

# CHILD CARE

## Scope of the Problem and Indicators of Need

Appropriate, safe, reliable, quality child care is important for working adults to maintain employment and also for their children's development. However, despite being such a necessity, low-income families may find child care to be cost-prohibitive. There is an express need for child care among low-income families in New Jersey, as many are working and therefore away from home. As it is, 80 percent of New Jersey's families with children lived in poverty in 2004 despite having a worker in the family.<sup>1</sup> Additionally, 61 percent of families with children living in poverty had a parent working more than part-time.<sup>2</sup> In all, approximately 251,999 of New Jersey's children were living in poverty; for a family of three this means having income below \$16,090 a year in 2005.<sup>3</sup> Child care costs vary greatly across the state. For example, child care for a family with an infant costs \$435 per month in Cape May County but \$970 in Hunterdon County.<sup>4</sup> If a family is already struggling to make ends meet, steep child care expenses can make it unaffordable. In order to better understand whether New Jersey's budget allocations are sufficient for the child care needs of residents in the state, the following information looks in-depth at the child care needs of low-income residents. It begins by highlighting the positive impact of child care on poor families. It also details the negative repercussions that result from a lack of child care and looks at the barriers faced by low-income families in trying to find quality child care.

Numerous studies have demonstrated the positive impact of child care subsidies, especially for poor households. Low-income mothers who get child care subsidies are more likely to find and retain employment, stay off welfare and have higher earnings.<sup>5</sup> Children receiving subsidies for child care are also more likely to be in a formal, licensed child care center, have more stable care, and have mothers who were more satisfied with their child care arrangement.<sup>6</sup> Though New Jersey has child care assistance programs to help low-income families, the programs frequently fall short in meeting the existing demand and eligible people are placed on long waiting lists. In August 2006, New Jersey had 4,368 children on the waiting list for child care assistance<sup>7</sup>. On the whole, only one in seven eligible children are receiving federal child care assistance in the U.S.<sup>8</sup> The demand for child care subsidies will only increase in FY07, since new federal rules

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<sup>1</sup>Center on Budget and Policy Priorities. 2006. "Poverty Despite Work."

<sup>2</sup>Center on Budget and Policy Priorities. 2006. "Poverty Despite Work."

<sup>3</sup> Author's calculation from the 2005 American Community Survey, US Census Bureau, *Table b17001, Poverty Status in the Past 12 Months by Sex and Age, 2005*

<sup>4</sup> *The Real Cost of Living 2005: The Self-Sufficiency Standard for New Jersey*, Diana Pearce, University of Washington, The Legal Services of New Jersey Poverty Research Institute, June 2005, <http://www.lsnj.org>

<sup>5</sup> CLASP: Child Care Assistance helps Families Work: A Review of the Effects of Subsidy Receipt on Employment by Hannah Matthews, 2006

<sup>6</sup>[http://www.clasp.org/publications/house\\_tanfbill\\_childcare.pdf](http://www.clasp.org/publications/house_tanfbill_childcare.pdf) Brooks, F., Risler, E., Hamilton, C. and Nackerud, L. (2002).

"Impacts of child care subsidies on family and child well-being." *Early Childhood Research Quarterly*, 17, 498-511. (See also Errata to "Impacts on child care subsidies on family and child-well-being." *Early Childhood Research Quarterly*, 18(1), Spring 2003, 159.)

<sup>7</sup> Data obtained from the National Women's Law Center. *Child Care Assistance Policies 2005: States Fail to Make Up Lost Ground, Families Continue to Lack Critical Supports*, 2005. Compiled by: National Association for Child Care Resources and Referral Agencies. [http://www.naccra.org/randd/data/rpt\\_waitforcca.php?orderby=State](http://www.naccra.org/randd/data/rpt_waitforcca.php?orderby=State)

<sup>8</sup> <http://www.childrensdefense.org/earlychildhood/statefacts/nj.pdf>

require a greater number of welfare recipients to participate in work activities, which will increase the need for subsidized child care.

