EXECUTIVE SUMMARY

In recent years there has been increased interest in providing consumers with more choice about who provides the public services they receive. Vouchers are one strategy for delivering public services in a way that makes the customer the central figure in deciding when and where to receive services, so that the funding relationship between the customer and the provider is similar to transactions in the private market. Vouchers also present a unique opportunity to expand the role of faith- and community-based organizations (FBCOs) in the network of publicly funded services. Organizations receiving direct federal funding may not use the monies for religious activities such as worship or proselytizing. However, an organization that receives funds indirectly does not need to separate religious activities from government-funded services. The key to indirect funding mechanisms, such as vouchers, is that they allow the customer to make an independent choice from among an array of providers and present an avenue through which customers can use public funds to receive faith-infused services.

Interest in maximizing customer choice and expanding the delivery network to include a broader array of providers led the Office of the Assistant Secretary of Planning and Evaluation (ASPE), U.S. Department of Health and Human Services (DHHS), to take a closer look at how vouchers currently are used in delivering social services, and how they could be used in the future. This study assesses voucher use in two DHHS programs—the Child Care and Development Fund (CCDF) and the Temporary Assistance for Needy Families (TANF) program. Mathematica Policy Research, Inc. (MPR) was engaged to examine and document how vouchers are used in these two programs and the degree to which this indirect funding mechanism supports the goals of maximizing client choice and expanding the service delivery network to include FBCOs.

RESEARCH QUESTIONS AND METHODOLOGY

Originally, the study was intended to explore four aspects of voucher use: (1) goals and policy contexts that shape indirect funding strategies for delivering social services; (2) the extent to which indirect funding mechanisms are currently used in select DHHS programs, and the factors that have affected their use; (3) policy, administrative, and procedural details that guide the implementation of indirect funding mechanisms in CCDF and TANF; and (4)
lessons learned on how to expand service options and maximize client choice through indirect funding mechanisms.

An early finding showed very limited use of vouchers within the TANF program. As a result, we shifted the research focus to a “study of contrasts” between the CCDF and TANF experiences and a set of broader issues: (1) why indirect funding is used for some services and not others; (2) the conditions in which vouchers can be an effective tool for maximizing client choice in the delivery of social services; and (3) other factors that contribute to or limit client choice of services and the types of providers that deliver publicly funded services.

**Study State Selection.** We selected nine TANF and nine CCDF study states. The TANF study states included states where vouchers are currently used in the TANF program, either statewide or in specific localities (the Thumb Area of Michigan, New Jersey, Rhode Island, and Utah); states or sites in which multiple providers offer the same service through a contracting mechanism (District of Columbia, Minnesota, and Ohio); and two states that indicated a significant role for FBCOs in TANF service delivery in a previous ASPE study (Illinois and Pennsylvania). In selecting CCDF states, we considered such factors as the extent of voucher use, the participation and use of religiously affiliated child care centers, and the use of a quality rating system for child care providers. Our nine CCDF study states included California, Connecticut, District of Columbia, Florida, Indiana, Michigan, North Carolina, Pennsylvania, and Utah.

**Data Collection.** Data collection included an initial informal, broad-based information-gathering stage; telephone discussions with program administrators in the TANF and CCDF study states; and an in-depth study of three sites (the Thumb Area of Michigan; Ogden, Utah; and Washington, DC).

**Current Use of Vouchers in the CCDF and TANF Programs**

As block grants, both CCDF and TANF provide flexibility for states to structure policies and procedures. As a result, there is a great deal of variation across the states in the many aspects of policy and administration, as well as client and service provider experiences. The federal framework for CCDF requires the use of vouchers; in TANF, legislative authority is given for their use, but there is no specific requirement to use them. The actual extent of voucher use varies, from full voucher-based CCDF programs in the majority of states to little use of vouchers within the TANF program. Below we summarize what is known about the use of vouchers within each of these programs.

