

EMPLOYER-ASSISTED DEPENDENT CARE

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FOREWORD

In 1988, the Hawaii State House of Representatives adopted House Resolution No. 25, H.D. 1, requesting a study of employer offered child care as an optional prepaid benefit, prepaid child care and long-term care benefit options. Citing the child care needs of families with both parents working and of single parents, the high costs of child care, and the limited supply of licensed care facilities, the resolution requests the Legislative Reference Bureau to conduct a study of:

...the effects of employers in Hawaii offering their employees child care as an optional prepaid benefit, prepaid child care, or long-term care benefit options where the employee agrees to a corresponding decrease in other benefits[.]

The resolution identifies a number of options that could help working parents meet their child care needs. They are:

- A dependent care program modeled on the Illinois program offering financial assistance through tax breaks for working parents,
- Child care centers at state agencies where there is a demand for a center,
- A state child care program to be staffed with state employees,
- A child care subsidy for state employees,
- Use of public schools for after school and vacation care programs for school-aged children,
- Sliding scale voucher programs with assistance based on income, and
- A flexible benefits package that includes dependent care as an optional employee fringe benefit.

Other agencies are also conducting studies and implementing programs relating to dependent care in Hawaii. The Governor's Office of Children and Youth has filled a new position of Child Care Coordinator and is conducting a statewide child care needs assessment; the Department of Business and Economic Development is conducting a series of forums throughout the State to encourage development of public-private partnerships to meet employee child care needs; the Public Employees Health Fund is to examine the feasibility of offering long-term care insurance through the Fund; and the Governor's Office on Aging was granted funds to implement a demonstration public awareness program on long-term care insurance.

This report has been prepared in response to House Resolution No. 25, H.D. 1 (see Appendix A). It focuses on the care of preschool children of working parents and covers the related public policy issues; key elements of the dependent care market and program options for employers; current rules and statutes of Hawaii and other states; and special federal and state tax

provisions for dependent care expenses. Options for state policy makers with regard to the work force generally and to state employees specifically are identified. Chapter 8 contains the report's findings and recommendations.

In order to avoid duplicating the studies and programs noted above, the report does not attempt to quantify dependent care needs in Hawaii or to address issues relating to long-term care of the elderly.

We wish to express our sincere appreciation to the following individuals for their assistance in preparing this report: Sandra Cirie, Department of Business and Economic Development; Lynn Fallin, Director, Governor's Office of Children and Youth; Carolyn Gire, Supervisor of Flexible Spending Accounts, HMSA; Linda Buck, Child Care Coordinator, Governor's Office of Children and Youth; Barb Morgan, PATCH; Jane Okubo, Assistant Program Administrator, Family and Children Services Division, Department of Human Services; Wayne Protheroe, Office of Human Resources, City and County of Honolulu; Christina Uebelein, Tax Policy Analyst, Department of Taxation; and the staff of the Income Technical Office, Department of Taxation.

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Chapter 1

THE DEPENDENT CARE ISSUE

Public Policy and Dependent Care

Society's responsibility to protect and care for those who cannot care for themselves is a long standing and widely accepted element of public policy in the United States.

In the area of dependent care, government's role traditionally has been limited to regulation of care providers other than the dependent's family, and tax relief for employment-related dependent care expenses.

Until about thirty years ago this meant a comparatively minor involvement on the part of government because dependent care could be provided by non-working adult family members and informal arrangements with neighbors and friends. An economy where one wage earner could adequately provide for the immediate family and, when necessary, also for members of the extended family made this possible. A society in which divorce and single parenthood were rare ensured the availability of non-employed adults to provide dependent care.

Changes in the nation's economy and the structure of the family since the 1950's have made the traditional system of dependent care unworkable for a growing number of Americans. Some of these changes are:

- An economy that requires two wage earners in a family.

Just ten years ago, 18 per cent of America's families were the traditional husband as primary wage earner and wife homemaker. Today this percentage has dropped to 10 per cent.¹

- An economy that requires a growing number of women in the work force.

In 1950, women represented 30 per cent of the nation's work force. Today that figure is 45 per cent.²

In 1950, only 12 per cent of women with children under the age of six were employed. Today the figure has increased to 57 per cent.³

- A society in which a growing number of families are supported by a single head of household - frequently, a divorced or never married mother.

The nation's work force includes 3.5 million single mothers with 5 million children under the age of 13.⁴

In terms of dependent care, these economic and social changes mean that those who used to shoulder a significant part of the responsibility for care are simply no longer available to do the job. At the same time, the factors

that make dependent care a basic need and a legitimate public policy issue have not changed.

Society's task today is to develop appropriate dependent care alternatives. Identifying the roles and responsibilities of employees, employers, care providers, and government is an essential part of the task.

Quantifying the Issue

Potential Demand

Two segments of the population are most likely to require dependent care--the very young and the very old. In Hawaii, the very young (under age 5) number some 90,000 and represent 8 per cent of the State's civilian population. Persons age 75 and over total 37,000 and account for 3 per cent of the population. Projections to the year 2005 show the under age 5 group increasing moderately to 91,300 but representing a lower percentage of the total. In contrast, the age 75 and older group is expected to increase to 85,700--a 132 per cent increase in less than twenty years (see Table 1).

Population data by county show that, while the elderly represent 3-4 per cent of civilian population in each county, those under age 5 vary from a high of 17 per cent in Maui County to a low of 5 per cent on Kauai (see Table 2).

Women in the work force who have minor children are among those most likely to need dependent care. A rough estimate of the size of this group indicates a statewide total of 87,000 such women with 36,000 having a child under the age of six. Table 3 shows the comparable figures for each county.

A needs assessment must be conducted to develop more accurate estimates of dependent care needs in the State, the types of programs that will meet those needs, and appropriate financing mechanisms.⁵

Existing Supply

The State regulates child care providers who enroll three or more children. Family Child Care Homes may enroll up to six children with no more than two being under the age of 18 months. Group Day Care Homes may enroll up to twelve and Child Care Centers have no maximum. Neither may enroll children under two years of age. Individuals who care for one or two children are not required to register with the State. These regulations are discussed more fully in Chapter 4 of this report.

Statewide, there are some 600 licensed and regulated providers with a maximum capacity to care for 23,800 children (see Table 4). Most of this capacity is on Oahu (18,481), with Hawaii second (2,494), followed by Maui (1,747), and Kauai (1,089). At full enrollment, these care providers would be serving about one fourth of the under age 5 population. However, since Child Care Centers provide all but about 1,000 of total capacity, and since they may not enroll children under the age of two, they actually have the capacity to serve a larger portion of the smaller group of 3 to 5 year olds.

TABLE 1
STATE OF HAWAII POPULATION

| AGE | 1986 | | 2005 | | PERCENT INCREASE |
|-------------|-------------|--------------------|-----------|--------------------|---------------------|
| | PROVISIONAL | PERCENT OF TOT. | PROJECTED | PERCENT OF TOT. | |
| UNDER 5 | 90,000 | 8 | 91,300 | 7 | 1 |
| 5-14 | 150,000 | 14 | 174,500 | 13 | 16 |
| 15-74 | 785,000 | 74 | 958,500 | 73 | 22 |
| 75 AND OVER | 37,000 | 3 | 85,700 | 7 | 132 |
| TOTAL | 1,062,000 | 100 | 1,310,000 | 100 | 23 |

Source: Hawaii, Department of Business and Economic Development, The State of Hawaii Data Book, 1987: A Statistical Abstract, p. 40 (1986 data), p. 42 (2005 data).

TABLE 2
POPULATION BY COUNTY

1984

| AGE GROUP | HONOLULU | HAWAII | MAUI | KAUAI | STATE TOTAL |
|--------------|----------|---------|--------|--------|----------------|
| UNDER 5 | 67,897 | 10,316 | 7,323 | 4,199 | 89,735 |
| 5-14 | 110,560 | 17,019 | 6,678 | 15,327 | 146,584 |
| 15-74 | 600,477 | 75,559 | 28,269 | 60,835 | 768,140 |
| 75+ | 24,201 | 4,239 | 1,885 | 3,064 | 33,389 |
| TOTAL | 803,135 | 107,133 | 44,155 | 83,425 | 1037,848 |

PERCENT OF TOTAL

| AGE GROUP | HONOLULU | HAWAII | MAUI | KAUAI | STATE TOTAL |
|--------------|----------|--------|------|-------|----------------|
| UNDER 5 | 8 | 10 | 17 | 5 | 9 |
| 5-14 | 14 | 16 | 15 | 18 | 14 |
| 15-74 | 75 | 71 | 64 | 73 | 74 |
| 75+ | 3 | 4 | 4 | 4 | 3 |
| TOTAL | 100 | 100 | 100 | 100 | 100 |

Source: Hawaii, Department of Business and Economic Development, The State of Hawaii Data Book, 1987: A Statistical Abstract, p. 41.

TABLE 3
ESTIMATED WOMEN IN LABOR FORCE WITH MINOR CHILDREN
1986

| | HONOLULU | HAWAII | MAUI | KAUAI | STATE |
|--|----------|--------|--------|--------|---------|
| TOTAL CIVILIAN LABOR FORCE | 366,750 | 50,850 | 48,300 | 23,100 | 489,000 |
| % WOMEN W/CHILD UNDER 6 (1980) | 7.3% | 7.9% | 7.4% | 7.8% | 7.4% |
| % WOMEN W/CHILD 6-17 (1980) | 10.7% | 9.4% | 9.5% | 10.6% | 10.4% |
| # WOMEN W/CHILD UNDER 6 (1986) | 26,773 | 4,017 | 3,574 | 1,802 | 36,166 |
| # WOMEN W/CHILD 6-17 (1986) | 39,242 | 4,780 | 4,589 | 2,449 | 51,060 |
| TOTAL WOMEN IN LABOR FORCE WITH MINOR CHILDREN | 66,015 | 8,797 | 8,163 | 4,251 | 87,226 |

Source: Hawaii, Department of Business and Economic Development, The State of Hawaii Data Book, 1987: A Statistical Abstract developed from Tables 364 and 376, pp. 342 and 345.

TABLE 4
LICENSED AND REGISTERED CHILD CARE FACILITIES
BY COUNTY
AT FEBRUARY 1988

| COUNTY | FAMILY CARE HOMES | | CHILD CARE CENTERS | | TOTAL LIC/REG CAPACITY | ESTIMATED POPULATION UNDER 5 YRS. |
|---------------------------|----------------------|----------|-----------------------|----------|------------------------------|---|
| | NUMBER | CAPACITY | NUMBER | CAPACITY | | |
| HONOLULU | 142 | 693 | 277 | 17,778 | 18,481 | 67,897 |
| 1 GROUP CARE HOME ON OAHU | | | 1 | 10 | | |
| HAWAII | 22 | 112 | 58 | 2,382 | 2,494 | 10,316 |
| E. HAWAII | 13 | 62 | 44 | 2,286 | 2,348 | |
| W. HAWAII | 9 | 50 | 14 | 96 | 146 | |
| MAUI | 11 | 51 | 48 | 1,696 | 1,747 | 7,323 |
| MAUI ISL. | 11 | 51 | 40 | 1,524 | 1,575 | |
| MOLOKAI | 0 | 0 | 7 | 148 | 148 | |
| LANAI | 0 | 0 | 1 | 24 | 24 | |
| KAUAI | 16 | 94 | 31 | 995 | 1,089 | 4,199 |
| STATE TOTAL | 191 | 950 | 415 | 22,861 | 23,811 | 89,735 |

Source: Interview with Jane Okubo, Assistant Program Administrator, Department of Human Services, June 27, 1988.

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It is possible that the supply and demand for Child Care Center services are fairly well balanced, at least on the county wide level.

Some 400 one and two year olds could be served by the nearly 200 Family Child Care Homes. It is unlikely that these providers all accept their limit of two infants and toddlers, and a significant shortage of regulated care may exist for these children. Unlicensed providers are limited to the maximum of two children not related to the care-giver, making this type of care an extremely labor intensive activity. This factor, plus the generally low pay in the child care field, make it probable that the greatest shortage of child care services is for those under age two. If so, the unmet demand will be a strong inducement for parents to use underground providers who exceed the two-child maximum and who may not meet other regulatory standards.

Licensed facilities in the State offering long-term, specialty, residential, and family care provide a total of just under 4,000 beds for the State's elderly and handicapped citizens. There are 2,909 on Oahu, 421 on Hawaii, 392 in Maui County and 211 on Kauai⁶. In 1986, daily occupancy in Hawaii's hospitals and care facilities averaged 87 per cent.⁷

Projected growth in the over age 75 population will create a rapidly growing demand for affordable care programs for the elderly.

Chapter 2

THE DEPENDENT CARE MARKET

The dependent care market for employment-related and employer-supported programs involves employees and their dependents, care providers, and employers. The resources and needs of each segment of the market are of equal importance, and must be taken into consideration when a specific program is being considered or developed. This chapter covers the needs of dependents, employees, and care providers. Chapter 3 discusses the program options available to employers.

Dependents

An employee's dependent care needs are the product of the specific characteristics of the dependent and the employment situation of the employee.

Dependents require different types of care. Children all need some level of supervision. Among the elderly, a higher proportion of individuals need care due to health, handicap or general frailty than among the general population. Mentally or physically handicapped individuals may require care providers with special training. They may also have special medical or equipment needs. The major classes of dependent care are:

Infants from birth to age 2 or 2-1/2 need close supervision and individual attention but little in the way of a formal or structured program. (Special training is recommended for group care of infants.)

Preschoolers from around age 2 to 5 are more able to care for themselves and require less one-to-one individual attention. A program of structured activities that stimulates their physical, emotional, intellectual and social development is considered appropriate for this group. (While Hawaii allows providers to enroll children over the age of two, many refuse to accept children who are still in diapers.)¹

School-age children need supervision and appropriate activities during periods when they are not in school, such as before and after school, and over holiday and vacation periods.

Physically or mentally handicapped dependents can, in many cases, be cared for in a group day care facility. However, they may have special transportation requirements, and the facility must be equipped and staffed to accommodate the individual's handicap, including any special medical needs.

Short- or long-term illnesses usually require in-home care as do more severe physical or mental handicaps. When this is not possible, a hospital or long-term care facility may be required.

Employees

Work-related conditions also influence employees' dependent care options. The key factors are:

Work schedules have an impact on the care options available to employees. Those who work the standard 8-hour day, 5-day week will have more choices among care facilities because they also tend to keep conventional hours. Those who work split-shifts, evenings or weekends have more limited options.

Location of the care facility is important to many employees. Many prefer a location near home or school rather than near work.² This is particularly true when a long commute is involved, or when the employee relies on public transportation. Others feel a need to have the child nearby, and prefer on- or near-site centers.

Cost is often a deciding factor. The cost of dependent care can place it beyond the reach of many, leaving parents with the choice of either no care, as in the case of latchkey children, or underground providers. Underground providers operate outside the tax and licensing system and can charge less than the legitimate care provider. However, they also avoid the need to meet basic health and safety standards.

Nationally, it can cost a family anywhere from \$1,500 to \$15,000 a year for child care (with most spending about \$3,000 a year).³

Tables 5 and 6 provide an overview of Hawaii's job inventory and average wages by industry. They show that the trade and nonhotel services account for more than 40 per cent of the State's jobs. The average wages in these industries in 1986 were \$12,497 and \$17,147, respectively. Dependent care costs in the range of \$3,000 cannot be considered affordable for persons earning such wages.

Availability is another controlling factor. A community may simply have too few care programs, or programs that do not answer the care needs of workers because of the type of care offered or the hours of operation.

Care Providers

Child care advocates refer to the "trilemma" which confronts efforts to provide the community with an adequate supply of appropriate, affordable and quality child care services.⁴ Quality care requires well-trained staff functioning in a safe and properly equipped facility. This, in turn, means that the provider must have sufficient funds to pay decent salaries and meet other operating costs, and to acquire and maintain a facility. The necessary funds can only come from fees charged to parents or subsidies provided by third parties. While the solution to the trilemma is adequate funding, sources other than fees must be tapped or developed if the affordability leg of the problem is to be accommodated.

