NEBRASKA

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DEPT. OF HEALTH AND HUMAN SERVICES

Jim Pillen, Governor

August 30, 2024

The Honorable Ben Hansen
Members of the Health and Human Services Committee
Nebraska Legislature
P.O. Box 94604
Lincoln, NE 68509

Subject: Evaluation of Income Eligibility for Early Childhood Report

Dear Chairman Hansen:

The following information is provided as required by Neb. Rev. Stat. § 68-1206(2)(d) evaluating the temporary income eligibility changes made in LB485 (2021) and LB227 (2023). The legislation increased the initial eligibility requirements in statute through FFY2026 for Child Care Subsidy from 130% of the Federal Poverty Level (FPL) to 185% of the FPL and transitional eligibility from 185% of the FPL to 200% of the FPL.

DHHS appreciates the time and effort of First Five Nebraska in creating the Evaluation of the Income Eligibility Changes Report. The attached report contains the results of the evaluation completed by First Five Nebraska. The views expressed in this report are those of First Five Nebraska and do not necessarily reflect the views of the Department of Health and Human Services.

The report contains quotes from child care providers and families in Nebraska. Some quotes contain inaccurate information regarding the current processes and procedures of the Child Care Subsidy program. DHHS is working to provide clarification and education to child care providers and families across the state to ensure they have accurate information and will address the outlined concerns.

Sincerely,

Shannon Grotrian

Shannon Grotrian
Director, Office of Economic Assistance

Attachment

Impact of Income Eligibility Expansion of the Child Care Subsidy Program in Nebraska

August 2024

Neb. Rev. Statute §68-1206 (2)(d)

Impact of Income Eligibility Expansion of the Child Care Subsidy Program in Nebraska

First Five Nebraska | August 2024

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Contents

Introduction

In 2021, the Nebraska Legislature passed LB485,[1] which temporarily changed child care subsidy requirements for families applying for subsidized child care. The legislation changed two separate eligibility requirements in Neb. Rev. Statute §68-1206. First, it changed initial eligibility requirements from 130% of the Federal Poverty Level (FPL) to 185% FPL. Second, it changed transitional care requirements from 185% FPL to 200% FPL. These temporary changes were scheduled to expire on October 1, 2023. However, in 2023 the Nebraska Legislature passed LB227,[2] which extended the expanded income requirements until October 1, 2026.

Neb. Rev. Statute §68-1206 (2)(d) requires the "Department of Health and Human Services to collaborate with a private nonprofit organization with expertise in early childhood care and education" to evaluate the income eligibility changes. The Nebraska Department of Health and Human Services (NDHHS) released RFA #4446 in response to this legislative requirement. First Five Nebraska (FFN) responded to RFA #4446 and received the subaward to lead this study in partnership with NDHHS and in collaboration with the University of Nebraska's Bureau of Business Research (UNL BBR), Nebraska Early Childhood Collaborative and the National Institute for Early Education Research.

The purpose of the Impact Study of Income Eligibility Expansion of the Child Care Subsidy Program is to provide the Nebraska Legislature with information on the impact of the legislation on Nebraska families, child care providers and communities to determine if the expanded eligibility for the child care subsidy should remain beyond the expiration date of October 1, 2026.

Key Findings

- If Nebraska income eligibility limits were to revert to pre-income eligibility expansion levels (130% FPL), Nebraska would rank 50th in the nation for income eligibility requirements (Changing Income Eligibility Requirements in Nebraska, p. 7).

- Despite the income eligibility expansion in 2021, enrollment in the child care subsidy program remains below 2019 levels (Enrollment, p. 11).

- Between August 2021 and September 2023, 2,526 families who were previously ineligible for child care subsidy enrolled in the program due to the expanded income eligibility criteria (Newly Eligible Children and Families, p. 12).

    - Total subsidy dollars billed to NDHHS increased from $6.62 million during the first fiscal year of the program to $11.35 million during the second fiscal year, as more newly eligible families enrolled in the program.

    - Approximately 98% of newly eligible families have an employment-related reason for care.

- The estimated annual economic impact of newly eligible families enrolling in the child care subsidy in Nebraska was in the range of $5.81 million to $8.93 million during Fiscal Year 2022-23, including $1.95 million to $3.99 million in additional labor income and 35 to 131 additional jobs (Economic Impact of Newly Eligible Families Enrolling in the Child Care Subsidy, p. 13).

- Since 2019, there are 588 fewer child care providers enrolling families through the child care subsidy program since the implementation of the income eligibility expansion in 2021 (Impacts to Child Care Providers, p. 17). This trend highlights broader issues within the child care industry, including:

    - The impact of the COVID-19 pandemic on the child care industry and the reduction in the overall number of child care providers in Nebraska (Impacts to Child Care Providers, p. 17).

    - The negative impact of child care subsidy reimbursement rates on business revenues (Reimbursement Rates, p. 18).

    - The additional labor costs to meet the administrative requirements of the child care subsidy program (Additional Costs, p. 19).

    - Additional expenditures to provide tangible goods for children enrolled in the child care subsidy program to ensure they are able to participate in all aspects of the early childhood programs (Additional Costs, p. 19).

- Over half of all closing reasons were due to a failed process requirement (e.g., co-pay not paid or failed to provide documentation). The second-most-common closing reason was due to a failed eligibility requirement (e.g., service no longer needed). (Transitioning off the Child Care Subsidy Program, p. 21).
  - A small portion of families, between 3% and 7%, withdrew their applications and are not categorized as a failed process requirement. However, if families stop participating in the redetermination process without acknowledging their withdrawal, their closure reason may be categorized as a failed process requirement instead. This could include families who recognize their income places them outside of the eligibility criteria.

- The income eligibility expansion mitigated the benefits cliff, however, the number and age of children plays a larger role than income eligibility increases for families (Transitioning off the Child Care Subsidy Program: Cliff Effect, p. 22-23).
  - Child care expenses decrease as a child's age increases, however families enrolled in the child care subsidy program contribute co-payments relative to the household income (7%), regardless of the age of the child. When families transition off the child care subsidy program, they become responsible for the entire child care bill. The difference between the family's current contribution (co-payment) and the total child care expense will be smaller for families with preschoolers and school-age children and greater for families with infants and toddlers.
  - Income eligibility for the child care subsidy program is based upon the Federal Poverty Level (FPL) and household size. When a household of three transitions off the child care subsidy program, the new child care expenses for a one-parent household with two children will be much greater than the new child care expenses for a two-parent household with one child, if all children are enrolled in child care at the time of the transition.
  - Because the economic impact of the benefits cliff is relative to household size and age of children, in addition to child care setting, geography and relative income increase, the "benefit cliff" is not easily quantifiable. Table 6 on page 23 illustrates sample scenarios based on different compositions of a household of 3.