Reliable child care is crucial for parents, especially families with workers. Not only do families struggle without appropriate child care, employers also suffer due to absenteeism. It is estimated that, in 1998 alone, work absences due to unreliable child care cost U.S. businesses \$3 billion.<sup>9</sup> Unreliable child care can also lead to pay-cuts, job loss and aggravated anxiety or stress for many parents. Because of the high cost of child care many low-income families may choose informal care over center-based care. Informal care settings often lack trained caregivers and appropriate curriculum and may be of lower quality. Children attending such programs receive scarce benefits in terms of school readiness and enhanced learning capability. According to a study conducted in 1999, children who attended higher quality child care had better language, math skills and social skills as compared to those who went to lower quality care<sup>10</sup>.

In addition to cost and the under-funding of resources, low income parents face significant barriers to using child care assistance that already exists. Although the current subsidy system provides portable vouchers to increase parental choice, not all parents are able to take advantage of this option. Many parents may be restricted to caregivers in their community because of limited access to reliable transportation and a lack of flexibility with a work schedule. Another restricting factor is the unwillingness of many providers to accept child care vouchers. There may be many reasons for this, including lengthy administrative procedures, burdensome paperwork and late payments, since most child care payments through vouchers are made after services have been rendered. In addition, some caregivers have difficulty obtaining reimbursements for days children are absent from school. Child care subsidies are also often viewed as unstable by child care providers because they can be terminated at a job loss.

Child care provides a vital tool to help low-income families find and maintain employment without worrying about their children. For many low-income families a lack of child care causes work disruptions such as pay cuts. Other parents are forced to cut costs by settling for lower quality care, which can provide fewer educational benefits and may be unreliable. Even low-income parents using child care subsidies find many restrictions with the subsidies. These can include an inability to reach covered providers and an unwillingness of providers to accept the subsidies.

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9CLASP: Child Care Assistance helps Families Work: A Review of the Effects of Subsidy Receipt on Employment by Hannah Matthews, 2006

<sup>10</sup> Peisner-Feinberg, E. S., Burchinal, M. R., Clifford, R. M., Culkin, M.L., Howes, C., Kagan, S. L., Yazejian, N., Byler, P., Rustici, J., & Zelazo, J. (1999). The children of the cost, quality, and outcomes study go to school: Executive summary. Chapel Hill: University of North Carolina at Chapel Hill, Frank Porter Graham Child Development Center.

**Child Care Programs**

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## Detailed Program Information

### DHS Child Care

#### *Program Purpose and Description:*

The vast majority of child care assistance available to lower income families is provided through the Division of Family Development (DFD) in the Department of Human Services. DFD provides subsidies for child care to low and moderate income working families, including families receiving Work First New Jersey (WFNJ) assistance. Covered forms of child care can include infant and toddler care, pre-school instruction, after-school and summer programs for children up to age 13, and care for children and teens with special needs (physically or mentally incapable of self-care or under court supervision) up to age 19. In some cases, in-home care in the home of the child is also permitted, but this form of child care is limited by statute.<sup>11</sup> Child care may be provided either through licensed child care centers that contract with the state<sup>12</sup> or through voucher certificates that parents can use to pay for child care through licensed market-rate child care centers or family day care homes.<sup>13</sup> Within the 31 Abbott school districts,<sup>14</sup> the state contracts with licensed child care providers to meet the court mandate to provide full day/full year pre-school and wrap-around child care services for 3 and 4 year-olds. Funding for the 6-hour educational component is provided through the Department of Education, while the wrap-around services for before- and after-school care as well as summer care are funded through DFD.<sup>15</sup> While wrap-around services are free for families in Abbott districts, starting in October 2006 families must apply for the services through the Child Care Resources and Referral agency responsible for administering child care vouchers in their area.

There are a variety of doors through which low-income families can access child care assistance, although the assistance provided is limited by resources both in terms of available funding and available child care service providers. Participants in WFNJ can receive free child care to assist them in participating in work and other required activities. There is no co-pay for WFNJ recipients in employment and training activities, but recipients with earned income from work must pay a small co-pay based on their income, as well as paying any incremental costs or excess fees over and above the DFD child care

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<sup>11</sup> See §§98.16(g)(2), 98.30(e)(1)(iv).