TABLE 5
JOB COUNT
1986

| INDUSTRY | HONOLULU | HAWAII | MAUI | KAUAI | STATE | AVERAGE WAGE |
|---|----------|--------|--------|--------|---------|-----------------|
| WAGE AND SALARY JOBS | | | | | | |
| CONTRACT CONSTR. | 15,550 | 1,250 | 650 | 1,500 | 18,950 | \$28,398 |
| MANUFACTURING | 16,250 | 2,650 | 1,200 | 1,950 | 22,050 | \$20,728 |
| TRANSPORTATION, COM- MUNICATION, UTIL. | 27,750 | 2,000 | 1,950 | 2,250 | 33,950 | \$23,507 |
| TRADE | 91,750 | 9,250 | 5,050 | 10,650 | 116,700 | \$12,497 |
| FINANCE, INSURANCE, REAL ESTATE | 27,850 | 1,550 | 1,000 | 2,500 | 32,900 | \$19,671 |
| HOTEL SERVICES | 16,350 | 3,950 | 2,500 | 6,450 | 29,250 | \$14,494 |
| OTHER SERVICES | 76,000 | 5,150 | 2,550 | 5,850 | 89,550 | \$17,147 |
| FEDERAL GOVERNMENT | 30,900 | 650 | 250 | 300 | 32,100 | \$26,457 |
| STATE GOVERNMENT | 39,100 | 4,650 | 1,750 | 3,150 | 48,650 | \$20,032 |
| COUNTY GOVERNMENT | 9,200 | 1,800 | 850 | 1,300 | 13,150 | \$21,795 |
| AGRICULTURE | 2,600 | 3,400 | 1,250 | 2,900 | 10,150 | \$15,511 |
| SELF EMPLOYED | 25,500 | 6,750 | 2,000 | 3,550 | 37,800 | |
| TOTAL | 378,800 | 43,050 | 21,000 | 42,350 | 485,200 | |

Source: Hawaii, Department of Business and Economic Development, The State of Hawaii Data Book, 1987: A Statistical Abstract, Table 372 (Job counts), Table 383 (Average Wages).

TABLE 6
JOB COUNT PERCENT DISTRIBUTION
BY COUNTY - 1986

| INDUSTRY | HONOLULU | HAWAII | MAUI | KAUAI | STATE |
|---|----------|--------|------|-------|-------|
| WAGE AND SALARY JOBS | | | | | |
| CONTRACT CONSTRUCTION | 4 | 3 | 3 | 4 | 4 |
| MANUFACTURING | 4 | 6 | 6 | 5 | 5 |
| TRANSPORTATION, COM- MUNICATION, UTIL. | 7 | 5 | 9 | 5 | 7 |
| TRADE | 24 | 21 | 24 | 25 | 24 |
| FINANCE, INSURANCE, REAL ESTATE | 7 | 4 | 5 | 6 | 7 |
| HOTELS | 4 | 9 | 12 | 15 | 6 |
| OTHER SERVICES | 20 | 12 | 12 | 14 | 18 |
| FEDERAL GOVERNMENT | 8 | 2 | 1 | 1 | 7 |
| STATE GOVERNMENT | 10 | 11 | 8 | 7 | 10 |
| COUNTY GOVERNMENT | 2 | 4 | 4 | 3 | 3 |
| AGRICULTURE | 1 | 8 | 6 | 7 | 2 |
| SELF EMPLOYED | 7 | 16 | 10 | 8 | 8 |
| TOTAL | 100 | 100 | 100 | 100 | 100 |

*Computed from Table 5 data.

DEPENDENT CARE MARKET

The following discussion focuses on child care providers. However, the issues raised are equally pertinent with regard to other dependents and the care services available for them.

Business Skills

A child care program that is to survive must not only be able to deliver care services, it must also be a viable business whether it is operated for profit or as a nonprofit entity. Developing the appropriate business skills can require upfront expenditures for training or professional assistance.

Regulatory Standards and Requirements

A care facility must meet both licensing standards and local zoning requirements. Providers who offer home-based care may need to make structural improvements in order to meet the health and safety specifications. Those operating larger care centers have additional structural and space (indoor and outdoor) requirements. These are start-up expenses although a provisional six-month license can be granted if needed improvements can be made within the six-month period. Centers serving more than six children must further meet the staff educational and experience specifications established by the Department of Human Services (DHS). The DHS rules are discussed in detail in Chapter 4.

Insurance

Liability insurance is not required for operators of Family Child Care Homes or Child Care Centers, but it must be noted that standard home-owner insurance policies do not cover accidents that occur when the home is being used for business activities. The DHS rules require the operator to inform parents of whether they are insured, and parents should know that special coverage is necessary even when a home-owner policy is in effect.⁵ Otherwise, they are placing their child in a facility which is uninsured.

Taxes

Child care operations are a business and, as such, must pay business taxes. These include state and federal income taxes, state general excise tax, and property tax. Those with employees are responsible for the employer's share of social security, workers' compensation, unemployment compensation, and state temporary disability insurance. The self-employed provider is required to pay federal self-employment taxes (the equivalent of the employer's and the employee's shares of social security).

Providers who are granted nonprofit status under section 501(c)(3) of the Internal Revenue Code will be exempt from both federal and state income taxes, and state general excise tax. They may be granted an exemption from the real property tax imposed by Hawaii's county governments.⁶ Nonprofits are still responsible for all taxes imposed on them as employers. The taxation of care providers is discussed more fully in Chapter 7.

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Staff

Nationally, wages for child care workers are typically around \$10,000-\$12,000 per year for those working in a structured setting.⁷ These low wages are a key factor in the high turnover rate experienced by many center operators. In Hawaii, turnover in this field is estimated to be between 40 per cent and 60 per cent per year.⁸ The prospect of low wages discourages careers in child care for many who would otherwise be interested.

Chapter 3

EMPLOYER OPTIONS

Employers have a number of program options available to help employees meet their dependent care needs. The following types of employer-supported programs focus on child care, but many will also serve the employee with a handicapped, elderly, or ill dependent.

Programs

Resource and Referral¹

Employer-supported resource and referral services allow the employer to assist employees without becoming direct providers of dependent care facilities or programs. Participation is limited to helping the employee learn about the programs available in the community, and how to evaluate them in light of the individual's needs and preferences.

Resource and referral programs can be limited to maintaining a list of dependent care resources in the community (i.e., an information and referral service), or they can be a comprehensive service including counseling, informational workshops, and individual assistance in locating and selecting the best dependent care program for the employee.

A modest program only requires maintaining a list of licensed or registered facilities and periodically updating the information. In most cases this can be done by existing staff. However, a small firm located in an area with a large pool of care providers might require outside assistance.

Because many employees have little experience in evaluating and selecting a provider to meet their dependent care needs, comprehensive resource and referral services are usually preferred. Through workshops, seminars, and individual counseling, employees can be educated about:

- The types of care that are available,
- The risks of using unlicensed providers,
- How to evaluate care facilities and programs,
- What licensed or registered providers are required to provide, and
- The procedures for filing complaints when necessary.

A resource and referral program offers up-to-date lists of care providers in the community, with a description of their activities, hours of operation, ages served, and current openings. An employer may need to contract with a professional service or agency rather than developing a comprehensive program in-house.

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Resource and referral programs are probably the least expensive of the dependent care program options. Service contracts are generally available either at flat rates for a year or more, or with a one-time start-up fee plus an additional fee for each consultation, workshop, or other specific service the employer has selected.²

The advantage to the employer of a resource and referral program is the comparatively low cost and low liability risk. However, employers should avoid recommending a specific provider to the exclusion of others in order to avoid unnecessary liability risks. For employees, access to informed professional assistance in choosing appropriate care for their dependents is a valuable and valued service. However, when there is an inadequate supply of dependent care providers in the community, resource and referral programs are of limited value.

Alternative Work Schedules

According to PATCH (a nonprofit agency that provides comprehensive educational and support services for child care in Hawaii), alternative working hours is a top priority for helping parents care for their children.³

Work schedule alternatives include:⁴

Compressed time - employees work longer shifts compressed into fewer days, such as the 10-hour four-day week.

Staggered hours - the actual number of hours in the work day is not changed, but employees may start work at a time earlier or later than normal in order to accommodate dependent care needs.

Flexible scheduling - employees may change their work schedules as necessary, such as during school holidays and summer vacation, while maintaining a regular schedule when possible.

Regular part-time - full-time workers change to a part-time schedule on a long-term basis but retain their key employment benefits.

Job sharing - a type of part-time employment where the responsibilities and employment benefits associated with a full-time position are shared by two employees.

Variable work hours - the employee works a specified number of hours, but is free to choose when those hours are worked.

Contract work - the employee works as an independent contractor rather than as a salaried employee.

Existing managerial and personnel staff can, in most cases, implement flexible work schedules without assistance from outside experts.

Most flexible work schedule policies have minimal cost implications to employers. However, some options may require employers to pro-rate items such as health insurance and retirement benefits in order to avoid an increase in fringe benefit costs. Similarly, workers' compensation, unemployment

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compensation, and Hawaii's temporary disability insurance costs may be affected. (These costs will decrease if an employee shifts to contract work.)

The primary advantage of alternative work schedules is that, at minimum cost, an employer is more likely to be able to retain the services of workers whose training and experience are valuable assets. This is particularly advantageous in a tight labor market, and for employers who make a major investment in training employees.

According to a study conducted for the United States Small Business Administration (SBA), employees appreciate flexible schedule options and feel that the employer is sympathetic and understanding about their personal needs.⁵

Certain disadvantages were also identified in the SBA report. Some employers face difficulty in scheduling and coordinating work when key employees may not be present. (For example, on an assembly line, work cannot proceed unless all stations are staffed.) Other employers are concerned about potential charges of unfair treatment among employees when work arrangements are flexible rather than identical. Increased fringe benefit costs when part-time work is allowed was also noted as a disadvantage.

Leave Policies

Paid and unpaid leave policies impact employees' dependent care needs. A recent report by the Honolulu Office of Human Resources identified the following four:⁶

Maternity/paternity leave - new parents are allowed time-off for a specific period relating to the birth or adoption of a child. Their job, seniority, and basic employee benefits are protected during the leave period. Maternity/paternity leave is usually unpaid.

Family sick leave - employees may use their sick leave benefits for personal or family reasons (often limited to the need to care for a sick family member).

Floating holidays - employees select some or all of the days they want charged against their holiday benefits.

Work day banks - employees may accumulate compensatory time for emergency use, such as when a family member is sick or when dependent care arrangements cannot be made.

Employer Provided On-Site Child Care

Some employers provide child care facilities for their employees at or near the work site. Of the firms surveyed in the SBA study, those providing on-site facilities had faced a combination of a tight labor market and a shortage of alternative child care services. Others were located in isolated areas.⁷ The feasibility of providing on-site services frequently depends upon the employer's access to either an existing structure or land upon which to construct one at a reasonable price. (In Hawaii, the onsite

child care center at Maui Land and Pine was established for reasons that mirror those identified in the SBA study.)⁸

The SBA study identified other reasons for providing on-site facilities including the need to attract and retain skilled employees, and to avoid having to use temporary help due to high turnover rates. Dominant employers in the community expressed a desire to enhance their community image as well as to be generally responsive to their employees' needs.⁹

On-site facilities are a long-term commitment to direct participation in child care. Employers should conduct a dependent care needs assessment to identify the current and future needs of their work force. The assessment should identify the number of employees likely to use the facility, the distribution of age groups to be cared for, the appropriate hours for operating the facility, and whether or how much the employees should pay to use the facility.

On-site child care will not serve all the child care needs of the work force. Unless the employees live near their work place, before and after school care cannot be provided at the work site unless the children are also provided transportation. A conventional child care center cannot accept infants, and may refuse to enroll any child who is still in diapers, regardless of age.¹⁰

Vouchers¹¹

Employers can offer dependent care vouchers to help their employees pay for the type of care they need. Under a voucher program the employer either reimburses the employee for a pre-determined portion of their dependent care costs or issues vouchers acceptable as payment by the providers who then submit them to the employer for reimbursement.

Voucher plans are appropriate in communities that have adequate care services in place. They allow the employee to select the provider that best meets their needs and to change programs when necessary. The employer's involvement is limited to financial assistance on either a per employee or per dependent basis.

The operational requirements of voucher programs are straightforward and particularly suited to small businesses that do not have the resources to manage or contract out a program that requires direct participation in care services. When a voucher program requires that providers be licensed or registered, a procedure for verification is necessary.

The advantages of this approach are:

- maximum choice among care providers for employees,
- low start-up and operational costs for employers, and
- flexibility to meet changing care needs of the work force.

EMPLOYER OPTIONS

The major disadvantage of a voucher program occurs when the community has a shortage of child care providers. Also, a voucher program alone does not help employees find appropriate dependent care.

Provider Subsidies and Vendor Discounts

Employers can work directly with care providers to meet employee child care needs. A new provider can be assisted by a direct contribution in exchange for either locating near the work site or agreeing to give the employer's workers enrollment priority or a discount. An existing provider may be willing to hold a block of openings for an employer who guarantees to reimburse the provider for any that are unfilled. A block of openings can often be bought at discount when there is an adequate or excess capacity at a facility -- a situation which is not uncommon for new providers. (Many new facilities must operate significantly below their designed capacity for the first year or so. This is attributed to parents' unwillingness to place their children in a program that has not developed a good "track record" even when the location, cost and program are otherwise attractive.)^{12, 13}

Discussion

Needs Assessments

A needs assessment is necessary to determine if employees want a dependent care program. The assessment will document how many employees are interested in participating, what types of support they need or want, and how much they are willing to pay. (See Appendix C for sample questionnaires.)

The assessment does not have to be an elaborate or professionally designed survey. However, confidentiality is essential because certain sensitive questions should be asked (for example, "Have you ever missed work to stay home with a sick child?").

Program Design

To the extent possible, employees should be involved in and kept informed about a new dependent care program. Early involvement will help offset employees' reluctance to place their dependents in a care system with which they are not familiar, particularly if a new facility is involved.¹⁴

Moreover, input from employees insures that the program will meet not only the technical needs of the employees, but will also accommodate their more subjective preferences, values, and concerns about the care of their dependents.

Program Management

Employers may be concerned about their liability for the safety of dependents under an employer supported program. While the level of liability will vary depending upon the specific program, it can be limited, even in the case of an on- or near-site center. A separate corporate entity, either taxable or nonprofit tax exempt, can be formed to operate the program.

EMPLOYER-ASSISTED DEPENDENT CARE

Liability is then limited to the dependent care organization. If employees serve on the organization's board of directors, their control of the program insures that it will continue to meet their needs.

Financing

Employer-assisted dependent care does not necessarily mean employer-financed care. When the major problem is availability rather than affordability, the program can be self-financing through user fees. Similarly, when the problem is lack of a facility, the employer can provide available space on a self-financing basis.

Sliding scale fee structures can assist low-income users. Employer subsidies or fee adjustments for higher-income users can be established to make the program self-financing.

Dependent Care Assistance Plans (DCAPs) using before-tax dollars to help finance dependent care program for employees are discussed in Chapter 7.

Chapter 4

STATE REGULATION

Hawaii

The Department of Human Services (DHS) has adopted rules governing the operation of child care facilities in the State. Chapter 17-891.1, Hawaii Administrative Rules, covers the registration of Family Child Care Homes, and Chapter 17-892 covers the licensing of Group Day Care Centers and Group Day Care Homes. The rules set forth registration and licensing procedures; administration, program, and staffing requirements; health standards for children and staff; environmental health standards; physical facility standards; and provisions for consideration and approval of program modifications for the two classes of care facilities.

Family Child Care Homes (Up to Six Children)

Individuals who provide child care in their home for at least three but no more than six¹ children during any part of a twenty-four-hour day where children and care provider are not related by blood, marriage, or adoption must be registered as Family Child Care Home operators by the DHS. (Persons caring for no more than two children are not subject to regulation under DHS rules.) Certificates of registration are valid for one year and are renewed only upon application by the provider.

The provider must have written operation policies² that specify:

- ages of children accepted;
- maximum number of children permitted by the certificate of registration;
- hours of operation including holidays and vacations;
- meal policy;
- fees;
- policy and plan for emergency medical care;
- insurance coverage, including procedure for notification of coverage changes;
- transportation arrangements, including parental permission for travel outside the facility;
- policy regarding admission of sick or handicapped children; and
- other policies that the department may require.

A responsible adult shall supervise the children at all times, and the program of care must promote each child's "...physical, intellectual,

emotional, and social well-being and growth."³ The provider(s) must be at least eighteen years old, submit written professional or personal references to the department when applying for registration, and "...not have a criminal history record, employment history, or background which poses a risk to children in care."⁴ Providers, their staff, and adult family members are subject to checks on criminal history, background, and employment, as required by state or federal law.⁵

One adult operating a Family Child Care Home cannot care for more than two children under eighteen months of age at the same time. However, with two adult care providers up to four children under 18 months of age may be admitted.⁶

**Group Day Care Homes (Up to Twelve Children over Age 2)
and Centers (No Maximum over Age 2)**

Programs that serve seven⁷ or more children during any part of a twenty-four-hour day must be licensed by the DHS. Licenses are renewable annually upon application by the provider and approval by the department. Provisional six-month licenses may be issued when the applicant cannot immediately meet all the department's rules, but can be reasonably expected to comply within six months.⁸

A Group Day Care Home, which may be an extended or modified Family Day Care Home, is a care facility operated by an individual who is licensed under the Day Care Center rules, but limited to serving no more than twelve children during any part of the day.

A Day Care Center or Group Day Care Center is a facility and program operated by an individual, organization, or agency to provide day care including nurseries, nursery schools, preschool play groups, day care cooperatives, drop-in child care centers, and similar units.⁹ The maximum allowed enrollments for Day Care facilities are a function of staff and physical space specifications established by DHS.

Group Day Care Homes and Centers may only care for children aged 2 or older.¹⁰ The required written operation policies¹¹ include those applicable to Family Day Care Homes plus:

- the type of care services offered;
- restrictions on children and staff participation in fund raising activities to prohibit exploitation; and
- rules relating to personal belongings brought to the facility.