**Use of Vouchers in CCDF.** Most states elect to subsidize child care for low-income families through full voucher-based CCDF systems (or a combination of vouchers and cash). A total of 33 states rely nearly exclusively on indirect funding as the payment mechanism for the care of eligible children in their state (see Table ES.1). Only six states use contracts or grants to pay for the care of at least one-third of all children served through CCDF; the remaining states and the District of Columbia use contracts/grants for payment of less than one-third of children needing care. In most states—and in all but one of the study states—
voucher payments are made to providers retrospectively for the actual hours of care provided in the previous month.

**Table ES.1. Use of Vouchers or Contracts in CCDF, by Level of Use**

<table>
<thead>
<tr>
<th>Payment Method</th>
<th>States</th>
<th>Total Number of States</th>
</tr>
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<tbody>
<tr>
<td></td>
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<td></td>
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<tr>
<td>Full Voucher Systems</td>
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<tr>
<td>99 Percent or More of Children Served Through Vouchers or Cash</td>
<td>Alabama, Alaska, Arizona, Arkansas, Delaware, Georgia, Idaho, Iowa, Kansas, Kentucky, Louisiana</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td>Maryland, Michigan, Minnesota, Missouri, Montana, Nebraska, New Hampshire, New Mexico, North Carolina, North Dakota, Ohio</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Pennsylvania, Rhode Island, South Carolina, Tennessee, Texas, Utah, Virginia, Washington, West Virginia, Wisconsin, Wyoming</td>
<td></td>
</tr>
<tr>
<td>More Than 30 Percent</td>
<td>Hawaii, Maine, Massachusetts</td>
<td>6</td>
</tr>
<tr>
<td>11 – 30 Percent</td>
<td>Nevada, New Jersey, New York, Illinois, Vermont</td>
<td>3</td>
</tr>
<tr>
<td>6 – 10 Percent</td>
<td>Illinois, Vermont</td>
<td>2</td>
</tr>
<tr>
<td>1 – 5 Percent</td>
<td>Colorado, District of Columbia, Indiana, Mississippi, Oregon, South Dakota</td>
<td>6</td>
</tr>
</tbody>
</table>

Source: Child Care Bureau, Child Care and Development Fund, FFY 2005 Final Data, June 2007.

Note: Oklahoma had not yet reported data.

There are no clear patterns in the settings of subsidized care (e.g., center- or home-based) relative to the degree of voucher use in a particular state. For example, the study states of California, Connecticut, and Florida still make substantial use of contracts, while Michigan, North Carolina, Pennsylvania, and Utah rely exclusively on vouchers; however, the range in the percentage of children cared for in centers is extremely varied within and across the two groups of states.

CCDF legislation specifically requires states to assist parents in the selection of a provider by offering consumer education delivered through Child Care Resource and
Referral Agencies (CCR&Rs). The requirements for child care providers to be licensed or regulated, and/or to participate in the CCDF program vary across states but, at a minimum, ensure the basic health and safety of children in care. Providers are monitored for ongoing compliance with licensing, regulation, or basic health and safety standards at intervals determined by each state.

**Use of Vouchers in TANF.** The study identified four states—New Jersey, Michigan, Rhode Island, and Utah—that use TANF funding to offer vouchers for assistance beyond basic needs, particularly access to training and education. Table ES.2 summarizes key elements of these four TANF voucher programs. Although agencies in all four states track voucher use, data are not readily available to determine the precise percentage of eligible clients that use them. Estimates by agency staff and available data suggest that the take-up rate may be rather low. In New Jersey, for example, a previous MPR study found that 283 Career Advancement Vouchers were issued statewide in a 15-month period. State staff suggested that overall participation in the program was not high because individuals find it difficult to balance work, family, and training opportunities.

**KEY FINDINGS AND IMPLICATIONS**

The study yielded a variety of examples from the CCDF and TANF study states regarding considerations for voucher use in social services and the key elements of voucher program implementation. The experiences of these programs can provide valuable lessons for other social service programs and service areas (as summarized in Exhibit ES-1). Based on the experiences of the study states, we identified five key findings, summarized below, along with a brief discussion of the implication of each finding for the future course of voucher use—and more broadly, client choice strategies—in delivering social services.

