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Record Group/Collection:	George H.W. Bush Presidential Records
Collection/Office of Origin:	Chief of Staff, White House Office of
Series:	Sununu, John, Files
Subseries:	Issues Files

OA/ID Number:	29142
Folder ID Number:	29142-010

Folder Title:
Child Care 1990 (1 of 2) [2]

Stack:	Row:	Section:	Shelf:	Position:
G	15	24	7	1

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
01a. Memo	From Lawrence Linsey to John Sununu Re: Robert Rector's Conservative Child Care Priorities (1 pp.)	2/8/90	~~P5~~	

Collection:

Record Group: Bush Presidential Records
Office: Chief of Staff, White House Office of
Series: Sununu, John, Files
Subseries: Issues Files
WHORM Cat.:
File Location: Child Care 1990 (1 of 2) [2]

Open on Expiration of PRA
(Document Follows)
By JP (NLGB) on 10/28/05

Date Closed:	12/17/2004	**OA/ID Number:**	29142-010
FOIA/SYS Case #:	1998-0004-F[1]	**Appeal Case #:**	
Re-review Case #:	2005-0426-S	**Appeal Disposition:**	
P-2/P-5 Review Case #:		**Disposition Date:**	
AR Case #:		**MR Case #:**	
AR Disposition:		**MR Disposition:**	
AR Disposition Date:		**MR Disposition Date:**	

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P-1 National Security Classified Information [(a)(1) of the PRA]
P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P-3 Release would violate a Federal statute [(a)(3) of the PRA]
P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Removed as a personal record misfile.

Freedom of Information Act - [5 U.S.C. 552(b)]

(b)(1) National security classified information [(b)(1) of the FOIA]
(b)(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
(b)(3) Release would violate a Federal statute [(b)(3) of the FOIA]
(b)(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
(b)(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
(b)(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
(b)(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
(b)(9) Release would disclose geological or geophysical information

THE WHITE HOUSE

WASHINGTON

February 8, 1990

MEMORANDUM FOR GOVERNOR SUNUNU
NICK CALLIO
BILL KRISTOL

FROM: LAWRENCE LINDSEY

SUBJECT: Robert Rector's Conservative Child Care Priorities

Per your request, attached are two lists from Robert Rector at the Heritage Foundation.

These two lists contain his priorities of what should be included in the child care bill. The second and shorter priority "Veto" listing is the updated version.

Note in particular, issues #4, #5, #6 on the first listing from Rector. Note on the "Veto" priority listing, issues #2, and #3. More information is to follow.

If you have any questions regarding this information, call me at x6402.

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
01b. Lists	Robert Rector's Ranking of Importance of Daycare Issues; Family Tax Cut, Parental Rights, and Religious Freedom Bill; and Veto Policy on Daycare Legislation (3 pp.)	n.d.	~~P5~~	

Collection:

Record Group: Bush Presidential Records
Office: Chief of Staff, White House Office of
Series: Sununu, John, Files
Subseries: Issues Files
WHORM Cat.:
File Location: Child Care 1990 (1 of 2) [2]

Open on Expiration of PRA
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AR Disposition:		**MR Disposition:**	
AR Disposition Date:		**MR Disposition Date:**	

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(b)(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
(b)(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
(b)(9) Release would disclose geological or geophysical information

Ranking of Importance of Daycare Issues

(The president should veto any bill which does not meet the standards set in the asterisked items below.)

*1. The tax credit portions of the bill should expand the earned income tax credit rather than the dependent care tax credit to prevent discrimination against parents who care for their own children.

*2. The government should not create a new program for daycare in the public schools

*3. Eliminate the 38,000 local daycare commissions

*4. The bill must provide assisted parents with the option of receiving a voucher in lieu of placing their child in a directly subsidized facility (Domenici amendment)

*5. The bill must permit vouchers to go to daycare centers which engage in religious activities (Ford/Durenberger amendment)

*6. The bill must permit vouchers to go to religious daycare centers which are exempt from state regulation

*7. Do not change eligibility for Head Start to include the middle class

*8. Eliminate the ratchet provision

*9. Eliminate the daycare police provision

*10. Eliminate H.R.3's mandated infrastructure and micromanagement of allocated funds under title IV: funds for training to three different groups; funds for daycare salaries; resource and referral centers; statewide clearinghouse; funds to libraries

11. Eliminate state licensing commissions and required reports from governors to HHS

12. Eliminate the 15 hours of mandated training to workers receiving government funds

13. Eliminate the seven mandatory categories of state minimum regulations on centers receiving government funds (These are foot in the door to federal regulations)

14. Eliminate mandatory inspection standards

15. Eliminate national model standards

Family Tax Cut, Parental Rights, and Religious Freedom Bill

Tax Credit Provisions

Creating the tax credit equivalent of "budget authorization" -- the bill should include a two stage tax cut. The first stage would take effect immediately upon enactment and would count as a revenue loss against Gramm Rudman. The second far more generous stage of the tax cut would be spelled out in law but would not take effect until a subsequent vote of Congress "implementing" the cut in 1992. Thus the second stage would not count as a revenue loss vis a vis Gramm Rudman, but it would be this stage that was presented to the public. This would be the rough equivalent of "authorizing" and then "appropriating" the tax cut.

Specific Tax Provisions

5 or 6 year phase in, [illegible]

1) Expansion of the EITC for school age children identical to Downey. (Double dip with Dependent Care Tax Credit would be permitted.) Phase 1 has to have substance.

2) A $1000 refundable young child tax credit for each pre-school child in families with incomes below $25,000, credit phases out between $25,000 and $35,000. (Double dip with dependent care tax credit would be permitted.)

3) In home infant care credit-- a refundable $300 credit for each child under age one. (Double dip with the dependent care tax credit would not be permitted.)

4) Cap the dependent care tax credit and flexible spending accounts

Title 20 Grant

Provide a block grant matching Downey

General Grant Provisions

Encourage states to adopt "voluntary certification" programs for family daycare providers.

Encourage states to review regulations to determine if they unnecessarily impede daycare supply.

Parental Rights Provisions

1) Guarantee parents the option of receiving a voucher or "child care certificate" (Domenici language in S.5)

VETO POLICY ON DAYCARE LEGISLATION

The House Republican leadership should refuse to support and President Bush should veto any childcare legislation which does not adhere to the following conservative principles.

1) Any new tax credits must give equal treatment to parents who care for their own children in the home.

2) If the legislation contains funds for a daycare grant program to the states, the grant program must guarantee assisted parents the option of receiving a child care certificate or voucher which will empower the parents to select the childcare provided to their children. (This provision is particularly important if the grant program provides federal funds which states may use to pay for daycare in the public schools; any legislation which expands the role of the public schools in caring for pre-school children is unacceptable unless it guarantees assisted parents the right to select non public school care through child care certificates.)

3) If the legislation contains funds for a daycare grant program, it must contain explicit language permitting states to allow parents to use the program's vouchers or certificates in facilities which provide children with religious values and instruction.

4) If the legislation contains funds for a daycare grant program, religious organizations which receive funds should be able to show preference for members of the faith with respect to employment and should be able to refuse employment to persons whose past or present conduct violates the religious and moral teachings of the organizations.

5) If the legislation contains funds for a daycare grant program, the program should not require religious organizations receiving vouchers or certificates to be automatically subject to state secular daycare regulation, if the state does not choose to so regulate the religious organization.

6) Any legislation should contain no more than minimal federal regulation concerning daycare.

It should be noted that the Senate-passed daycare legislation already contains reasonable provisions concerning issues #2, #3 and #4 above. This fact makes the unwillingness of House Republicans to fight for these conservative principles doubly perplexing and distressing.

THE WHITE HOUSE
WASHINGTON

DATE: 2/16/90

NOTE FOR: THE CHIEF OF STAFF

The President has

- **seen** ☒
- **acted upon** ☐
- **commented upon** ☐

the attached; and it is forwarded to you for your:

- **information** ☒
- **action** ☐

James W. Cicconi
Assistant to the President
and Deputy to the Chief of Staff
(x-2702)

cc:

THE WHITE HOUSE

WASHINGTON

THE CHIEF of STAFF has seen

8

February 14, 1990 1990 FEB 15 PM 1:35

MEMORANDUM FOR THE PRESIDENT

FROM: ROGER B. PORTER RBP

SUBJECT: Schlafly-Bauer Correspondence on Child Care

Phyllis Schlafly and Gary Bauer have written you a long, detailed letter on child care encouraging you to stick to your principles with respect to the child care proposal you advanced last February and urging that you leapfrog the Democrats by proposing a children's tax credit for all families with incomes of less than $35,000 in 1994.

They do not indicate what aged children would qualify under their proposal. Our proposal would limit the tax credit to children up to the age of four in families with adjusted gross incomes of up to $20,000 when fully phased in. There is no question that the Schlafly-Bauer proposal would be enormously expensive in terms of foregone revenue and that it is inconsistent with our budget deficit reduction objectives.

The attached letter for your signature thanks them for their interest and support on the child care issue, indicates that you are committed to the principles that you have consistently articulated over the past year, and that you are hopeful we can produce sound child care legislation this year. Rather than comment directly on their expanded tax credit proposal, it simply states that child care legislation must fit within the constraints of our deficit reduction objectives.

Recommendation: That you sign the attached letter to Phyllis Schlafly and Gary Bauer.

Attachments

[redacted]

THE WHITE HOUSE

WASHINGTON

Dear Gary:

Thank you for your thoughtful letter and encouragement on the child care issue. The principles that we outlined last year remain intact and are the foundation of our approach. Your unwavering support of them is deeply appreciated.

I am hopeful that we can enact sound child care legislation this year. There is no reason we cannot do so while also meeting the Gramm-Rudman deficit reduction target. Strengthening families must be a priority for us as a nation throughout this decade. We are grateful for all that you are doing to build strong families.

Sincerely,

The Honorable Gary L. Bauer
President
Family Research Council
Suite 901
601 Pennsylvania Avenue, N.W.
Washington, D.C. 20004

THE WHITE HOUSE

WASHINGTON

Dear Phyllis:

Thank you for your thoughtful letter and encouragement on the child care issue. The principles that we outlined last year remain intact and are the foundation of our approach. Your unwavering support of them is deeply appreciated.

I am hopeful that we can enact sound child care legislation this year. There is no reason we cannot do so while also meeting the Gramm-Rudman deficit reduction target. Strengthening families must be a priority for us as a nation throughout this decade. We are grateful for all that you are doing to build strong families.

Sincerely,

The Honorable Phyllis Schlafly
President
Eagle Forum
68 Fairmount
Alton, Illinois 62002

PHYLLIS SCHLAFLY
PRESIDENT
68 FAIRMOUNT
ALTON, ILLINOIS 62002
(618) 462-5415

EAGLE FORUM

LEADING THE PRO-FAMILY MOVEMENT SINCE 1972

316 PENNSYLVANIA AVE., S.E., SUITE 203, WASHINGTON, D.C. 20003, (202) 544-0353

January 16, 1990

The President
The White House
Washington, DC 20500

Dear President Bush:

On March 15, 1989, you submitted to Congress your proposals for child care legislation. Your press statement set forth the "four fundamental principles" that you said "must guide the Federal Government's role in child care."

