Tennesseans for QUALITY Early Education

POLICY BRIEF

RECOMMENDATIONS FOR INVESTMENT OF UNDERSPENT TEMPORARY ASSISTANCE FOR NEEDY FAMILIES (TANF) AND CHILD CARE AND DEVELOPMENT FUND (CCDF)

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Table of Contents

Introduction

The recommendations below for TANF and CCDF reflect the views of TQEE, dozens of our statewide and regional Tennessee partner organizations, and guidance from state and national experts and research.

TANF and CCDF in Tennessee

The Temporary Assistance for Needy Families (TANF) federal program is designed to help needy families achieve self-sufficiency. States receive annual block grants to design and operate programs that accomplish the purposes of the program. While TANF is best known for supporting time-limited cash assistance to low-income families with children, state TANF programs commonly support a wide range of activities to ameliorate the causes and effects of child poverty and to support parents' employment, including child care services. Needy families with children are eligible for services, with needy not defined per se but conventionally accepted as being up to 200% of poverty level (which is $52,500 for family of 4 in TN). In 2019, Tennessee continued a recent pattern of using only a fraction of its federal block grant allocation. Unused funds are carried over into a fund balance. As of end of FY 2019, **TN had the largest TANF unspent and unobligated fund balance in the nation at $732 million, and ongoing available funding of a $190.9 million annual block grant**. The conservative Beacon Center says $210-$250 million is the maximum that should be held in reserve.

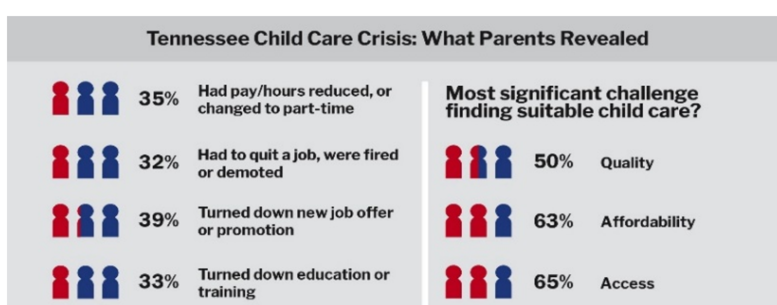
The **Child Care and Development Fund (CCDF)** is the main source of federal funding dedicated primarily to child care subsidies for low-income working families. States receive allocations each year based on a formula. The program gives significant authority and flexibility to states in designing child care programs and flexibility for parents in selecting child care. Income eligibility is 85% of the state median income ($62,232 for a TN family of four); and parents must be working or attending job training or education unless the child is receiving or in need of protective services. **Over the past five years, roughly $300 million in CCDF funds allocated to Tennessee have been left unspent and forfeited to other states.** In 2018 only one other state didn't spend their full allotment of CCDF funds.

Tennessee Context / Need for TANF and CCDF Funding

From the Beacon Center's *Poverty to Prosperity* report. "Tennessee ranks above the national average with a **poverty rate at 16.7 percent and the rate is even higher for children at nearly 28 percent**. This means one in six Tennesseans lives in poverty despite the fact that Tennessee's unemployment rate remains historically low. Many people have fallen through the cracks, and an **astonishing 15 percent of 18- to 24-year old Tennesseans are not attending school or working**. This has a devastating impact, not only on those struggling to provide for themselves and their families, but also on Tennessee's economy as a whole."

From United Ways of Tennessee *ALICE* report. **"39% of Tennesseans cannot afford basic necessities including housing, food, child care, health care and transportation."** Survival budget for a Tennessee family of four – two adults with one infant and toddler – is $50,798. Stability budget is $88,380.

From TQEE's *Want to Grow the Economy? Fix the Child Care Crisis* report. Major finding: **Annual loss of $1.34 billion to Tennessee's parents, businesses and taxpayers in earnings and revenues due to inadequate child care.** A survey of 2230 Tennessee parents of children under age 5 reveals the causes. See chart.