<sup>12</sup> DFD contracts with 190 child care centers around the state to provide subsidized child care to eligible families. These centers were among the 232 centers under contracts formerly administered by DYFS, using SSBG and Title XX funds, but were transferred to DFD under the Child Care Development Block Grant. Centers are primarily market-rate child care providers that provide subsidized slots available to eligible children.

<sup>13</sup> There are 16 Unified Child Care Agencies (also known as Child Care Resource & Referral Agencies – CCR&Rs) that contract with the state to refer eligible families in their service area to child care providers and to facilitate voucher issuance to eligible families.

<sup>14</sup> There are 160 centers that operate Abbott classrooms. For a more complete discussion of the pre-K services provided in Abbott districts, see the discussion in the Education chapter of this report.

<sup>15</sup> Funding information for wrap-around care is reported as TANF Abbott expansion in the following budget information. See the Department of Education chapter reporting of Abbott Preschool Expansion Aid for funding of the 6-hour pre-school services.

payment rate. Post-TANF recipients may continue to receive subsidies for up to two years after exiting the WFNJ program through the Transitional Child Care program (TCC), as long as the eligible parent remains employed. Unlike the assistance available for WFNJ recipients in work activities, TCC assistance requires a co-payment calculated according to family size and income. After two years, families may still be eligible for childcare assistance through the New Jersey Cares for Kids program (NJCK) if they meet general eligibility requirements. While they are waiting to be reassigned to the NJCK program, they may continue to receive assistance through the Post-TCC program for up to one more year.

Other working families or families with parents attending job training or educational programs may also qualify for subsidies under the NJCK program. Families earning up to 200% fpl qualify for subsidies and, after the first year of program enrollment, families may remain eligible if their family income remains below 250% fpl. Family contributions are determined on a sliding fee scale, and are calculated considering family size, family income, hours of care needed, and number of children in child care. Monthly co-pay rates for full-time care for the first child range from \$9.10 for families with incomes below 17% fpl to \$294.90 for families with incomes between 233% and 250% fpl. In cases where there is a Child Protective Services plan with DYFS and there is a need for child care for children residing either at home with a parent or in kin or non-kin foster care, the DYFS case manager may decrease or waive the co-pay. DHS also provides a child care resource and referral system through DYFS, with a toll-free phone number (1-800-332-9227). For most types of care the maximum payment rate in FY07 is below the statewide median cost determined in the state's 2004 market rate survey. While these deficits are relatively small for some types of care, pre-school care, particularly special-needs child care, is significantly more expensive than the maximum payment rate on a statewide level. When regional differences in cost are considered, the gap between actual costs and maximum payment rates is even more substantial in higher cost areas like North and Central New Jersey. This differential is particularly significant for families with special needs children because such families frequently face increased costs in other areas related to the child's needs. There is also a significant difference between payment rates and market rates for summer care for older children, posing a potential challenge to stable child care arrangements to allow parents to maintain employment year-round.

Subsidies in all of these assistance programs are limited in two ways. First, the amounts of the subsidies are limited by the maximum payments rates set by DFD. Maximum rates are set by the type of care (approved home care, registered family child care homes, and licensed centers, school-age programs and summer day camps), the age of the child, and the number of hours of care, with higher rates for some types of special needs child care. If parents select child care that exceeds these rates, they must make up the difference, and this gap payment is not counted toward their co-payment obligation. Thus, parents who cannot afford additional charges may be limited in their child care options, or may be unable to use the voucher at all if no affordable providers are available in their area. The payment standards are adjusted upwards at the beginning of each fiscal year. The cost of living adjustments to payments rates in the last three fiscal years were

3.5% in FY05 (July 1, 2004), 1.5% in FY06 (July 1, 2005), and 1.0% in FY07 (July 1, 2006).