The program requirements¹² are similar to those for Family Child Care facilities addressing the physical, intellectual, emotional, and social development of the age groups served.

The principal difference between Family Day Care and the Home/Group Care Facility requirements lies in the educational and experience qualifications of staff and program administrators. The programs that serve more than six children are required to have a director with either (a) a bachelor's degree

STATE REGULATION

and two years' working experience with children, or (b) two years of college, or (c) child development associate certification and four years' experience.¹³

Teachers must be age 18 or over and have a combination of college and childhood development education and teaching experience in an early childhood program.¹⁴

Assistant teachers must also be over age 18 and meet post-secondary education and work experience requirements established by the DHS rules.¹⁵

Child care aides to be included in computing child/staff ratios must be over age 16 and have had high school vocational training or orientation at the care center.¹⁶

The rules establish minimum child/staff ratios for each age group¹⁷ as follows:

TABLE 7
GROUP DAY CARE CENTERS STAFF/CHILD RATIOS

| Age 0-24 months | Not Allowed |
|-------------------|------------------------------|
| 2 Year Olds | 8 Children per Staff Member |
| 3 Year Olds | 12 Children per Staff Member |
| 4 Year Olds | 16 Children per Staff Member |
| 5 and 6 Year Olds | 20 Children per Staff Member |

When total enrollment is under fifty, the director may be counted in computing the ratio¹⁸ but otherwise not. Non-teaching staff (maintenance, kitchen, etc.) may not be counted when they are performing non-teaching duties.¹⁹

The rules further specify the combinations of staff required for the various age groups as follows:²⁰

TABLE 8
STAFF REQUIREMENTS BY AGE GROUP AND GROUP SIZE

| Units | | | No. of Staff | | | Total Staff |
|--|------|------|--------------|-------------------|------|-------------|
| 9/82 | 9/83 | 9/84 | Teacher | Assistant Teacher | Aide | |
| Children 2 yr olds | | | | | | |
| 9 | 9 | 8 | x | | | 1 |
| 18 | 18 | 16 | x | | x | 2 |
| 27 | 27 | 24 | x | x | x | 3 |
| 36 | 36 | 32 | x | x | xx | 4 |
| 45 | 45 | 40 | xx | x | xx | 5 |
| 54 | 54 | 48 | xx | xx | xx | 6 |
| 63 | 63 | 56 | xx | xx | xxx | 7 |
| Children 3 yr olds | | | | | | |
| 14 | 13 | 12 | x | | | 1 |
| 28 | 26 | 24 | x | | x | 2 |
| 42 | 39 | 36 | x | x | x | 3 |
| 56 | 52 | 48 | x | x | xx | 4 |
| 70 | 65 | 60 | xx | x | xx | 5 |
| 84 | 78 | 72 | xx | x | xxx | 6 |
| 98 | 91 | 84 | xx | xx | xxx | 7 |
| Children 4 yr olds | | | | | | |
| 19 | 18 | 16 | x | | | 1 |
| 38 | 36 | 32 | x | | x | 2 |
| 57 | 54 | 48 | x | x | x | 3 |
| 76 | 72 | 64 | x | x | xx | 4 |
| 95 | 90 | 80 | xx | x | xx | 5 |
| 114 | 108 | 96 | xx | x | xxx | 6 |
| 133 | 126 | 112 | xx | xx | xxx | 7 |
| Children 5 and 6 yr olds or older | | | | | | |
| 23 | 21 | 20 | x | | | 1 |
| 46 | 42 | 40 | x | | x | 2 |
| 69 | 63 | 60 | x | x | x | 3 |
| 92 | 84 | 80 | x | x | xx | 4 |
| 115 | 105 | 100 | xx | x | xx | 5 |
| 138 | 126 | 120 | xx | x | xxx | 6 |

[Eff 1/25/82; am Sep 30, 1985] (Auth: HRS §346-20) (Imp: HRS §346-20; Pub. L. No. 97-35, §§2002, 2005 (1981))

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The regulations establish minimum space requirements per child for indoor and outdoor daytime care, and nighttime care.²¹

Drop-in Care Programs²²

Drop-in care programs permit children to arrive and leave at irregular, non-scheduled times during the facility's operating hours. These programs must comply with all licensing requirements except those relating to the child's health records and provisions for consultation between the program's health consultant and the child's regular health care provider. Facilities offering drop-in care must provide, in writing, the ages served, procedures for admittance and release, and information on staffing and activities offered for drop-in children.

Before and After School Care²³

Programs that offer before and after school care for school-aged children are subject to the same licensing provisions as Group Day Care Homes and Centers with specific exceptions relating to health records and certain program requirements. These programs have different staff qualifications and minimum staff/child ratio requirements reflecting the fact that the children are of school age (age four and older).

Night Care²⁴

Additional rules relating to preparing children for bed and supervision while they sleep apply to facilities offering night care.

Demonstration Projects²⁵

The DHS will consider waiving or modifying rules for demonstration projects. A proposal must be submitted describing the project, its purpose and duration, the specific rule exemption being requested, and the justification for the request. The department may impose additional requirements for demonstration projects.

Other States

The following tables summarize the key family day care and child care center rules of other states.

TABLE 9

REGULATION OF CHILD CARE UNDER STATE LAW - FAMILY DAY CARE

| State | Type of regulation | Minimum size to be covered | Maximum size before becoming group home or center | Number of children under age 2 permitted with 1 caretaker ^{1/} | Preservice training required | Criminal/child abuse records checks | | Inspections per year |
|----------------------|------------------------------------|----------------------------|---|---|------------------------------|-------------------------------------|------------------------------|----------------------|
| | | | | | | Criminal records checked | Child abuse registry checked | |
| Alabama | License | 1 | 6 | 6 | Yes | Yes | No | 1 |
| Alaska | License | 4 | 6 | 2 under 30 mos | No | No | No | 1 per 2 yrs. |
| Arizona | ^{2/} | 1 | NR | NR | No | No | No | 2 |
| Arkansas | License | 6 | 16 | Varies | No | No | No | 3-4 |
| California | License | 1 | 6 | 3-4 | No | Yes | Yes | 10% sample |
| Colorado | License | 1 | 6 | 2 | Yes | Yes | Yes | 33% sample |
| Connecticut | License | 1 | 6 | 2 | No | Yes | No | 1 per 2 yrs. |
| Delaware | License | 1 | 6 | 4 | Yes | No | Yes | 1 |
| District of Columbia | License | 1 | 5 | 2 | No | No | No | 1 |
| Florida | License (County) Regis. (State) | 1 | 5 | No limit | Yes | Yes | Yes | 2 |
| Georgia | Registration | 3 | 6 | 6 | Yes | Yes | No | 3% sample |
| Hawaii | Registration | 3 | 5 | 2 | Yes | Yes | No | 1 |
| Idaho ^{2/} | License | NR | 4 | 2 | No | No | No | 1 |
| Illinois | License | 4 | 8 | 3 | No | Yes | Yes | 1 |
| Indiana | License | 5 | 10 | No limit | No | No | No | 1 |
| Iowa | Regis. (voluntary) | 1 | 6 | 4 | No | Yes | Yes | 20% sample |
| Kansas | License | 1 | 10 | Varies | No | Yes | Yes | Unknown |
| Kentucky | License | 4 | Varies w/age | No limit | No | Yes | No | 1 |
| Louisiana | None | NR | NR | NR | No | No | No | 0 |
| Maine | License or registration | 3 | 12 | 3-4 | No | No | Yes | 1 |
| Maryland | Registration | 1 | 6 | 2 | No | No | No | 1 |
| Massachusetts | Registration | 1 | 6 | 2 | Yes | Yes | No | Unknown |
| Michigan | Registration | 1 | 6 | 2 | No | Yes | Yes | 0 |

REGULATION OF CHILD CARE UNDER STATE LAW - FAMILY DAY CARE

| State | Type of regulation | Minimum size to be covered | Maximum size before becoming group home or center | Number of children under age 2 permitted with 1 caretaker | Preservice training required | Criminal/child abuse records checks | | Inspections per year |
|----------------|--------------------------|----------------------------|---|---|------------------------------|-------------------------------------|------------------------------|----------------------|
| | | | | | | Criminal records checked | Child abuse registry checked | |
| Minnesota | License | 1 | 10 | 3 (30 mos.) | Yes | Yes | No | Unknown |
| Mississippi | License | 6 | 15 | Varies | No | No | No | 2 |
| Missouri | License | 5 | 10 | 2 | No | Yes | Yes | 2 |
| Montana | Registration | 1 | 6 | 3 | No | No | No | 15% of sample |
| Nebraska | Registration | 4 | 8 | 2-4 | No | Yes | Unknown | 5% per month |
| Nevada | License | 5 | 6 | 4 | Yes | Yes | No | 4 |
| New Hampshire | License | 3 | 6 | 3 | Yes | Yes | No | 3 per 2 yrs. |
| New Jersey | License (vol.) | NR | NR | NR | No | No | No | 1 per 3 yrs. |
| New Mexico | License | 5 | 12 | 2 | No | Yes | No | 2 |
| New York | License | 3 | 6 | 2 | No | No | Yes | 1 |
| North Carolina | Registration | 1 | 5 | No limit | No | No | No | Unknown |
| North Dakota | License | 6 | 7 (4 under age 2) | 4 | No | No | Yes | 2 |
| Ohio | License <u>4/</u> | 1 | 12 | 4 under 18 mos | No | No | No | 2 |
| Oklahoma | License | 1 | 5 | No limit | No | No | No | 4 |
| Oregon | License <u>4/</u> | 1 | 6 | 2 | No | Yes | Yes | 0 |
| Pennsylvania | Registration | 4 | 6 | 4 | No | Yes | Yes | 20% sample |
| Rhode Island | License | 4 | 6 | 2 | Yes | Yes | No | 1 per 2 yrs. |
| South Carolina | Registration <u>2/</u> | 1 | 6 | 3 | No | No | No | 0 |
| South Dakota | Registration <u>2/</u> | 1 | 12 | No limit | No | No | Yes | 1-12 |
| Tennessee | License | 5 | 7 | 4 | No | Yes | Yes | 2 |
| Texas | Registration | 4 | 12 | Varies | No | Yes | No | 0 |
| Utah | License | 1 | 6 | 2-3 | Yes | Yes | Yes | 1 per 2 yrs. |
| Vermont | License and Registration | 1 | 6 | 2-3 | No | No | No | 2 |
| Virginia | License | 6 | 9 | 4 | No | No | No | 2 |

REGULATION OF CHILD CARE UNDER STATE LAW - FAMILY DAY CARE

| State | Type of regulation | Minimum size to be covered | Maximum size before becoming group home or center | Number of children under age 2 permitted with 1 caretaker | Preservice training required | Criminal/child abuse records checks | | Inspections per year |
|---------------|--------------------|----------------------------|---|---|------------------------------|-------------------------------------|------------------------------|----------------------|
| | | | | | | Criminal records checked | Child abuse registry checked | |
| Washington | License | 1 | 6 | 2 | No | Yes | Yes | 0 |
| West Virginia | Regia (voluntary | 1 | 7 | No limit | No | Yes | No | 1 |
| Wisconsin | License 2/ | 4 | 8 | 3 under age 1 | Yes | No | No | Varies |
| Wyoming | Registration | 3 | 6 | 2 | Yes | No | No | Varies |

NOTES

NR - Not regulated
N/A - Not applicable

1/ Entries denoting a range in the number of children permitted are usually the result of State requirements concerning the mix of ages in the group and other factors.

2/ Arizona, South Carolina, South Dakota and Wisconsin: Reportedly, only subsidized family day care is regulated.

3/ Idaho: Secondary source information available at this time is contradictory with respect to family day care licensing requirements for this State.

4/ Ohio and Oregon: Reportedly, family day care of fewer than six children is regulated only if subsidized.

Source of Data:

The National State of Child Care Regulation 1986 by Gwen Morgan, published by Work/Family Directions, Inc.
This information consists of 1986 data.

Prepared by:
Division of State Employment Standards Programs
Office of State Liaison and Legislative Analysis
Employment Standards Administration
U.S. Department of Labor
February 18, 1988

TABLE 10

REGULATION OF CHILD CARE UNDER STATE LAW-CHILD CARE CENTERS

| State | Permitted age of entry | 1/ Child:Staff ratios | | | 1/ Group size permitted | | | Criminal/Child abuse records checks | | Preservice training required | | | Health/First Aid training required for staff | | Inspections per year |
|---------------|------------------------|--------------------------|------------|------------|----------------------------|------------|------------|-------------------------------------|------------------------------|------------------------------|----------|------------|--|-----------|----------------------|
| | | Up to 1 yr. old | 3 yrs. old | 5 yrs. old | Up to 1 yr. old | 3 yrs. old | 5 yrs. old | Criminal records checked | Child abuse registry checked | Directors | Teachers | Assistants | Health | First aid | |
| Alabama | 3 weeks | 6:1 | 10:1 | 20:1 | 6 | 10 | 20 | Yes | No | Yes | No | Unknown | No | No | 1 |
| Alaska | 6 weeks | 5:1 | 10:1 | 15:1 | NR | NR | NR | No | No | No | No | No | No | Yes | 1 per 2 yrs. |
| Arizona | NR | 5:1 or 11:2 | 13:1 | 13:1 | NR | NR | NR | Yes | No | Yes | Yes | No | Yes | No | 2 |
| Arkansas | 6 weeks | 6:1 | 12:1 | 18:1 | NR | NR | NR | No | No | Yes | No | No | No | No | 3-4 |
| California | NR | 4:1 | 12:1 | 12:1 | NR | NR | NR | Yes | Yes | Yes | Yes | No | No | No | 1 |
| Colorado | 6 weeks | 5:1 | 10:1 | 15:1 | 10 | NR | NR | Yes | Yes | Yes | Yes | No | No | Yes | 1 per 2 yrs. |
| Connecticut | 4 weeks | 6:1 | 10:1 | 10:1 | 8 | 20 | 20 | Yes | No | Yes | No | No | No | Yes | 1 per 2 yrs. |
| Delaware | NR | 5:1 | 15:1 | 20:1 | NR | NR | NR | No | Yes | Yes | Yes | No | No | Yes | 1 |
| Dist. of Col. | 6 weeks | 4:1 | 8:1 | 15:1 | 8 | 16 | 25 | No | No | Yes | Yes | No | No | No | 1 |
| Florida | NR | 6:1 | 15:1 | 25:1 | NR | NR | NR | Yes | Yes | Yes | No | No | Yes | Yes | 4 |
| Georgia | NR | 7:1 | 15:1 | 20:1 | NR | NR | NR | Yes | No | No | Yes | Yes | No | No | 4 |
| Hawaii | 2 years | Under 2 prob. | 16:1 | 20:1 | NR | NR | NR | Yes | No | Yes | Yes | Yes | Yes | No | 1-3 |

REGULATION OF CHILD CARE UNDER STATE LAW-CHILD CARE CENTERS

| State | Permitted age of entry | Child:Staff ratios | | | Group size permitted | | | Criminal/Child abuse records checks | | Preservice training required | | | Health/First Aid training required for staff | | Inspections per year |
|---------------|------------------------|--------------------|--------------|--------------|----------------------|------------|------------|-------------------------------------|------------------------------|------------------------------|----------|------------|--|-----------|----------------------|
| | | Up to 3 yrs. old | 3 yrs. old | 5 yrs. old | Up to 1 yr. old | 3 yrs. old | 5 yrs. old | Criminal records checked | Child abuse registry checked | Directors | Teachers | Assistants | Health | First aid | |
| Idaho | 6 weeks | 6:1 | 10:1 | 15:1 | NR | NR | NR | Yes | No | No | No | No | No | No | 1 |
| Illinois | 3 months | 4:1 | 10:1 | 20:1 or 30:2 | 12 | 20 | 30 | Yes | Yes | Yes | Yes | No | No | No | 1 |
| Indiana | NR | 4:1 | 12:1 | 15:1 | 8 | NR | NR | No | No | Yes | No | No | No | Yes | 3 |
| Iowa | 2 weeks | NR | NR | NR | NR | NR | NR | Yes | Yes | Yes | No | No | No | No | 1 |
| Kansas | 2 weeks | 3:1 | 12:1 or 10:1 | 14:1 or 12:1 | 9 | 24 or 20 | 28 or 24 | Yes | Yes | Yes | Yes | No | Yes | No | Unknown |
| Kentucky | NR | 6:1 | 12:1 | 15:1 | NR | NR | NR | Yes | No | No | No | No | Yes | No | 1 |
| Louisiana | NR | 6:1 | 14:1 | 20:1 | NR | NR | NR | No | No | No | No | No | No | No | 1 |
| Maine | 6 weeks | 4:1 | 10:1 | 10:1 | 12 | NR | NR | Yes | No | Yes | No | No | No | No | 1 |
| Maryland | 8 weeks | 3:1 | 10:1 | 13:1 | 6 | 20 | 26 | No | No | Yes | Yes | No | Yes | No | 1 |
| Massachusetts | NR | 3:1 or 7:2 | 10:1 | 15:1 | 7 | 30 | NR | No | No | Yes | Yes | No | Yes | Yes | Unknown |
| Michigan | 2 weeks | 4:1 | 10:1 | 12:1 | NR | NR | NR | Yes | Yes | Yes | No | No | Yes | No | 1 |