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Considerations for Strategic Spending of TANF and CCDF

The revelation of the unspent funds offers a unique opportunity to make immediate, strategic investments as described below. **We recommend short-term working groups be established to begin implementation with DHS on the following recommendations right away. In particular, where child care is concerned, time is of the essence so as to avoid further forfeiture of CCDF funds.**

That said, given the sizable resources represented by these annual federal funding streams, and the significant poverty in Tennessee, it would be prudent and appropriate for the Governor to take a measured and strategic approach to setting goals for and investing ongoing TANF and CCDF funds over the next 7 years. **We recommend appointing a working group to develop a strategic plan for using these (and other) public assistance funds to significantly boost economic mobility and poverty reduction.**

There are **three major guiding principles** we recommend for ensuring highest and best use of funding toward greater economic mobility, reduced poverty and economic growth for Tennessee.

- **Approach investments in economic mobility as an economic growth strategy**. There's significant evidence that increases in income, particularly for low-income families, are good for the economy. More income leads to more consumer spending which is a key driver of economic growth, tax revenues and job creation. Strategies should be highly strategic, should engage the business sector, and should be tied to specific goals for ROI.
- **Invest in the early years**. There is a substantial and ever-growing body of evidence, from neuroscience and child development (Shonkoff 2006), as well as from long-term evaluation studies (Duncan 1997), that "success builds upon success," and the start children receive in life sets them on a pathway to achievement both in and out of school (Schorr 2007). Assessing this literature, Nobel Laureate in Economics James Heckman points out: "The highest rate of return in early childhood development comes from investing as early as possible, from birth through age five, in disadvantaged families. Starting at age three or four is too little too late, as it fails to recognize that skills beget skills in a complementary and dynamic way. Efforts should focus on the first years for the greatest efficiency and effectiveness. The best investment is in quality early childhood development from birth to five for disadvantaged children and their families." And clearly, with roughly 2/3rds of Tennessee's 3rd graders not proficient in reading or math, we need greater focus on the years prior.
- **Use "2 Generation" approaches.** A critical factor in the success of children is the well-being of their families. Research indicates that non-academic factors, such as unemployment for caregivers and parenting skills have a significant impact on a child's well-being in school and future success. A cost-effective poverty reduction initiative will intentionally prioritize resources to support children, siblings and parents from the same at-risk families.

Major Immediate Recommendation for CCDF

1) **Tap <u>full allotment</u> of CCDF funds (last year $67 million federal funds were left unspent) to develop 25,000 licensed/certified and NAEYC/NAFCC-accredited child care slots for infants and toddlers, ages 0-3, for families with income up to 85% of median income. Do this by creating a statewide shared services child care model initiative.** *Note: 48% of Tennesseans live in a "child care desert"- a census tract where there are 3x as many children under age 5 as licensed child care slots. (Center for American Progress).*

   - Issue RFP and contract with established and start-up child care shared services operations– a best practice characterized by a hub and spoke structure where business/back office/compliance/data functions are provided by a hub for a fee so providers can focus on caring for and educating children while capturing the benefits from economies of scale. Chattanooga's Chambliss Center is a national model. Memphis' Porter Leath is launching one this month. Four other TN communities – Knoxville, Tri-Cities, Rural Southwest and Nashville -- are taking steps to launch them. Engage center-based, home-based and micro-center models. Ensure mix of urban, suburban and rural. Prioritize those that also include "wrap-around" social work services for families to support a 2-Gen approach. Allow flexibility of model based on community needs and preferences. Emphasize accountability for child and family outcomes.

- Leverage automation and technology – invest in/require use of child care management software for all participating providers; provide digital marketing/outreach services and support to promote parent awareness/enrollment; continue investing in ChildCareTennessee.com as a resource for providers.
- Tie Child Care subsidy reimbursement rates to actual cost based on cost modeling. (See this best practice cost calculator https://www.costofchildcare.org/). And adjust parent fee scale to optimize affordability. Use pilot to study costs/affordability and to set rate for the full state.

There are shared services models across the U.S. – TN, GA, SC, VA, WV, CT, OR -- and more springing up, such as Wonderschool --the "Airbnb of child care". But no state has yet optimized shared services as a solution to increase quality, access and affordability. Tennessee would be on the one hand scaling what's already working and has momentum right here in our home state, and would on the other hand be a pioneer in incorporating shared services as a statewide strategy to reform Tennessee's child care system to make it the powerful, 2-Gen lever for economic mobility that it has the potential to be. This approach is endorsed by the U.S. Chamber of Commerce as a smart business strategy and one in which the business sector role is key.