"First, Assistance should go directly to parents. They, not the government, should choose the child care they consider best for their children."

"Second, federal policy should not discriminate against families in which one parent works at home to care for their children."

"Third, federal policy should increase, not decrease, the range of choices available to parents. The Federal Government should not become involved in licensing decisions and federal financial support should not be made contingent upon state licensing decisions." You added, "Churches play a vital role in making child care available. Neighbors and other family members can provide excellent care. Our policy should not discriminate against them."

"Fourth, Federal support for child care should be targeted to those most in need, low and moderate income families, particularly those with young children. . . ."

Pro-family groups and citizens across the country applauded your approach to the child care issue and continue to support you in remaining steadfast to those principles. Dr. Gary L. Bauer, President of Family Research Council, and I would like to share our views with you as you develop your 1990 legislative strategy.

The crux of your 1989 legislative proposals was a non-discriminatory $1,000 tax credit for low-income families with preschool children, refundable at the below-taxable-income levels. Voters saw this as a genuine attempt to fulfill your 1988 campaign pledge of a $1,000 tax credit for each child.

However, there was one problem with your 1989 legislative proposal. Its benefits phased down to zero for families at the $13,000 level, and would only increase to the $20,000 level by

1994. (This is why, when you visited a daycare center used by government employees, the press reported that no child in the center could benefit by your proposal.)

The income restrictions of your proposal meant that there was little or no constituency capable of generating the grassroots support your proposal deserved, and this vacuum was quickly filled by tax-salaried lobbyists demanding a costly new federal baby-sitting bureaucracy with an army of new regulators.

We certainly understood your desire to keep your proposal within budgetary constraints. However, the Democrats have now substantially increased the amount of taxpayers' money <u>they</u> plan to put into a daycare bureaucracy. I respectfully suggest that the best response is NOT one that appears penurious ("we can't afford that much"), but instead a response that would say, "Fine, let's put all the money we can into tax credits for children -- and let's 'up' the income level to $25,000, rising to $35,000 by 1994. Then, you would have a real constituency for the Bush proposal! Let the Democrats say "we can't afford tax credits for families with children"!

The liberals advocating the ABC bill have been handicapped by the fact that there is <u>no</u> grassroots support for building a new, gigantic daycare bureaucracy. They are also in disarray because of disagreements about how to satisfy certain loud advocacy groups who have a vested interest in federal grants.

Your approach to this whole child care issue is so sound, so easy to sell, that all you have to do is explain it and you can win any group to your side. Your approach can be the most popular domestic issue of the 1990s -- put money into the hands of <u>parents</u> (not bureaucrats or professional grant recipients) and allow full freedom of <u>choice</u> in child care arrangements (without financial preferences for government-regulated daycare) through the unregulated use of non-discriminatory tax credits to <u>all</u> preschool children <u>equally</u> (below a specified income level, at first).

Because the liberals know your approach is popular, they all say "we're for tax credits!" -- but they are trying to put a "tax credit" frosting on legislation that gives them the bureaucracy, regulations, and grants they really want. I feel that we and other conservative, pro-family groups have done our part to explain and "sell" your proposal, but clearly the most effective advocate for parents and their children is you, the President of the United States.

That's why I'm asking you to speak out loud and clear -- in your State of the Union Message and in a letter to Republican Congressional leaders -- with a strong, emphatic promise to support <u>universal and equal tax credits for small children</u>. This will be enthusiastically welcomed by the biggest constituency up for grabs today -- the baby boomers. Republicans are looking for leadership from the White House, and now is the time to move before Congress engages in ABC mischief.

The following components are absolutely essential in order to satisfy your own four requirements for child care legislation:

1. All benefits must be nondiscriminatory, that is, equally available to mothers who work at home and mothers who use family, informal neighborhood, religious, or secular institutional day-care. The bill's total funding must be equal as between mothers who work in the home and outside the home (since 53% of preschool children today are cared for by their own mothers in their own homes).

2. If grant money is given to the states (which is inherently suspect as to discrimination), then parents eligible for subsidized daycare in government-approved institutions must be able to get vouchers usable in any religious or informal family-style daycare.

Knowing that your commitment to your four principles is strong, but knowing also that many hands go into developing policy, may I please list for you the components which would be UNacceptable in any child care legislation:

1) Allowing recipients to receive both the new Bush credit and the DCTC at the same time (because that would discriminate against mothers who care for their own children by allowing them only one half the credit given to a mother who uses hired day-care). If the legislation allows some mothers to get both these credits, that would violate your own statement that the current DCTC should be an "alternative to the new child credit. For each eligible child, parents could claim the one credit that best meets their needs and circumstances."

2) Requiring, encouraging, or in any way promoting the establishment of daycare in the public schools (because schools are already staggering under the challenge of trying to educate youngsters and should not be saddled with baby-sitting duties, too).

3) Requiring, encouraging, or in any way promoting the federal regulation or licensing of daycare providers, or setting up "model" standards, or encouraging states to "review" their standards (because that is the foot-in-the-door toward building a giant bureaucracy of federal regulators and will inevitably drive up the cost of daycare).

4) Expanding block grants beyond the poverty-level income range (because the way to help parents above the poverty level is through tax credits, NOT through having a federal agency direct them how to spend their own money).

5) Encouraging block grants to be used for daycare. Block grants should remain untied so that states may use them at their discretion.

6) Discriminating against religious daycare. The House Democratic leadership has promised to "fix" the religious daycare issue, but it cannot be a true "fix" unless the bill specifically (1) requires states to allow parents to get vouchers to buy the child care of their choice, (2) requires that vouchers be usable for daycare with religious activities (such as prayer), (3) allows states to exempt religious daycare from state regulations and still receive public funds (about half the states do not regulate religious daycare), (4) states that the acceptance of vouchers by religious daycare must not trigger additional state or federal regulations, and (5) states that religious daycare must be eligible for federal grant funds even if the facility displays religious symbols.

7) Discriminating against families who use family home providers or family members for daycare. These providers must be able to receive vouchers made available from grant funds equally with daycare centers.

8) Putting money into Head Start in order to change it from a worthy half-day program for disadvantaged children into a (very different) full-day daycare program for middle-income children. You recommended increasing Head Start by $250 million in order to give more "poor families" a "ladder of opportunity" -- a very worthy purpose. This purpose should not be subverted by turning Head Start into government daycare for middle-income families.

Thank you for championing the cause of the overtaxed average American family with children. We look forward to working with you and your staff in promoting your vision for children in 1990, and I would appreciate the opportunity to meet with your policy advisers in the next two weeks. I truly believe that this proposal is the best vehicle to give our Congressional candidates a winning issue in 1990 -- tax relief for families with children. It is an idea whose time has come -- and you and the Republicans should get the credit!

Faithfully,

Gary L. Bauer

Dr. Gary L. Bauer,
President, Family Research Council

Phyllis Schlafly

Phyllis Schlafly,
President, Eagle Forum

cc: Chief of Staff John Sununu
Labor Secretary Elizabeth Dole
OMB Director Richard Darman
Senator Bob Dole
Senator Dan Coats
Congressman Bob Michel
Congressman Newt Gingrich
Assistant to the President Roger Porter
Deputy Assistant William Roper
Deputy Assistant James Pinkerton
Deputy Assistant James R. Wray

2/28/90

Stenholm-Shaw II Child Care Bill Proposals; Comparisons

(Descriptions of provisions below are of changes to original Stenholm-Shaw amendment)

	(5 years, in BILLIONS)			
	PROPOSAL for SS-II BILL	ORIG. STENHOLM -SHAW	ORIG. W & M	ORIG. E & L
TITLE I -- HEAD START INCREASE Rearrange same funding increase; $600 mil. in 1st year + "such sums".	$ 3.2	$ 3.2	$ 2.6	$ 1.9
TITLE II -- SCHOOL-BASED EARLY DEV'L & "LATCHKEY" PROGRAMS (Emphasize: Duplication (HS, Ti.II), same religion problems as ABC, prohibition on private sector contracting.)	---	---	2.6	1.9
TITLE III -- **TITLE XX (E&L-ABC)** Instead of $200-350-400-400-400 mil, fund at $450 mil./year; Senate language requiring families have certificate option; certificates may be used with religions providers; Permit states adequate time & use of funds to set up certificate programs; Senate provision clarifying that religious providers may require employees to adhere to their teachings & tenets, incl. rules against drugs or alcohol.	2.25	1.75	1.75	2.6
EITC Add toddler (under 1) credit for families not claiming DCTC ($200-400); No repeal of EITC/AFDC disregard; Adopt W&M EITC/Welfare disregard.	14.0	13.5	13.5	---
DCTC/FCA $70-90,000 PHASE-OUT	- 1.1	- 1.1	---	---
SOC. SECURITY EARNING TEST EXEMPTION	*	*	---	---
TITLE IV -- COORDINATION & INFRASTRUCTURE	---	---	2.2	1.1
TITLE V -- BUSINESS INVOLVEMENT	.1	.1	.1	.1
TITLE VI -- INCENTIVE GRANTS FOR IMPROVING STANDARDS	---	---	.4	---
COSTS: Direct Spending	$16.25	$15.25	$15.25	---
BA Subj. to Approp.	3.3	3.3	7.9	7.6
TOTAL (Dir.+BA/SEA)	$19.55	$18.55	$23.15	$ 7.6
Offsetting Savings	- 1.1	- 1.1		
NET TOTAL	$18.45	$17.45		

Oct. 5, 1989 Stenholm-Shaw Substitute for HR 3 (Ed & Labor/Ways & Means) Child Care provisions included in HR 3299 (Reconciliation)	**P R O P O S A L** for NEW PROVISIONS of 1990 Bipartisan Child Care Bill (changes/additions to Oct. 5 amendment)
I. EXPANDED HEAD START	
Authorizes $147 million in FY 90 above current law authorization; reauthorizes program through FY 94 to grow at $300 million/year; Clarifies authority of Head Start programs to provide "developmentally appropriate child care"; permits 50% of increased funds to be used for child care;	**AUTHORIZE $600 MILLION IN 1st YEAR,** such sums as necessary thereafter; technically drafted as free-standing program (as in HR 3) to avoid problem of inadvertently reauthorizing entire program (Ed & Labor Cmte. is expected to reauthorize this year), but with basically same substance as Stenholm-Shaw;
5-year outlay cost (above CBO baseline): $3.235 BILLION.	5-year outlay cost (based on CBO's method of projecting "such sums") would about equal Stenholm-Shaw's $3.235 BILLION.
(5-year outlay cost of HR 3 Ed & Labor Title I provisions: $1.833, based on FY 90 authorization of $440 million & such sums as necessary thereafter. HR 3's Head Start expansion is a freestanding, new, Head Start-based day care program, of which up to 50% could be spent on non-poor children.)	
II. EARLY CHILDHOOD DEVELOPMENT & SCHOOL-BASED CHILD CARE	
NO SEPARATE PROVISIONS; Reasons: (1) Title II of HR 3 in effect bars any religious schools or organizations, & explicitly excludes private sector for-profit providers, from participation, thus limiting parental choice & unfairly subsidizing competition against such providers; (2) Title II of HR 3 is duplicative because before- & after-school programs are permitted under Title XX; & (3) Title II of HR 3 is duplicative because Head Start expansion would provide preschool care on a better-targeted basis,	No provision; no change.