The second limitation on the available assistance is the number of families served. All WFNJ recipients are entitled to child care assistance during participation in work activities and in the TCC program for the two years following receipt of assistance. Following this two-year period, they are also given priority for NJCK vouchers. Other priorities for admission to the program (by order of priority) are children identified by DYFS, children identified as having special needs or circumstances,<sup>16</sup> and children in families with incomes at or below 150% fpl. DFD child care assistance is not available for respite care for foster parents or for child care payments for foster parents who are not either employed or in education or training activities. Aside from these entitlements and priorities, income-eligible families are served on a first-come, first-served basis. Current funding levels are not sufficient to serve all income-eligible families requesting assistance, so DFD maintains a waiting list.<sup>17</sup> In 2000 an additional state funding source was created, the Waiting List Reduction Initiative, in an effort to reduce the waiting list for assistance which was exceedingly long, creating an average wait time of more than one year. The waiting list was significantly reduced and the initiative was ended after three years, with families being served by the funded vouchers slowly being moved to regular funding streams as funds became available. As of FY06 all of these vouchers were transitioned to other funding sources. The state waiting list for child care vouchers has again grown to almost 4,400 children as of August 2006, in about 3,600 families.

In addition to the child care that is subsidized through DFD, the CCR&Rs also inform eligible participants of child care options such as Head Start programs and pre-kindergarten programs operated by local school districts. These and other early childhood education programs that include educational as well as child care components (such as the Early Launch to Learning Initiative and non-Abbott early childhood programs) are discussed in the Education chapter of this report.

### ***Budget and Performance Trends:***

The state budget materials contain evaluation data broken down by the various child care assistance programs administered by DFD, including a number of sub-categories within the NJCK program. This data includes both services numbers, recorded as the average monthly number of children receiving child care services, and average yearly expenditures for each assistance program.

The appropriation data presented in the departmental budget, on the other hand, combines all revenue from both state and federal funding sources into a single line-item

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<sup>16</sup> According to the FY06-FY07 CCDF Plan (p. 49) these special circumstances can include a “physical, medical, emotional, mental, cognitive, or developmental condition” which is identified through “a written referral from DYFS, DFD, CWA/BSS, legal, medical, or social service agency, emergency shelter, or public school. Children of teen parents who are 19 years of age and below are also considered a special circumstance.”

<sup>17</sup> See the recommendations section of this chapter for a discussion of the waiting list and recommendations for its administration.

appropriation for all voucher-funded and center-based child care, with the exception of the Abbott wrap-around funding which is reported as TANF Abbott Expansion grants-in-aid funding. The only detailed revenue information available in the budget material is for the federal block grant, which is reported separately in the revenue section of the budget. This block grant funding is one of the revenues combined in the total WFNJ-Child Care line-item appropriation.

Additional funding detail is available from sources other than state budget documents. The biennial state plans for the Child Care and Development Fund, which are prepared by DFD for the federal government, include estimated funding tables that break down the various state and federal funding streams. Although these tables provide greater revenue detail for federal fiscal years 2004 and 2006, they are estimates prepared before the federal budgets are approved, and thus may be less accurate than the actual figures reported in the State Budget Book for prior fiscal years. The U.S. Department of Health and Human Services also publishes information on final allocations with detail regarding both federal and state funding streams, but excluding state transfers of federal TANF funding into CCDF. The most recent final allocations information is for FFY06. This information distinguishes between mandatory and matching portions of the CCDF, and the discretionary portion.

The funding information in all of these sources reflects only the state and federal funding that passes through DFD. In the case of Abbott-funded centers, this includes the wrap-around funding for after-school and summer hours, but excludes that Abbott funding through the local school district.