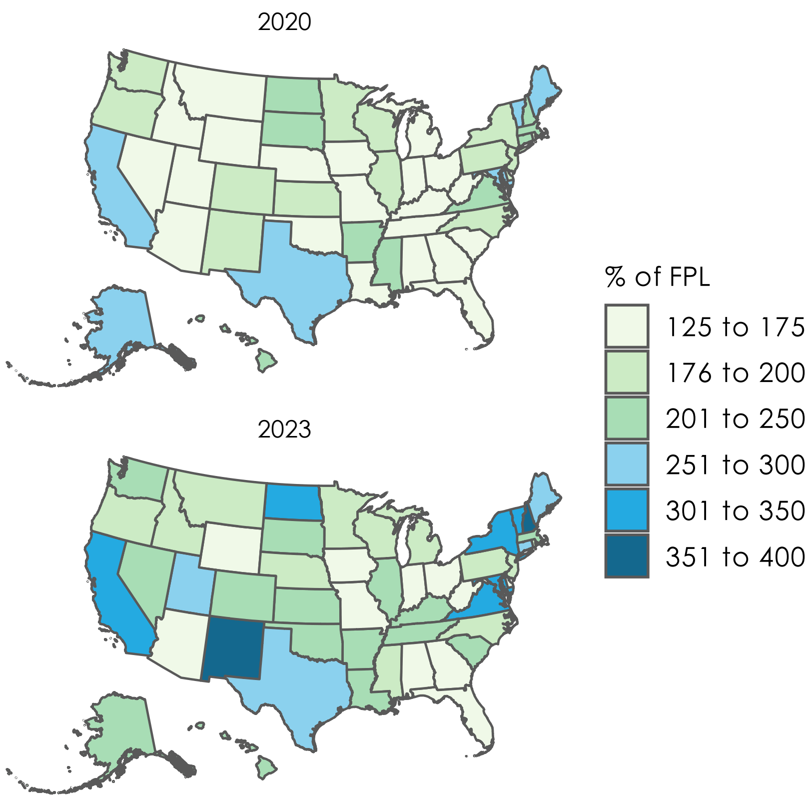
- After implementation of the income eligibility expansion, the proportion of families whose applications were denied for non-income reasons increased from 60% to 65% (Administrative Burdens, p. 24).

Background

Changing Income Eligibility Requirements in Nebraska

In 2023, across all 50 states and the District of Columbia, the median for families' initial income eligibility limit was 218% FPL.[3] Before the income eligibility expansion in 2021, Nebraska ranked 45th in the nation for income eligibility requirements (tied with Alabama, Idaho, Nevada, and Ohio).[4] Currently, Nebraska ranks 36th in the nation (tied with Montana, North Carolina and Wisconsin).[3]

Figure 1. Child Care Subsidies Income Eligibility as Percentage of FPL[3,4]

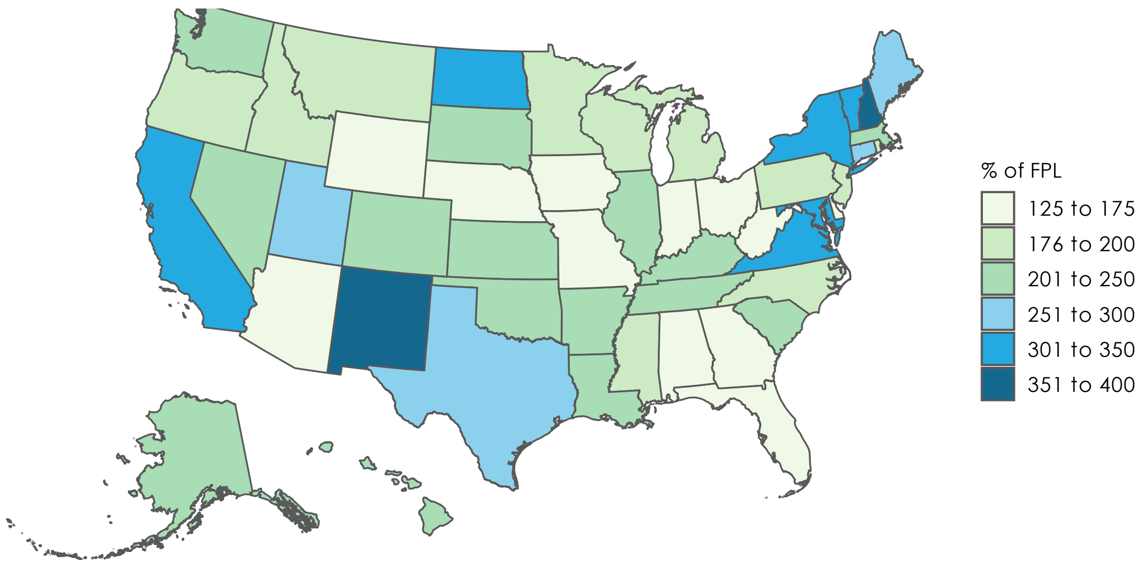


Note: Public data analyzed by FFN. In 2020, Texas and Virginia did not set statewide income eligibility limits and used ranges based upon location or special circumstances. Therefore, the higher limit is displayed.

Data source: Prenatal-to-3 Policy Impact Center (2020/2023). Prenatal-to-3 policy clearinghouse evidence review: Child care subsidies (ER 07D.1023)

If Nebraska income eligibility limits were to revert to pre-income eligibility expansion levels (130% FPL), Nebraska would rank 50th (above West Virginia) in the nation for income eligibility requirements (Figure 1Figure 2).

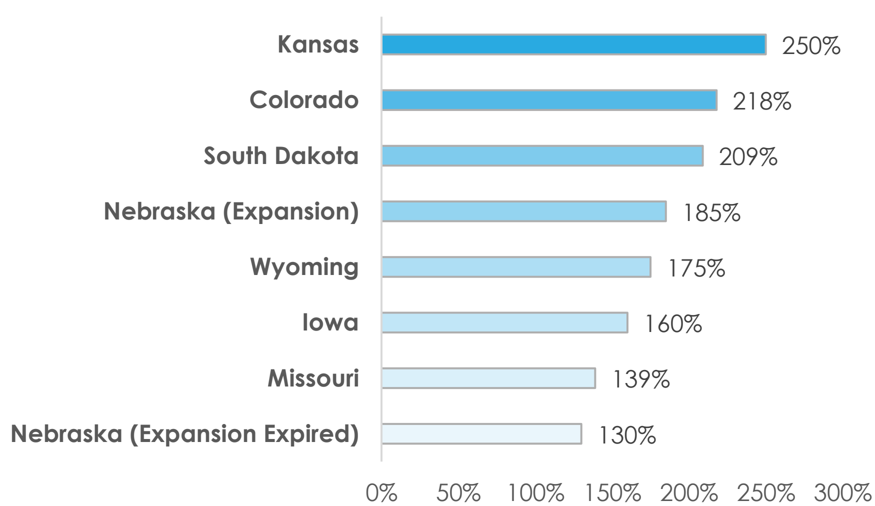
Figure 2. 2023 State Comparison of Income Eligibility if Nebraska Reverted to 130% FPL



Note: Public data analyzed by FFN. Data source: Prentatal-to-3 Policy Impact Center (2023). Prenatal-to-3 policy clearinghouse evidence review: Child care subsidies (ER 07D.1023).

As shown in Figure 3, Nebraska's current income eligibility level is higher than neighboring states Wyoming, Iowa and Missouri, but lower than Kansas, Colorado and South Dakota. When the income eligibility expansion expires in 2026, Nebraska's income eligibility will be lower than all six neighboring states.

Figure 3. Income Eligibility as Percent of Federal Poverty Level for Nebraska and Neighboring States



Note: Public data analyzed by FFN. Data source: Prentatal-to-3 Policy Impact Center (2023). Prenatal-to-3 policy clearinghouse evidence review: Child care subsidies (ER 07D.1023).

When a household first applies to the child care subsidy program, they must demonstrate they meet the statutorily prescribed income eligibility requirement for **initial enrollment**. In Nebraska, qualified households with incomes below 100% FPL do not pay a co-payment, and qualified households with incomes over 100% FPL must contribute 7% of their household income towards their child care expenses to participate in the child care subsidy program. After a family is enrolled in the child care subsidy program, they may be eligible for continued **transitional enrollment**. Transitional enrollment has a higher upper-income limit, to allow families to improve their economic self-sufficiency without a sudden loss of benefits that outweighs upward economic mobility gains. Families in the transitional enrollment category continue to contribute 7% of their household income towards their child care expenses.