**Vouchers are used to subsidize the consumer-demand services of child care and training for TANF recipients, but TANF program administrators have not considered using them for other services.** To the extent that voucher use may expand in the TANF program, it would likely be in support of access to other discrete, specialized services of interest to recipients, such as substance abuse or mental health treatment. There always will be some portion of the TANF population that will need more intensive assistance than others, and this may present difficulties to eligibility workers or case managers in triaging clients in order to provide them with broad choices in different service paths and providers.

**Some TANF agencies already employ methods for promoting client choice and service quality and perceive little value-added in taking the next step to vouchers.** Among the potential advantages of vouchers are expanded choice for clients and increased incentives for providers to offer quality services that compete with other providers. A few TANF agencies have identified ways of integrating these characteristics into their service delivery systems while maintaining some consistency in the types and structure of services provided to recipients. Specifically, two of the TANF programs included in this study offer clients a choice from among a set of contracted providers and two programs make use of pay-for-performance contracts to help encourage provider effectiveness. TANF
administrators interviewed for this study see little advantage in moving from a well-functioning client-choice and/or performance-based contracting model to a voucher-based program; in fact, many perceive a change to vouchers as costly and administratively cumbersome to the state agency and financially risky to service providers.

The potential for a greater degree of financial instability for providers that vouchers introduce presents challenges to their expanded use in the TANF program. TANF service providers rely on the consistency of contracts to create the organizational and staffing capacity to serve a certain size caseload. The introduction of vouchers would remove the reliability of a case flow, and with it, cash flow. This could threaten the ability of providers to maintain services. In addition, introducing upfront client choice into a pay-for-performance framework used by some TANF programs would add yet another dimension of potential instability in cash flow; it would be even harder to control the number of clients who choose any particular provider and that number affects all subsequent payment points.

Table ES.2: Features of TANF-Funded Vouchers for Non-Basic Assistance

<table>
<thead>
<tr>
<th>Program Name</th>
<th>New Jersey</th>
<th>Michigan (Thumb Area)</th>
<th>Rhode Island</th>
<th>Utah</th>
</tr>
</thead>
<tbody>
<tr>
<td>Target Population</td>
<td>Former TANF recipients employed for at least four months</td>
<td>TANF recipients with work participation requirements</td>
<td>TANF recipients with work participation requirements</td>
<td>TANF recipients with work participation requirements</td>
</tr>
<tr>
<td>Services Funded</td>
<td>Training or education for employment in a demand occupation</td>
<td>Vocational education and training</td>
<td>Vocational education and training, supportive services</td>
<td>Vocational education and training, supportive services</td>
</tr>
<tr>
<td>Administrative Entity</td>
<td>NJ Department of Social Services and NJ Department of Labor and Workforce Development</td>
<td>MI Department of Human Services (DHS) and Thumb Area Michigan Works! (workforce investment agency)</td>
<td>RI Department of Human Services</td>
<td>UT Department of Workforce Services (combined welfare and workforce development system)</td>
</tr>
<tr>
<td>Voucher Characteristics</td>
<td>Maximum value of $4,000 per training program. May be renewed once for a total of $8,000.</td>
<td>Maximum value of $6,000. Actual value depends on workforce programs for which a client is eligible. Clients can increase value of vouchers through such activities as completing a career interest test.</td>
<td>Maximum value of $4,000. Clients may supplement the voucher with Workforce Investment Act funding and/or student loans.</td>
<td>Maximum value of $6,000 for training, $2,000 for supportive services (including basic skills training, such as Adult Basic Education).</td>
</tr>
</tbody>
</table>

Source: Interviews and site visits conducted by MPR in Spring 2007.
The use of vouchers alone does not maximize client choice; program policies and procedures also influence the level of choice. For any program, the use of vouchers should be considered within the context of the policy and procedural framework so as to assess areas in which vouchers may prove unfavorable to service access and quality, as well as opportunities for using policies together with vouchers to improve client choice. It is through a cohesive approach to program policies, procedures, and payment mechanisms that the choices available to clients can be maximized.

CCDF and TANF administrators do not seem to consider vouchers as a specific means of expanding the role of FBCOs in the service delivery network. Administrators in the CCDF and TANF programs MPR studied recognize and appreciate the substantial role that FBCOs play in delivering child care and social services to low-income people. However, the potential for an increased role of FBCOs in the service delivery structure is not currently a motivator for increased voucher use in TANF. For change to occur, it may be an idea that needs to percolate equally from the bottom up (by administrators hearing about these preferences from customers and providers), as from the top down (through policies that support the use of indirect funding).