REGULATION OF CHILD CARE UNDER STATE LAW-CHILD CARE CENTERS

| State | Permitted age of entry | Child:Staff ratios | | | | Group size permitted | | | Criminal/Child abuse records checks | | Preservice training required | | | Health/First Aid training required for staff | | Inspections per year |
|----------------|------------------------|--------------------|------------|------------|-----------------|----------------------|------------|--|-------------------------------------|------------------------------|------------------------------|----------|------------|--|-----------|----------------------|
| | | Up to 1 yr. old | 3 yrs. old | 5 yrs. old | Up to 1 yr. old | 3 yrs. old | 5 yrs. old | | Criminal records checked | Child abuse registry checked | Directors | Teachers | Assistants | Health | First aid | |
| Minnesota | 6 weeks | 4:1 | 10:1 | 10:1 | 8 | 20 | 20 | | No | No | Yes | Yes | No | Yes | No | Unknown |
| Mississippi | NR | 5:1 | 14:1 | 20:1 | NR | NR | NR | | No | No | No | No | No | No | No | 2 |
| Missouri | 6 weeks | 4:1 | 10:1 | 16:1 | 8 | NR | NR | | Yes | Yes | Yes | Yes | No | No | No | 2 |
| Montana | NR | 4:1 | 8:1 | 10:1 | NR | NR | NR | | No | No | Yes | Yes | No | Yes | No | 1 |
| Nebraska | 6 weeks | 4:1 | 10:1 | 15:1 | NR | NR | NR | | Yes | N/A | Yes | Yes | No | No | Yes | 2 |
| Nevada | NR | 6:1 | 10:1 | 10:1 | NR | NR | NR | | Yes | No | Yes | Yes | Yes | Yes | Yes | 4 |
| New Hampshire | 6 weeks | 4:1 | 8:1 | 15:1 | 8 | NR | NR | | Yes | No | No | Yes | Yes | Yes | No | 3 per 2 years |
| New Jersey | NR | 4:1 | 15:1 | NC | NR | NR | NR | | No | No | Yes | Yes | No | Yes | No | 1 per 3 years |
| New Mexico | 6 weeks | 6:1 | 15:1 | 20:1 | NR | NR | NR | | Yes | No | Yes | No | No | No | Yes | 2 |
| New York | 8 weeks | 4:1 | 6:1 or 7:1 | 8:1 or 9:1 | 8 | 18 or 14 | 24 or 18 | | No | Yes | No | Yes | No | Yes | No | 1 |
| North Carolina | NR | 7:1 | 15:1 | 25:1 | 14 | 25 | 25 | | No | No | Yes | Yes | No | No | Yes | 3 |

REGULATION OF CHILD CARE UNDER STATE LAW-CHILD CARE CENTERS

| State | Permitted age of entry | Child:Staff ratios | | | Group size permitted | | | Criminal/Child abuse records checks | | Preservice training required | | | Health/First Aid training required for staff | | Inspections per year |
|----------------|------------------------|--------------------|--------------|--------------|----------------------|------------|------------|-------------------------------------|------------------------------|------------------------------|----------|------------|--|-----------|----------------------|
| | | Up to 1 yr. old | 3 yrs. old | 5 yrs. old | Up to 1 yr. old | 3 yrs. old | 5 yrs. old | Criminal records checked | Child abuse registry checked | Directors | Teachers | Assistants | Health | First aid | |
| North Dakota | NR | 4:1 | 7:1 | 12:1 | NR | NR | NR | No | Yes | Yes | Yes | Yes | Yes | No | 2 |
| Ohio | NR | 6:1 | 12:1 | 14:1 | 12 | 24 | 28 | No | No | Yes | Yes | Yes | No | Yes | 2 |
| Oklahoma | NR | 6:1 | 12:1 | 15:1 | NR | NR | NR | No | No | Yes | No | No | No | No | 4 |
| Oregon | 6 weeks | 4:1 | 10:1 | 15:1 | 8 | 20 | 30 | Yes | Yes | Yes | No | No | No | Yes | 1 |
| Pennsylvania | NR | 4:1 | 10:1 | 10:1 | NR | NR | NR | Yes | Yes | Yes | Yes | No | No | Yes | 1 |
| Rhode Island | 6 weeks | 4:1 | 15:1 | 20:1 | 4 | 15 | 25 | Yes | No | Yes | Yes | Yes | No | Yes | 1 |
| South Carolina | NR | 8:1 | 15:1 | 25:1 | NR | NR | NR | Yes | No | Yes | No | No | Yes | No | Varies |
| South Dakota | NR | 5:1 | 10:1 | 10:1 | 20 | 20 | 20 | No | Yes | Yes | No | No | Yes | No | 1-12 |
| Tennessee | NR | 5:1 | 10:1 | 25:1 | 10 | 20 | 25 | Yes | Yes | No | No | No | No | Yes | 2 |
| Texas | NR | 5:1 or 12:2 | 15:1 or 17:1 | 22:1 or 24:1 | 5 or 12 | 35 | 35 | Yes | No | Yes | Yes | Yes | No | No | 2 |
| Utah | NR | 4:1 | 15:1 | 20:1 | 8 | 25 | 25 | Yes | Yes | Yes | No | No | No | No | 3 |

REGULATION OF CHILD CARE UNDER STATE LAW-CHILD CARE CENTERS

| State | Permitted age of entry | Child:Staff ratios | | | Group size permitted | | | Criminal/Child abuse records checks | | Preservice training required | | | Health/First Aid training required for staff | | Inspections per year |
|---------------|------------------------|--------------------|------------|------------|----------------------|------------|------------|-------------------------------------|------------------------------|------------------------------|----------|------------|--|-----------|----------------------|
| | | Up to 1 yr. old | 3 yrs. old | 5 yrs. old | Up to 1 yr. old | 3 yrs. old | 5 yrs. old | Criminal records checked | Child abuse registry checked | Directors | Teachers | Assistants | Health | First aid | |
| Vermont | NR | 4:1 | 10:1 | 10:1 | 8 | 20 | 20 | No | No | Yes | Yes | No | No | Yes | 2 |
| Virginia | NR | 4:1 | 10:1 | 12:1 | NR | NR | NR | Yes | No | Yes | Yes | No | Yes | No | 2 |
| Washington | 4 weeks | 4:1 | 10:1 | 10:1 | 8 | 20 | 20 | Yes | Yes | Yes | No | No | No | Yes | 1 |
| West Virginia | NR | 4:1 | 10:1 | 15:1 | NR | NR | NR | Yes | No | Yes | No | No | Yes | No | 1 |
| Wisconsin | 4 weeks | 4:1 | 10:1 | 17:1 | 8 | 20 | 32 | No | No | Yes | Yes | Unknown | Yes | No | Varies |
| Wyoming | 3 months | 5:1 | 10:1 | 20:1 | NR | NR | NR | No | No | No | No | No | No | Yes | 1 |

Regulation of Child Care Under State Law - Child Care Centers

Notes

NR - Not regulated
N/A - Not applicable
NC - Not covered

Source of Data:

The National State of Child Care Regulation 1986 by Gwen Morgan, published by Work/Family Directions, Inc. This information consists of 1986 data.

1/ Entries denoting more than one ratio or permitted group size, are usually the result of State requirements concerning the mix of ages in the group and other factors.

Prepared by:
Division of State Employment Standards Programs
Office of State Liaison and Legislative Analysis
Employment Standards Administration
U.S. Department of Labor
February 18, 1988

Source: Child Care - A Workforce Issue, Report of the Secretary's Task Force,
U.S. Department of Labor, April 1988, pp. 171-180.

Discussion

Hawaii's child care regulations address the key areas suggested by child care professionals such as minimum staff-child ratios for specific age groups; standards for physical facilities, food and program content; and age, education, and training of personnel.²⁶ When compared with the provisions of other states, Hawaii's regulations show no unusually strict requirements or serious lack of regulatory standards. While the rules are quite specific, they appear to provide an appropriate compromise between insuring the health, safety, and proper supervision of children while allowing care providers sufficient flexibility to develop and operate a variety of programs.²⁷ As of this writing, the DHS is drafting a new chapter to be added to the Hawaii Administrative Rules for group care of infants. In the meantime, facilities to care for more than two infants may be licensed as demonstration projects under the Department's present rules.

A point frequently ignored in discussions of child care regulation is the ability of the State to enforce its rules. The DHS has twelve people assigned to licensing and enforcement: eight on Oahu, one each for Kauai and Maui counties, one for East Hawaii, and one for West Hawaii. (The Kauai and West Hawaii staff are also responsible for monitoring foster care homes in their jurisdictions.)²⁸ The DHS staff-to-care-facility ratios range from 1:23 in West Hawaii to 1:61 in East Hawaii, with a statewide average about 1:55.²⁹ While a lower ratio may be preferable, the current average ratio of 1:55 should be sufficient to perform the required annual inspections and respond to specific complaints.

Child care provider rules are not only a statement of minimum standards for the providers, but also a tool to educate parents about what they can and should expect in the area of child care services. Parents who understand and support the rules become an effective element of the monitoring and enforcement program.

Chapter 5

STATE LEGISLATION AND THE PRIVATE SECTOR

Hawaii

Dependent care tax credits and tax relief for those who participate in Dependent Care Assistance Plans (DCAPs) are available to taxpayers under Hawaii tax law. Employers may amortize the cost of child care facilities for their employees over a period of five years. The State also provides child care assistance to individuals in certain job training programs.

In the 1988 Regular Session, the Legislature appropriated funds to the Department of Human Services (DHS) for a state-funded resource and referral program. The DHS has contracted with PATCH for this program. Due to funding limitations, it is available on Oahu only. It is available to all Oahu residents at no charge.¹

The 1988 Legislature also provided funds for the Department of Business and Economic Development (DBED) to develop a child care business pilot project in cooperation with a statewide needs assessment to be prepared by the Governor's Office of Children and Youth.² The latter hired a new Child Care Coordinator in August 1988 to oversee the needs assessment and to provide other assistance as necessary to the DBED in order to develop business and government partnerships that will promote the availability and affordability of child care throughout the State.³ The DBED has, as of this writing, entered into a contract for their pilot project.

Other States

Unless otherwise noted, this section summarizes information presented in Child Care - A Workforce Issue, Report of the Secretary's Task Force, U.S. Department of Labor, April 1988, pages 75-124. The Task Force found that all states address the issue of child care in some way. Twenty-nine subsidize parents' child care costs through their tax codes, either through tax credits or tax deductions. At least eight states grant credits or deductions to employers who provide direct or indirect child care assistance to their employees.

Other types of state assistance include grants, loan programs for facilities, and training for care givers.

Programs for low-income families are usually funded under the federal Social Services Block Grant (SSBG) Title XX programs. However, four states (Alaska, California, Montana, and Oregon) have low-income programs that are funded exclusively by the state.

Alabama - There are no tax credits or deductions. Child care is mandated under SSBG, and \$24 million was appropriated to a trust fund to provide services for 1,800 children.

STATE LEGISLATION AND THE PRIVATE SECTOR

Arkansas - A 10 per cent dependent care tax credit based on the federal credit is allowed. \$700,000 in state funds was appropriated to supplement SSBG for the first time in 1987. The 1987 legislature also established a state subsidized program funded with \$86 million to serve a minimum average of 6,500 children. A child care providers training fund, financed with licensing fees was also established.

Arizona - A dependent care expense deduction for costs of up to \$100 per month is allowed for those with incomes of up to \$6,000 per year. The 1987 legislature excluded child care facilities as taxable businesses.

California - Child care programs are funded exclusively by the state. A dependent care tax credit, based on income, of from 5 per cent to 10 per cent of the federal credit is allowed. A state sponsored resource and referral network of 65 agencies serves each of the state's 58 counties. The California Child Care Initiative (CCCI) is a public/private coalition that, working through the resource and referral offices, recruits, trains, and provides technical assistance to new providers. (In its first year, CCCI helped create 1,100 new child care spaces in 231 family day care homes, and 5 new school age programs.)

Child care facilities are eligible for funding under the California Health Facilities Financing Authority Act.⁴

Schools may sell or lease surplus property to designated providers for child care development purposes.

The 1987 legislature established a Senate Task Force to study the feasibility of an employer/employee funded insurance program for affordable child care.

Colorado - A tax deduction equal to expenses allowed for the federal dependent care tax credit is allowed.

Connecticut - (For individuals, only unearned income is taxed by the state.⁵) Taxable firms that invest a minimum of \$250,000 per year to provide child care services for their employees may apply for tax credits of up to 50 per cent of the amount invested. Maximum credits per firm are \$75,000. A total of \$1 million per year is provided for the program.⁶

Low interest state loans are available to both profit and nonprofit organizations to provide child care facilities primarily for their employees and employees of the municipality in which they are located.⁷

Grants are available to encourage use of school facilities for before and after school day care.⁸

Zoning commissions must allow group and family day care homes to operate in residential areas.

Delaware - A dependent care tax credit of 25 per cent of the federal credit is allowed.

EMPLOYER-ASSISTED DEPENDENT CARE

District of Columbia - A dependent care tax credit equal to 30 per cent of the federal credit is allowed. District funds are used to contract with nonprofit resource and referral agencies. Prekindergarten programs are offered in each public elementary school. Some 20 before and after school care programs also exist. They are funded with parent fees.

Florida - (Florida has no state income tax.⁹) Prekindergarten and full work day programs in public schools are allowed. Two demonstration programs were funded by the state in 1987. The programs are to be coordinated with local parks departments.

Georgia - A dependent care tax credit, independent of the federal credit, allows up to 2 per cent of employment related expenses as a state tax credit.

Idaho - A dependent care costs deduction of 100 per cent of the amounts federally allowed is granted.

Illinois - Half day or full day early education programs are allowed in public school (only Chicago has established such programs).

The 1987 legislature provided \$950,000 for infant day care to serve 300 infants as part of the Families With A Future Program. A pilot program with the Chicago Community Trust provides \$500,000 for renovation and expansion of centers in the city. The funds will be recovered from fees charged for the 300 openings to be created under the program.

Indiana - A 5-cents per pack state cigarette tax is earmarked for child care programs. Five programs for low-income preschoolers were authorized in 1987.

Iowa - A tax credit for federally allowed dependent care expenses is provided. A \$430,000 grant program is available for purchase of education, training or equipment to help facilities meet state standards or to improve quality. State grants are available for start-up costs of resource and referral services or school age child care services.

Kansas - A dependent care tax credit based on income and ranging from 10 per cent to 100 per cent of the federal credit is allowed.

Kentucky - A dependent care tax credit, independent of the federal credit, and limited to \$400, is provided. Grant programs to fund preschoolers on a half or full school day basis were established in 1986.

Louisiana - A tax credit equal to 10 per cent of the federal credit is allowed. Early childhood education programs are funded with 57 of 71 being full school day programs.

Maine - A 25 per cent dependent care tax credit, tied to the federal credit, is allowed. A two-year program provided \$500,000 to fund six regional full-service resource and referral centers. An additional \$45,000 was provided to train resource development center staff.

STATE LEGISLATION AND THE PRIVATE SECTOR

Maryland - A deduction equal to 100 per cent of federally allowed dependent care expenses is allowed. A loan guarantee program is available to providers for renovation or construction of care facilities. In fiscal 1988, \$98,000 was provided to fund a network of five resource and referral programs across the state.

In 1987 the counties were required to develop needs assessments and recommendations for school age care.

Massachusetts - A dependent care deduction equal to 100 per cent of federally allowed dependent care expenses is allowed. A \$750,000 pilot loan program is available for start-up costs, renovation, or construction of child care facilities. (A private firm has provided matching funds for grantees.)

Fiscal 1988 funding for twelve full-service resource and referral programs operated by nonprofit agencies amounted to \$2.4 million, and \$620,000 is available for provider training.

The state has a Day Care Cabinet (the Secretaries of Community and Development, Labor, and the Commissioner of Education) to coordinate funding and administration of child care and early education programs. These programs operate on half and full school day and well as full work day schedules.

Michigan - The state funds 11 resources and referral programs on a 4:1 matching basis. Additional funds were provided to coordinate the programs at the state level.

Minnesota - A tax credit of up to \$720 for up to 2 dependents is available to taxpayers with income of less than \$10,000. A grant program offers providers funds for start-up, expansion of facilities, training, or purchase of equipment (\$250,000 available for fiscal 1988). State bonds have been authorized for 16 centers at community colleges and technical schools.

\$250,000 was appropriated for resource and referral services of which 80 per cent is targeted for rural areas.

Providers are required to pay more than 110 per cent of the county average wage in order to receive maximum reimbursement for subsidized child care.

Mississippi - No specific program for the private sector worker or employer.

Missouri - No specific program for the private sector worker or employer.

Montana - A tax deduction of up to \$4,800, based on income and number of dependents, is allowed.