Oct. 5, 1989 Stenholm-Shaw Substitute for HR 3 (Ed & Labor/Ways & Means) Child Care provisions included in HR 3299 (Reconciliation)	PROPOSAL for NEW PROVISIONS of 1990 Bipartisan Child Care Bill (changes/additions to Oct. 5 amendment)

building on a proven, program, & also taking advantage of existing resources. (Also, religious organizations already do partici-participate in Head Start.)

(5-year outlay cost of Ed & Labor HR 3 Title II preschool & before- & after-school programs channeled through public Local Educational Agencies: $1.755 BILLION, based on FY 90 auth. of of $440 million & "such sums" thereafter.)

(NOTE: The Senate-passed S. 5 did not contain a program comparable to Title II of HR 3.)

III. TITLE XX BLOCK GRANT EXPANSION

Authorizes new, earmarked funds under Social Security Act Title XX Block Grant for child care: $200 million in 1990, $350 million in 1991, & $400 million in each of 1992, 1993, & 1994, over current Title XX levels;

(1.) FUNDING CHANGE: Authorize new, earmarked Title XX Block Grant funds for child care of $400-450 million each year over current levels;

5-year total outlay cost: $1.55 BILLION (same as Ways & Means provisions);

Total, 5-year, $250-500 million increase above Stenholm-Shaw 5-year total would be paid for by part of $1.1 BILLION revenue savings from DCTC/FCA caps (these savings were not re-allocated in original Stenholm-Shaw amendment).

(Title III grants in Ed & Labor HR 3 5-year outlay cost: $2.526 BILLION, based on FY 90 auth. of $610 million & "such sums" there-after.)

Funds to be used to address deficiencies in availability & quality, establish liability pools, expand promotion of health & safety, improve quality, meet State & local standards, provide before- & after-school care, provide certificates (vouchers);

Funds can not be used to displace any state or federal funds already allocated to child care;

States must file plans in advance to qualify & file year-end reports showing how funds were used to meet the above goals;

Entities eligible to receive funds include public & private, for-profit & nonprofit entities.

(No HR 3-type Model Standards issued by a National Advisory Committee.)

(No mandates, other than requirements of essential accountability, such as those described above.
In contrast, HR 3 contains extensive mandates to States regarding, licensing, regulation, standards, training, enforcement, ect.; 1 study found 183 separate mandates in HR 3.)

Sense of Congress that use of certificates by parents for sectarian child care is Constitutional (restatement of current law & recognition of some States' current uses of Title XX funds).

(Title III of Ed & Labor HR 3 bars direct payments to parents &/or certificates; sectarian activity by recipients is expressly prohibited.)

(Ways & Means Title III/Title XX provisions are silent on certificates & religion.)

(2.) CERTIFICATES (VOUCHERS)

Requirement + Incentives:
Adopt Senate-passed amendment requiring that states funneling grant funds directly to day care providers also make certificates available to parents that parents may choose to use toward obtaining sectarian care;

Allow funds to be used for costs of setting up certificate system; alow sufficient lead time for adopting & implementing such a system.

(3.) RELIGIOUS TENETS:
Similar to Senate-passed amendment clarifying that sectarian organizations may require their employees to adhere to their religious teachings & tenets, including rules forbidding use of drugs

Oct. 5, 1989 Stenholm-Shaw Substitute for HR 3 (Ed & Labor/Ways & Means) Child Care provisions included in HR 3299 (Reconciliation)	P R O P O S A L for NEW PROVISIONS of 1990 Bipartisan Child Care Bill (changes/additions to Oct. 5 amendment)

or alcohol.

IV. COORDINATING ACTIVITIES

No provisions.

(5-year outlay cost of Title IV of Ed & Labor HR 3 provisions: $1.083 BILLION, based on FY 90 auth. of $260 million & "such sums" thereafter. Besides addressing (through mandates & regulations) "infrastructure" & enforcement, HR 3 mandates that States create 38,000 local child development councils to prepare "needs & resource assessments".)

No provision; no change.

V. BUSINESS INVOLVEMENT

Matching grants for small businesses (& consortia of small businesses) to encourage involvment in meeting employee child care needs; authorizes $25 million per year; 5-year outlay cost: $100 million.

(Same cost as Ed & Labor HR 3, which made all sizes of businesses eligible.)

No change.

VI. INCENTIVE GRANTS:

No provision.

(5-year cost of Ways & Means HR 3 Title VI grants for States to use to improve their standards & regulations towards national models: $310 million, based on FY 90 auth. of $75 million & "such sums" thereafter; similar to S. 5.)

No provision; no change.

VII. EARNED INCOME TAX CREDIT EXPANSION

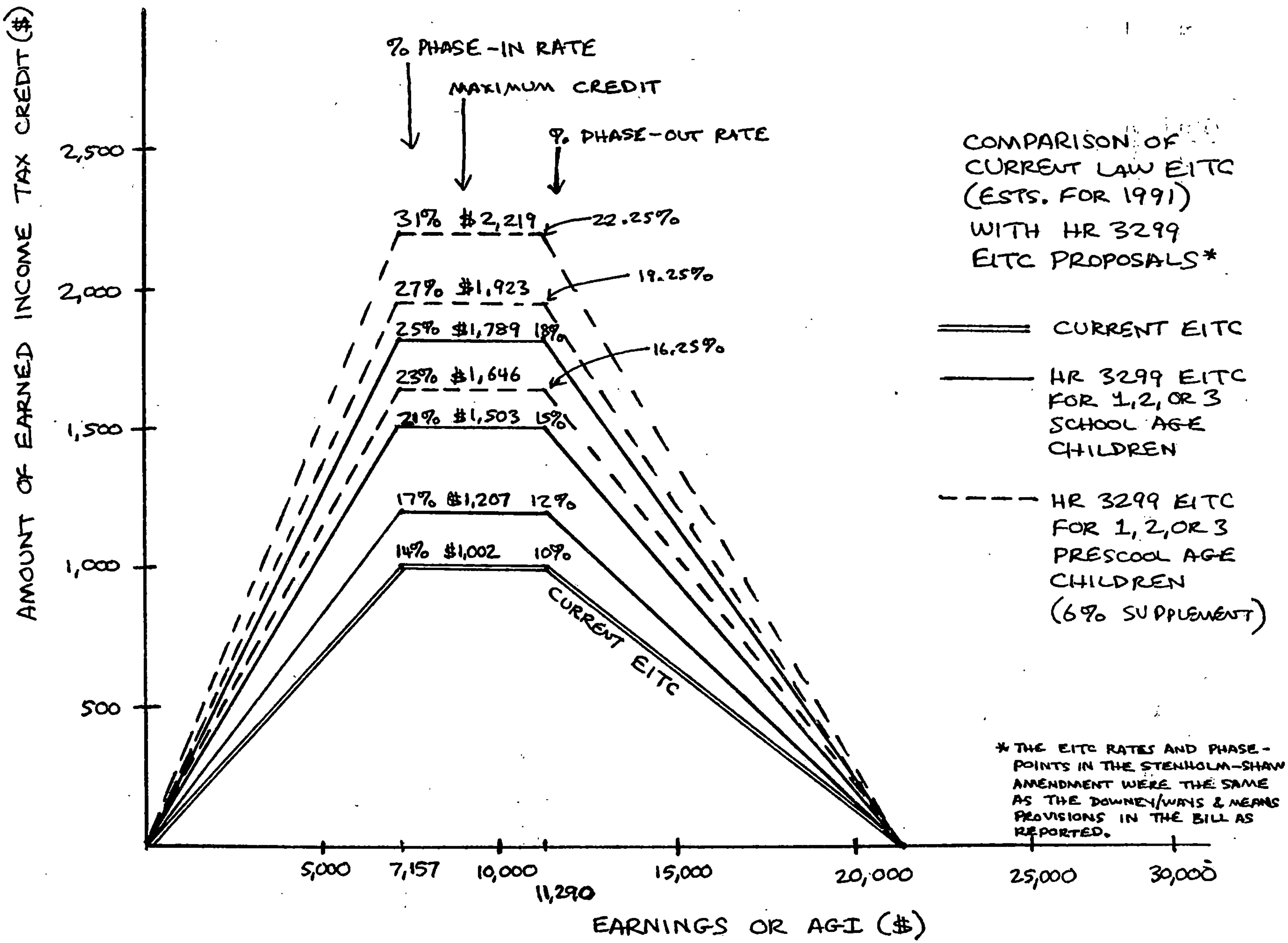
Rates & phase-points same as

(1.) SUPPLEMENTAL SUPER-

Oct. 5, 1989 Stenholm-Shaw Substitute for HR 3 (Ed & Labor/Ways & Means) Child Care provisions included in HR 3299 (Reconciliation)	**P R O P O S A L** for NEW PROVISIONS of 1990 Bipartisan Child Care Bill (changes/additions to Oct. 5 amendment)
Ways & Means provisions (see graph):	**TODDLER TAX CREDIT:** In addition to Ways & Means EITC increases, provide a refundable tax credit of up to $400 for each child under age one, available to families not using the DCTC. Besides helping stay-at-home parents, this credit would provide greater flexibility to parents who: qualify for, but prefer not to claim, the DCTC; use multiple providers in more informal arrangements (e.g., several family members), etc. Paid for by part of $1.1 BILLION revenue savings from DCTC/FCA caps. (Currently, to claim DCTC, a taxpayer must: identify the provider to the IRS (including SSN); be able to document expenses; maintain records; & in a 2-parent household, both must work; the DCTC is 30% of expenses, up to $2,400 in expenses ($720 maximum credit) for each of up to 2 children.)
Count welfare as parent-provided support for purposes of EITC eligibility (same as Ways & Means); (allows more working welfare families to qualify for EITC);	
Repeal disregard of EITC income in determining AFDC eligibility (disregard has been in effect since 10/1/89) (repealing disregard would again treat EITC like other cash income & reduce AFDC);	**(2.) DELETE STENHOLM-SHAW REPEAL OF EITC/AFDC DISREGARD:** Would treat EITC more like child care benefit than cash income; EITC income would not change AFDC eligibility (preserve current law).
(No provision like Ways & Means, extending EITC disregard to determining eligibility for other	**(3.) ADOPT WAYS & MEANS EITC/ WELFARE DISREGARD:** Consistent with current law

welfare benefits, similar to AFDC provision in effect 10/1/89. Status quo counts EITC income against welfare eligibility.)	treatment of EITC relative to AFDC eligibility.
VIII. OTHER TAX PROVISIONS	
Cap eligibility for Dependent Care Tax Credit at $90,000 income; begin phase-down at $70,000;	No change.
Cap eligibility for Flexible Spending Account (FCA) Child Care (a.k.a. Dependent Care Assistance Program, or DCAPS) at $90,000 income; begin phase-down at $70,000;	
Offsetting revenues generated by DCTC/FCA(DCAPs) changes: $1.1 BILLION, 1991-94;	
Exclude income earned providing child care from Social Security earnings test.	No change.