When income eligibility changes were implemented in 2021, the maximum income to qualify for the child care subsidy increased substantially (130% FPL to 185% FPL), while the transitional income maximum was raised much less (185% FPL to 200% FPL). Figure 4 models the change in FPL levels on income for a household of 3 and a household of 4 in 2021. As the Figure shows, while the maximum income level increased for both initial and transitional enrollment, the policy change effectively created a larger income range for families to qualify at initial enrollment but a smaller income range for families to qualify for transitional enrollment. This resulted in a change to the number of families eligible for transitional enrollment. The proportion of families who met the income criteria for initial enrollment with a co-payment increased from July 2021 (25%) to September 2023 (47%). However, the proportion of families who met the income criteria for transitional enrollment decreased during this same period (13% to 3%). The majority of families enrolled in the child care subsidy program are below 100% FPL (62% in July 2021 and 50% in September 2023), and whose eligibility was not affected with the change in income criteria.

Figure 4. Monthly Income Limit Ranges Pre- and Post-Income Eligibility Expansion by Receipt Category

Note: Income limits are based upon Federal Fiscal Year 2021 FPL levels. No Copay = 0%–100% FPL. Initial Sliding Fee = 100%–130% (pre-Expansion) and 100%–185% (post-Expansion). Transitional = 130%–185% (pre-Expansion) and 185%–200% (post-Expansion).

Understanding the Impact of Income Eligibility Expansion

To assess the impact of the income eligibility expansion that occurred in 2021 and meet the expectations of the RFA, the study included an evaluation assessment to review relevant research on the effects of child care subsidies, speak with stakeholders about Nebraska's child care subsidy system to identify who is affected by eligibility changes and identify the data available to assess impacts of the legislation.

The study utilizes a combination of quantitative and qualitative forms of data collection. Administrative data collected by NDHHS was analyzed to identify patterns pre- and post-income eligibility expansion. Individual and group conversations with parents, child care providers and community members with varying degrees of connection to the child care subsidy program were utilized to represent the lived experiences of those affected by child care subsidy eligibility changes and to address impacts that cannot be measured through administrative data. Interweaving the administrative data and individual experiences is the foundation for the impact analysis.[5]

Access to Subsidy and Child Care: Outcomes Identified in Existing Empirical Research

Prior research shows that access to child care subsidies and stable, high-quality child care environments have beneficial effects for children, families, and society. Several studies have found that child care subsidies increase labor force participation,[6,7,8,9,10] reduce the incidences of child maltreatment[11,12,13] and increase use of high-quality care.[14,15,16] High-quality child care has been consistently shown to improve child development outcomes and child well-being.[17,18,19,20,21]

Enrollment

Overall, the number of children and households enrolled in the child care subsidy program has increased slightly since income eligibility expansion was implemented in August 2021, but has still not reached pre-pandemic levels (See Table 1).

Figure 5. Monthly Number of Children and Families Enrolled in Program by Year

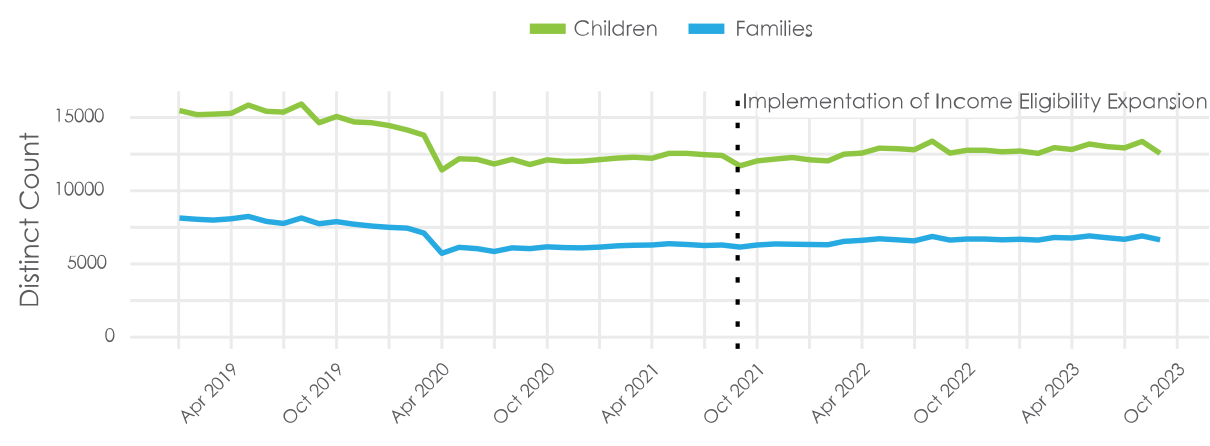


Table 1. Average Monthly Number of Children and Families Enrolled in Program by Year

	Children			Families		
Year	Mean per Month	Change Since 2019	Year-Year Change	Mean per Month	Change Since 2019	Year-Year Change
2019	15,240			7,944		
2020	12,509	-17.9%	-17.9%	6,366	-19.9%	-19.9%
2021	12,258	-19.6%	-2.0%	6,290	-20.8%	-1.2%
2022	12,667	-16.9%	3.3%	6,614	-16.7%	5.2%
2023	12,902	-15.3%	1.9%	6,763	-14.9%	2.3%

Demographics of Children Served

The impact study reviewed a number of demographic variables for children and families enrolled in the subsidy program before and after implementation of the income eligibility expansion. Since 2022, the proportion of children and families enrolled in the program has increased at a slightly faster rate in urban areas compared to rural areas. There has been no change in the number of children served by gender, child age, race, ethnicity or language spoken at home since the implementation of income eligibility expansion.

Proportionally, the group of children enrolled who experienced the largest decrease from 2019 to 2023 was children with special needs.[22] In 2019, the monthly average of families with a special needs child was 1,020. However, in 2023, this number decreased by 37.8% to 634 families.

Newly Eligible Children and Families

Defining Newly Eligible Families

<table>
<tr><th>New Access Families
(n=2,526)</th><th>Existing Access Families
(n=3,158)</th></tr>
<tr><td>New Access families and children would not have been eligible for subsidy pre-income eligibility expansion. New Access was defined as children and families who:

Were determined eligible:
Initially at 130%-185% FPL <u>or</u>
Redetermined at 185%-200% FPL
Began their Eligibility Period after income eligibility expansion was implemented (Sept. 2021)
Had a provider who billed NDHHS for subsidy dollars at any point during their Eligibility Period
Were not receiving child care as part of the Child Welfare program
</td>
<td>Existing Access families and children experienced the Child Care Subsidy program in the same way as before income eligibility expansion was implemented and was defined as families and children who:

Were determined eligible:
Initially at 100%-130% FPL <u>or</u>
Redetermined at 130%-185% FPL
Began their Eligibility Period after income eligibility expansion was implemented (Sept 2021)
Had a provider who billed NDHHS for subsidy dollars at any point during their Eligibility Period
Were not receiving child care as part of the Child Welfare program
</td></tr>
</table>

A critical task in the Impact Study of Income Eligibility Expansion of the Child Care Subsidy Program in Nebraska was to identify which families, post-income eligibility expansion, were in the program because of the legislative changes and which families would have accessed the program regardless of the eligibility changes. Total subsidy dollars billed to NDHHS for the newly eligible families increased from FY 2021-22 to FY 2022-23 (see Table 2) as more families enrolled in the program. In accordance with §68-1206(2)(c), federal funding provided to Nebraska pursuant to the Child Care and Development Block Grant Act pays the cost of subsidized care for newly eligible families, and if necessary, can be supplemented with federal funds provided to Nebraska from the Temporary Assistance for Needy Families program.