Nebraska - No specific program for the private sector worker or employer.

EMPLOYER-ASSISTED DEPENDENT CARE

Nevada - (There is no state income tax.¹⁰) No specific program for the private sector worker or employer.

New Hampshire - (Only unearned income is taxed by the state.¹¹) In 1987 \$5,000 was appropriated for a statewide conference to promote employer sponsored child care.

New Jersey - The state funds three regional resource and referral agencies and a clearinghouse. Prekindergarten educational programs are supported by the state with priority given to Head Start programs to expand to full year, full work day programs. Private nonprofit organizations are eligible for funding. A grant program was established in 1987 for care of school age children in the schools.

New Mexico - A tax credit of 40 per cent of compensation paid to a care giver, up to a maximum of \$480 per dependent, is provided. State document search fees supplement income eligible programs funded under the SSBG program. There are three state supported resource and referral agencies.

New York - A tax credit of 25 per cent of the federal credit is allowed. \$3 million in state funds has been provided for renovation, operation, and equipment for new nonprofit all day child care programs. The state also funds resource and referral activities that may be contracted out to nonprofit organizations. A grant program for start-up costs for nonschool hour care programs is available until 1990 and may be used for expansion and upgrade of facilities.

North Carolina - A dependent care tax credit of 7 per cent of employment-related care expenses up to \$4,000 is allowed.

North Dakota - Family Day Care Home license fees are used by the county for evaluation and training of care providers.

Ohio - A 25 per cent dependent care tax credit, based on the federal credit, is allowed. State funding is available for model pre school and school age care programs.

Oklahoma - A 20 per cent dependent care tax credit, based on the federal credit, is provided. The 1985 legislature funded 37 pre kindergarten programs of which 25 were full school day projects.

Oregon - A tax credit of 40 per cent of the federal credit is allowed. A \$100,000 grant program is available for physical improvements for care facilities. Employers are granted a tax credit of 50 per cent of child care expenses reimbursed to employees, or 50 per cent of the costs of providing such care directly. Credits are also available to employers who provide or improve real property for care facility use.

Matching grants for development of a resource and referral network are available. The 1987 legislature provided an additional \$21,000 to enhance resource and referral services.

State law provides that family day care home use (fewer than 13 children) is allowable in residential areas.

STATE LEGISLATION AND THE PRIVATE SECTOR

Pennsylvania - \$250,000 was allocated to recruit and train care providers, and \$182,000 funds 5 resource and referral grants as start-up for a statewide network.

Rhode Island - A dependent care tax credit that is a percentage of the federal credit is allowed. Employers are allowed a credit of 30 per cent of their expenditures for child care for their employees. A comparable credit is granted to landlords who provide care service for their commercial tenants or offer providers space at a reduce rent. Sixty per cent of amounts expended may be counted toward the credit.¹²

\$100,000 was provided to stimulate care facility development in industrial complexes, and \$35,000 for recruitment, training, and technical assistance for bilingual providers. An additional \$100,000 grant is available to nonprofit providers who offer sliding-scale services in industrial complexes.

The state, in conjunction with the Chamber of Commerce, supports a resource and referral program.

South Carolina - A 7 per cent dependent care tax credit, based on federally allowed expenses, is provided.

South Dakota - (The state does not tax income.¹³) No specific program for private sector workers or employers.

Texas - State facilities may be used for child care programs and the state provides clearinghouse services and technical child care assistance to both public and private employers.

Facility licenses are valid for an indefinite period but sanctions for noncompliance are mandatory and violations must be rectified within 30 days. Providers serving state employees are exempt from restrictions pertaining to leasing of public property to private tenants.

Counties of 500,000+ may establish child care programs for their employees and jurors.

The state is authorized to establish child care centers. Eligibility standards, fee scales, etc. are set forth. These centers may be provided through sub-contracting with private providers.

Tennessee - A 100 per cent subsidized pilot program serves 100 children who do not benefit from existing services.

Utah - No specific program for the private sector worker or employer.

Virginia - The state tax credit is equal to 100 per cent of the federally allowed dependent care expenses.

A Joint Committee has been established to study the role of state and local government, including schools, in competing with for-profit care providers.

EMPLOYER-ASSISTED DEPENDENT CARE

Vermont - State tax liability is a percentage of federal liability, thus the federal tax credit is reflected in the state tax law.

State funds were provided for recruitment, training, and employment of child care providers. Programs for disadvantaged 3 and 4 year-olds are state funded. Also, there are eight early intervention centers for families with children under age three.

Washington - A coordinator of child care services is responsible for developing an information system and developing public/private involvement in meeting child care needs in the state.

State-supported preschools are provided for at-risk children.

School districts may contract with public or private providers and use school facilities for day care programs. School vehicles may be used to transport children in such programs.

Community college and higher education boards are required to survey institutionally related care services and conduct needs assessments where no facilities exist.

An office of Child Care Resources is established until June 30, 1989, and charged with creating a resource and referral data bank, providing technical assistance to providers, fostering public/private care partnerships, and recommending administrative and statutory change to encourage employer-provided child care.

West Virginia - The state funds prekindergarten programs one of which is a full working day project serving 60 children in two communities.

Wisconsin - No specific program for private sector workers or employers.

Wyoming - No specific program for private sector workers or employers.

Discussion

Loans, grants, tax incentives, state-funded or assisted resource and referral services, and various combinations of these approaches have been established by other states to assist private sector employers and employees with regard to dependent care needs.

In Hawaii, the 1988 State Legislature established a state child care coordinator, funded a statewide child care needs assessment and an informational program for private employers, and requested this study of alternative employer-assisted dependent care benefits. Funds were also provided to assist the development of Family Child Care Homes and for resource and referral services. Prior to 1988, tax credits and compliance with the federal DCAP tax provisions were the principal programs assisting work-related dependent care needs in the private sector. (The state Department of Labor and Industrial Relations should clarify the taxable or nontaxable status of salary reductions for the purpose of payroll taxes.)

STATE LEGISLATION AND THE PRIVATE SECTOR

The key to designing programs to more effectively assist private sector employers and employees meet their dependent care needs is the statewide needs assessment currently being conducted by the Office of Children and Youth. The assessment will quantify factors such as characteristics of the labor force and the job market, and specific employee dependent care needs and available services. Regional differences with regard to dependent care needs can also be identified by the assessment. Given this type of information, decision-makers will be able to develop appropriate state programs to improve the Hawaii's dependent care system. The programs of other states discussed in this chapter offer a wide variety of options and can serve as models once the assessment has been completed.

Chapter 6

THE STATE AS AN EMPLOYER

Hawaii

The State of Hawaii does not have a specific program or dependent care benefit plan for its employees. However, current leave policies offer flexibility, subject to approval by the worker's supervisor. These benefits include twenty-one days per year paid vacation, up to twelve months leave without pay for certain personal reasons, including child care, and flextime.

The 1988 Legislature requested two studies relating to child care for both government and private sector workers:

- HR No. 25, HD 1, which requests this study.
- Act 390, section 5(102), Session Laws of Hawaii 1988, appropriating funds for a state child care advocate/coordinator to coordinate a statewide child care needs assessment that is to include, if practical, government employees.

Other States^{1, 2}

Arizona - A state Child Development Center for state employees was opened in 1985. The facility is operated under contract, with the state providing space, utilities, maintenance, and equipment. Nonstate employees may enroll children in the program.

California - As of 1987, the state had provided sites for seven child care centers serving state employees. Fifty-one per cent of a facility's board of directors must be state employees in order to qualify for state assistance. Legislation now mandates that state office buildings with 700 or more employees must set aside space for a day care center.

Child care is part of the state's employee benefit package.³

Colorado - Leave for care of a sick child is allowed.⁴

Connecticut - On-site child care services are available for legislative employees.

A parental leave statute was enacted in 1987.⁵

Delaware - Flextime is allowed.⁶

Florida - A pilot child care program serving 75 children is privately operated on state grounds. The state assisted with start-up costs and facility renovation. An evaluation is to be made to determine the benefits of the program to the state in terms of reduced absenteeism and increased productivity.

STATE AS AN EMPLOYER

Idaho - The state-subsidized renovation, start-up costs and equipment for two facilities near state offices (40 infant to three-year olds served). The facilities are operated under contract with the YMCA. Savings in sick leave have been estimated at \$10,000.

Illinois - The Department of Revenue began a day care center for its employees in 1986. Space, utilities, toys, and equipment are provided by the state with services provided under contract. Fees must cover operating costs. Employees of other state agencies, following a needs assessment, may request state-provided space for self-supporting centers.

State employees are offered an income reduction plan that permits before-tax dollars to be used to reimburse employees for dependent care expenses (IRC section 129 plan).

Iowa - The Department of Transportation provides space, utilities, and maintenance for a center serving its employees. The center is operated under contract. A state subsidy of \$9,000 and 4,000 employee-volunteered hours assisted in start-up of the facility.

Kansas - Leave for care of a sick child is allowed.⁷

Kentucky - Resource and referral services are provided to state employees.⁸

State employees are offered an income reduction plan that permits before-tax dollars to be used to reimburse employees for dependent care expenses (IRC section 129 plan).⁹

Louisiana - Resource and referral services are available to state employees.¹⁰

Assistance with start-up costs for child care centers is available.¹¹

Maryland - An on-site facility is provided for legislative employees.

Massachusetts - The state provides space and also funds utility, overhead and maintenance costs for child care facilities operated under contract with a private nonprofit agency. User fees provide the remainder of expenses. Only state employees may use the centers.

State employees are offered an income reduction plan that permits before-tax dollars to be used to reimburse employees for dependent care expenses (IRC section 129 plan).¹²

Michigan - A center for employees of the Michigan School for the Blind serves 70 children on a self-supporting basis.

Mississippi - On-site services are provided for legislative employees.

Missouri - Leave for care of a sick child is allowed.¹³

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New Jersey - A pilot program serving up to 30 children was established at the North Princeton Development Center. Fees are based on a sliding-scale.

Resource and referral services are available to state employees.¹⁴

New York - Empire State Day Care Services operates 30 facilities provided by the state. One-half are on state college campuses.

North Dakota - One child care center is administered by the state.¹⁵

Ohio - An on-site/near-site facility located in a state building and operated under contract by a nonprofit corporation serves from 100-150 children of state workers. Other centers are being considered.

Oregon - The Commission for Women may contract for information and referral services. Any state agency may provide information to employees on the benefits of day care.

An income reduction plan that permits before-tax dollars to be used to reimburse employees for dependent care expenses (IRC section 129 plan) is offered to state employees.

A comparable income reduction plan is available under the state income tax law.¹⁶

Rhode Island - On-site services are available in some state buildings.

The 1987 legislature requested the governor to develop a plan offering child care as a benefit for state employees.

Pennsylvania - A resource list is available for state employees.¹⁷

South Carolina - Leave for care of a sick child is allowed.¹⁸

Texas - An income reduction plan that permits before-tax dollars to be used to reimburse employees for dependent care expenses (IRC section 129 plan) is offered to state employees.¹⁹

Utah - State space is available for contracted services for state employees.

Vermont - State-funded resource and referral for state employees is provided under contract.

Washington - A pilot program serving legislative employees was established in 1986.

An income reduction plan is to be developed allowing state employees to participate in an IRC sections 125 and 129 dependent care assistance program.²⁰

Wisconsin - A near-site facility with 90 per cent start-up costs and a rent subsidy provided by the state was opened in 1986. Fees cover all costs

STATE AS AN EMPLOYER

not appropriated by the state. Resource and referral services are available to state employees, and child care plans are required for all future state buildings and modifications.

State management courses for supervisory employees include a component on dependent care for state workers.

Discussion

Every state has some form of dependent care assistance for its employees. Of the 19 states with at least one on- or near-site care center, only five have programs that reflect a statewide commitment to on-site care. These are California, Illinois, Massachusetts, New York, and Utah. However, most states have only a few pilot project facilities at this time.

On-site programs usually require an employee-initiated request for the facility or a needs assessment prior to approval for a specific facility.

California requires that at least 51 per cent of a facility's board of directors be state employees. California also requires that new state buildings with 700 or more employees be designed to include care facilities.

State involvement in on-site care services is generally limited to providing the space and, in some instances, utilities and maintenance services. All states contract out the operation and administration of on-site care services. Most require that fees cover operating costs.

Six states offer resource and referral services to their workers.

Leave benefits that support dependent care were noted by several states, and are probably more widespread than is suggested by the two surveys upon which this summary is based.

Salary reduction DCAP's for state employees are in effect in five states. Washington is currently developing one.

Chapter 7

TAXATION

Federal and State Provisions

Federal and Hawaii tax laws have three provisions that specifically address dependent care:

- child and dependent care tax credits for employees' work-related care expenses,
- Dependent Care Assistance Programs (DCAP's) for work-related dependent care expenses, and
- a provision allowing 5-year amortization of the cost of buying, building, or rehabilitating a day care center in order to retain or attract employees.

Of the \$6.9 billion federal expenditures for child care in fiscal 1988 (including Head Start), \$4 billion was attributed to the dependent care tax credit;¹ \$65 million to the Dependent Care Assistance Plan (DCAP) program;² and \$2.5 million to tax exemption for eligible nonprofit care facilities.³ Thus, the direct tax credit accounts for well over half of the federal outlay for dependent care and reflects the federal government's current policy of supporting employment-related dependent care through federal tax policy, rather than direct funding of or participation in program operation.

While the value of the state DCAP and amortization provisions is not readily available, state tax returns filed in 1986 for the 1985 tax year claimed \$3.5 million in state dependent care tax credits, up from \$2.6 million the previous year. Statewide, 4.9 per cent of all income tax returns (21,182) claimed the credit, reporting a total of 31,657 eligible dependents.⁴

Child and Dependent Care Tax Credits

A tax credit is an amount which is subtracted directly from the taxpayer's tax liability, that is, the actual tax due. Credits differ from tax deductions and tax exemptions which are amounts subtracted or excluded from taxable income.

The federal dependent care credit allows taxpayers to reduce their tax liability by a percentage of eligible dependent care expenses incurred during the tax year. The percentage is determined by the taxpayer's adjusted gross income (AGI). The maximum credit is 30 per cent of eligible expenses for those with AGI of \$10,000 or less. The per cent drops by one percentage point for each \$2,000 AGI in excess of \$10,000 to the minimum of 20 per cent for AGI over \$28,000.⁵

The state dependent care credit is one-half the federal credit and allows a maximum of 15 per cent of eligible costs declining to 10 per cent for AGI over \$28,000.⁶

TAXATION

The maximum in dependent care expenses that can be used to compute the credit under the federal law is \$2,400 for one dependent and \$4,800 for two or more. Thus, the maximum federal credit is \$720 for one dependent (30 per cent of \$2,400) and \$1,400 for two or more (30 per cent of \$4,800). The corresponding state maximums are \$360 and \$700.

The costs of dependent care must be incurred in order to allow the taxpayer to be employed, but do include certain expenses for household services as well as direct care of the dependents. Care provided outside the home must meet state and local regulatory requirements.

A qualifying dependent must be:

- under age 15 and eligible to be claimed as the taxpayer's personal deduction,
- a dependent who could be claimed as a personal deduction except for having gross income of \$1,900 or more, but is physically or mentally unable to care for one's self, or
- a spouse who is physically or mentally unable to care for one's self.

The work-related expenses to which the percentage is applied cannot be more than the taxpayer's earned income in the case of single taxpayers, or the lesser of the taxpayer's or the taxpayer's spouse's earned income. "Earned income" is generally wages, salaries, tips, strike benefit payments, and disability payments. It does not include pensions, workers' compensation, or unemployment compensation. A student-spouse or disabled spouse is considered to have earned income of \$200 per month if there is one qualifying dependent in the home and \$400 if there are two or more.⁷

Dependent Care Assistance Programs⁸

The value of employer provided benefits is generally taxable income to employees unless specifically exempt under the Internal Revenue Code. One of these exemptions is a maximum of \$5,000 in eligible dependent care expenses when provided in compliance with the federal tax law (IRC section 129) for DCAP's.

The definitions of "dependent," "earned income", and "eligible expenses" are the same for DCAP's and dependent care credits. However, a DCAP must meet certain additional requirements:

- the plan must be in writing,
- the employee's rights must be enforceable,
- employees must be given reasonable notice of the availability of the benefits under the plan,
- the plan must be maintained for the exclusive benefit of employees,
- it must be the intention to maintain the plan for an indefinite period of time,

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- the plan must not discriminate in favor of highly compensated employees,⁹ and
- participating employees must be given a year-end statement of amounts paid or costs incurred by January 31 of each year.

A DCAP can be funded entirely or in part by the employer, or entirely by the employee. The employee's share can be provided through a salary reduction agreement. In the case of salary reduction agreements, the amount of the salary reduction is determined by the individual employee and need not be the same for all participants in the program. The employer deposits the agreed upon amount of salary reduction in a special account for the employee. The employee is then reimbursed from this account for his or her actual dependent care expenses as they are incurred. Without a DCAP salary reduction agreement the employee's share of eligible costs is considered taxable income.¹⁰ (While taxable, these costs may still be used to claim dependent care tax credits.)