February 28, 1990


% PHASE-IN RATE
MAXIMUM CREDIT
% PHASE-OUT RATE
COMPARISON OF CURRENT LAW EITC (ESTS. FOR 1991) WITH HR 3299 EITC PROPOSALS*
31% $2,219 22.25%
27% $1,923 19.25%
25% $1,789 18%
23% $1,646 16.25%
21% $1,503 15%
17% $1,207 12%
14% $1,002 10%
CURRENT EITC
CURRENT EITC
HR 3299 EITC FOR 1, 2, OR 3 SCHOOL AGE CHILDREN
HR 3299 EITC FOR 1, 2, OR 3 PRESCOOL AGE CHILDREN (6% SUPPLEMENT)
AMOUNT OF EARNED INCOME TAX CREDIT ($)
2,500
2,000
1,500
1,000
500
5,000
7,157
10,000
11,290
15,000
20,000
25,000
30,000
EARNINGS OR AGI ($)
* THE EITC RATES AND PHASE-POINTS IN THE STENHOLM-SHAW AMENDMENT WERE THE SAME AS THE DOWNEY/WAYS & MEANS PROVISIONS IN THE BILL AS REPORTED.

THE WHITE HOUSE
WASHINGTON

Date 3/15/90

TO: Governor Sununu

FROM: NICHOLAS E. CALIO
Deputy Assistant to the President
for Legislative Affairs

Here is the outline and legislative language of Stenholm/Shaw II.

Nick

Nrdc

(Original signature of Member)

101st CONGRESS
2d SESSION

H.R. ______

HLC

Insert title here

To amend the Head Start Act to authorize appropriations to enable Head Start agencies to provide developmentally appropriate child care services to participating children; to amend title XX of the Social Security Act to provide allotments to States to improve and expand child care services; to promote small business involvement in meeting child care needs; to amend the Internal Revenue Code of 1986 to increase the earned income credit based on the number of the taxpayer's children; and to exclude child care earnings from the Social Security excess earnings test.

IN THE HOUSE OF REPRESENTATIVES

______, 19__

Insert sponsor's names here

Mr. STENHOLM (for himself, Mr. Shaw ....) introduced the following bill; which was referred to the Committee on ______ (SEE ATTACHED LIST)

A BILL

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

U.S. HOUSE OF REPRESENTATIVES

Congress 101st
Session 2nd

3/15/90 (Date)

Pursuant to Clause 4 of rule XXII of the rules of the House of Representatives, the following sponsors are hereby added to

H.R. ________ H. Con. Res. ________

H. Res. ________ H.J. Res. ________

1. Shaw	21.
2. Slattery	22.
3. Johnson (Ct.)	23.
4. Lloyd	24.
5. Brown (Co)	25.
6. Skelton	26.
7. Sundquist	27.
8. Rowland (Ga)	28.
9. Henry	29.
10. Ray	30.
11. Bartlett	31.
12. Sarpalius	32.
13. Kasich	33.
14. Hutto	34.
15.	35.
16.	36.
17.	37.
18.	38.
19.	39.
20.	40.

GPO: 1985 55-067 (3)

SECTION 1. SHORT TITLE.

This Act may be cited as the ``Family Choice and Child Care Improvement Act of 1990''.

TITLE I--EXPANSION OF HEAD START

SEC. 101. DEFINITION.

Section 637 of the Head Start Act (42 U.S.C. 9832) is amended by adding at the end the following:

``(4) The term `adjusted appropriation' means the amount appropriated under section 639(a) for the preceding fiscal year as adjusted to reflect the percentage change in the Consumer Price Index For All Urban Consumers, issued by the Bureau of Labor Statistics, during the 1-year period ending June 30 immediately preceding the fiscal year with respect to which an authorization of appropriations is being determined under section 639(b)(1).''.

SEC. 102. AUTHORITY TO PROVIDE CHILD CARE SERVICES.

Section 638(a) of the Head Start Act (42 U.S.C. 9833(a)) is amended--

(1) by striking ``; and (2)'' and inserting ``, (2)''; and

(2) by inserting the following before the period at the end: ``, and (3) may provide developmentally appropriate child care services throughout the full calendar year to children who are eligible under section

645 to participate in, and are participating in, Head Start programs so that such children receive full-working-day services if such child care services are provided to meet the needs of parents each of whom is working, attending a job training or educational program, or seeking employment''.

SEC. 103. AUTHORIZATION OF APPROPRIATIONS.

Section 639 of the Head Start Act (42 U.S.C. 9834) is amended--

(1) by inserting ``(a)'' after ``SEC. 639.'';

(2) by inserting ``(other than the provisions relating to child care services referred to in section 638(a)(3))'' after ``subchapter''; and

(3) by adding at the end the following:

``(b)(1) If for fiscal year 1991, 1992, 1993, 1994, or 1995 the amount appropriated under subsection (a) exceeds the adjusted appropriation for such fiscal year, then there is authorized to be appropriated, in addition to any amount authorized by subsection (a) to be appropriated, to provide Head Start services under paragraphs (1), (2), and (3) of section 638--

``(A) $600,000,000 in the case of fiscal year 1991; or

``(B) such sums as may be necessary in the case of fiscal year 1992, 1993, 1994, or 1995.

``(2) Fifty percent of the amount appropriated under paragraph (1) for any fiscal year shall be available to provide child care services under section 638(a)(3).''.

SEC. 104. HEAD START RESEARCH STUDY.

(a) RESEARCH AND REPORTS.--After consulting with experts in research design and preschool programs, the Secretary of Health and Human Services shall conduct a longitudinal research study on the effects of Head Start on children's development. Such study, which shall be conducted on a nationally representative sample, shall include information on school grades, grade retention, special education placement, high school graduation, delinquency, teenage pregnancy, welfare participation, college attendance, employment, and similar outcomes deemed appropriate by the Secretary. Such sample shall be followed for at least 20 years, during which time the Secretary shall make periodic reports to the Congress on the study's findings. Such study shall begin not later than September of 1991.

(b) AUTHORIZATION OF APPROPRIATIONS.--There is authorized to be appropriated to carry out subsection (a) $2,000,000 for each of the fiscal years 1991 through 2011.

TITLE II--SMALL BUSINESS INVOLVEMENT IN MEETING EMPLOYEE CHILD CARE NEEDS

SEC. 201. ESTABLISHMENT OF GRANT PROGRAM.

The Secretary of Health and Human Services shall

``(2) Fifty percent of the amount appropriated under paragraph (1) for any fiscal year shall be available to provide child care services under section 638(a)(3).''.

SEC. 104. HEAD START RESEARCH STUDY.

(a) RESEARCH AND REPORTS.--After consulting with experts in research design and preschool programs, the Secretary of Health and Human Services shall conduct a longitudinal research study on the effects of Head Start on children's development. Such study, which shall be conducted on a nationally representative sample, shall include information on school grades, grade retention, special education placement, high school graduation, delinquency, teenage pregnancy, welfare participation, college attendance, employment, and similar outcomes deemed appropriate by the Secretary. Such sample shall be followed for at least 20 years, during which time the Secretary shall make periodic reports to the Congress on the study's findings. Such study shall begin not later than September of 1991.

(b) AUTHORIZATION OF APPROPRIATIONS.--There is authorized to be appropriated to carry out subsection (a) $2,000,000 for each of the fiscal years 1991 through 2011.

TITLE II--SMALL BUSINESS INVOLVEMENT IN MEETING EMPLOYEE CHILD CARE NEEDS

SEC. 201. ESTABLISHMENT OF GRANT PROGRAM.

The Secretary of Health and Human Services shall establish a program to make grants to eligible small businesses--

(1) to pay start-up costs incurred to provide child care services; or

(2) to provide additional child care services;

needed by the employees of such businesses.

SEC. 202. ELIGIBLE SMALL BUSINESSES.

To be eligible to receive a grant under section 201, a small business shall submit to the Secretary an application in accordance with section 203.

SEC. 203. APPLICATION.

The application required by section 202 shall be submitted by a small business (separately or jointly with 1 or more other small businesses) at such time, in such form, and containing such information as the Secretary may require by rule, except that such application shall contain--

(1) an assurance that such small business shall expend, for the purpose for which such grant is made, an amount not less than 300 percent of the the amount of such grant;

(2) an assurance that such small business will expend such grant for the use specified in section 201, as the case may be;

(3) an assurance that if the employees of such small business do not require all the child care services for

which such grant and the funds required by paragraph (1) are to be expended by such small business, the excess of such child care services shall be made available to families in the community in which such small business is located;

(4) an assurance that such small business will employ strategies to provide such child care services at affordable rates, and on an equitable basis, to low- and moderate-income employees; and

(5) an assurance that the provider of such child care services will comply with all State and local licensing requirements applicable to such provider.

SEC. 204. DEFINITIONS.

As used in the title:

(1) SMALL BUSINESS.--The term ``small business'' means a person that--

(A) is engaged in commerce and whose primary activity is not providing child care services; and

(B) has fewer than 50 full-time (or the equivalent) employees.

(2) SECRETARY.--The term `Secretary' means the Secretary of Health and Human Services.

SEC. 205. AUTHORIZATION OF APPROPRIATIONS.

There is authorized to be appropriated $25,000,000 for each of the fiscal years 1991, 1992, 1993, 1994, and 1995 to carry out this title.

TITLE III--BLOCK GRANT CHILD CARE PROVISIONS

SEC. 301. EXPANDED TITLE XX CHILD CARE.

(a) IN GENERAL.--Title XX of the Social Security Act (42 U.S.C. 1397 et seq.) is amended--

(1) by inserting after the title heading the following:

``**SEC. 2000. LIMITATION ON ENTITLEMENT.**

``For payments to which States are entitled under this title, there shall be available to the Secretary $3,250,000,000 for each fiscal year after fiscal year 1990, of which $450,000,000 shall be for payments under section 2007.''; and

(2) by adding at the end the following:

``**SEC. 2007. CHILD CARE.**

``(a) PAYMENTS TO STATES FROM SPECIAL ALLOTMENTS.--

``(1) ENTITLEMENT.--Each State which is eligible for funds under this section for a fiscal year shall be entitled to payments in an aggregate amount equal to the special allotment of the State for the fiscal year.

``(2) PAYMENTS.--The Secretary shall provide funds to each State which is eligible for funds under this section for a fiscal year from the special allotment of the State for the fiscal year, in accordance with section 6503 of title 31, United States Code.

``(3) SPECIAL ALLOTMENTS.--The special allotment of each State for any fiscal year equals the amount that bears the same ratio to the amount specified in section 2000 for payments under this section for such fiscal year, as the number of children who have not attained the age of 13 years residing with families in the State bears to the total number of children who have not attained the age of 13 years residing with families in all States, determined on the basis of the most recent data available from the Department of Commerce at the time the special allotment is determined.