**Child Care Payments for Eligible Families  
Evaluation Data**

	<b>Actual FY04</b>	<b>Actual FY05</b>	<b>Revised FY06</b>	<b>Estimated FY07</b>
Low-income families (NJ Cares for Kids)*				
Average monthly children (in contracted centers)	10,919	10,900	10,500	10,500
Average total expenditures (in contracted centers)	\$34,066,374	\$35,293,500	\$36,439,269	\$36,439,26
Average monthly children (vouchers)	13,375	17,690	18,003	19,118
Average total expenditures (vouchers)	\$43,324,813	\$59,582,862	\$63,530,547	\$67,464,445
Children placed through protective services –				
Average monthly children	2,435	2,825	2,646	2,646
Average total expenditures	\$15,381,528	\$18,466,000	\$17,441,813	\$17,441,813
Active TANF recipients in work activity -				
Average monthly children	8,472	8,600	7,850	7,850
Average total expenditures	\$38,223,593	\$42,831,612	\$40,854,928	\$41,448,000
Transitional child care services (TCC)				
Average monthly children	8,439	8,910	8,936	9,043
Average total expenditures	\$36,463,065	\$42,494,793	\$43,767,928	\$44,927,436
Post transitional child care -				
Average monthly children	767	850	1,333	1,420
Average total expenditures	\$3,045,035	\$3,487,330	\$5,545,230	\$5,906,937
<b>Total</b>				
<b>Average monthly children</b>	<b>44,407</b>	<b>49,775</b>	<b>49,268</b>	<b>50,557</b>
<b>Total expenditures</b>	<b>\$170,504,408</b>	<b>\$202,156,097</b>	<b>\$207,579,715</b>	<b>\$213,627,900</b>

**Source: State FY07 Budget Book (p. D-237-238); FY06 Budget Book (p. D-220)**

\*Note – The total NJCK vouchers for FY04 and FY05 appear to include vouchers that were funding through the Waiting List Reduction Initiative, which was reported separately in prior budget years.

**Child Care Appropriation  
Grants-In-Aid**

	<b>Orig. &amp; --Supple. FY05</b>	<b>Total FY05 Available</b>	<b>Expended FY05</b>	<b>FY06 Adjusted Appropriation</b>	<b>Request/ Recommend FY07</b>	<b>Actual Approp. FY07</b>
WFNJ – Child Care	\$242,650,000	\$257,192,000	\$207,707,000	\$270,586,000	\$275,558,000	\$275,558,000
TANF Abbott Expansion	\$104,400,000	\$117,254,000	\$106,265,000	\$109,594,000	\$92,166,000	\$122,166,000*

**Source: State FY07 Budget Book (p. D-239) & State FY07 Appropriations S2007 (p. 126)**

Note – The total appropriation for WFNJ child care in FY07 is substantially higher than the total expenditures reported in the evaluation data. This may, at least in part, be due to the cost of “voucher operations” on the part of the CCR&Rs who administer the vouchers. This funding is not included in evaluation data, which only reports the direct costs of the child care assistance, and is not included in administrative funding under the federal CCDF definition.

\*Note – The substantial increase in the FY07 appropriation above the requested amount for wrap-around funding (TANF Abbott Expansion) is at least partially due to the state’s decision to forego the proposed implementation of a co-pay for wrap-around services for higher income families in Abbott districts.

**Child Care Block Grant<sup>18</sup>  
Schedule 2 (denotes federal revenue)**

<b>2005 Actual*</b>	<b>2006 Estimated</b>	<b>2007 Estimated</b>	<b>2007 Appropriation</b>
\$102,773,000	\$109,778,000	\$119,250,000	\$119,250,000

**Source: State FY07 Budget Book (p. C-28) & State FY07 Appropriations Bill S2007 (p.14)**

\* Note – According to information provided by Departmental staff, the actual FY05 revenue from CCDF was \$109 million.

<sup>18</sup> The Federal block grant funding for child care is variously referred to as the Child Care Block Grant, the Child Care Development Block Grant and the Child Care and Development Fund.

<b>Summary of Estimated Child Care Funding State and Federal Funding Sources</b>			
	<b>FFY04</b>	<b>FFY05</b>	<b>FFY06</b>
Child Care and Development Fund (CCDF)	\$109,200,000	\$109,000,000	\$108,500,000
Federal TANF Transfer to CCDF	\$78,800,000	\$65,100,000	\$65,200,000
Direct Federal TANF Spending on Child Care	---	---	---
State CCDF MOE Funds	\$26,400,000	\$26,400,000	\$26,400,000
State Matching Funds	\$44,400,000	\$40,400,000	\$48,800,000
<b>Total Funds Available:</b>	<b>\$258,800,000</b>	<b>\$240,900,000</b>	<b>\$248,900,000</b>
<i>Estimated administrative funds (% of total)</i>	<i>\$5,400,000 (2.1%)</i>	n/a	<i>\$9,200,000 (3.7%)</i>
<b>Source: Child Care and Development Fund Plan FFY 2004-2005 (p. 5); Estimated FFY05 Funding provided by DFD staff; Draft Child Care and Development Fund Plan FFY 2006-2007 (p. 6, 7)</b>			