Neither the amount of the salary reduction nor the value of dependent care services purchased is taxable to the employee under this type of program. Additionally, the salary reduction amount is not subject to social security tax for either the employer or the employee.

The disadvantage of a salary reduction agreement is that, once agreed to, it is binding for the entire program year. Any amounts not expended for dependent care during that year are forfeited by the employee. Therefore, employees must take care when estimating their salary reduction for the program year.

Dependent care costs covered under DCAP programs may not be used to claim dependent care tax credits. Employees earning under \$25,000 a year, in most cases, realize greater tax savings on dependent care expenses using the credits rather than participating in a salary reduction DCAP.¹¹

See Appendix D for examples of the tax savings possible under the credit and DCAP options.

Other Tax Considerations

Real Property Tax

The county real property tax laws provide that qualified nonprofit child care facilities may be granted an exemption. Owners of facilities must apply for this exemption.

Any major improvements to a home made in order to meet Family Child Care Home registration requirements may increase the taxable value of the building for property tax purposes.

Employee Tax Liability

Care provided in the taxpayer's home may make the taxpayer liable for certain employer taxes such as social security and unemployment.¹²

Care Providers

A major tax consideration for care providers is whether to incorporate as a nonprofit organization. The tax advantages of exemption from state and federal income taxes, state general excise tax, and possibly the county real property tax must be balanced against the restrictions imposed on nonprofits.¹³ An additional advantage for nonprofit organizations is that they may receive charitable contributions. Providers should consult with a tax practitioner when making this decision.

The self-employed sole provider is engaged in a business activity and liable for federal self-employment tax (social security), state 4 per cent general excise tax on gross income derived from the business, and both federal and state income taxes.

On the plus side, self-employed providers are also allowed certain business deductions and depreciation on facilities and equipment on their state and federal income taxes.

All providers with employees must pay all payroll taxes such as the employer's share of social security, federal and state unemployment insurance, and state prepaid health and temporary disability insurance premiums.

Cafeteria Plans and Flexible Spending Accounts¹⁴

A DCAP can be offered independently of other employee benefits or as one option in a benefits package. A cafeteria plan is a package of fringe benefits under which the employee may choose between cash and other permissible taxable benefits and nontaxable benefits. A cafeteria plan is regulated by section 125 of the IRC. A cafeteria plan must:

- be a written plan,
- operate exclusively for the benefit of employees,
- offer a choice of cash and taxable and nontaxable benefits, and
- cannot discriminate in favor of key employees (a collectively bargained plan is assumed to be nondiscriminatory).

A flexible spending account is a type of cafeteria plan that allows certain benefits to be paid for with pretax dollars as is the case with DCAP's. The accounts can be funded entirely or in part by salary reduction agreements, or by the employer. Benefits that may be offered include:

- health, group term, life, disability and long-term care insurance premiums,

EMPLOYER-ASSISTED DEPENDENT CARE

- medical expenses not covered by the health plan but considered deductible under IRC section 213,
- DCAP's, and
- qualified group legal services (IRC section 120).

Cafeteria plans allow employees who are not interested in dependent care to choose other benefits that can be purchased with pretax dollars. For this reason, employers concerned about the equity of their benefit package may prefer to include a DCAP as one of several options in a cafeteria plan.

Note: Effective January 1, 1989, for Federal tax purposes:¹⁵

1. Dependents must be under age 13 for the purposes of the federal dependent care credit and DCAP program.
2. The care provider's name, address, and federal tax payer identification number must be included on the taxpayer's return.
3. Employers must include an explanation of whether a DCAP or tax credit is more advantageous to the employee when offering a salary reduction DCAP to employees.
4. New rules apply with regard to "offsetting" dependent care expenses which are in excess of amounts reimbursed under a salary reduction DCAP when the employee computes a dependent care tax credit for the excess expenditures.
5. Prepaid group legal services may no longer be funded with salary reduction agreements.

Chapter 8

FINDINGS AND RECOMMENDATIONS

Findings

1. The dependent care needs of Hawaii's labor force have not been documented for either private or public sector employees. However, census data indicate that women with minor children make up nearly 20 per cent of the State's labor force. The national trend toward more families with both parents working and single parent households indicates that this percentage can be expected to increase in the future. As this occurs, the need for appropriate dependent care services outside the home will increase.

2. There is no single solution to the dependent care issue. Delivering adequate and appropriate dependent care requires documentation of current and projected types of care needed, and identification of the program options and resources available to meet those needs. Employers' work force requirements and care providers' financial and staffing needs are also key factors in the equation. Thus, employees, employers, and care providers must work together closely to find the best answer to their specific situation. Professionals in the field agree that a needs assessment should be conducted prior to implementation of a specific program.

3. State government has a role in the delivery of dependent care. Until recent years, most states, including Hawaii, have limited their involvement to regulating care providers and offering tax relief for employment-related dependent care expenses. The Department of Human Services' rules for care providers are similar to those of many other states. They address the valid concerns raised by child care outside the home and do not appear to be excessive or unreasonable. Hawaii tax law includes employment-related dependent care tax relief provisions that conform to the federal tax law.

4. In recent years, a number of states have expanded their programs to include such activities as direct loans or grants to care providers, tax incentives for employers who offer care facilities and services to their employees, and state-funded resource and referral services. Most are pilot programs at this time.

5. States can serve as testing grounds or models for employer-assisted dependent care. As employers, a number of states have recently established programs such as pilot day care centers, resource and referral services, and Dependent Care Assistance Plans (DCAP's) for prepaid dependent care expenses for their employees. In the states with child care centers, operating costs are usually covered by program fees and the centers are operated and staffed by nonstate employees under contractual agreements with the state. DCAP's are funded with salary reduction agreements. Resource and referral services are often state-funded programs.

Recommendations

To Assist both Public and Private Sector Employees:

1. Request the Governor to designate a "Child Care Cabinet."

The cabinet should be composed of directors or first deputies or first assistants of the state departments that have a major responsibility relating to dependent care. The departments represented should include Human Services (facility and program licensing, and provider certification), Business and Economic Development (private sector and small business liaison), Office of Children and Youth (child care coordinator), and the Community Colleges (training of care-givers). The cabinet need not be limited to these agencies.

Appointing a child care cabinet will reflect a policy level commitment to child care, and provide a mechanism for interdepartmental coordination of specific programs.

The Legislature can request this action through adoption of a concurrent resolution.

2. Extend or reauthorize the position of the child care coordinator.

As noted in recommendation No. 1, responsibility for the different aspects of dependent care is spread among several departments. In addition, the counties, private employers, and care providers are also part of the picture. State level responsibility for coordination and liaison among all parties should be assigned to a specific position. The position should have direct access to the child care cabinet. The child care coordinator in the Governor's Office of Children and Youth meets these requirements. The position of the child care coordinator, which was created as a budget provision in Act 390, Session Laws of Hawaii 1988, section 5(102) will terminate on June 30, 1989. The position should be extended or reauthorized for at least one more year.

To Assist the Private Sector:

1. Complete the statewide needs assessment authorized by the Legislature during the 1988 Regular Session in Act 390.

The needs assessment will serve two purposes. First, it will quantify child care needs by type of care and location. It will also help identify the specific areas where there are shortages of providers, suitable facilities, or trained personnel. Second, it will provide a uniform statewide data base that can be used to monitor changes in the dependent care market.

2. Integrate the information gained from DBED's program to promote public-private partnerships in employer-sponsored child care with the needs assessment findings.

The DBED project will provide valuable information on current employer practices and attitudes toward dependent care assistance. This information and the needs assessment findings will establish a basis for determining (1) whether additional state assistance in the area of work-related dependent care

FINDINGS AND RECOMMENDATIONS

is needed, and (2), if so, which of the options identified in this report can best address the problems.

The Office of Children and Youth should remain the lead agency for this task.

3. Identify programs that will assist the private sector's efforts to meet employee's child care needs.

If the needs assessment and DBED's informational program identify areas of dependent care requiring additional state support, the material in this report can be used to evaluate and select the specific options and financing alternatives appropriate to meet those needs. (Article X, section 1 of the State Constitution provides, in part, that "...nor shall public funds be appropriated for the support or benefit of any sectarian or private educational institution." There is no clear indication of where "care" stops and "education" begins. Therefore, direct assistance to programs or facilities should be designed to avoid possible conflict with this constitutional restriction.)

This task should be the responsibility of the Office of Children and Youth in cooperation with the Child Care Cabinet.

4. Establish an informational and technical assistance program on DCAP's and cafeteria plans for private sector employers.

Federal and Hawaii public policy supporting the DCAP approach to employer-assisted dependent care was established by federal enactment of IRC section 129 and the Legislature's decision to conform state tax law with section 129. Employers interested in establishing or improving employee dependent care programs should be informed about the provisions of section 129. Information on section 125 cafeteria plans could be presented as part of this program.

This program should, by administrative directive, be integrated with other activities of DBED that assist the private sector in the area of personnel relations.

5. The Department of Labor and Industrial Relations should clarify whether DCAP cafeteria plan salary reductions are subject to state payroll taxes (workers compensation, TDI, and state unemployment).

Lack of such guidance may inhibit development of section 125/129 plans in the private sector.

To Assist State Employees:

1. Complete detailed needs assessments for appropriate groups of state employees where necessary.

It is unlikely that the statewide needs assessment will be sufficiently detailed to reveal the specific needs of all groups of state workers. The wide variety of types of jobs held by state employees, job locations, and care resources available in specific communities may require follow-up assessments.

Funds should be provided to the Office of Children and Youth to conduct these follow-up assessments.

2. Identify appropriate program alternatives for state employees.

If the assessments indicate that additional employer-assisted dependent care is needed, the materials in this report can be used to identify and evaluate the available program and financing options. (See parenthetical note to recommendation 3 in the preceding section.)

3. Include a dependent care component in state management courses for supervisory employees.

Supervisory employees should be informed about state personnel management provisions and policies concerning state workers' dependent care needs. This will insure uniform application of the provisions, help prevent possible misunderstandings between supervisors and those they supervise, and provide a system-wide source of information and assistance on dependent care.

The Department of Personnel Services should, by concurrent resolution of the Legislature, be requested to implement this recommendation.

4. Offer a salary reduction DCAP to state employees.

A DCAP funded through salary reduction agreements can be established at little or no direct cost to the State. Savings from the reduction in the employer's share of social security contributions will offset a substantial portion of the program's administrative costs. Administration of the program can be contracted out, perhaps through the deferred compensation commission or the public employees' health fund. (Other states that have established salary reduction DCAP's for their employees provide that the reductions shall not be considered in computing pension benefits of retirees.)

5. Consider converting the fringe benefits package for state employees to an IRC section 125 cafeteria plan.

Section 125 cafeteria plans funded with salary reduction agreements allow employees to pay their share of certain fringe benefit costs with before-tax dollars. They also permit certain additional items such as insurance premiums and medical costs not covered by their basic plans to be funded this way. The tax savings for employees under cafeteria plans vary, but can be significant. Conversion to a section 125 plan should be given serious consideration. (Appendix E gives examples of section 125 plan tax impacts of the flexible benefit accounts available through HMSA.)

This, however, could be an extremely complicated undertaking which should be preceded by extensive analysis and planning.

If the Legislature wishes to follow through on this recommendation funds for a comprehensive analysis by a professional benefits consultant should be appropriated to the Public Employees' Health Fund.

FINDINGS AND RECOMMENDATIONS

The analysis should be conducted in cooperation with the counties and the public employee labor unions to ensure that statewide uniformity of the public employee benefits program will be maintained, and that responsibility for administration of the program is assigned to the appropriate agency or agencies. It should also:

- (1) Identify the specific new benefits, if any, to be offered and the estimated revenue impact to the State. (Preliminary estimates by the Department of Taxation indicate a tax loss of up to \$1 million if current employee health plan contributions were to be offered under section 125 cafeteria plan); and
- (2) Include proposed legislation needed to implement the recommendations.

FOOTNOTES

Chapter 1

1. U.S., Department of Labor, Report of the Secretary's Task Force, Child Care - A Work Force Issue (April 1988), p. 8.
2. Ibid., p. 7.
3. Ibid.
4. Ibid., p. 8.
5. As of this writing, a statewide child care needs assessment is being conducted by The Governor's Office of Children and Youth.
6. The State of Hawaii Data Book 1987, (Honolulu: Department of Business and Economic Development 1987), p. 98.
7. Ibid., p. 97 (occupancy rate includes acute care facilities).

Chapter 2

1. Interview with Jane Okubo, Assistant Program Administrator, Department of Human Services, June 27, 1988.
2. Interview with Sandra Cirie, Department of Business and Economic Development, June 22, 1988.
3. Dana E. Friedman, Harvard Business Review, "Child Care for Employees' Kids," March-April 1986, Vol. 64, No. 2, p. 32.
4. For Kids' Sake, by Dennis E. Christianson (Director of Special Projects/For Kid's Sake Project, KHON-TV) (Mimeographed). June 1988 (see Appendix B).
5. Memorandum from Susan Jaworowski, Researcher, Legislative Reference Bureau, to Neil Cammack, June 16, 1988, discussing proceedings of a meeting on various aspects of child care, sponsored by the Office of Human Resources of the City and County of Honolulu.
6. The property tax exemption is not automatic. Facility owners must submit an application to the county tax office.
7. U.S., Department of Labor, Report of the Secretary's Task Force, Child Care - A Work Force Issue (April 1988), p. 69.
8. Interview with Barb Morgan, PATCH, June 31, 1988.

Chapter 3

1. Berkeley Planning Associates, Small Business Options for Child Care Final Report, prepared for U.S. Small Business Administration, Office of Advocacy (Berkeley, CA: March 28, 1988), pp. 2-33 through 2-35.

2. Interviews with Carolyn Gire, HMSA, July 1, 1988; and Barb Morgan, PATCH, June 21, 1988.
3. Memorandum from Susan Jaworowski, Researcher, Legislative Reference Bureau to Neil Cammack, June 16, 1988, discussing proceedings of a meeting on various aspects of child care, sponsored by the Office of Human Resources of the City and County of Honolulu.
4. Honolulu (City and County), Office of Human Resources, Employer-Sponsored Child Care: An Investment in Your Company's Future, April 1987, pp. 7-8.
5. Berkeley Planning Associates, p. 2-40.
6. Office of Human Resources, p. 8.
7. Berkeley Planning Associates, pp. 2-16 through 2-19.
8. Hawaii Business, "How Maui Pine Did It," September 1985, Vol. 31, No. 3, p. 64:

"It was in 1980 that Maui Pine officials began examining different alternatives to attract a younger work force. Key to the decision was the examination of available child-care facilities in the community. Out of 22 such operations on Maui, the majority had waiting lists or had hours which did not conform to the pineapple cannery, thus making an information and referral program, voucher or vendor system, of little use. ML&P decided to take the plunge and build its own school."

9. Berkeley Planning Associates, pp. 2-29 through 2-31.
10. Interview with Jane Okubo, Assistant Program Administrator, Department of Human Services, June 27, 1988.
11. Office of Human Resources, p. 10.
12. Dana E. Friedman, Harvard Business Review, "Child Care for Employees' Kids," March-April 1986, Vol. 64, No. 2, p. 34.
13. Section 501(k) of the Internal Revenue Code states that:

"For the purposes of subsection (c)(3) of this section..., the term "educational purposes" includes the providing of care of children away from their homes if--

- (1) substantially all of the care provided by the organization is for the purposes of enabling individuals to be gainfully employed, and
- (2) the services provided by the organization are available to the general public."

Depending upon the basis for their designation as a 501(c)(3) organization, some nonprofit providers may not be able to establish strict enrollment priorities. It appears that 501(c)(3) designation for purposes other than "education purposes" (e.g., religious, charitable, for the prevention of cruelty to children or animals) is not subject to the conditions of 501(k).

14. Friedman, p. 34.
15. Penny O'Brian, How to Select the Best Child Care Option for Your Employees (Binghamton, N.Y.: Almar Press, 1987), p. 43.

Chapter 4

1. 1988 Haw. Sess. Laws, Act 125.
2. Chapter 17-891.1, Hawaii Administrative Rules (Department of Human Services), entitled "Rules Governing Registration of Family Child Care Homes", sec. 17-891.1-6.
3. Ibid., sec. 17-891.1-13.
4. Ibid., sec. 17-891.1-17(b).
5. Ibid., sec. 17-891.1-2(b).
6. Ibid., sec. 17-891.1-18.
7. 1988 Haw. Sess. Laws, Act 125.
8. Chapter 17-892, Hawaii Administrative Rules (Department of Human Services), entitled "Rules Governing Licensing of Group Day Care Centers and Group Day Care Homes", sec. 17-892-3.
9. Ibid., sec. 17-892-1.
10. Ibid., sec. 17-892-5.
11. Ibid., sec. 17-892-6.
12. Ibid., sec. 17-892-13.
13. Ibid., sec. 17-892-17.
14. Ibid.
15. Ibid.
16. Ibid.
17. Ibid., sec. 17-892-18.
18. Ibid., sec. 17-892-17.
19. Ibid., sec. 17-892-18.
20. Ibid., Ratio Chart II.
21. Ibid., sec. 17-892-40.
22. Ibid., sec. 17-892-41.
23. Ibid., sec. 17-892-42.
24. Ibid., sec. 17-892-43.
25. Ibid., sec. 17-892-44.