``(4) EXPENDITURE OF FUNDS BY STATES.--Except as provided in paragraph (5)(A), each State which receives funds under this section for any fiscal year shall expend such funds in such fiscal year or in the succeeding fiscal year.

``(5) REDISTRIBUTION OF UNEXPENDED SPECIAL ALLOTMENTS.--

`(A) REMITTANCE TO THE SECRETARY.--Each State which receives funds under this section for a fiscal year shall remit to the Secretary that part of such funds which the State intends not to, or does not, expend in such fiscal year or in the succeeding fiscal year.

``(B) REDISTRIBUTION.--The Secretary shall increase the special allotment of each State not remitting any amount to the Secretary for a fiscal year pursuant to subparagraph (A) by an amount equal to--

``(i) the aggregate of the amounts so remitted; multiplied by

``(ii) the adjusted State share for such fiscal year.

``(C) ADJUSTED STATE SHARE.--As used in subparagraph (B)(ii), the term 'adjusted State share' means, with respect to a fiscal year--

``(i) the special allotment of the State for such fiscal year (before any increase under subparagraph (B)); divided by

``(ii)(I) the special allotments of all States for such fiscal year; minus

``(II) the aggregate of the amounts remitted to the Secretary for such fiscal year pursuant to subparagraph (A).

``(b) LEAD AGENCY.--

``(1) DESIGNATION.--The chief executive officer of a State desiring to participate in the program authorized under this section shall designate, in an application submitted to the Secretary under subsection (c), an appropriate State agency that carries out the responsibilities described in paragraph (2) to act as the lead agency.

``(2) RESPONSIBILITIES.--

``(A) ADMINISTRATION OF FUNDS.--The lead agency shall administer the funds made available to the State under this section to support programs and services authorized under this section.

``(B) COORDINATION.--The lead agency shall coordinate with State and local governments in developing the State plan required under subsection (c) to provide services under this section.

``(C) INTERAGENCY COORDINATION.--The lead agency shall establish procedures for assuring that appropriate State agencies work together to carry out the purposes of this section.

``(c) STATE PLAN REQUIREMENTS.--

``(1) APPLICATION.--To be eligible to receive funds under this section for a fiscal year, a State shall prepare and submit an application to the Secretary that shall be subject to the approval of the Secretary and that complies with the requirements of paragraph (3).

``(2) APPROVAL.--Not later than 90 days after the date of the submission of the State application under paragraph (1), the Secretary shall either approve or disapprove such application. If the Secretary disapproves the application, the Secretary shall provide the State with an explanation and recommendations for changes in the application to gain approval.

``(3) STATE PLAN REQUIREMENTS.--The application submitted under paragraph (1) shall contain a plan which--

``(A) identifies the lead agency in accordance with subsection (b);

``(B) describes the activities the State will carry out with funds provided under this section for the fiscal year;

``(C) provides assurances that the funds provided under this section will be used to supplement, not supplant, State and local funds as well as Federal funds provided under any Act and applied to child care activities in the State during fiscal year 1989;

``(D) provides assurances that the State will not expend more than 7 percent of the funds provided to the State under this section for the fiscal year for administrative expenses;

``(E) provides assurances that the State will give priority to programs that serve low-income families and geographical areas;

``(F) ensures that child care providers reimbursed under this section meet applicable standards of State and local law;

''(G) provides assurances that the lead agency will coordinate the funds provided under this section with other Federal resources for child care provided under this Act, and with other Federal, State, or local child care and preschool programs operated within the State; and

''(H) provides for the establishment of fiscal and accounting procedures that may be necessary to--

''(i) ensure a proper accounting of Federal funds received by the State under this section; and

''(ii) ensure the proper verification of the reports submitted by the State under subsection (e)(2).

''(d) USE OF FUNDS.--

''(1) IN GENERAL.--Funds provided under this section shall be used to expand parent choices in selecting child care, to address deficiencies in the supply of child care, and to expand and improve child care services, with an emphasis on providing such services to low-income families and geographical areas. Subject to the approval of the Secretary, States receiving funds under this section shall use such funds to carry out child care programs and activities through cash grants, certificates, or contracts with families, or public or private entities as the State determines appropriate.

''(2) SPECIFIC USES.--Each State which receives funds under this section may expend such funds for--

''(A) child care services for infants, sick children, children with special needs, and children of adolescent parents;

''(B) after-school and before-school programs and programs during nontraditional hours for the children of working parents;

''(C) programs for the recruitment and training of day care workers, including older Americans;

''(D) grant and loan programs to enable child care workers and providers to meet State and local standards and requirements;

''(E) child care information and referral services;

''(F) child care programs developed by public and private sector partnerships;

''(G) liability insurance pools to serve child care providers;

''(H) programs to promote and ensure the health and safety of children and caregivers, to improve the quality of all types of child care, and to train child care providers in health and safety practices;

``(I) State efforts to provide technical assistance designed to help providers improve the services offered to parents and children; and

``(J) other child care-related programs consistent with the purpose of this section and approved by the Secretary;

``(3) METHODS OF FUNDING.--Funds for child care services under this title shall be for the benefit of parents and shall be provided through contracts or grants with public or private providers or through child care certificates given directly to parents.

``(4) PARENTAL RIGHTS OF CHOICE.--Any parent who receives a child care certificate under this title may use such certificate with any child care provider, including those providers which have religious activities, if such provider is freely chosen by the parent from among the available alternatives.

``(5) CHILD CARE CERTIFICATES.--

``(A) IN GENERAL.--For purposes of this title, a child care certificate is a certificate issued by a State directly to a parent or legal guardian for use only as payment for child care services in any child care facility eligible to receive funds under this Act.

``(B) REDEMPTION.--If the demand for child care services of families qualified to receive such services from a State under this Act exceeds the available supply of such services, the State shall ration assistance to obtain such services using procedures that do not disadvantage parents using child care certificates, relative to other methods of financing, in either the waiting period or the pecuniary value of such services.

``(C) COMMENCEMENT OF CERTIFICATE PROGRAM.--Beginning not later than 1 year after the date of the enactment of this section, each State that receives funds under this title shall offer a child care certificate program in accordance with this section.

``(D) AUTHORITY TO USE CHILD CARE FUNDS FOR CERTIFICATE PROGRAM.--Each State that receives funds under this title may use the funds provided to the State under this title which are required to be used for child care activities to plan and establish the State's child care certificate program.

``(6) OPTION OF RECEIVING A CHILD CARE CERTIFICATE.--Each parent or legal guardian who receives assistance pursuant to this title shall be provided with the option of enrolling their child with an eligible child care provider that receives funds through grants, contracts, or child care certificates provided under this title. Such parent shall have the right to use such certificates to purchase child care services from an eligible provider of their choice.

``(7) RIGHTS OF RELIGIOUS CHILD CARE PROVIDERS.--Notwithstanding any other provision of law, a religious child care provider who receives funds under this Act may require adherence by employees to the religious tenets or teachings of such organization.

``(8) ELIGIBLE CHILD CARE PROVIDERS.--Any child care which meets applicable standards of State and local law shall be eligible to receive funds under this section. As used in this paragraph, the term `child care provider' includes--

``(A) units of State and local governments, and elementary, secondary and post-secondary educational institutions;

``(B) nonprofit organizations under subsections (c) and (d) of section 501 of the Internal Revenue Code of 1986;

``(C) professional or employee associations;

``(D) consortia of small businesses; and

''(E) propietary for-profit entities, relatives, informal day care homes, religious child care providers, day care centers, and any other entities that the State determines appropriate subject to approval of the Secretary.

''(9) PROHIBITED USES.--Any State which receives funds under this section may not use any of such funds--

''(A) to satisfy any State matching requirement imposed under any Federal grant;

''(B) for the purchase or improvement of land, or the purchase, construction, or permanent improvement (other than minor remodeling) of any building or other facility; or

''(C) to provide any service which the State makes generally available to the residents of the State without cost to such residents and without regard to the income of such residents.

''(e) REPORTING REQUIREMENTS.--

''(1) NOTICE TO SECRETARY OF UNEXPENDED FUNDS.--Each State which has not completely expended the funds received by the State under this section for a fiscal year in such fiscal year or the succeeding fiscal year shall notify the Secretary of any amount not so expended.

''(2) STATE REPORTS ON USE OF FUNDS.--Not later than 18 months after the date of the enactment of this section, and each year thereafter, the State shall prepare and submit to the Secretary, in such form as the Secretary shall prescribe, a report describing the State's use of funds received under this section, including--

``(A) the number, type, and distribution of services and programs under this section;

``(B) the average cost of child care, by type of provider;

``(C) the number of children served under this section;

``(D) the average income and distribution of incomes of the families being served;

``(E) efforts undertaken by the State pursuant to this section to promote and ensure health and safety and improve quality; and

``(F) such other information as the Secretary considers appropriate.

``(3) GUIDELINES FOR STATE REPORTS; COORDINATION WITH REPORTS UNDER SECTION 2006.--Within 6 months after the date of the enactment of this section, the Secretary shall establish guidelines for State reports under paragraph (2). To the extent feasible, the Secretary shall coordinate such reporting requirement with the reports required under section 2006 and, as the Secretary deems appropriate, with other reporting requirements placed on States as a condition of receipt of other Federal funds which support child care.

``(4) REPORTS BY THE SECRETARY.--

``(A) REPORTS TO THE CONGRESS OF SUMMARY OF STATE REPORTS.--The Secretary shall annually summarize the information reported to the Secretary pursuant to paragraph (2) and provide such summary to the Congress.

``(B) REPORTS TO THE STATES ON EFFECTIVE PRACTICES.--The Secretary shall annually provide the States with a report on particularly effective practices and programs supported by funds received under this section, which ensure the health and safety of children in care, promote quality child care, and provide training to all types of providers.''.

(b) EFFECTIVE DATE.--The amendments made by subsection (a) shall take effect on October 1, 1990.

TITLE IV--TAX CHANGES RELATING TO CHILD CARE

SEC. 401. EXPANSION OF EARNED INCOME TAX CREDIT.

(a) GENERAL RULE.--Subsections (a) and (b) of section 32 of the Internal Revenue Code of 1986 (relating to earned income tax credit) are amended to read as follows:

``(a) ALLOWANCE OF CREDIT.--

``(1) IN GENERAL.--In the case of an eligible individual, there shall be allowed as a credit against the tax imposed by this subtitle for the taxable year an amount equal to the credit percentage of so much of the earned income for the taxable year as does not exceed $5,714.

``(2) LIMITATION.--The amount of the credit allowable to a taxpayer under this subsection for any taxable year shall not exceed the excess (if any) of--

``(A) the credit percentage of $5,714, over

``(B) the phaseout percentage of so much of the adjusted gross income (or, if greater, the earned income) of the taxpayer for the taxable year as exceeds $9,000.

``(b) PERCENTAGES.--

``(1) IN GENERAL.--For purposes of subsection (a)--

``In the case of an eligible individual with:	The credit percentage is:	The phaseout percentage is:
1 qualifying child	17	12
2 qualifying children	21	15
3 or more qualifying children	25	18.