Table 2. Total Subsidy Dollars Billed for Newly Eligible Children

Time Frame	Total Subsidy Dollars Billed
FY 2021-22	$6,624,474.24
FY 2022-23	$11,353,673.77
Sept 2021-Sept 2023	$18,031,471.53

Identifying the newly eligible families, researchers could answer two important questions: 1) In what ways are newly eligible families different from or the same as families who were eligible under the previous child care subsidy income thresholds, and 2) What is the economic impact of new access families enrolling in the child care subsidy.

Demographic Comparisons

The study compared new access and existing access children and families on many demographic factors, including geography, race, age, and household size. Largely, there were no or minimal differences between the new access and existing access groups. However, there was a sizeable difference in child age. There were proportionally more infants newly accessing the program (17.8%) than infants with existing access (12.5%), $\chi^2(1) = 133.3, p < .001$.

In addition to meeting income eligibility requirements, when a household applies for the child care subsidy program, they must also demonstrate a need for child care. Most often, the need for child care is employment related, but applicants could need care to participate in an employment program, for educational activities or due to a long-term or temporary medical need. Almost all families cited an employment reason at either initial eligibility or redetermination in both the existing and new access groups.

Table 3. Number of Families Citing Employment and Non-Employment Reasons for Care

	Reason for Care at Time of Determination	
Comparison Group	Employment	Non-employment
Existing Access	2,639 (98.0%)	54 (2.0%)
New Access	2,480 (98.2%)	46 (1.8%)

Note. Existing Access subtotals exclude families who also met criteria for New Access group during a prior eligibility period.

Economic Impact of Newly Eligible Families Enrolling in Subsidized Child Care

Expanded eligibility for child care subsidies under LB485 (2021) creates a current, direct economic impact for Nebraska due to increased spending on child care services, increased household income, and increased public spending for administering the program. These direct impacts are measured in terms of business activity as well as labor market measures such as employment and labor income. There are also "spillover" economic impacts generated throughout businesses throughout the economy: additional earnings by the child care workforce are spent at businesses, child care businesses purchase supplies, public employees working on the program will spend their paychecks, public agencies will purchase supplies and households enrolled in subsidized care will spend their additional income. These spillover economic impacts are referred to as multiplier impacts.

Utilizing IMPLAN software, researchers estimated the economic impact of new access families enrolling in the child care subsidy program. The economic impact estimates are presented in a range—the low value of the range assumes that all newly eligible parents were accessing paid child care prior to becoming eligible for the child care subsidy, the high value of the range assumes all families newly accessing child care subsidies were also new to paid child care. The estimated annual economic impact on Nebraska was in the range of $5.81 million to $8.93 million during Fiscal Year 2022-23. This is including $1.95 million to $3.99 million in additional labor income and 35 to 131 additional jobs in Fiscal Year 2022-23.

Utilizing a price elasticity for enrollment, and given that there is a 95% reduction on average in the cost of child care due to the subsidy, it is estimated that 32.5% of those children receiving subsidized child care under expanded eligibility would not have been enrolled in paid child care without the subsidy. This impact is demonstrated in Table 4.

Table 4. Economic Impact on the State of Nebraska Under the Price Response Scenario

Period & Scenario	Direct Impact				Multiplier Impact			Total Impact		
	Household Income [$Millions]	Output (Spending) [$Millions]	Labor Income [$Millions]	Jobs	Output [$Millions]	Labor Income [$Millions]	Jobs	Output [$Millions]	Labor Income [$Millions]	Jobs
FFY2021-22 32.5% New Enrollees	$1.89	$1.12	$0.66	23	$3.03	$0.93	17	$4.15	$1.59	40
FFY2022-23 32.5% New Enrollees	$3.09	$1.85	$1.09	37	$4.97	$1.52	29	$6.82	$2.61	66

"And financially I would say it benefited because we're able to work. I was able to work and have income pay my bills on time, not being late on anything, so that was nice."

—Formerly Enrolled Parent, Douglas County

"So for me [subsidy is a] huge benefit because being a single mom and working in order to provide daycare for my child, I mean, I'm working to pay for daycare. It was a substantial amount, $600-$800 per kid a month on the low end. And so when you're looking at a single mom who makes, you know, 50,000 a year or under, that's my whole paycheck pretty much."

—Currently Enrolled Parent, Douglas County

Previous empirical research has shown that parents participating in the labor market will have more opportunities to accumulate on-the-job learning, and therefore increase their future productivity and earnings.[23] In addition, children who enroll in paid child care due to the subsidy may have improved educational outcomes and adult earnings because of their access to child care.[17] While these impacts are not in this economic estimate analysis, there is evidence of these long-term effects.

Impacts to Families

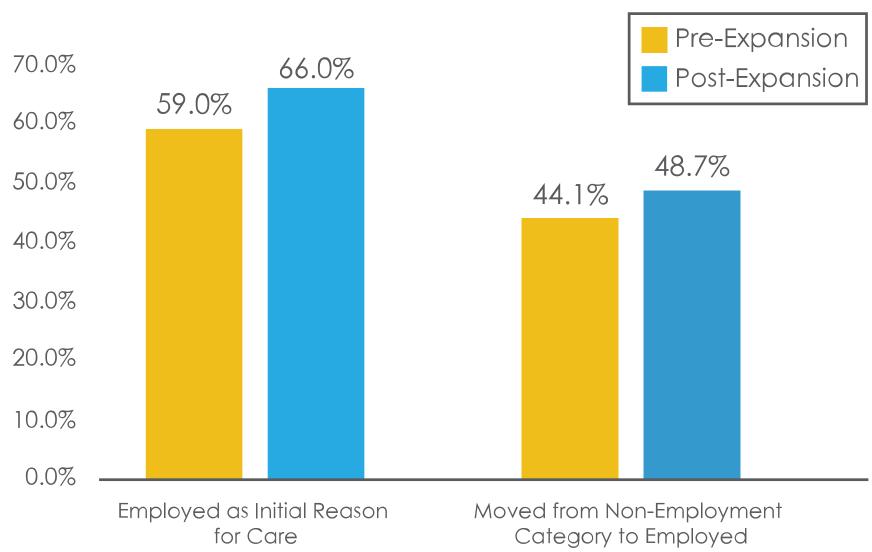
Impacts to Family: Parent Employment

Self-sufficiency is a goal of the child care subsidy program, and employment as a reason for care may exemplify a family's ability to move towards self-sufficiency. To see if there is an effect on employment, researchers compared households who were in the program for 12 consecutive months prior to implementation of income eligibility expansion and after implementation.

> "Without subsidy, I wouldn't be able to have my kids in daycare, which means I wouldn't be able to work."
>
> —*Currently Enrolled Parent, Adams County*

After implementation of income eligibility expansion, a higher proportion of households entered the program employed. More importantly, after the implementation of income eligibility expansion, a higher share of households who were not employed when they entered the program became employed.