Major Immediate Recommendations for TANF

1) **Use TANF funds to fill funding gaps for the above child care recommendation**. Drawing down untapped CCDF may prove sufficient for funding the initiative above; but TANF explicitly promotes the use of funding for child care as a work support. Funds can be spent directly from TANF, or they can be moved to CCDF which should be done where it allows service to a broader range of children and families.

2) **Expand Evidence-Based Home Visiting (EBHV) so all poor, at-risk infants and toddlers and their families have access to the service.** Extreme poverty, neglect and exposure to violence are among many Adverse Childhood Experiences, known as ACEs, that cause emotional trauma which can diminish young children's brain development and have a negative impact on future health, mental health, behavior and learning. One of most proven, cost-effective strategies for preventing and mitigating the effects of ACEs is Evidence Based Home Visiting (EBHV). EBHV is a 2-Gen strategy that has repeatedly proven to strengthen bonding between mothers and infants, improve parenting skills, reduce abuse and neglect, improve the health of parents and babies, and ready children for their school years. Rand Corporation has documented returns on investment as high as $5.68 for every $1 invested. Tennessee has several models deployed across the state and is currently funded through the Department of Health (mix of state and federal funding). Over the past two years Tennessee's legislature has supported modest increases in the program, and an additional $3.5 million is currently in the DOH budget for 2020, but the program investment is dwarfed by the need. **At the current level of funding, Tennessee is only able to provide home visiting services to 1.7% of children living in poverty in 50 counties**. To address this deficit cost-effectively:

1. **Develop and deploy a "light touch" EBHV model akin to North Carolina's Durham Connects**, where services are offered to families immediately following discharge from birthing a child, and those in need are connected to more intensive EBHV. Use this approach as the "front door" to TN's EBHV programs so as to more systematically determine which families are in need of traditional EBHV services, and to more easily find them and then connect them to those programs in their areas.

2. **Together with the "light touch" approach above, engage children's hospitals and healthcare systems across the state to work with existing providers to develop and pilot hybrid models of EBHV that use a combination of telehealth services and in-person visits and connections.** Such models have recently been proven to help harder to reach families, particularly those in rural communities.

3. **Significantly increase funding for Tennessee EBHV programs demonstrating successful outcomes**. Use the latest EBHV home visiting state needs assessment to estimate initial investment required. Then use above "light touch" approach to serve as a more systematic screener, outreach/referral mechanism, and estimator of the scope/scale of need and investment required.

3) **Invest in "Wrap Around" Services for poor or at-risk school children and their families PreK-12th grade**. Wrap-around services are intentionally designed to support 2-Generation impact. At minimum a social worker/case manager would be provided by a private sector partner agency, such as Communities in Schools, to connect poor school children and their families to needed services. One of the major services needed is out-of-school time care and enrichment, including for summers and holidays, such as provided by Boys and Girls Clubs in TN , the 1600+ nonprofits that are part of the TN Afterschool Network, and other nonprofits across Tennessee. Like child care for children ages 0-3, high quality out of school time programming for school age children PreK-12 has a "2-Generation" impact on child academic achievement and future success as well as on family economic mobility and financial independence due to parents having greater flexibility to work or upskill when children are well-tended during out of school time. Georgia has a robust, TANF-funded "Afterschool Care Program" for children ages 5-17 that could serve as a model. Here's a recent report on it.

4) **Invest in Internships / Apprenticeships / Subsidized employment. Prioritize "opportunity youth"—young people ages 16-24 not in school or working -- and who are also parents as required by TANF**. Programs should require that operators offer an option for participants to convert to permanent FT employment immediately following the internship; and should ideally ensure participants achieve broadly recognized industry skill certification(s) such as for child development associates, certified nurse assistants and CNC machine operator, and work readiness credentials, etc. The Center for Budget and Policy Priorities offers this overview on subsidized jobs programs. Georgetown University offers Lessons Learned From 40 Years of Subsidized Employment Programs. And this report on a program called Year Up, focused specifically on opportunity youth ages 18-24, shows powerful outcomes. This initiative should be strongly connected to Tennessee's Workforce Investment Boards (WIBs) and the programs offered through the federal Workforce Investment Opportunity Act. Ideally this would be administered though the Department of Labor and Workforce Development and local WIBs. Many states have used TANF and other public funds to implement variations on this kind of initiative.