``(2) SUPPLEMENTAL YOUNG CHILD CREDIT.--In the case of a taxpayer with a qualifying child who has not attained age 6 as of the close of the calendar year in which or with which the taxable year of the taxpayer ends--

``(A) the credit percentage shall be increased by

6 percentage points, and

``(B) the phaseout percentage shall be increased by 4.25 percentage points.

``(3) SUPPLEMENTAL INFANT CREDIT.--

``(A) IN GENERAL.--In the case of a taxpayer with a qualifying child who has not attained age 1 as of the close of the calendar year in which or with which the taxable year of the taxpayer ends--

``(i) the credit percentage shall be increased by 6 percentage points (4 percentage points in the case of a taxable year beginning before January 1, 1994), and

``(ii) the phaseout percentage shall be increased by 4.25 percentage points (2 5/6 percentage points in the case of a taxable year beginning before January 1, 1994).

The percentages under this paragraph shall be in addition to the percentages determined under paragraph (2) with respect to such child.

``(B) ELECTION BETWEEN DEPENDENT CARE CREDIT AND CREDIT FOR CHILD CLAIMED UNDER THIS PARAGRAPH.--If the taxpayer elects to take a child into account under this paragraph, such child shall be treated as not being a qualifying individual under section 21.''

(b) QUALIFYING CHILD DEFINED.--Subsection (c) of section

32 of such Code is amended by adding at the end thereof the following new paragraph:

``(3) QUALIFYING CHILD.--The term 'qualifying child' means any child (within the meaning of section 151(c)(3)) of the eligible individual if--

``(A) such individual is entitled to a deduction under section 151 for such child (or would be so entitled but for paragraph (2) or (4) of section 152(e)), and

``(B) such child has the same principal place of abode as such individual for more than one-half of the taxable year.''.

(c) ADVANCE PAYMENT PROVISIONS.--

(1) PAYMENT BASED ON NUMBER OF QUALIFYING CHILDREN.--

(A) Subsection (b) of section 3507 of such Code is amended by striking ``and'' at the end of paragraph (2), by striking the period at the end of paragraph (3) and inserting ``, and'', and by inserting after paragraph (3) the following new paragraph:

``(4) states the number of qualifying children (as defined in section 32(c)(3)) of the employee for the taxable year and whether any such child is described in section 32(b)(2).''.

(B) Paragraph (2) of section 3507(c) of such Code is amended--

(i) by striking ``14 percent'' in subparagraphs (B)(i) and (C)(i) and inserting ``the credit percentage'',

(ii) by striking ``subsection (b)'' in subparagraph (B)(ii) and inserting ``subsection (a)(2)'', and

(iii) by adding at the end thereof the following new sentence:

``For purposes of this paragraph, the determination of the credit percentage under section 32(b), and the determination of the amounts referred to in subparagraph (B)(ii), shall be made on the basis of the information specified in the earned income eligibility certificate.''.

(C) Clause (i) of section 3507(e)(3)(A) of such Code is amended by inserting before ``, or'' the following: ``(or changing the percentages applicable to the employee under section 32(b) for the taxable year)''.

(2) EXPANDED PARTICIPATION IN ADVANCE PAYMENT PROGRAM.--Subsection (e) of section 3507 of such Code (relating to furnishing and taking effect of certificates) is amended by adding at the end thereof the following new paragraph:

``(6) EMPLOYERS REQUIRED TO COLLECT CERTIFICATE OR STATEMENT OF INELIGIBILITY, ETC.--On or before the date of commencement of employment with an employer, the employer shall require the employee to furnish to the employer a signed earned income eligibility certificate or a signed statement that such employee does not meet the requirements of paragraphs (1) and (2) of subsection (b). As of the beginning of each calendar year, the employer shall require each employee with respect to whom an earned income eligibility certificate is in effect to determine whether there has been a change in circumstances requiring a new certificate or revocation of such certificate.''.

(3) REPEAL OF CALENDAR YEAR LIMITATION ON EFFECTIVENESS OF CERTIFICATE.--

(A) Subparagraphs (A) and (B) of section 3507(e)(1) of such Code are each amended by striking ``had been in effect for the calendar year'' and inserting ``is in effect''.

(B) Paragraph (2) of section 3507(e) of such Code is amended--

(i) by striking ``for any calendar year'', and

(ii) by striking ``during such calendar year''.

(d) COORDINATION OF CREDIT WITH MEANS-TESTED PROGRAMS.--Section 32 of such Code is amended by adding at the end thereof the following new subsection:

``(j) COORDINATION OF CREDIT WITH MEANS-TESTED PROGRAMS.--

``(1) FEDERAL MEANS-TESTED TRANSFER PAYMENTS TREATED AS SUPPORT PROVIDED BY TAXPAYER.--Solely for purposes of determining whether any credit is allowable to an individual under this section (and the amount of credit so allowable), Federal means-tested payments shall be treated as support provided by such individual.

``(2) CREDIT DISREGARDED IN DETERMINING BENEFITS UNDER OTHER MEANS-TESTED PROGRAMS.--Any refund of tax by reason of this section, and any payment made by an employer under section 3507, shall not be taken into account as income or receipts for purposes of determining the eligibility (for the month in which such refund or payment is made or any month thereafter) of such individual or any other individual for benefits or assistance, or the amount or extent of benefits or assistance, under any Federal program or under any State or local program financed in whole or in part with Federal funds. The preceding sentence shall apply only if the individual (or the family unit of which the individual is a member) is a recipient of benefits or assistance under such a program for the month before the month in which such refund or payment is made.''

(e) CONFORMING AMENDMENTS.--

(1) Paragraph (2) of section 32(f) of such Code is amended--

(A) by striking ``subsection (b)'' each place it appears in subparagraphs (A) and (B) and inserting ``subsection (a)(2)'', and

(B) by adding at the end thereof the following new sentence:

``Separate tables shall be prescribed for taxpayers with 1 qualifying child, 2 qualifying children, 3 or more qualifying children, and any qualifying child who has not attained age 6.''.

(2) Subparagraph (A) of section 32(i)(2) of such Code is amended by striking ``or (ii)'' in clause (i) and by striking ``clause (iii)'' in clause (ii) and inserting ``clause (ii)''.

(3) Subparagraph (B) of section 32(i)(2) of such Code is amended by striking clauses (i), (ii), and (iii) and inserting the following:

``(i) the $5,714 amounts contained in subsection (a), and

``(ii) the $9,000 amount contained in subsection (a)(2)(B).''.

(f) EFFECTIVE DATE.--The amendments made by this section shall apply to taxable years beginning after December 31, 1991.

(g) STUDY.--The Secretary of the Treasury or his delegate shall conduct a study of the changes made by this section in section 3507 of the Internal Revenue Code of 1986 to determine whether such changes have resulted in an undue administrative or paperwork burden on taxpayers or the Internal Revenue Service. Not later than 2 years after the date of the enactment of this Act, such Secretary shall submit to the Committee on Ways and Means of the House of Representatives a report of such study together with any recommendations such Secretary may have (including recommendations with respect to alternatives to such section 3507).

SEC. 402. PHASEOUT OF DEPENDENT CARE CREDIT AND EXCLUSION FOR DEPENDENT CARE ASSISTANCE.

(a) DEPENDENT CARE CREDIT.--Subsection (a) of section 21 of the Internal Revenue Code of 1986 is amended by adding at the end thereof the following new paragraph:

''(3) PHASEOUT OF CREDIT FOR TAXPAYERS WHOSE ADJUSTED GROSS INCOMES EXCEEDS $70,000.--If the taxpayer's adjusted gross income for the taxable year exceeds $70,000, the applicable percentage shall be reduced (but not below zero) by 1 percentage point for each $1,000 of such excess.''

(b) EXCLUSION FOR DEPENDENT CARE ASSISTANCE.--Paragraph (2) of section 129(a) of such Code is amended by redesignating subparagraphs (B) and (C) as subparagraphs (C) and (D), respectively, and by inserting after subparagraph (A) the following new paragraph:

``(B) PHASEOUT OF EXCLUSION FOR TAXPAYERS WHOSE ADJUSTED GROSS INCOMES EXCEEDS $70,000.--If the taxpayer's adjusted gross income for the taxable year exceeds $70,000 ($35,000 in the case of a separate return by a married individual), the dollar amounts in subparagraph (A) shall be reduced (but not below zero) by $250 for each $1,000 of such excess.''

(c) EFFECTIVE DATE.--The amendments made by this section shall apply to taxable years beginning after December 31, 1991.

TITLE V--CHILD CARE EARNINGS EXCLUDED FROM EXCESS EARNINGS TEST

SEC. 501. CHILD CARE EARNINGS EXCLUDED FROM WAGES AND SELF-EMPLOYMENT INCOME FOR EXCESS EARNINGS TEST.

(a) WAGES.--Section 203(f)(5)(C) of the Social Security Act (42 U.S.C. 403(f)(5)(C)) is amended--

(1) by striking out ``or'' at the end of clause (i),

(2) by striking out the period at the end of clause (ii) and inserting in lieu thereof ``, or'', and

(3) by adding at the end thereof the following new clause:

``(iii) the amount of any payment made to an employee who has attained retirement age (as defined in section 216(l)) by an employer for child care services (including indirect services) performed by such employee after the month in which such employee initially becomes entitled to insurance benefits under this title.''.

(b) SELF-EMPLOYMENT INCOME.--Section 203(f)(5)(D) of such Act (42 U.S.C. 403(f)(5)(D)) is amended--

(1) by striking out ``or'' at the end of clause (i),

(2) by adding ``or'' at the end of clause (ii),

(3) by inserting immediately after clause (ii) the following new clause:

``(iii) an individual who has attained retirement age (as defined in section 216(l)) who has become entitled to insurance benefits under this title, any income attributable to child care services (including indirect services) performed after the month in which such individual becomes entitled to such benefits,'', and

(4) by striking out ``royalties or other income'' and inserting in lieu thereof ``royalties or income''.

(c) PAYMENTS OF CERTAIN RECOMPUTED BENEFITS

DELAYED.--Section 215(f)(2) of the Social Security Act (42 U.S.C. 415(f)(2)) is amended by adding at the end thereof the following new subpargaraph:

''(E) Under regulations of the Secretary, monthly benefits increased as a result of a recomputation under this paragraph shall be further increased on an actuarial basis to include such benefits which would have otherwise been paid in a lump sum (determined from the recomputation date to the effective date of such recomputation as provided under subparagraph (D)) as exceed an amount equal to such additional benefits determined for a 13-month period beginning from such recomputation date.''.

(c) EFFECTIVE DATES.--

(1) The amendments made by subsections (a) and (b) shall apply to wages or income earned after the date of the enactment of this Act.

(2) The amendment made by subsection (c) shall apply to recomputations made after the date of the enactment of this Act.

Stenholm-Shaw Child Care Bill
Comparisons
3/14/90

(Descriptions of provisions below are of changes to 10/5/89 Stenholm-Shaw amendment.) (Title nos. correspond to HR 3.)