Note – These estimated budget figures are prepared prior to passage of the federal budgets for the given fiscal years, and thus may differ in amount from actual appropriations for the federal line items. While these figures are potentially less accurate than figures from state budget materials, they provide greater detail regarding the various state and federal funding sources that are combined in the budget book line item.

<b>FFY06 Final CCDF Allocation</b>	
	<b>Final Allocation</b>
CCDF – Mandatory	\$26,374,178
CCDF – Matching	\$49,344,035
CCDF – Discretionary	\$36,875,234
<i>School age resource and referral earmark</i>	<i>\$320,317</i>
<i>Quality expansion earmark<sup>19</sup></i>	<i>\$3,119,444</i>
<i>Infant toddler earmark- quality improvement</i>	<i>\$1,806,572</i>
<i>Other discretionary</i>	<i>\$31,628,901</i>
<b>Total Federal Funds</b>	<b>\$112,593,447</b>
State MOE	\$26,374,178
State share of matching funds	\$49,344,035
<b>Total State Funds</b>	<b>\$75,718,213</b>
<b>Source: U.S. Department of Health and Human Services Fiscal Year 2006 Final Child Care and Development Fund Allocations</b>	

Note – The discretionary portion of the CCDF grant includes a number of federal earmarks for specific programs. These earmarks are indicated in the table and are included in the \$38.6 million total for discretionary funding.

***Additional Analysis:***

Several budgetary and program factors are worthy of note in analyzing the available data on the DHS child care assistance programs. First, it is important to explain the state funding that is required to maximize federal child care funding. Both federal block grants used to fund child care assistance in New Jersey place certain requirements on the state in order to draw down the federal money. In order to receive CCDBG funding, New Jersey is required both to provide a percentage of matching funds from state revenues and to use additional state money for child care assistance as a Maintenance of Effort (MOE) commitment. New Jersey’s estimated MOE commitment for FY07 is approximately \$26.4 million, with a \$49.3 million matching requirement.<sup>20</sup> New Jersey leverages additional federal money for child care by transferring a portion of the federal TANF block grant into CCDBG, as allowed by federal rules. Although there is no requirement that TANF money be transferred for child care in this way, TANF rules do require the state to provide state MOE funds for federal TANF funding in general.

<sup>19</sup> According to language on the DHHS website, both this earmark and the earmark for infant toddler quality improvement are “in addition to the 4% minimum the state must use for quality.” <http://www.acf.hhs.gov/programs/ccb/policy1/misc/approp04.htm>.

<sup>20</sup> Match requirement estimate is based on an analysis by the National Women’s Law Center. The MOE estimate is based on the assumption of a continuation of the FFY06 MOE requirement reported in the State CCDF Plan for FFY06-FFY07.

Under the current fiscal arrangement, New Jersey has been able to count the same state child care money as MOE money for both CCDBG and TANF, in essence double-counting the same state money and lessening the federal requirement for the state to commit its own money to child care assistance in order to draw down the maximum federal funding. While this accounting mechanism has saved the state money in the past, this saving also means that less funding is available to provide child care assistance to eligible families. This under-spending is particularly worrisome given increasing pressures on child care assistance funding due to both inflation of costs and potentially increased demand in the TANF program, as discussed below.