5) **Invest strategically in Transportation**. Transportation is a key work support offered through the TANF program but tends to be under-optimized. It's widely known that transportation is a critical barrier to economic mobility and job or training/education access, as well as to getting children to/from school and child care, to parent/teacher conferences, to the grocery store, to the doctor, or to church, to name a few challenges. Serious planning should be given to creative solutions that deploy contracts for transportation services, vouchers for ride-sharing, gas vouchers, vehicle repair/purchase and bus passes. Many states such as Washington have been creative with TANF funds for transportation, and although we are not endorsing particular models, it's worth noting transportation is a common work support in state TANF programs. While TANF funds cannot be used for infrastructure, in fact bus passes, ride-share vouchers and contracts for transportation services could provide a double impact by creating a guaranteed new revenue source for public transportation entities that could be leveraged as investment in desperately needed public transportation systems. While there are examples of creative investments across the country, Tennessee needs a Tennessee-specific initiative, strongly coordinated with the Department of Transportation and local public transportation

systems, with significant input from potential end-users. For maximum impact, this initiative should consider rural, urban and suburban circumstances, and be targeted for maximum eligibility for TANF work support services, which is around 200% of the poverty level. *Note: Drivers license reinstatement should be considered as a part of this strategy to ensure maximum impact.*

6) **Invest in housing for low-income families up to 200% of the poverty level**. As stated in the United Way's ALICE report: "Where we live matters. It impacts financial stability, current and future health and life expectancy, exposure to violence, access to resources, housing and transportation costs, educational opportunities, and future economic prosperity." Recent research from Harvard provides hard evidence that housing subsidy programs had a major positive impact on college attendance and future earnings of children when they were moved to low-poverty neighborhoods before age 13, and that the younger the child at the time of the move, the greater the impact. The children studied were also more likely to live in better neighborhoods as adults, and were less likely to be single parents. While we don't necessarily endorse their models, a number of states including Maine and Minnesota have been creative with the use of TANF investments in housing support. Our recommendations include:

- Fund a sizeable portion of this assistance in the form of housing vouchers or supplements for housing in low poverty neighborhoods, as an ongoing support for TANF basic assistance/Families First participants. Prioritize families with young children.
- Invest another portion for low income families up to 200% of poverty not participating as part of the Families First program. This assistance should be issued on the basis of crisis situations or episodes of need – such as eviction or bi-annual allowances for seasonal cooling/heating.
- Work closely with Tennessee's state agencies (Tennessee Housing Development Agency) and local government agencies responsible for housing, in order to bring expertise to the problem solving and leverage existing resources and programs for housing investment and assistance.

Major Longer-Term Recommendations for CCDF/TANF

As mentioned in our considerations section, we recommend appointing a working group to develop a strategic plan for using CCDF, TANF and other public assistance funds with explicit goals around boosting economic mobility and poverty reduction in Tennessee.

While the Shared Services Child Care Initiative and the TANF recommendations mentioned above will go a long way towards mitigating the effects of poverty, **Tennesseans will be best-served by having a transparent, strategic 7-year Governor's plan, with goals and metrics for how public funds will accelerate progress on an explicit Tennessee goal for reducing poverty and improving economic mobility.**

Within that plan, there are significant changes needed to the overall child care system, including to the star quality rating system, the workforce pipeline, the subsidy rates, data systems and outcomes measuring, among other facets of the system. There are also opportunities for blending and braiding of TANF and other public assistance funding streams to have a much greater impact on the health, mental health and economic mobility of children and families.

The plan(s) can be developed nimbly in 6-9 months' time with good leadership and consulting support. Plan(s) should be guided by a majority private sector working group, with full participation from DHS and engagement by other departments as needed on an ad hoc basis. State administrators should be held accountable for producing regular metrics and progress reports on the implementation of the plan(s).

Finally, something for the planning team to consider is a possible total overhaul of how our state allocates and administers federal public assistance funding. There are models in other states which give local communities control of their proportional shares of federal funding streams. For example, Smart Start in North Carolina famously does this for funding of services for children birth to age 5. This may or may not be the right approach for Tennessee, but given the dire need for services expressed by local communities and stakeholders across Tennessee with clear data to back up that need, and the curious forfeiture and stockpiling of funds that could have been deployed to address these needs over the past five years, it's reason to consider other funding approaches that offer greater local control.