	PROPOSAL for SS-II BILL (5 years, in BILLIONS)	ORIG. STENHOLM -SHAW	ORIG. W & M	ORIG. E & L
TITLE I -- HEAD START INCREASE Rearrange same funding increase; $600 mil. in 1st year + "such sums".	$ 3.2	$ 3.2	$ 2.6*	$ 1.9*
TITLE II -- SCHOOL-BASED EARLY DEV'L & "LATCHKEY" PROGRAMS (No separate provisions; see HS & Ti.XX)	---	---	2.6*	1.9*
TITLE III --				
TITLE XX (E&L-ABC) Instead of $200-350-400-400-400 mil, fund at $450 mil./year; Senate language requiring families have certificate option; certificates may be used with religions providers; Permit states adequate time & use of funds to set up certificate programs; Senate provision clarifying that religious providers may require employees to adhere to their teachings & tenets, incl. rules against drugs or alcohol.	2.25	1.75	1.75	2.6*
EITC ** Add infant (under 1) credit for families not claiming DCTC ($200-400); No repeal of EITC/AFDC disregard; Adopt W&M EITC/Welfare disregard.	14.9**	14.4**	14.4**	---
DCTC/FCA $70-90,000 PHASE-OUT	- 1.1	- 1.1	---	---
SOC. SECURITY EARNING TEST EXEMPTION	***	***	---	---
TITLE IV -- COORDINATION & INFRASTRUCTURE	---	---	2.2*	1.1*
TITLE V -- BUSINESS INVOLVEMENT	.1	.1	.1*	.1*
TITLE VI -- INCENTIVE GRANTS FOR STANDARDS	---	---	.4	---
COSTS: BA Subj. to Enacted Approp.	$ 3.3	$ 3.3	$ 7.9	$ 7.6
Direct Spending (Tax + Grants)	17.15**	16.15**	16.15**	---
TOTAL (Dir.+BA/SEA)	$19.55	$18.55	$23.15	$ 7.6
Offsetting Savings	- 1.1	- 1.1		
Assume EITC added to E&L pkg.				+14.4
Adj's for 5-th yr. Re-Auth.*			+ 2.06	+ 2.06
NET TOTALS (w/ 5th-yr. adj.)	$19.35	$18.35	$26.11	$24.06

Notes: * These programs are authorized for only 4 years in HR 3; assuming they are renewed for a 5th year would add more than $2 BILLION in authorizations to the E&L and W&M spending totals.

**

Arguments for
THE "FAMILY CHOICE & CHILD CARE IMPROVEMENT ACT"
Stenholm/Shaw II
March 15, 1990

FAMILY CHOICE

Paramount in the purpose of the Family Choice and Child Care Improvement Act is the affirmation that families must be given the opportunity to freely choose the method of child care which they feel is most appropriate. The government has a role in assisting families to achieve the kind of care they choose, but it is not appropriate for the government to restrict or artificially direct those choices.

This bill protects family choice in several ways.

First, an enhanced Earned Income Tax Credit gives low-income parents the freedom and the buying power to choose the care they feel is best for their children. The EITC also helps give parents the freedom not to put a child in day care at all. Because the EITC stipulates that only one parent must be working -- and because it increases family income -- it helps to allow a family to decide whether a child is better off in day care or at home with Mom or Dad.

This tax-driven free choice is accentuated while a child is under age one by an additional Infant Tax Credit. It is during this first year that parents are most likely to want or need to have an at-home parent, and that outside day care is the most difficult to find and the most expensive to afford.

Secondly, family choice is protected by the requirement that states establish a voucher program for the delivery of Title XX child care funds. These vouchers, the equivalent of child care food stamps, can be used for day care as parents see fit, including use at facilities that may include religious activities. Particularly with one-third of all child care centers currently being church-based, the exclusion of these providers would be devastating to the availability of care.

STATE FLEXIBILITY

Maximum flexibility is given to states by allowing them to retain their regulatory authroity over child care. Without the burden of federal regulatory mandates, states are free to target child care money where it is most needed, for example in infant care, day care worker training, liability insurance risk pools, or other areas. States are also free to experiment with innovative new programs such as school-based care for latch-key kids or public-private child care partnerships.

In contrast, opposing proposals would dictate to states "appropriate" child care programs and would overburden states with requirements. The result would not be to assist states in expanding the supply of child care for needy families, but instead, would micro-manage states' affairs in regulation, training and enforcement of child care standards.

NO NEW BUREAUCRACY OR DUPLICATION OF EFFORT

This biparisan bill provides new assistance for child care through Title XX of the Social Services Block Grant, a program which already offers child care assistance to states. By earmarking funds to an existing program and expanding existing resources, we increase the supply of child-care services without diverting scarce resources to new administrative overhead. Under opposing proposals, federal and states resources would be diverted wastefully and needlessly into paperwork and bureaucracy -- not child care.

HEAD START

Increases of $3.2 billion over five years are included for the popular and effective Head Start program. Since Head Start currently is able to serve only a fraction of the children who fall within income guidelines, this bill does not expand Head Start to wealthier children (as opposing proposals have done) but instead seeks to fully serve the current eligibles and begin providing appropriate child care services to needy Head Start students who want or need to work.

BUSINESS INCENTIVES

Child care incentives to small businesses are included in a separate grant. With small business being the sector where most of the American workforce is employed, as well as the sector least able to afford child care assistance to its employees, the bill provides necessary incentives to small businesses and consortia of small firms.

Opposing child care proposals do not limit the business grants to small businesses. Thus, large corporations, which should be less in need of the federal subsidies, would be eligible as well.

EQUITABLE REALLOCATION OF RESOURCES

The Family Choice and Child Care Improvement Act responsibly budgets child care money by eliminating child care subsidies for families who can well afford to pay for child care themselves and reallocating federal assistance to middle and low income families. It reallocates $1.1 billion over four years to low and middle-income families by phasing down the Dependent Care Tax Credit and child care Flexible Spending Accounts at $70,000 annual family income and eliminating these two benefits for families who make over $90,000.

Opposing proposals retain child care tax credits for the wealthy.

INCENTIVES FOR OLDER AMERICANS

Recognizing that, in part, the shortage of day care can be attributed to a shortage of qualified, caring providers, the bill contains incentives for older Americans to become involved in child care services. Along with encouraging states to fund programs to recruit and train older child-care workers, these workers also would be able to disregard child care earnings for the purpose of calculating the Social Security excess earnings test.

STENHOLM-SHAW II
THE FAMILY CHOICE AND CHILD CARE IMPROVEMENT ACT
March 15, 1990

HEAD START

--Increased authorization to $600 million in first year; "such sums as necessary" in subsequent years; estimated $3.2 billion over 5 years; One-half of the increase may be used for "developmentally appropriate child care."

--Not expanded to non-poor children.

--Longitudinal study of impact of Head Start.

TITLE XX FUNDS

--$450 million per year earmarked for Child Care (Title XX is a Social Services Block Grant in which child care has been one of numerous permissable activities in the past); $2.25 billion over 5 years.

--Entities eligible to receive funds include units of state and local governments, public schools, nonprofit organizations, professional and employee associations, consortia of small businesses, proprietary entities, and other entities approved by the states.

--States must report on how funds are to be used to address deficiencies in availability, promote health and safety, and improve quality of child care services.

--States may fund a variety of services, including regular child care services, child care services for special needs and sick children, before and after school care, staff training, information and referral, insurance pools, activities to improve quality of child care -- EMPHASIS on expanding parent choices, creating new supply of child care services and serving low-income families.

--Certificate or voucher programs under Title XX required in each state; certificates may be used with providers who include religious activities. Permits states adequate time and use of funds to set up the certificate programs. Religious providers may require employees to adhere to their teachings and tenets.

EARNED INCOME TAX CREDIT

--Increase in basic EITC to 17, 21, and 25 percent for families meeting income criteria (up to $21,290 maximum income) with 1, 2 and 3 children respectively; up to $1700 maximum credit per family.

--Supplemental young child credit of 6 percent for families meeting income criteria (same as basic EITC) with child under age 6; up to $430 maximum credit per family.

--Supplemental infant (under age 1) credit for families not claiming the Dependent Care Tax Credit (same income eligibility as basic EITC); Up to $430 maximum credit per family.

--EITC income will not have a negative impact on the recipients' eligibility for Aid to Families With Dependent Care, Medicaid, or other public assistance programs.

ADDITIONAL TAX ISSUES

--Cap eligibility for the Dependent Care Tax Credit (DCTC) at $90,000 income; begin phase-down at $70,000.

--Cap eligibility for the child care Flexible Spending Account at same limits as DCTC phase-out points.

--Savings for above two provisions amount to $1.1 billion over 5 years.

SOCIAL SECURITY EARNING TEST EXEMPTION

--For senior citizens, exempts earnings from providing child care services from the Social Security earnings limit test.

BUSINESS INVOLVEMENT

--Matching grants for small businesses and consortia of small businesses to encourage involvement in meeting employee child care needs; authorizes $25 million per year.

Draft

HLC

"Lean"

Response to Downey

[DISCUSSION DRAFT]
MARCH 12, 1990

101ST CONGRESS
2D SESSION

H. R. ____

IN THE HOUSE OF REPRESENTATIVES

(for himself,) introduced the following bill; which was referred to the Committee on ____________________

A BILL

To authorize appropriations for fiscal years 1991, 1992, and 1993 to carry out the Head Start program; to amend title XX of the Social Security Act to provide allotments to States to improve and expand child care services; to amend the Internal Revenue Code of 1986 to increase the earned income credit based on the number of the taxpayer's children; and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the ``________________________''.

TITLE I--THE HEAD START PROGRAM

SEC. 101. AUTHORIZATION OF APPROPRIATIONS.

Section 639 of the Head Start Act (42 U.S.C. 9834) is amended--

(1) by striking ``$1,198,000,000'' and all that follows through ``1989, and'', and

(2) by inserting after ``1990'' the following: ``and $2,052,000,000 for each of the fiscal years 1991, 1992, and 1993''.

SEC. 102. HEAD START RESEARCH STUDY.

(a) RESEARCH AND REPORTS.--After consulting with experts in research design and preschool programs, the Secretary of Health and Human Services shall conduct a longitudinal research study on the effects of Head Start on children's development. Such study, which shall be conducted on a nationally representative sample, shall include information on school grades, grade retention, special education placement, high school graduation, delinquency, teenage pregnancy, welfare participation, college attendance, employment, and similar outcomes deemed appropriate by the Secretary. Such sample shall be followed for at least 20 years, during which time the Secretary shall make periodic reports to the Congress on the study's findings. Such study shall begin not later than September of 1991.

(b) AUTHORIZATION OF APPROPRIATIONS.--There is authorized to be appropriated to carry out subsection (a) $1,000,000 for each of the fiscal years 1991 through 2011.

TITLE II--SMALL BUSINESS INVOLVEMENT IN MEETING EMPLOYEE CHILD CARE NEEDS

SEC. 201. ESTABLISHMENT OF GRANT PROGRAM.

