with the federal funding (\$9.1) and is reduced for payments to out-of-state providers (less than \$50,000). Other federal funding is excluded from this calculation because it is assumed that absent CCW, the spending would still have occurred, but on a similar or related program.

⁷ U.S. Bureau of Economic Analysis, Regional Input-Output Modeling System (RIMS II). December 2016.

Source: Pennsylvania Departments of Education and Human Services.

total output or spending multipliers to produce this result. These multipliers are consistent with the common approach used by other studies on this topic. However, total output multipliers double count certain sales transactions since they include “intermediate” purchases that are also reflected in final sales. In order to derive the net impact on the state economy or gross domestic product, a value-added multiplier should be used. Those multipliers are as follows: 1.28 (elementary and secondary schools, 1.27 (child day care services) and 1.13 (other government enterprises).

When determining budget priorities, policymakers must weigh the tradeoffs between alternative spending programs. Funds directed to one program may increase out-of-state investment in the Pennsylvania economy, but may also allow some funds to flow out-of-state. Spending on an alternative program (e.g., Pre-K Counts or CCW) may largely remain in state, or trigger additional federal spending. To provide context for the economic impact of spending on the Pre-K Counts and CCW programs, the following comparable output multipliers for other types of state spending are provided: 1.83 (infrastructure – water and sewer), 2.15 (infrastructure – highways and streets) and 1.26 (tax relief to households).¹³

Impact on Federal Grants

The impact of federal funding related to CCW and Pre-K counts spending must be discussed separately due to the interaction between MOEs for the various federal grant programs. For FY 2015-16, CCW was supported by \$133.3 million in CCDFBG federal discretionary and mandatory funds. These funds were available regardless of state expenditures and required no MOE. CCW received an additional \$60.8 million in CCDFBG matching funds, which required a state MOE of \$102.8 million.¹⁴

Separately, Pennsylvania received \$719.5 million in TANFBG. As stated previously, \$206.4 million of these funds (includes TANFBG reprogrammed funds and direct spending) were used to support CCW. The remaining federal funds (\$513.1 million) were used to support other TANF programs. The FY 2015-16 TANFBG required a state MOE of \$407.1 million. The TANF MOE was met largely through the expenditure of \$283.2 million in state spending for CCW and Pre-K Counts.¹⁵ (See Table 3.) Without the state spending on the CCW and Pre-K Counts program, more than \$700 million in federal TANFBG would be lost. Although lower CCW and Pre-K Counts spending could reduce available federal funds, additional state spending would not increase the amount of federal funds available.

**Table 3
Maintenance of Effort by Program
FY 2015-16**

TANFBG		CCDFBG	
TANFBG Available	\$719.5	CCDFBG Available	\$60.8
Actual Spending	435.8	Actual Spending	119.0
Child Care Assistance	100.7	Child Care Assistance	40.1
Child Care Services	76.8	Child Care Services	78.6
Pre-K Counts	105.6	Other Spending	0.4
Other Spending	152.6		
Required MOE	407.1	Required MOE	102.8
Spending in Excess of MOE	28.7	Spending in Excess of MOE	16.2

Note: in millions of dollars.

Source: Pennsylvania Department of Human Services.

Other Impacts

This analysis does not consider the following potential impacts resulting from spending on subsidized child care and pre-kindergarten programs:

- Studies have shown that quality child care and pre-kindergarten programs for at-risk or low-income children provide improved long-term educational outcomes (increased kindergarten readiness, reduced special education placements, etc.).¹⁶
- Increases overall labor force participation.
- Allows parents to further training or develop skills, promotes strategic career development and creates a more well-trained workforce.
- Reduced spending on safety net programs (primarily Medical Assistance) may result as families move to self-sufficiency through employment.

Overall, these impacts would generally enhance long-term economic growth. However, while studies have noted these beneficial effects, they do not attempt to quantify them due to the inherent difficulty of the computations.

SUMMARY

The CCW and Pre-K Counts initiatives combine state and federal funds to provide child care and no-cost pre-kindergarten to low-income Pennsylvania families. For FY 2015-16, state expenditures for both programs reached \$429.8 million. Combined with additional federal funding of \$458.2 million for CCW, total spending reached \$888.0 million.

Using RIMS II multipliers, it is estimated that state funding on Pre-K Counts and CCW, combined with federal matching CCDFBG funds and the associated parent co-payments yielded \$1.2 billion in total economic activity for FY 2015-16. In addition to the increased economic activity, the state spending provided the MOE necessary to secure \$719.5 million in TANFBG. Of this amount, \$513.1 million was used for programs unrelated to Pre-K Counts or CCW (TANF generally).