Figure 6. Employment Before and After the Implementation of Income Eligibility Expansion



Impacts to Families: Child Development

While the administrative data does not include child development measures, parents and providers were able to articulate very specific developmental gains made by children due to their access to child care. Multiple parents spoke about the immediate gains in language development, motor skills and the ability to have positive interactions with other children. One parent even highlighted how having her child enrolled in child care through the child care subsidy program helped her gain tools to assist in her child's development.

> "I would walk in [to child care], I would see her doing things, I was really shocked. When I went there, they would tell me, "We're working on this," so I can bring that back home and then challenge her at home. So it just kind of kept me on my P's and Q's as well. I can push her to do this, she's not doing this, but this is how I can help her. So they helped me improve my skills as a parent as well by saying, "Hey, we're doing this." And I just brought the information back home, but I loved it and I loved it for the kids. It's useful and it's…I'm happy I qualify for [child care subsidy]."
>
> *—Currently Enrolled Parent, Douglas County*

Providers discussed the developmental progress of children and the role early childhood education plays in setting up children for future success in schools. This is a broadly recognized benefit of early childhood education more generally, though many providers discussed that the children who are enrolled in early childhood programs through the child care subsidy program are frequently those most in need of additional resources and support for development. Child care providers spoke about bringing children "up to speed" developmentally and referring them to services that help them become kindergarten ready.

In the most extreme example, a provider discussed the development of a young child who was neglected. This child received the child care subsidy due to involvement in the child welfare system.

> "And [Grandma serving as foster placement] said, "She's really easy to take care of. She's been so neglected she doesn't expect a thing." She had no emotion on her face. This little girl was 11 months old and all she could do was blink. But she didn't smile. She didn't cry. She didn't do anything. She just blinked. And sometimes when I'd say something to her, she'd blink slowly and I said "She's in there. She's trying to communicate, but she doesn't know how." And they said she's realized that any noise she makes isn't going to be responded to, so she just stopped. And so Grandma was able to put her here on state pay for a while. And the other day I looked at her and I said, "Look at her laughing and playing and talking." And she now yells, stops at the gate now, "No! Blah-blah-blah Toys!" I'm like, "Yep, they need to pick up toys. We'll have them do that." If it was about the money, the parents wouldn't pay it and they'd be sitting at home with, you know, with a tablet all day long and not communicating and not learning and not socializing and not being exposed to anything and no structure and no naps, no food. And like, just the things that they can see and do here and just get exposed to are things that a lot of them would never ever see, you know, at home. So, you know, they're kind of where they need to be in daycare."
>
> *—Provider, Family Child Care Home, Dakota County*

Impacts to Child Care Providers

Impacts to Child Care Providers: Enrolling Children in the Subsidy Program

An expected indirect effect of income eligibility expansion was an increase in child care providers billing for subsidy. As more families become eligible for the child care subsidy through increased income eligibility criteria, researchers hypothesized that more providers would be willing to provide services to subsidy-eligible children. But as discussed previously, fewer children and families are enrolled in the child care subsidy program now than in 2019, and fewer child care programs are billing for subsidy (n = -588). The largest decrease in providers is the license-exempt category (n = -481). Some license-exempt providers may have become licensed during the time frame of the impact study, as NDHHS provides support and guidance to license-exempt providers wishing to become licensed.

Despite fluctuations in the number of child care centers billing for subsidy, the average number of centers in 2023 is similar to the number of centers in 2019 for rural areas, and there was a 3% decrease in urban areas. The average number of family child care homes (I and II) billing for subsidy has decreased 19% in rural areas and 14% in urban areas.

The decrease in family child care homes mirrors the decrease in child care providers overall during the same time period. Compared to 2019, there are 19.4% fewer family child care providers in urban counties and 12.6% fewer in rural counties.[24]

Table 5. Monthly Average of Child Care Providers Billing Subsidy by Year

	Rural			**Urban**		
Year	**Center-Based**	**Family Home I & II**	**License-Exempt**	**Center-Based**	**Family Home I & II**	**License-Exempt**
2019	216	286	212	471	274	539
2020	193	242	152	393	259	423
2021	205	223	106	440	254	308
2022	210	224	69	453	246	237
2023	215	232	57	459	235	213
% Change 2019-2023	0%	-19%	-73%	-3%	-14%	-61%

Note: Urban = Douglas, Lancaster, and Sarpy counties. Rural = All other Nebraska counties. Analysis excludes out-of-state providers.

This finding, however, cannot be separated from the economic realities of operating child care businesses during and immediately following the onset of the COVID-19 pandemic. As a community member in Cherry County stated, "We have been in a 'crisis mode' since COVID – since before COVID." Child care overall has become less accessible since the passage of income eligibility expansion in August 2021.

> "We're just in such a crisis with not having enough childcare providers that when we have people that want to fill out the applications, then where are we going to send the kids? Because everybody in town—even the ones that aren't on [subsidy] —have trouble finding a spot."
>
> —*Community Member, Dawson County*

Impacts to Child Care Providers: Reimbursement Rates

The impact of expanded eligibility on child care programs is a much more complicated issue. While all of the child care providers we spoke to either enrolled families in the child care subsidy program or were willing to enroll families receiving subsidized care, they highlighted issues that may prevent other providers from participating in the subsidy program. The providers spoke in great detail about how their decision to accept families enrolled in the child care subsidy program impacted their business operations. The most discussed impact on business operations was in respect to revenue. For the majority of child care providers we spoke to, accepting subsidy meant a decrease in their revenue when compared to providing child care for families who pay privately.

> "The rate is #1. I actually did the math in the last six months. We were losing about $150 per child per week in our center, which is huge. And that's because costs have increased with staff."
>
> *—Provider, Child Care Center, Lancaster County*

> "I think most of the time the impact is like we don't get paid like our weekly rate that [private pay] families would"
>
> *—Provider, Family Child Care Home, Burt County*

> "But you get more money for a private pay than you do a subsidy. And they're the most vulnerable children that we have to serve."
>
> *—Provider, Child Care Center, Dodge County*

Providing child care to a higher number of subsidy-enrolled families has the potential to decrease provider revenues. There were two notable exceptions to this theme. One provider noted that the majority of families in her community were unable to pay higher rates, so the subsidy is an advantage to her. Another community member who provides technical assistance to providers in lower-income neighborhoods in Douglas County pointed to the subsidy reimbursements as a more consistent form of payment for providers.

> "We're in Fremont and so our rates are substantially lower than [Omaha]. However, like the Fremont market for housing is three times higher than Omaha, our property values are higher. Our tax rate is higher. Our rent is higher. We have to drive to Omaha to get supplies because there's not large stores here and our staff pay scales are the same. And yet our [reimbursement] rates are substantially lower."
>
> *—Provider, Child Care Center, Dodge County (rural)*

The child care providers spoke about many issues related to the way child care subsidies are reimbursed that affect their bottom line, including reimbursement differences by region of the state, provider type and enrollment or attendance. The last factor that affects reimbursements is authorizations. Providers can be reimbursed for care only for the number of hours authorized for the family. So while a child care provider is likely to charge a privately paying family for full time care, if a subsidy-enrolled family is approved for part-time care only, this will reduce the amount the provider can bill.

Impacts to Child Care Providers: Additional Costs

Reimbursement rates were discussed most frequently when child care providers talked about how subsidy affects revenues, but it was not the only impact. Providers also discussed the increased labor costs associated with enrolling families on the child care subsidy, as well as the time they must spend navigating the subsidy system.