26. Peggy O'Brian, How To Select The Best Child Care Option For Your Employees (Binghamton, New York, Almar Press, 1987), pp. 47-52.
27. In conducting interviews for this study, the researcher asked, "What do you think is the major problem for care providers in Hawaii?" Compliance with regulations was not suggested and, in fact, the efforts of DHS to consult with those active in the child care field when developing new regulations were commended.
28. Interview with Jane Okubo, Assistant Program Administrator, Department of Human Services, June 27, 1988.
29. Ibid., February 1988 facility count.

Chapter 5

1. Interviews with Jane Okubo, Assistant Program Administrator, Department of Human Services, June 27, 1988, and November 3, 1988.
2. 1988 Haw. Sess. Laws, Act 390, sec. 5(5).
3. 1988 Haw. Sess. Laws, Act 390, sec. 5(102).
4. Calif. Govt. Code, sec. 15492.
5. Tax Foundation of Hawaii, Government in Hawaii 1987 (Honolulu: 1987), p. 26.
6. Conn. Gen. Stat., secs. 12 and 17.
7. Conn. Gen. Stat., sec. 32.
8. Conn. Gen. Stat., sec. 17.
9. Tax Foundation, p. 26.
10. Ibid.
11. Ibid.
12. R.I. Gen Laws, Ch. 47, Title 44.
13. Tax Foundation, p. 26.

Chapter 6

1. Unless otherwise noted, this section summarizes information presented in Child Care - A Workforce Issue, Report of the Secretary's Task Force, U.S. Department of Labor, April 1988, pp. 75-124.
2. Anchorage, Denver, San Antonio, and Los Angeles County have established municipal Internal Revenue Code sections 125/129 flexible benefit plans for dependent care assistance. Source: letter from Jane Sakson, Executive Policy Analyst, Office of the Governor, State of Washington to Donna Ikegami, Researcher, House Majority Research Office, Hawaii State Legislature, December 24, 1987.
3. National Conference of State Legislatures, Child Care for State Employees: A 50-State Survey, State Legislative Report, Vol. 13,

No. 4 (Denver, Colo.), February 1988,
Appendix B.

4. Ibid.
5. Ibid., p. 4.
6. Ibid., Appendix B.
7. Ibid.
8. Ibid.
9. Ibid.
10. Ibid.
11. Ibid.
12. Ibid.
13. Ibid.
14. Ibid.
15. Ibid.
16. Ibid., p. 4.
17. Ibid., Appendix B.
18. Ibid.
19. Ibid.
20. Wash. Laws, ch. 475 (1987).
11. Ibid.
12. Your Income Tax, p. 167.
13. See note 13 in Chapter 3, Employer Options.
14. I.R.C. Section 125. This description of Cafeteria Plans and Flexible Spending Accounts relies heavily on material in Richard E. Johnson's Flexible Benefits, A How-To Guide, International Foundation of Employee Benefit Plans (Brookfield, Wisc.: 1988).
15. Telephone conversation with Carolyn Gire, HMSA, November 21, 1988.

Chapter 7

1. U.S., Department of Labor, Report of the Secretary's Task Force, Child Care - A Work Force Issue (April 1988), p. 51.
2. Ibid., p. 52.
3. Ibid., p. 54.
4. Hawaii, Department of Taxation, Tax Credits Claimed by Hawaii Residents - 1985, December 1987, pp. 18-20.
5. I.R.C. Section 21.
6. Haw. Rev. Stat. sec. 235-55.6
7. U.S., Department of the Treasury, Internal Revenue Service, Your Federal Income Tax for Individuals, Publication No. 17 (Rev. Nov. 1987), Ch. 43, pp. 164-167; hereafter cited as Your Income Tax.
8. I.R.C. Section 129.
9. I.R.C. Section 89 sets forth the definitions and tests for this requirement. There are several modifications of section 89 that take effect for different tax years. Employers should consult a tax practitioner when designing or modifying a DCAP, and review their program each year.
10. Interview with Carolyn Gire, HMSA, July 1, 1988.

Appendix A

HOUSE OF REPRESENTATIVES
FOURTEENTH LEGISLATURE, 1988
STATE OF HAWAII

H.R. NO.

25
H.D. 1

HOUSE RESOLUTION

REQUESTING A STUDY OF EMPLOYER-OFFERED CHILD CARE AS AN OPTIONAL
PREPAID BENEFIT, PREPAID CHILD CARE AND LONG-TERM CARE
BENEFIT OPTIONS.

WHEREAS, Hawaii has one of the Nation's highest rates of
mothers of small children who are in the work force; and

WHEREAS, children in homes where both parents work, or in
single-family homes where the sole parent works, need to be
placed in some kind of safe and affordable day care facility
while their parents are working; and

WHEREAS, day care can be extremely expensive and the demand
for licensed day care far exceeds the supply, putting licensed
day care out of reach for many families who then must leave their
children with unlicensed providers; and

WHEREAS, some employers have sought to relieve their
parent-employees from the concerns associated with leaving their
children in unlicensed or improperly supervised centers by
providing day care on or near the premises; and

WHEREAS, provision of day care in close proximity to a
parent's place of employment decreases parent anxiety and enables
the parent to easily see the child at lunch or in the event of an
emergency; and

WHEREAS, other employers have also recognized the
seriousness of this issue and have sought to help employees by
providing help with child care placement; and

WHEREAS, some businesses have abandoned the typical standard
benefit packages for their employees in favor of a more flexible,
"cafeteria" type plan in which employees chose the benefits that
are the most helpful to them, thereby making employees more
content with their employers, which benefits the employers by
increased stability and fewer of the costs associated with
employee turnover and sick leave; and

WHEREAS, some of these cafeteria-type plans may include various day care options for children of employees;

WHEREAS, Illinois has a model dependent care program whereby a parent, who is employed by the state, may defer up to \$5,000 of his or her income in before-tax dollars to pay for a dependent's care, and after paying for the care, the parent transmits receipts for care and is reimbursed with tax-free dollars; and

WHEREAS, the employee child care concerns may be resolved by having the State of Hawaii do the following: (1) establish a dependent care program similar to Illinois that provides tax breaks for parents; (2) establish child care centers where state agencies exist if there is a demand for these services; (3) operate a state child care program and hire state employees at reasonable salaries to administer quality child care; (4) subsidize the cost of child care for its employees; (5) utilize public schools to provide before and after school and vacation care for school-aged children; (6) consider voucher systems where employers contribute to the cost of child care for employees on a sliding-scale basis; or (7) provide flexible packages that allow more discretion in choice of benefits; and

WHEREAS, a study must be made to determine the feasibility of providing prepaid child care or long-term care benefit options to address the needs of working parents with children under the age of eighteen; now, therefore,


BE IT RESOLVED by the House of Representatives of the Fourteenth Legislature of the State of Hawaii, Regular Session of 1988, that the Legislative Reference Bureau is requested to study the effects of employers in Hawaii offering their employees child care as an optional prepaid benefit, prepaid child care, or long-term care benefit options where the employee agrees to a corresponding decrease in other benefits; and

BE IT FURTHER RESOLVED that the Legislative Reference Bureau report its findings and recommendations to the Legislature not later than twenty days prior to the convening of the Regular Session of 1989; and

BE IT FURTHER RESOLVED that a certified copy of this Resolution be transmitted to the Director of the Legislative Reference Bureau and the Insurance Commissioner.

FOR KIDS' SAKE

A Newsletter
For Hawaii's Families
June 1988




Central Pacific Bank
The Art of Service Member FDIC



HAWAII'S DRIVING FORCE



Duty Free Shoppers



KAPIOLANI MEDICAL CENTER
For Women And Children



Who's Watching Our Keikis?

Once upon a time, three blind men came upon a elephant, and since they had never encountered such a thing before they were completely confused.

The first man felt the trunk of the elephant, and he imagined that it must look like a huge snake.

The second man felt the elephant's leg, and he imagined that it must be an enormous tree.

While the third man felt the side of the elephant, and thought it was a boulder in the path.

Every one of the men had experienced the same thing, but each came away with a very different impression of the experience.

The fable about the blind men and the elephant is very appropriate to the discussion of Hawaii's Child Care issue. There are few of us that are not touched by the issue in some way, but we're all inclined to only think of it in the most immediate terms. And feelings about the financial responsibilities of Child Care are even more divided.

So to keep from repeating the mistakes of the blind men and their elephant, *Who's Watching Our Keikis?* is going to try to take the broadest possible view of Hawaii's Child Care concerns.

Child Care providers are helping to raise an entire generation of keikis, from infancy, to toddling, to preschool and through their school age years. We're counting on them to do a lot. We need their help and they need ours. It's time we got to know them a little better.

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"Child Care Crisis" and "Child Care Crunch" are phrases we hear and see a lot these days — in newspaper and magazine articles or in speeches by politicians and community leaders. But just what do we mean when we talk

about child care. One of the greatest misconceptions about this issue is that Child Care equals preschool. While preschools and day care centers are a part of the Child Care field, there are other important areas, infant and toddler care (for children under two years old), before and after school care for children whose schedules do not match with their working parents, summer programs for the three month kids (ages 1 to 3), and regular child care arrangements for children with their regular child care arrangements. So when we talk about a crisis, we're not looking at just a couple of preschools, Child Care is a need that follows the majority of our kids through their entire young life - infancy or six or ten or more years.

2. Why is Child Care suddenly such an important issue?



not very well. The 1988 State Legislature recently approved the creation of a Child Care Coordinator Advocate among other duties, which help pull together a definitive needs assessment for the care of kids. But current estimates would be sufficient cause for concern.

No single form of Child Care, no single curriculum, is best for all children. It is very important that we further develop the diversity of programs for watching our kids. Center based programs are of course the most familiar.

In-home care — where providers come to the child's house is currently being "professionalized," in a project Honolulu Community College. There, British Licensed Nurse-Midwives — Nurses — are helping to teach students about this unusual, but very viable, form of Child Care.

There are now approximately 75 Before and After School Programs in the state. These vary from homework- and literacy projects to sports and recreation activities. Some are run by parents, some by county parks and rec departments, others by non-profit organizations.

School Child Care is still in its infancy in Hawaii, but pilot programs at Queen's Medical Center and Kuakini Medical Center are very promising.

But we need many more programs — statewide — like all of these projects, so that families can make choices about the kind of care that is best for them and best for their children!

Care? Criteria varies from situation to situation, but these five guidelines are fairly consistent:

1. A safe facility. Kids must be able to act like kids.

4. Small group size. One hundred children in a gym with ten adults is not quality care. Kids need the caring in interaction of a small group to learn social and emotional skills.
5. An organized curriculum. Many approaches are valid but some type of day-to-day planning is vital.
6. A well-trained, motivated staff. This is absolutely essential.

Just about everybody's got a stake in the issue. But others are recognizing their interest and responsibilities too.

place for their kids. We're just beginning to understand what a good mental quality Child Care can be for society. Needy children grow up to be needy adults. Good Child Care and Early Education are proven preventative measures that help kids grow up to be good students (right through high school and beyond), mentally and emotionally healthier (with much less need for special education or counseling), and job-seekers and holders.

The challenges of providing quality Child Care to the greatest number of our community's children are enormous, and terribly complicated. But here are some ideas to get us started:

—all families should pay something, but they need help.

4. Government must provide economic incentives for providers. Only through these two actions can we break the "trilemma" and give our community's children the care we always say they deserve.
5. We must increase state funding to train child care workers. So far, the Governor and Legislature have been unresponsive to these programs. We need more, especially to meet the need on the Neighbor County.
6. The Department of Education and Community Parks and Recreation Departments must become aggressively involved in efforts to establish and operate before, after, and summer school programs. Between them, they've got the facilities, and they've got the expertise. Some of their pilot projects have been very successful. We need more.
7. Parents and others must become politically active on these concerns. Start off by writing a letter, making a phone call, or stopping a sign-wearing politician on the street. Ask him what his position is on Child Care. Make your voice heard. We've included some names and addresses of newsworthy political leaders in this newsletter. You can't believe the impact you can have.

We must urge Congress to support Child Care legislation like the Act for Better Child Care Services for ABC Child Care Act. We can have it.

5. An organized curriculum. Many approaches are valid but some type of day-to-day planning is vital.
6. A well-trained, motivated staff. This is absolutely essential.

YOU CAN MAKE A DIFFERENCE!

It may sound like a broken record, but you really can have an impact on the legislative process if you take the time to let your elected officials know how you feel.

Petitions, post cards, and phone calls are fine, but legislators themselves admit that nothing beats a brief handwritten letter, and *it will get read!* Jot down some of your feelings about Child Care . . . if you agree with any or all of the For Kids' Sake Child Care "Action Plan," let them know.

Here are some names and addresses to get you started, or you may wish to contact your local Representative, Senator, or Council person. And don't forget that this is an election year. More than ever, your voice counts and your vote counts.

But children can't vote. They have to count on the rest of us to "vote" for them.

For Kids' Sake.

Hon. John Waihee
Governor, State of Hawaii
State Capitol
Honolulu, HI 96813

Senate President
State Capitol
Honolulu, HI 96813

Speaker of the House
State Capitol
Honolulu, HI 96813

Hon. Daniel K. Inouye
United States Senate
722 Hart Senate Office Bldg.
Washington, D.C. 20510

Hon. Spark Matsunaga
United States Senate
109 Hart Senate Office Bldg.
Washington, D.C. 20510



WEDNESDAY, JUNE 22/7:00 PM
AND SATURDAY, JUNE 25/4:00 PM

Is child care a problem in Hawaii? Whose problem is it? Who can solve it? And how important are quality child care programs? Join For Kids' Sake host Laura Soller for a KHON-TV special presentation that looks at the issue and offers some solutions to solving the child care crunch in Hawaii.

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Washington, D.C. 20515

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Kalili-Palama Culture and Arts Society

HON. BETTY M. VITOUSEK
Senior Judge Family Court

MRS. LYNN WAIHEE

CINDY YONOVER
Child & Family Service

Appendix C

EMPLOYEE CHILD CARE SURVEY QUESTIONNAIRE

This is a survey which attempts to determine the child care needs of employees. It is being conducted by (name of company). Your responses will help (name of company) acquire accurate child care information. These responses will be held in strict confidence and your anonymity will be maintained.

GENERAL INSTRUCTIONS: Most of the questions may be answered by simply placing an "X" in the appropriate box; other questions ask for written answers. Please answer all questions as accurately as possible.

PART I. CHILD CARE ARRANGEMENTS. In this first section, we are interested in learning about your present child care practices and arrangements.

1. Do you have dependent children who would be eligible (between infant and 12 years old) for an employer sponsored child care program?
 - a. yes ()
 - b. no () If no, please skip to question number 14.
2. What are the ages of these children?
 - a. _____ d. _____
 - b. _____ e. _____
 - c. _____ f. _____
3. How are your children cared for?
 - a. By your spouse at home. ()
 - b. By a relative at home or at your relative's home. ()
 - c. By a babysitter or housekeeper at home or away from home. ()
 - d. In a family day care home. ()
 - e. In a child care center. ()
 - f. Other (please specify): ()

4. When your child is sick, what child care arrangements do you make?
 - a. You stay at home. ()
 - b. Your spouse stays home from work. ()
 - c. Your spouse is a homemaker, therefore there is no problem. ()
 - d. Current child care arrangements are adequate. ()
 - e. You make other arrangements (please specify): ()

5. If you pay for child care services, approximately how much do you spend on child care per month?
- a. \$ _____

PART II. CHILD CARE NEEDS. Now that we have collected information on your present child care arrangements, we would like to determine your level of satisfaction with these child care practices.

6. Approximately how many days a year do you miss work because of child care problems?
- a. none ()
- b. one-five days ()
- c. six-ten days ()
- d. more than ten days ()
7. Approximately, how many days a year are you late for work because of child care problems?
- a. none ()
- b. one-five days ()
- c. six-ten days ()
- d. more than ten days ()
8. Have you ever considered quitting your job because of child care problems?
- a. Yes ()
- b. No ()
9. If you pay for child care services, do you have difficulty in finding quality child care programs at an affordable price?
- a. Yes ()
- b. No ()
10. Overall, are you satisfied with your present child care arrangements?
- a. Yes ()
- b. No ()

PART III. CHILD CARE MODEL OR OPTIONS. Because there are a variety of employer sponsored child care options, this section will gather information on the types of programs which you believe best fulfill your needs.

11. Would you be interested in a company sponsored child care program?
- a. Yes ()
- b. No ()

12. Of the different types of program options, what would be your first choice, second choice, third choice, and so on? (Please place a "1" alongside the program that is your first choice, a "2" alongside the second choice, and so forth. Use each number only once.)