Another issue of note in FY07 relates to the increase in child care funding indicated in the federal revenue line item, and the smaller increase indicated in the WFNJ Childcare line item. As part of the federal Deficit Reduction Act passed in February 2006, federal funding for the Child Care Development Block Grant was increased and New Jersey's proportional share of this increase is approximately \$5.8 million for FFY07. This increased funding is supposed to at least partially account for the increased child care costs to states for providing child care to an increased number of TANF participants who will be required to participate in work activities.<sup>21</sup> In relation to these federal changes, the budgetary and program information in the state's budget materials raise a number of questions. First, the anticipated increase in federal funding due to the increase in federal mandatory CCDF allocation to New Jersey is only \$5.8 million, whereas the total increase indicated in the revenue line item is \$9.5 million. This may indicate an increase in CCDF matching or discretionary funding in addition to the increase in mandatory funds, but the source and reason for this increase are unknown. Somewhat more concerning is the lack of a corresponding anticipated increase in the child care slots for TANF recipients. The evaluation data for the various child care assistance programs estimates flat levels of participation for children of TANF participants, but increased assistance to NJCK recipients and slight increases for transitional and post-transitional child care. While this data reflects only predictions and does not limit DFD's discretion to shift funding between programs, it is confusing that the increased revenue is not anticipated to be funneled to increased TANF utilization of child care assistance. The final element of the CCDF funding that raises questions is the correlating appropriation for WFNJ child care, which shows only a \$5 million increase in FY07, despite the reported \$9.5 million in additional federal funding. It is possible that New Jersey is counting other expenditures on child care related programs such as subsidized pre-K programs to draw down the increased federal funding. Such accounting is permissible under federal rules; however, it reinforces the trend noted above of using accounting gimmicks to minimize state investment in child care.

Finally, the historical appropriation data also exposes an issue that should be noted. The FY05 expenditure figures for WFNJ child care when compared to the total funding available continue the pattern of under-spending of child care money that has taken place in the past. According to DFD program staff, this is a result of some CCR&Rs not spending all allocated money. Since TANF transfer funding is the payer of

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<sup>21</sup> See the Work First New Jersey program description in the Income Security chapter of this report for a fuller discussion of the Deficit Reduction Act and its significance for New Jersey.

last resort in child care funding, the excess funding has in the past been reallocated to other TANF functions. The contracts starting Oct. 1, 2005, have supposedly redirected child care subsidies from CCR&Rs that historically under-spent their allocations, so FY05 should be the last year that we see this trend. While this reallocation solves the problem of diverting needed funding away from child care assistance, there remains a concern regarding equitable access to child care assistance, since there is no evidence that the under-spending was related to a lack of need for assistance, and these areas that have historically under-spent will have decreased resources to provide assistance going forward.

**DCA Division on Women Child Care Advisory Assistance**

***Program Purpose and Description:***

The New Jersey Department of Community Affairs provides advisory, technical, and advocacy assistance through the Child Care program of the Division on Women Office of Women’s Policy Research. The program provides information and assistance to individuals, organizations, public or private agencies, employers, and advocates for the expansion of quality child care services in New Jersey. Assistance is provided through a staff liaison with government child care agencies and community networks.<sup>22</sup>

***Budget and Performance Trends:***

The state budget materials do not provide evaluation data or line-item budget detail for the child care advisory and advocacy function of the Division on Women. The staff liaison expenses are included within the administrative budget for Women’s Programs.

<b>Women’s Programs Direct State Services Appropriations Data</b>					
<b>Orig. &amp; --Supple. FY05</b>	<b>Total FY05 Available</b>	<b>Expended FY05</b>	<b>FY06 Adjusted Appropriation</b>	<b>Request/ Recommend FY07</b>	<b>Actual Approp. FY07</b>
\$1,456,000	\$1,472,000	\$1,471,000	\$1,184,000	\$1,184,000	\$1,184,000
<b>Source: State FY07 Budget Book (p. D-56) &amp; State FY07 Appropriations Bill S2007 (p. 39)</b>					

Note – This funding covers Division on Women administrative expenses and does not provide any funding for direct child care assistance.

<sup>22</sup> DCA 2003 Programs Book, p. 39.

## **Recommendations**

### **General Funding**

- The Department of Human Services must be directed to complete a thorough evaluation of the child care needs of poor and low-income families, and funding must be specifically allocated to meet the shortfalls identified.

Funds must be spent to assess in detail the characteristics of families currently being served by public and private child care facilities and homes. This assessment should include demographic information on children and families, specific kinds of care needed, hours for which care is needed, total cost to families of child care (including co-pays and gap payments for voucher recipients), and use of alternative child care arrangements, including reasons for these decisions.