> "I have one person dedicated for [child care subsidy] at my center that oversees all the clients. It's a cost. How am I not going to have that person? That piles up into a cost of operations that's not even considered in the direct cost of providing the childcare support."
>
> *—Provider, Child Care Center, Lancaster County*

> "The cost is going up, especially if you are trying to sustain a business as an owner, when you think about all the utilities and all the operational cost comes up, in addition to trying to pay staff a decent wage so they can come to work."
>
> *—Provider, Child Care Center, Douglas County*

> "I've personally bought children in my care clothing, shoes, a swimsuit out of my budget that I already get out of a 75% market rate value of subsidy to make sure that these kids don't feel less than the other kids in my care."
>
> *—Provider, Family Child Care Home, Lancaster County*

Child care providers talked broadly about how this loss of revenue from subsidy must interplay with increased costs of other goods. For child care centers, this was largely focused on discussions of staff, but providers, regardless of license type, mentioned the impact of inflation on their ability to operate a successful business, provide high quality care and serve families enrolled in the child care subsidy.

Family child care providers in particular discussed providing tangible goods for the subsidy-enrolled children in their care. These additional expenses are necessary to ensure the children can participate in all aspects of the early childhood program, but are not part of the reimbursement structure of the child care subsidy program and impact provider revenue and program viability.

Given that providers typically described participating in the child care subsidy program as a negative impact on their business revenues, researchers asked why they chose to enroll families in the program. For many, values drove their decision to accept subsidy. Enrolling families in the child care subsidy program is a way to serve their community. Central to these values was the belief that every child deserves quality child care by having engaged child care providers with the knowledge, skills and resources to improve developmental outcomes.

Impact to Providers: Incentivizing Quality

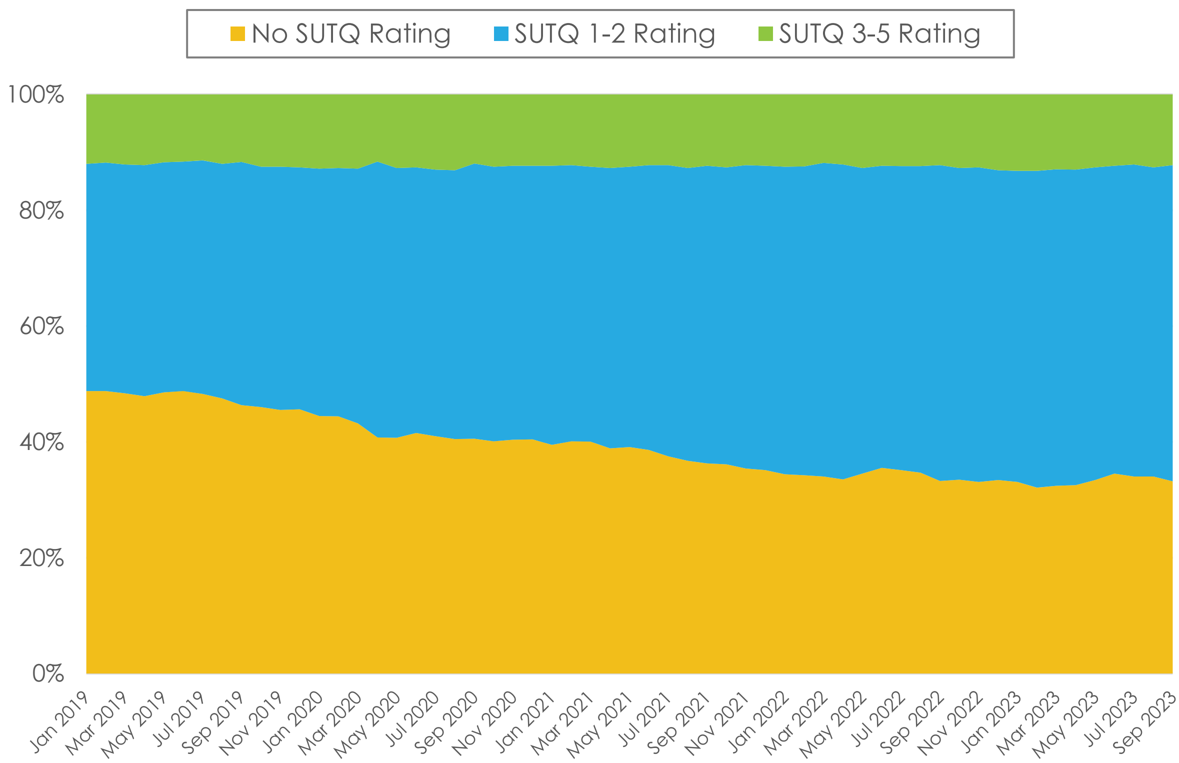
Step Up to Quality (SUTQ) is Nebraska's quality rating and improvement system for early care and education, and child care providers have the opportunity to participate in the program. SUTQ offers access to coaching and other resources that allow child care providers to provide even higher quality programming. This includes curriculum development, adaptive learning environments, engaging teacher-child interactions, knowledge of developmental milestones, active professional development, family engagement practices, and successful program administration.[25] Participating organizations take part in a five-step program. Each step represents a higher level of potential service to be offered to children.

Those working to improve access to child care in their community highlighted how the child care subsidy system, with its tiered reimbursements for providers who improve their SUTQ rating, provided a financial incentive that benefited all families receiving care.

> "I think subsidy also encourages the providers to do better, because they get higher subsidy if they're a higher rate in Step Up To Quality. So that's a positive for the providers, an incentive for them to you know, do better with their environments in their daily activities I feel with their children."
>
> *—Community Member, Richardson County*

Researchers sought to determine whether children who receive subsidy dollars are utilizing facilities in SUTQ. The percentage of children in facilities that are not part of SUTQ has decreased over time, but the proportion rated Step 3 or higher has remained relatively stable.

Figure 7. Monthly Percentage of Children Receiving Care in Step Up to Quality Facilities



Child care providers discussed the difficulty of providing quality care overall when revenue was not always sufficient to cover the costs. But for the providers we spoke to, providing quality care was a driving force in their decision to enroll families in the child care subsidy.

"I think that a child from Title 20 is worth receiving the same care we provide for a child whose parent pays. It's the same care because in my case, I do not show any preference. I take care of them the same way. My responsibility is the same."

—Provider, Family Child Care Home, Douglas County

"Well in my case quality child care. I include year-round preschool. I have a great reputation. I've been doing it for almost 30 years, and I know what I'm doing, and I care about my kids."

—Provider, Family Child Care Home, Kearney County

Transitioning Off the Child Care Subsidy Program

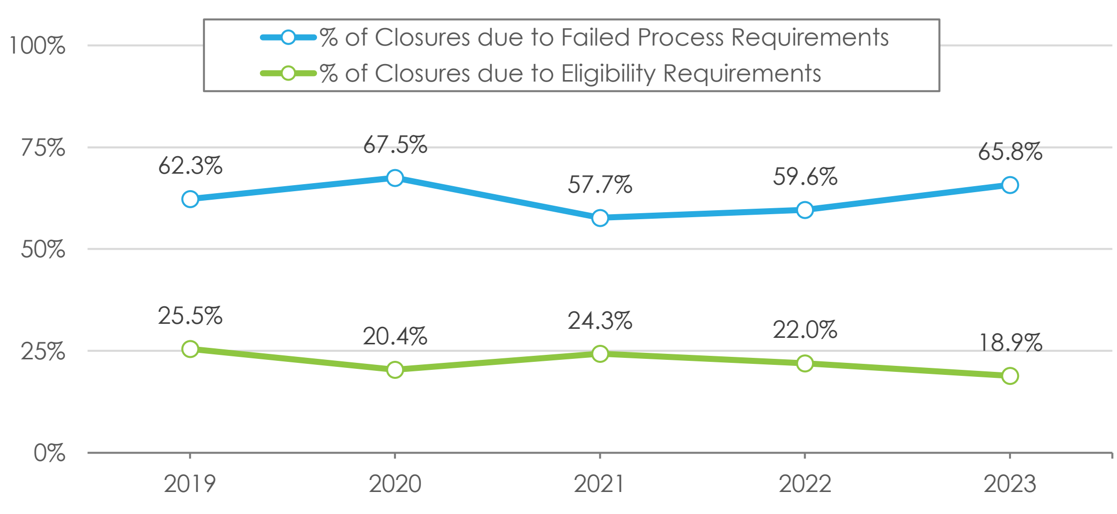
One area researchers sought to understand was the impact of income eligibility expansion on the transition to self-sufficiency. There are limits to the administrative data to answer this question. The researchers did not have the income level of families after they were ineligible for the program. To answer this question regarding the transition from subsidized care we looked at two administrative variables—closure reason and redetermination applications for subsidized care.