Glossary of Acronyms

CCW	Child Care Works. Pennsylvania's subsidized child care program.
CCIS	Child Care Information Services. Agencies that administer Child Care Works at the local level.
CCDFBG	Child Care and Development Fund Block Grant. A federal block grant which provides funding for an integrated child care program.
DHS	Pennsylvania Department of Human Services.
ECE	Early Childhood Education.
FPL	Federal Poverty Level. Guidelines issued each year by the federal government and used to measure poverty based on family income and size.
MOE	Maintenance of Effort. The minimum state spending required to qualify for federal funding of related programs.
PELICAN	Centralized early learning data management system used by PDE and DHS.
PDE	Pennsylvania Department of Education.
OCDEL	Office of Child Development and Early Learning. Coordinates services offered through the Pre-K Counts (administered by PDE) and Child Care Works (administered by DHS) programs.
RIMS	Regional Input-Output Modeling System.
SNAP	Supplementary Nutrition Assistance Program. A federally funded program to assist low-income families in securing healthy food.
STARS	Keystone Standards, Training/Professional Development, Assistance, Resources and Support performance system.
TANF	Temporary Assistance for Needy Families. A federal-state program that provides cash assistance to families in need.
TANFBG	Temporary Assistance for Needy Families Block Grant. Federal block grant provides funding for the TANF program.

Endnotes

1. Excludes \$44.2 million in Head Start Supplemental Assistance.
2. The Head Start Supplemental Assistance Program serves three and four-year old children in families earning up to 130 percent of FPL.
3. The amount of the grant passed-through to partners is dependent on the services provided by the lead agency (e.g., professional development, teacher evaluation or materials and supplies purchasing). There is no requirement regarding the minimum amount that must be passed through to partner agencies.
4. Pre-K Counts participating students as reported in the *2017-18 Executive Budget*. Service locations as reported in *Pennsylvania Pre-K Counts/Head Start Supplemental Assistance Program Report on Program Operations Fiscal Year 2015-16*, September 2016.
5. Quality of care is determined using the Keystone Standards, Training/Professional Development, Assistance, Resources and Support (STARS) performance system.
6. Includes approximately 67,500 low-income children and 50,200 children qualifying as TANF, former TANF or SNAP.
7. Program expenditures related to Pre-K Counts are increased by \$0.2 million to reflect a representative share of PDE operating costs. Expenditures exclude \$1.6 million transferred to Child Care Assistance as a cost-sharing measure related to PELICAN.
8. Includes \$155.7 million for Child Care Services and \$154.3 million for Child Care Assistance. The Child Care Assistance funding includes \$1.6 million transferred from Pre-K Counts as a cost sharing measure related to PELICAN.
9. Under federal guidelines, states are permitted to transfer up to 30 percent of their TANFBG funds to CCDFBG. This is in addition to any TANF funds spent directly on child care assistance programs.
10. CCW program costs include parent education, child care quality initiatives, provider training and other ancillary costs related to CCW, but not disbursed as direct payments to providers to offset qualified child care expenses.
11. Other federal funding is excluded from this calculation because it is assumed that absent CCW, the spending would still have occurred, but on a similar or related program. See *Impact on Federal Grants* for more information.
12. U.S. Bureau of Economic Analysis, Regional Input-Output Modeling System (RIMS II). December 2016. <https://bea.gov/regional/rims/rimsii/>.
13. The comparable multipliers provide only general guidance regarding the potential economic impact from an alternative use of the state funding. To determine the full impact, a detailed analysis of the flow of funds under the alternative scenario is required. Due to the complexity of those computations, this report does not attempt to compute the economic impact from those alternative uses.
14. The federal matching funds along with the associated parent co-payments are included in the economic impact section above, because they are tied directly to the state CCW spending and have a limited purpose (child care funding).
15. Although the Pre-K Counts program is not supplemented with federal spending, state spending on this program increases the availability of federal grants (TANF) for unrelated programs.
16. *Early Childhood Education for Low-Income Students: A Review of the Evidence and Benefit-Cost Analysis*, Washington State Institute for Public Policy. January 2014. http://www.wsipp.wa.gov/ReportFile/1547/Wsipp_Early-Childhood-Education-for-Low-Income-Students-A-Review-of-the-Evidence-and-Benefit-Cost-Analysis_Full-Report.pdf.

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