### **Waiting List**

- The DHS must maintain the child care waiting list in a consistent, ongoing manner, and must eliminate the waiting list over the next year. As an initial step, at least \$25 million in additional funds must be expended during the next fiscal year for waiting list reduction.

Consistent and quality child care for lower-wage workers is essential for child development and safety, and to permit workers to remain at their jobs, but lower-income New Jerseyans cannot afford quality child care on their own. As of July 31, 2005, more than 4,700 children were on the DHS waiting list for child care assistance. Although none of the families on the waiting list currently have been on the list for more than 8 months, this time waiting for assistance can mean months during which children are in unsafe, inconsistent, or substandard care, or during which employment opportunities are lost.

The 2000 waiting list reduction initiative reduced the waiting list from 7,500 to 0 within one year of implementation, but the vouchers created through this initiative have since been transferred to existing funding sources, leading to another build-up of the waiting list. There is a need for a new initiative to again reduce the waiting list and an initial appropriation of \$25 million is recommended.<sup>23</sup>

- DHS must develop a long-term plan to prevent waiting list build-up in the future.

In the long term, waiting list reduction initiatives are only temporary and, without additional long-term policy planning, the child care waiting list will continue to grow in the future. With the reauthorization of TANF likely to increase work requirements for TANF recipients, the ability of current resources to meet the child care assistance

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<sup>23</sup> The 2000 Waiting List Reduction Initiative received an FY00 appropriation of \$27.7 million, which was increased to \$34.9 million in FY01.

needs of other low-income households will likely increase at a dramatic rate. As such, it is critical to begin long-term planning now to reduce and eliminate the current child care waiting lists and to take into account the potential for dramatic surges in need in the future.

### **Child Care Assistance through One-Stops**

- Child care assistance should be available to individuals receiving unemployment insurance benefits so that parents can access job training and job search assistance through the One-Stop Career Centers.

### **Child Care Payment Rates**

- New Jersey must increase the child care payment rates paid to child care providers in order to improve and preserve the availability of high quality child care services for low-income parents and caregivers.

The current payment rates create strain both on families receiving assistance and on child care providers. The payment rates are substantially below the current market rate for child care, meaning that either child care providers must accept payments inadequate to cover costs or families must pay the difference between payment rates and market rates, in addition to their co-pays. This situation undermines the program purpose of making quality child care affordable for low-income families. It also makes it difficult for providers to draw in sufficient revenue to offer living wages to their employees.

- Families must be given the opportunity to select between child care centers and family providers without differences in cost being a prohibitive factor.

Given the higher cost of center-based care over family care provider rates, and the gap between payment rates and provider rates, center-based options are often more expensive for low-income families than are family child care homes. In order to equalize the opportunity for a family to select a child care center, DHS should provide a waiver of the co-pay for low-income families who wish to select child care centers but are unable to do so because of financial reasons. The waiver can be initiated through a phase-in of three- and four-year-old children in non-Abbott districts<sup>24</sup> in the first year, and extended to all children within the first two years.

### **Child Care and Health Services**

- The state must better integrate a variety of services for children into the child care system, by improving the availability of immunizations, lead and other health screening services, and treatments at child care sites that receive or accept state child

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<sup>24</sup> 3- and 4-year-olds in Abbott districts can receive free pre-school education, thus eliminating the need for subsidized care. The center-based care option is most important for older children, given the educational enrichment that is generally included in center-based programs for 3- and 4-year-olds.

care funding. Additional funding should be available to child care sites that provide access to such services.

### **Child Care during “off hours”**

- In order to improve access to child care during nontraditional work hours, the state should provide incentive funding to child care sites that provide care during these “off hours.”

### **Waivers of Transitional Co-Pays**

- DHS should waive the child care co-payments for a six-month period for families transitioning off of welfare.

Families transitioning off TANF are faced with numerous pressures related to seeking stable child care that they can afford so that they can maintain employment. Waiving the co-pay for six months would facilitate this transition and help to stabilize employment.