Transitioning Off the Child Care Subsidy Program: Closure by Closing Reason

Over half of all closing reasons were due to a failed process requirement (e.g., co-pay not paid or failed to provide documentation). The second-most-common closing reason was due to a failed eligibility requirement (e.g., service no longer needed). On average each month, more than 80% of closing reasons are due to one of these two reasons. There was minimal fluctuation year to year regardless of whether the family was in an initial or redetermined eligibility period, indicating that income eligibility expansion did not affect this pattern.

Figure 8 shows rates of closures due to failed process requirements and closures due to eligibility requirements over from 2019-2021. A small portion of families, between 3% and 7%, withdrew their applications and are not categorized as a failed process requirement. However, if families stop participating in the redetermination process without acknowledging their withdrawal, their closure reason may be categorized as a failed process requirement instead. This could include families who recognize their income places them outside the eligibility criteria.

Figure 8. Percent of Closures due to Process and Eligibility Requirements



Parents as well as the child care providers who serve subsidy-enrolled families frequently discussed struggling to meet process requirements. These discussions most often focused on closures that occurred during the renewal or redetermination process.

> "People in low income they tend to move a lot, and so getting notices or not having a permanent address to get notices is very difficult. And so then I would miss notices because we had just moved, even though I updated my address with them, it would get sent to the wrong address. And so then I would miss a notice for a renewal and then lose benefits and then have to go back through the whole process again, but still having to pay that extra daycare while I lost those benefits full time daycare because they don't go back and pay."
>
> *—Currently Enrolled Parent, Adams County*

> "One mother had to pay me for a month that they did not pay her for because it was going to expire on a certain date…She renewed it in advance. Since she had changed jobs, they asked her for a letter from her work. They gave her the letter late, but she had already talked to [NDHHS] to renew it. And just because the letter didn't arrive on time, [NDHHS] didn't pay her for that month…She had to pay herself. That's what I see with the parents I have, that it helps some and it harms others."
>
> *—Provider, Family Child Care Home, Douglas County*

Transitioning Off the Child Care Subsidy Program: Cliff Effect

By increasing initial eligibility to 185% FPL and transitional eligibility to 200% FPL, a goal of income eligibility expansion is to decrease what researchers and stakeholders refer to as the "cliff effect," wherein a raise or increase in income leads to a disproportionate loss of economic assistance benefits.

Mitigating the cliff effect is one of the reasons the child care subsidy program requires a cost-share or co-pay for eligible households over 100% FPL. As a family's income increases while they are still eligible for the child care subsidy program, the proportion of their income spent on child care remains the same at 7%, however the actual dollar amount they pay will increase. The goal is that when a family's household income surpasses the eligibility limits, the difference between their co-pay and the total cost for child care services will be minimal enough to make the transition to non-subsidized care economically advantageous.

Before discussing the cliff effect as an economic transition, it is important to reiterate that the majority of closures occur because a family does not fulfill the redetermination process requirements, not because their applications were denied due to exceeding income limits.

Experiences for families whose earnings exceed income eligibility limits will be vastly different based on their family structure and their children's age. Income limits are relative to household size alone, but child care expenses vary considerably based on the child's age. Table 6 provides an example of the difference between income increases and child care benefits for a family of three based on their family structure and the age of the children requiring child care based on pre- and post-income eligibility expansion policies.

Table 6. Household Composition and Child Age Effects on Benefit Cliff for a Household of 3

	Pre-Income Eligibility Expansion Limits			Post-Income Eligibility Expansion Limits		
	Max Eligible FFY22-23	**Min Ineligible FFY23-24**	**Net Gain**	**Max Eligible FFY22-23**	**Min Ineligible FFY23-24**	**Net Gain**
Monthly Household Income	$3,550	$3,835	$285	$3,838	$4,146	$308
	Max Eligible Child Care Co-Pay	**Average Child Care Cost w/o Subsidy**	**Net Gain: Income to Child Care Cost**	**Max Eligible Child Care Co-Pay**	**Average Child Care Cost w/o Subsidy**	**Net Gain: Income to Child Care Cost**
Two Parents, One Child						
Two Adults, One Infant	$249	$916	-$382	$269	$916	-$339
Two Adults, One Toddler	$249	$845	-$312	$269	$845	-$268
Two Adults, One Preschooler	$249	$726	-$193	$269	$726	-$150
Two Adults, 1 School-Age	$249	$533	$0	$269	$533	$43
One Parent, Two Children						
Infant and Toddler	$249	$1,761	-$1,227	$269	$1,761	-$1,184
Infant and Preschooler	$249	$1,642	-$1,109	$269	$1,642	-$1,066
Infant and School-Age	$249	$1,449	-$916	$269	$1,449	-$872
Toddler and Preschooler	$249	$1,571	-$1,038	$269	$1,571	-$995
Toddler and School-Age	$249	$1,378	-$845	$269	$1,378	-$802
Preschooler and School-Age	$249	$1,260	-$726	$269	$1,260	-$683

Note: Child care costs are calculated using the statewide average expenditures in 2023 by service category.

As the table shows, regardless of the family structure (one or two parents) or the age of the children, by increasing the transitional eligibility requirement to 200% FPL, there is mitigation in the cliff effect. However, with the exception of a two-parent household with a school-age child, the financial burden of child care costs exceeds the increase in income. For single parents in particular, this financial burden of child care costs far exceeds the increase in income.

Transitioning Off the Child Care Subsidy Program: Effect on Child Care Providers

The providers we spoke to stated they had not seen a mitigation in the cliff effect for families after implementation of income eligibility expansion. They also stated that the moment families transition off the program is a difficult time in business operations.