- a. Flexible time ()
 - b. Job sharing ()
 - c. Permanent part-time work ()
 - d. Parental leaves of absence ()
 - e. Resource and referral services ()
 - f. Work-site program ()
 - g. Voucher-vendor system ()
 - h. Other (please, specify) ()
-

13. Concerning the costs for such programs, would you be willing to pay:

- a. Total cost ()
- b. Partial cost ()
- c. None of the cost ()

PART IV. DEMOGRAPHIC INFORMATION: Finally, we would like to know just a little bit about you so we can see how different types of employees feel about child care issues.

14. Age _____

15. Male () Female ()

16. Gross Family income per year.

- a. under \$10,000 ()
- b. \$10,000 - \$14,999 ()
- c. \$15,000 - \$19,999 ()
- d. \$20,000 - \$24,999 ()
- e. \$25,000 - \$29,999 ()
- f. over \$30,000 ()

Source: Honolulu (City and County), Office of Human Resources, "Employer-Sponsored Child Care, An Investment in Your Company's Future," Appendix C, pp. 27-29.

SAMPLE QUESTIONNAIRE ITEMS—Adapt these to your situation by changing the order, phrasing, etc. Use multiple choice answers. (Note: Include statement of purpose and instructions for completing and returning the questionnaire.)

1. Do you have children under 14 living with you? (If not, please answer only questions 2 through 8.)
2. What is your job category? (exempt-nonexempt, manager, union, etc.)
3. What is your job title? Department? Location? (if more than one site)
4. What hours do you regularly work? What days?
5. Do you work full or part time?
6. Gender, age?
7. Do you plan to have children within the next five years?
8. Has your work been more difficult during the last year owing to other employees' child care problems?
9. Are you single, divorced, widowed, or separated?
10. If yes, how much time does your child live with you?
11. What is your zip code?
12. How long have you worked for the company?
13. How do you get to work?
14. How long does it take you to get to work?
15. If you are married, is your spouse employed? Full time?
16. What is the total family income? (Include that of all adults in your household, *before* taxes.)
17. What is the number of people supported by this income?
18. List the birthdays for each child under 14 living with you:
Child no. 1 _____ no. 2 _____ etc.
19. Indicate preference of care for each child (someone in my home, care in someone else's home, child care center).
20. Given some of the common problems related to child care for working parents (quality, cost, location, dependability, transportation, finding appropriate care for child of each age, scheduling, sick child care, etc.), which have you had difficulty within the last year?
21. How is each child currently cared for while you work? (include after school, summer, etc.)
22. What days do you usually need child care for each child? Hours?
23. What is the average monthly amount you spend for the care of all your children while you work? (include summer care, sick care, etc.)
24. Is the care for your child(ren) located near work? Near home?
25. How did you find your current child care arrangements? How much time did you spend?
26. What do you like most about each arrangement? Least? (cost, location, quality, etc.)
27. Approximately how many days in the last year were you late to work, had to leave early, etc., because of child care problems?
28. Approximately how many days in the last year were you absent because of child care difficulties?
29. Who usually cares for your children when they are sick?
30. How many times have you changed child care arrangements in the last year?
31. If you could get the kind of child care you want at a reasonable cost, how would it affect your job? (change shifts, work part time, full time, etc.)
32. Would you prefer a child care center near work?
33. Would you attend workshops on child care if they were available during working hours at your work site?
34. Would you like to have written information about parenting and child care?
35. Would you like to have professional help (at work) to locate appropriate child care? (information and referral service)
36. If any of your children under 14 have special needs, indicate what they are.
37. Suggestions or comments—

Source: Barbara Adolf and Karol Rose, "Perceiving the Need, Delivering the Options," Personnel Journal, June 1986, Vol. 65, No. 6, p. 61.

Appendix D

COMPARISON OF DCAP VS TAX CREDIT

(Federal Impact Only)

The following examples of the tax impact of DCAP and dependent care tax credit are taken from "Providing a Section 129 Dependent Care Assistance Program Through a Section 125 Cafeteria Plan." Gabriel J. Minc, Taxes-The Tax Magazine (May 1988) Copyright 1988 by Gabriel J. Minc. Applying Hawaii tax provisions would increase the tax savings in the examples for both the DCAP and credit options.

Table 1—Tax Benefits of a DCAP Where Each Spouse Earns \$10,000

The following table illustrates the tax benefits of a dependent care assistance program. It compares (I) cash compensation, (II) a \$5,000 payment under a dependent care assistance program, and (III) the dependent care credit for a married individual earning \$10,000 per year, whose spouse earns \$10,000 per year, with one dependent child and \$5,000 of dependent care expenses, claiming three exemptions and the standard deduction, and filing a joint return using 1988 tax rates.

| | (I) Cash Alternative (Without DCAP or DCC) | (II) With DCAP | (III) With DCC |
|--------------------------|---|----------------------|----------------------|
| Gross income | \$20,000 | \$20,000 | \$20,000 |
| DCAP gross | | | |
| income exclusion | 0 | 5,000 | 0 |
| Adjusted gross income .. | 20,000 | 15,000 | 20,000 |
| Standard deduction | 5,000 | 5,000 | 5,000 |
| Exemptions | 5,850 | 5,850 | 5,850 |
| Taxable income | 9,150 | 4,150 | 9,150 |
| Income tax | 1,373 | 623 | 1,373 |
| FICA tax: | | | |
| Employee | 751 | 376 | 751 |
| Employer | 751 | 376 | 751 |
| Employee's dependent | | | |
| care credit | 0 | 0 | 600 |
| Total tax liability: | | | |
| Employee | 2,124 | 999 | 1,524 |
| Employer | 751 | 376 | 751 |
| Tax savings with | | | |
| respect to \$5,000 | | | |
| expenditure: | | | |
| Employee | 0 | 1,125 | 600 |
| Employer | 0 | 375 | 0 |

Percentage savings by using DCAP or DCC:

| | <u>DCAP</u> | <u>DCC</u> |
|----------------|-------------|------------|
| Employee | 22.5% | 12% |
| Employer | 7.5% | 0 |
| Total | 30.0% | 12% |

Table II—Tax Benefits of a DCAP Where Each Spouse Earns \$22,500

The following table illustrates the tax benefits of a dependent care assistance program. It compares (I) cash compensation, (II) a \$5,000 payment under a dependent care assistance program, and (III) the dependent care credit for a married individual earning \$22,500 per year, whose spouse earns \$22,500 per year, with one dependent child and \$5,000 of dependent care expenses, claiming three exemptions and the standard deduction, and filing a joint return using 1988 tax rates.

| | (I) Cash Alternative (Without DCAP or DCC) | (II) With DCAP | (III) With DCC |
|--|---|----------------------|----------------------|
| Gross income | \$45,000 | \$45,000 | \$45,000 |
| DCAP gross income exclusion | 0 | 5,000 | 0 |
| Adjusted gross income .. | 45,000 | 40,000 | 45,000 |
| Standard deduction | 5,000 | 5,000 | 5,000 |
| Exemptions | 5,850 | 5,850 | 5,850 |
| Taxable income | 34,150 | 29,150 | 34,150 |
| Income tax | 5,695 | 4,373 | 5,695 |
| FICA tax: | | | |
| Employee | 1,690 | 1,314 | 1,690 |
| Employer | 1,690 | 1,314 | 1,690 |
| Employee's dependent care credit | 0 | 0 | 480 |
| Total tax liability: | | | |
| Employee | 7,385 | 5,687 | 6,905 |
| Employer | 1,690 | 1,314 | 1,690 |
| Tax savings with respect to \$5,000 expenditure: | | | |
| Employee | 0 | 1,698 | 480 |
| Employer | 0 | 376 | 0 |

Percentage savings by using DCAP or DCC:

| | <u>DCAP</u> | <u>DCC</u> |
|----------------|-------------|------------|
| Employee | 34.0% | 9.6% |
| Employer | 7.5% | 0 |
| Total | 41.5% | 9.6% |

Table III—Tax Benefits of a DCAP Where Each Spouse Earns \$30,000

The following table illustrates the tax benefits of a dependent care assistance program. It compares (I) cash, (II) a \$5,000 payment under a dependent care assistance program, and (III) the dependent care credit for a married individual earning \$30,000 per year, whose spouse earns \$30,000 per year, with one dependent child and \$5,000 of dependent care expenses, claiming three exemptions and the standard deduction, and filing a joint return using 1988 tax rates.

| | (I) Cash Alternative (Without DCAP or DCC) | (II) With DCAP | (III) With DCC |
|--|---|----------------------|----------------------|
| Gross income | \$60,000 | \$60,000 | \$60,000 |
| DCAP gross income exclusion | 0 | 5,000 | 0 |
| Adjusted gross income .. | 60,000 | 55,000 | 60,000 |
| Standard deduction | 5,000 | 5,000 | 5,000 |
| Exemptions | 5,850 | 5,850 | 5,850 |
| Taxable income | 49,150 | 44,150 | 49,150 |
| Income tax | 9,895 | 8,495 | 9,895 |
| FICA tax: | | | |
| Employee | 2,253 | 1,878 | 2,253 |
| Employer | 2,253 | 1,878 | 2,253 |
| Employee's dependent care credit | 0 | 0 | 480 |
| Total tax liability: | | | |
| Employee | 12,148 | 10,373 | 11,668 |
| Employer | 2,253 | 1,878 | 2,253 |
| Tax savings with respect to \$5,000 expenditure: | | | |
| Employee | 0 | 1,775 | 480 |
| Employer | 0 | 375 | 0 |
| Percentage savings by using DCAP or DCC: | | | |
| | <u>DCAP</u> | <u>DCC</u> | |
| Employee | 35.5% | 9.6% | |
| Employer | 7.5% | 0 | |
| Total | 43.0% | 9.6% | |

**Table IV—Tax Benefits of a DCAP
Where Each Spouse Earns \$45,000**

The following table illustrates the tax benefits of a dependent care assistance program. It compares (I) cash compensation, (II) a \$5,000 payment under a dependent care assistance program, and (III) the dependent care credit, for a married individual earning \$45,000 per year, whose spouse earns \$45,000 per year, with one dependent child and \$5,000 of dependent care expenses, claiming three exemptions and the standard deduction, and filing a joint return using 1988 tax rates.

| | (I) Cash Alternative (Without DCAP or DCC) | (II) With DCAP | (III) With DCC |
|--|---|----------------------|----------------------|
| Gross income | \$90,000 | \$90,000 | \$90,000 |
| DCAP gross income exclusion | 0 | 5,000 | 0 |
| Adjusted gross income.. | 90,000 | 85,000 | 90,000 |
| Standard deduction | 5,000 | 5,000 | 5,000 |
| Exemptions | 5,850 | 5,850 | 5,850 |
| Taxable income | 79,150 | 74,150 | 79,150 |
| Income tax | 18,657 | 17,007 | 18,657 |
| FICA tax: | | | |
| Employee | 3,380 | 3,004 | 3,380 |
| Employer | 3,380 | 3,004 | 3,380 |
| Employee's dependent care credit | 0 | 0 | 480 |
| Total tax liability: | | | |
| Employee | 22,037 | 20,011 | 21,557 |
| Employer | 3,380 | 3,004 | 3,380 |
| Tax savings with respect to \$5,000 expenditure: | | | |
| Employee | 0 | 2,026 | 480 |
| Employer | 0 | 376 | 0 |
| Percentage savings by using DCAP or DCC: | | | |
| | <u>DCAP</u> | <u>DCC</u> | |
| Employee | 40.5% | 9.6% | |
| Employer | 7.5% | 0 | |
| Total | 48.0% | 9.6% | |

Appendix E

EXAMPLES OF SALARY REDUCTION CAFETERIA PLAN TAX IMPACTS

The following examples of the tax impact of employee benefits funded with salary reduction agreements under a section 125 cafeteria plan are provided courtesy of the HMSA Flexible Spending Accounts Division. In the examples, "dues" refers to health insurance premiums, "medical" refers to accounts for medical expenses other than those covered by the employee's basic insurance. An employer's savings from reduced social security payments are in addition to the amounts identified in the examples.

1. Single; Health Only.
2. Married with Nonemployed Spouse; Health and Some Additional Medical Costs.
3. Two-Worker Family with One Child in Preschool; Health and Some Additional Medical Costs.
4. Single with Health 100% paid by Employer; Additional Medical Costs.
5. Two-Worker Family with two children in Care Programs; Health, Additional Medical and Dependent Care.

EXAMPLE 1

Salary: 1,000 Pay Frequency: m M=monthly B=bi-weekly W=weekly
 # of dependents: 0 Filing Status: s M=married S=single
 Dep. Care Credit: (# cared for: 0 Care cost: 0 spouse salary/month: 0)

| | Without FLEX | With FLEX |
|---------------------------|----------------|-----------|
| Monthly Salary | 1,000 | 1,000 |
| less Dues | | 25 |
| less Medical | | 0 |
| less Dependent Care | | 0 |
| Taxable Salary | 1,000 | 975 |
| less Fed/State/FICA taxes | 280 | 272 |
| Pay after taxes | 720 | 703 |
| less Dues | 25 | |
| less Medical | 0 | |
| less Dependent Care | 0 | |
| plus Dep. Care Credit: | 0 | |
| Net income | 695 | 703 |
| | Annual Savings | 96 |

This is an estimate only. Your actual tax savings may be different from the estimate depending on what other income and deductions you have.

EXAMPLE 2

Salary: 1,000 Pay Frequency: m M=monthly B=bi-weekly W=weekly
 # of dependents: 0 Filing Status: m M=married S=single
 Dep. Care Credit: (# cared for: 0 Care cost: 0 spouse salary/month: 0)

| | Without FLEX | With FLEX |
|---------------------------|----------------|-----------|
| Monthly Salary | 1,000 | 1,000 |
| less Dues | | 50 |
| less Medical | | 20 |
| less Dependent Care | | 0 |
| Taxable Salary | 1,000 | 930 |
| less Fed/State/FICA taxes | 244 | 222 |
| Pay after taxes | 756 | 708 |
| less Dues | 50 | |
| less Medical | 20 | |
| less Dependent Care | 0 | |
| plus Dep. Care Credit: | 0 | |
| Net income | 686 | 708 |
| | Annual Savings | 264 |

This is an estimate only. Your actual tax savings may be different from the estimate depending on what other income and deductions you have.

EXAMPLE 3

Salary: 1,500 Pay Frequency: m M=monthly B=bi-weekly W=weekly
 # of dependents: 2 Filing Status: m M=married S=single
 Dep. Care Credit: (# cared for: 1 Care cost: 250 spouse salary/month: 1,000)

| | Without FLEX | With FLEX |
|---------------------------|----------------|-----------|
| Monthly Salary | 1,500 | 1,500 |
| less Dues | | 100 |
| less Medical | | 25 |
| less Dependent Care | | 250 |
| Taxable Salary | 1,500 | 1,125 |
| less Fed/State/FICA taxes | 334 | 219 |
| Pay after taxes | 1,166 | 906 |
| less Dues | 100 | |
| less Medical | 25 | |
| less Dependent Care | 250 | |
| plus Dep. Care Credit: | 6 | |
| Net income | 797 | 906 |
| | Annual Savings | 1,308 |

This is an estimate only. Your actual tax savings may be different from the estimate depending on what other income and deductions you have.

EXAMPLE 4

Salary: 1,500 Pay Frequency: m M=monthly B=bi-weekly W=weekly
 # of dependents: 1 Filing Status: s M=married S=single
 Dep. Care Credit: (# cared for: 0 Care cost: 0 spouse salary/month: 0)

| | Without FLEX | With FLEX |
|---------------------------|----------------|-----------|
| Monthly Salary | 1,500 | 1,500 |
| less Dues | | 0 |
| less Medical | | 100 |
| less Dependent Care | | 0 |
| Taxable Salary | 1,500 | 1,400 |
| less Fed/State/FICA taxes | 402 | 370 |
| Pay after taxes | 1,098 | 1,030 |
| less Dues | 0 | |
| less Medical | 100 | |
| less Dependent Care | 0 | |
| plus Dep. Care Credit: | 0 | |
| Net income | 998 | 1,030 |
| | Annual Savings | 384 |

This is an estimate only. Your actual tax savings may be different from the estimate depending on what other income and deductions you have.

EXAMPLE 5

Salary: 2,000 Pay Frequency: m M=monthly B=bi-weekly W=weekly
 # of dependents: 3 Filing Status: m M=married S=single
 Dep. Care Credit: (# cared for: 2 Care cost: 400 spouse salary/month: 1,500)

| | Without FLEX | With FLEX |
|---------------------------|----------------|-----------|
| Monthly Salary | 2,000 | 2,000 |
| less Dues | | 58 |
| less Medical | | 20 |
| less Dependent Care | | 400 |
| Taxable Salary | 2,000 | 1,522 |
| less Fed/State/FICA taxes | 455 | 309 |
| Pay after taxes | 1,545 | 1,213 |
| less Dues | 58 | |
| less Medical | 20 | |
| less Dependent Care | 400 | |
| plus Dep. Care Credit: | 10 | |
| Net income | 1,077 | 1,213 |
| | Annual Savings | 1,632 |

This is an estimate only. Your actual tax savings may be different from the estimate depending on what other income and deductions you have.

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