AREAS FOR FURTHER EXPLORATION

The findings from this study suggest two areas for further exploration that could advance considerations of the role and use of vouchers in social service delivery.

Exploring the role of client choice in the TANF program. A pivotal decision in assessing the fit of a voucher approach to service delivery is the importance of client choice. It would be useful to explore the role and influence of client choice in the TANF program broadly, particularly whether TANF recipients increase their program engagement and participation when they are able to select services and providers that meet their needs. In addition, the method of facilitating and maximizing client choice warrants a closer look. A new service delivery approach—beneficiary-choice contracting—allows clients (or beneficiaries) to make an informed, genuine, and independent choice from among an array of contracted providers, including service options that are wholly secular or those that have a religious nature to them. Key elements of this approach include a single point of entry for upfront core services and the delivery of unbiased consumer education information to aid the selection of a specialized service provider. Because the client makes the choice of when and where to receive services and the money flow is determined by the client, this service approach is classified as a form of indirect funding, similar to vouchers. TANF programs that already include client-choice approaches may be candidates for exploring the feasibility of implementing this additional degree of choice in providing services to TANF clients.

Gaining the FBCO perspective on entry and participation in the publicly funded structure for social service delivery. Obtaining input from the perspective of FBCO providers about their interest in and access to public funding for TANF and other social services could help program administrators and policymakers consider whether and how to adopt practices that expand their involvement.
### Exhibit ES-1: Key Lessons Learned About the Use of Vouchers and Elements to Voucher Program Implementation

#### Why Use Vouchers?
- Vouchers maximize choice by allowing clients to select their preferred service providers.
- Vouchers are an efficient payment mechanism, and their use does not preclude other payment mechanisms that may be better suited to achieve some goals.
- Vouchers provide opportunities for programs to expand and diversify their provider base; however, administrators of the studied programs have not focused explicitly on using vouchers to increase access to faith-based and community-based organizations.

#### What Services Can Be Provided Through Vouchers?
- While vouchers could be used to fund many kinds or “bundles” of services, they have been used primarily to fund discrete, specialized services such as child care and training.
- Vouchers appear to be best suited to consumer-demand services where the customer is responsible for making the connection to services.
- Mandatory services with stringent participation and reporting requirements, such as those required by TANF, may not best be provided through vouchers.

#### What Policy and Service Environments Support Voucher Use?
- Policy environments that require or support customer choice have spurred extensive use of vouchers.
- Experience using vouchers in one service area provides a foundation for adopting vouchers in others.
- Contracting mechanisms that support multiple providers weaken the case for using vouchers to promote client choice.
- Voucher programs require a service delivery structure of sufficient size and diversity to make choices among providers meaningful.
- Vouchers work best when providers can serve a variety of clients and access multiple funding sources.

#### Setting the Amount of the Voucher
- Voucher amounts are informed by costs in the private-pay market but are not necessarily intended to cover the costs of services in full.
- Voucher amounts can be used to influence the participation of providers or clients in the program and to reward them for activities in line with program goals.

#### Creating Standards for Service Delivery
- In the absence of explicit contractual arrangements, voucher programs set standards for service delivery through program entry and/or continued participation requirements for providers, and through financial incentives.

#### Providing Consumer Education
- Voucher programs can employ strategies to help clients focus on consumer education in the face of information overload.
- Caseworkers play an important role in supporting client choice by remaining impartial when they convey consumer education information, and by letting clients make their own decisions.
- Conveying standardized and impartial consumer education about services that can be rated by objective measures is easier than conveying information about providers that offer an array of services.

#### Promoting Provider Participation
- Voucher amounts that are substantially below market rate discourage some providers from accepting vouchers, effectively reducing client choice.
- Relaxing licensing standards or credentialing requirements can promote provider participation, but may create tradeoffs in quality of service.
- Vouchers have the potential to attract providers by decreasing administrative burdens to program entry and participation, but the financial risk of vouchers may still be too high for some providers.