> "Usually if they lose [child care subsidy], almost 100% of the time they get behind on their bill. And then they can't keep up with it at all. What ends up happening is that we usually bad debt it and they stopped attending, they stop coming, stop communicating. So it's happened very often at our center"
>
> *—Provider, Child Care Center, Douglas County*

> "Many times it's the single mothers I don't understand. I have a mother who really needs the help and they took it away from her because she earned ten cents more. And they took away the help. So, it's really very hard for her to pay me"
>
> *—Provider, Child Care Center, Sarpy County*

Child Care Subsidy and Income Eligibility Expansion in Context

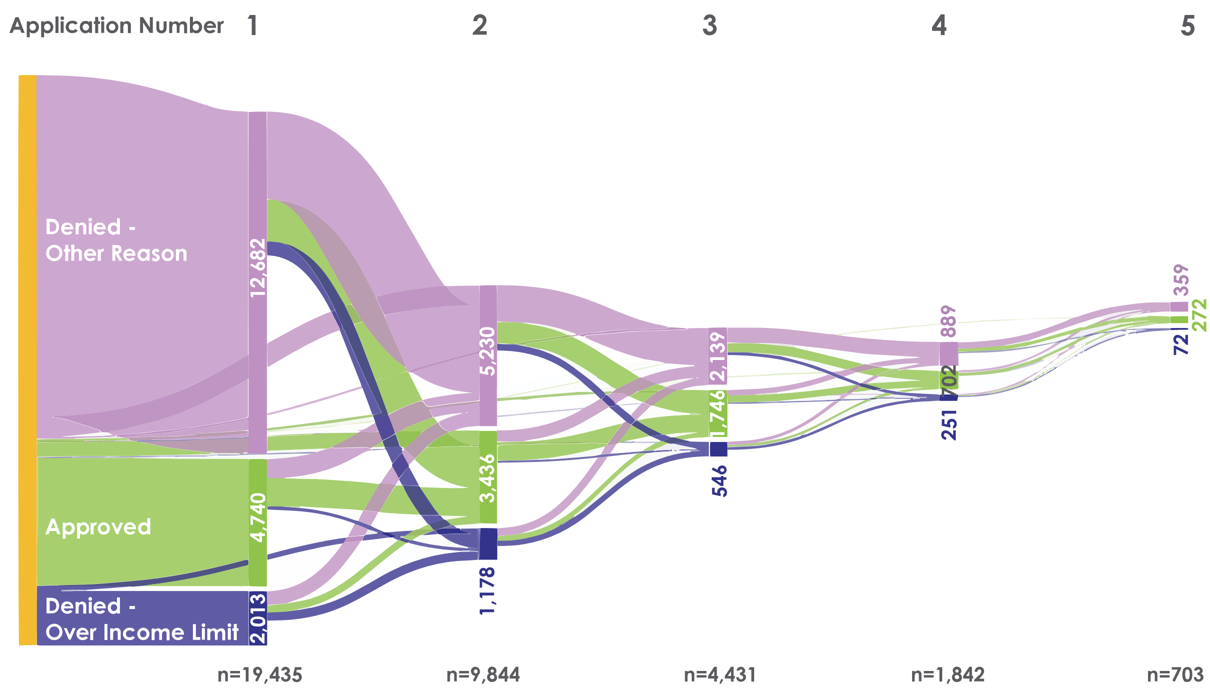
There are factors beyond the income eligibility changes in LB485 (2021) that affect the implementation and impact of the legislation. These were highlighted in conversations with parents, child care providers and community members.

Administrative Burdens

Nearly every conversation about child care subsidy included comments and critiques about the administrative burdens placed on families and providers who interact with the program. The application process in particular was highlighted. As a result, researchers examined the decisions on households' initial application for the child care subsidy program. Interestingly, the proportion of subsidy applications that were denied for non-income reasons increased from 60% pre-income eligibility expansion to 65% post-income eligibility expansion.

Given the outsized role of denials for non-income reasons, it's unsurprising that many families apply for subsidy multiple times. Figure 9 demonstrates the flow of applications for households post-income eligibility expansion.

Figure 9. Post-Income Eligibility Expansion Household Level Child Care Subsidy Initial Application Flows



Notes: Nodes show the outcome of households' initial applications with respect to the number of applications submitted in the 24 months following the policy change. Initial applications are defined as applications submitted by households who either never were on the program or where more than a month has elapsed since a household was listed on program rolls.

Applying for the child care subsidy program requires multiple steps. Applicants must fill out a detailed application, complete an interview about the information in the application and provide supporting documentation that verifies the information in the application form. The amount of time this process takes, along with scheduling interviews and the requirement that participants work with child support enforcement before approval, were all cited as specific reasons households do not complete the application process.

Providers also discussed frustrations with the billing system, the amount of paperwork and the inconsistent communication they receive from NDHHS that may affect willingness to participate in the child care subsidy program.

Economic Assistance Programs Interconnectedness

Families who are enrolled or seeking enrollment in the child care subsidy program are often connected to other economic assistance programs. Conversations with families made it very clear that to understand the child care subsidy program, it's critical to understand the broader economic assistance landscape and how those programs interplay with one another. Economic assistance programs that were mentioned during conversations with parents included SNAP, LIHEAP, Medicaid, Unemployment, WIC, ADC, rental assistance and disability services. Additionally, parents mentioned their connections to other programs intended to serve low-income families including Head Start and home visitation services.

The interactions between different economic assistance programs are important. As parents work toward financial independence, the way the programs interact with one another and how that is affected by income gains made by the household matter a great deal.

> "I got a $0.50 raise. I reported that to the state like you're supposed to. Did everything that you're supposed to when it comes to that, and I lost a ton of benefits by reporting that. I lost $200 in SNAP. And mind you, the $0.50 raise only got me $80.00 more a month. So I lost $200 in SNAP and then I gained a $212 family fee on top of losing benefits from everywhere else. And then getting that big of a family fee. That made things very, very difficult. And I was like, I'm only making $80 more a month and now I'm losing $200 in food, plus having to pay $212 in child care. So that's $412 right there when I'm only getting $80 more."
>
> *—Currently Enrolled Parent, Adams County*

Inflation and Workforce Shortages

Providers discussed larger issues in the child care industry at the time income eligibility expansion was implemented. During August 2021, there was an acute workforce shortage for Nebraska in general and child care specifically. At the same time, inflation meant that it became more difficult for providers to balance budgets. Based on previous discussions of how enrolling families in the child care subsidy is a business decision, it is possible that even though more families qualified, providers were not in a position to accept more families enrolled in the child care subsidy.

Expiration of Income Eligibility Changes: Parent, Provider and Community Perspective

In all conversations with parents, providers and community members, researchers explained that the changes to income eligibility in Neb. Rev. Statute §68-1206 includes a sunset clause, meaning that subsidy income eligibility levels will automatically revert to previous levels without legislative action. Because researchers were measuring the impact of the eligibility changes, participants were asked questions about their experiences with the child care subsidy program and how income eligibility changes affected them, if at all. They were not asked whether the income eligibility levels should revert to previous levels. However, over the course of the conversations, several participants stated that returning to the pre-income eligibility expansion levels would be difficult for Nebraska's families and communities and no participant indicated they wanted income eligibility to return to previous levels.

> "Just if whoever gets the study, if they read it at all or listen, just seriously think about our economic situation in the state of Nebraska, right now. What is going to happen? The increase has been good for families that did qualify. There's still a lot of gap families that didn't. But how much worse is it going to be when this drops back down?"
>
> *—Community Member, Scotts Bluff County*

> "They need to find a way to do better. Because, like literally like family is the foundation of society, no matter what that family looks like. If you don't have healthy families, if parents can't work without fear of losing their job because of their kids and being able to afford daycare, things are just going to break down"
>
> *—Ineligible Parent, Nemaha County*

> "If you want the workforce to succeed, if you want Nebraska to succeed, you need a strong workforce. To have that strong workforce, you need a strong childcare network and that means you're going to need to help some of these women pay for childcare."
>
> *—Provider, Family Child Care Home, Lancaster County*

For more information on the methodology and additional detail on the findings from the quantitative and qualitative analysis for the Impact Study of Income Eligibility Expansion of the Child Care Subsidy Program in Nebraska, please contact First Five Nebraska at info@firstfivenebraska.org.

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