The Secretary of Health and Human Services shall establish a program to make grants to eligible small businesses--

(1) to pay start-up costs incurred to provide child care services; or

(2) to provide additional child care services;

needed by the employees of such businesses.

SEC. 202. ELIGIBLE SMALL BUSINESSES.

To be eligible to receive a grant under section 201, a small business shall submit to the Secretary an application in accordance with section 203.

SEC. 203. APPLICATION.

The application required by section 202 shall be submitted by a small business (separately or jointly with 1 or more other small businesses) at such time, in such form, and containing such information as the Secretary may require by rule, except that such application shall contain--

(1) an assurance that such small business shall

expend, for the purpose for which such grant is made, an amount not less than 300 percent of the the amount of such grant;

(2) an assurance that such small business will expend such grant for the use specified in section 201, as the case may be;

(3) an assurance that if the employees of such small business do not require all the child care services for which such grant and the funds required by paragraph (1) are to be expended by such small business, the excess of such child care services shall be made available to families in the community in which such small business is located;

(4) an assurance that such small business will employ strategies to provide such child care services at affordable rates, and on an equitable basis, to low- and moderate-income employees; and

(5) an assurance that the provider of such child care services will comply with all State and local licensing requirements applicable to such provider.

SEC. 204. APPLICABILITY OF PROVISIONS OF THE HEAD START ACT.

Sections 654, 655, and 656 of the Head Start Act (42 U.S.C. 9849-9851) shall apply with respect to this title to the same extent and in the same manner as such sections apply with respect to such Act.

SEC. 205. DEFINITIONS.

As used in this title:

(1) SMALL BUSINESS.--The term ``small business'' means a person that--

(A) is engaged in commerce and whose primary activity is not providing child care services; and

(B) has fewer than 50 full-time (or the equivalent) employees.

(2) SECRETARY.--The term `Secretary' means the Secretary of Health and Human Services.

SEC. 206. AUTHORIZATION OF APPROPRIATIONS.

There is authorized to be appropriated $25,000,000 for each of the fiscal years 1991, 1992, 1993, 1994, and 1995 to carry out this title.

TITLE III--APPLICATION OF OTHER ACTS

SEC. 301. APPLICATION OF OTHER ACTS.

Title IX of the Education Amendments of 1972, as amended from time to time, shall be deemed applicable to any program or activity assisted under any provision of this Act, or of any amendment made by this Act, to the same extent and in the same manner as any program or activity included within the meaning of such term under such title IX. References in this Act, or any amendment made by this Act, to section 654 of the Head Start Act shall be construed so as to be consistent with such title IX.

TITLE IV--CHILD CARE PROVISIONS

SEC. 401. EXPANDED TITLE XX CHILD CARE.

(a) IN GENERAL.--Title XX of the Social Security Act (42 U.S.C. 1397 et seq.) is amended--

(1) by inserting after the title heading the following:

``**SEC. 2000. LIMITATION ON ENTITLEMENT.**

``For payments to which States are entitled under this title, there shall be available to the Secretary--

``(1) $3,000,000,000 for fiscal year 1991, of which $200,000,000 shall be for payments under section 2007;

``(2) $3,150,000,000 for fiscal year 1992, of which $350,000,000 shall be for payments under section 2007; and

``(3) $3,200,000,000 for each fiscal year after fiscal year 1992, of which $400,000,000 shall be for payments under section 2007.''; and

(2) by adding at the end the following:

``**SEC. 2007. CHILD CARE.**

``(a) PAYMENTS TO STATES FROM SPECIAL ALLOTMENTS.--

``(1) ENTITLEMENT.--Each State which is eligible for funds under this section for a fiscal year shall be entitled to payments in an aggregate amount equal to the special allotment of the State for the fiscal year.

``(2) PAYMENTS.--The Secretary shall provide funds to each State which is eligible for funds under this section for a fiscal year from the special allotment of the State for the fiscal year, in accordance with section 6503 of title 31, United States Code.

``(3) SPECIAL ALLOTMENTS.--The special allotment of each State for any fiscal year equals the amount that bears the same ratio to the amount specified in section 2000 for payments under this section for such fiscal year, as the number of children who have not attained the age of 13 years residing with families in the State bears to the total number of children who have not attained the age of 13 years residing with families in all States, determined on the basis of the most recent data available from the Department of Commerce at the time the special allotment is determined.

``(4) EXPENDITURE OF FUNDS BY STATES.--Except as provided in paragraph (5)(A), each State which receives funds under this section for any fiscal year shall expend such funds in such fiscal year or in the succeeding fiscal year.

``(5) REDISTRIBUTION OF UNEXPENDED SPECIAL ALLOTMENTS.--

`(A) REMITTANCE TO THE SECRETARY.--Each State which receives funds under this section for a fiscal year shall remit to the Secretary that part of such funds which the State intends not to, or does not, expend in such fiscal year or in the succeeding fiscal year.

``(B) REDISTRIBUTION.--The Secretary shall increase the special allotment of each State not remitting any amount to the Secretary for a fiscal year pursuant to subparagraph (A) by an amount equal to--

``(i) the aggregate of the amounts so remitted; multiplied by

``(ii) the adjusted State share for such fiscal year.

``(C) ADJUSTED STATE SHARE.--As used in subparagraph (B)(ii), the term `adjusted State share' means, with respect to a fiscal year--

``(i) the special allotment of the State for such fiscal year (before any increase under subparagraph (B)); divided by

``(ii)(I) the special allotments of all States for such fiscal year; minus

``(II) the aggregate of the amounts remitted to the Secretary for such fiscal year pursuant to subparagraph (A).

``(b) LEAD AGENCY.--

``(1) DESIGNATION.--The chief executive officer of a

State desiring to participate in the program authorized under this section shall designate, in an application submitted to the Secretary under subsection (c), an appropriate State agency that carries out the responsibilities described in paragraph (2) to act as the lead agency.

``(2) RESPONSIBILITIES.--

``(A) ADMINISTRATION OF FUNDS.--The lead agency shall administer the funds made available to the State under this section to support programs and services authorized under this section.

``(B) COORDINATION.--The lead agency shall coordinate with State and local governments in developing the State plan required under subsection (c) to provide services under this section.

``(C) INTERAGENCY COORDINATION.--The lead agency shall establish procedures for assuring that appropriate State agencies work together to carry out the purposes of this section.

``(c) STATE PLAN REQUIREMENTS.--

``(1) APPLICATION.--To be eligible to receive funds under this section for a fiscal year, a State shall prepare and submit an application to the Secretary that shall be subject to the approval of the Secretary and that complies with the requirements of paragraph (3).

``(2) APPROVAL.--Not later than 90 days after the date of the submission of the State application under paragraph (1), the Secretary shall either approve or disapprove such application. If the Secretary disapproves the application, the Secretary shall provide the State with an explanation and recommendations for changes in the application to gain approval.

``(3) STATE PLAN REQUIREMENTS.--The application submitted under paragraph (1) shall contain a plan which--

``(A) identifies the lead agency in accordance with subsection (b);

``(B) describes the activities the State will carry out with funds provided under this section for the fiscal year;

``(C) provides assurances that the funds provided under this section will be used to supplement, not supplant, State and local funds as well as Federal funds provided under any Act and applied to child care activities in the State during fiscal year 1989;

``(D) provides assurances that the State will not expend more than 7 percent of the funds provided to the State under this section for the fiscal year for administrative expenses;

``(E) provides assurances that the State will give priority to programs that serve low-income families and geographical areas;

``(F) ensures that child care providers reimbursed under this section meet applicable standards of State and local law;

``(G) provides assurances that the lead agency will coordinate the funds provided under this section with other Federal resources for child care provided under this Act, and with other Federal, State, or local child care and preschool programs operated within the State; and

``(H) provides for the establishment of fiscal and accounting procedures that may be necessary to--

``(i) ensure a proper accounting of Federal funds received by the State under this section; and

``(ii) ensure the proper verification of the reports submitted by the State under subsection (e)(2).

``(d) USE OF FUNDS.--

``(1) IN GENERAL.--Funds provided under this section shall be used to expand parent choices in selecting child care, to address deficiencies in the supply of child care, and to expand and improve child care services, with an emphasis on providing such services to low-income families and geographical areas. Subject to the approval of the Secretary, States receiving funds under this section shall use such funds to carry out child care programs and activities through cash grants, certificates, or contracts with families, or public or private entities as the State determines appropriate.

``(2) SPECIFIC USES.--Each State which receives funds under this section may expend such funds for--

``(A) child care services for infants, sick children, children with special needs, and children of adolescent parents;

``(B) after-school and before-school programs and programs during nontraditional hours for the children of working parents;

``(C) programs for the recruitment and training of day care workers, including older Americans;

``(D) grant and loan programs to enable child care workers and providers to meet State and local standards and requirements;

``(E) child care information and referral services;

``(F) child care programs developed by public and private sector partnerships;

``(G) liability insurance pools to serve child care providers;

``(H) programs to promote and ensure the health and safety of children and caregivers, to improve the quality of all types of child care, and to train child care providers in health and safety practices;

``(I) State efforts to provide technical assistance designed to help providers improve the services offered to parents and children; and

``(J) other child care-related programs consistent with the purpose of this section and approved by the Secretary;

``(3) METHODS OF FUNDING.--Funds for child care services under this title shall be for the benefit of parents and shall be provided through contracts or grants with public or private providers or through child care certificates given directly to parents.

``(4) PARENTAL RIGHTS OF CHOICE.--Any parent who receives a child care certificate under this title may use such certificate with any child care provider, including those providers which have religious activities, if such provider is freely chosen by the parent from among the available alternatives. The authority given to parents by this title to use child care certificates for such purposes is not in violation of the constitutional prohibition on establishment of religion.

``(5) CHILD CARE CERTIFICATES.--

``(A) IN GENERAL.--For purposes of this title, a child care certificate is a certificate issued by a State directly to a parent or legal guardian for use only as payment for child care services in any child care facility eligible to receive funds under this Act.

``(B) REDEMPTION.--If the demand for child care services of families qualified to receive such services from a State under this Act exceeds the available supply of such services, the State shall ration assistance to obtain such services using procedures that do not disadvantage parents using child care certificates, relative to other methods of financing, in either the waiting period or the pecuniary value of such services.

``(C) COMMENCEMENT OF CERTIFICATE PROGRAM.--Beginning not later than 1 year after the date of the enactment of this section, each State that receives funds under this title shall offer a child care certificate program in accordance with this section.

``(D) AUTHORITY TO USE CHILD CARE FUNDS FOR CERTIFICATE PROGRAM.--Each State that receives funds under this title may use the funds provided to the

State under this title which are required to be used for child care activities to plan and establish the State's child care certificate program.

``(6) OPTION OF RECEIVING A CHILD CARE CERTIFICATE.--Each parent or legal guardian who receives assistance pursuant to this Act shall be provided with the option of enrolling their child with an eligible child care provider that receives funds through grants, contracts, or child care certificates provided under this title. Such parent shall have the right to use such certificates to purchase child care services from an eligible provider of their choice, including but not limited to, relatives, informal family day care homes, religious providers, and day care centers, consistent with State law.

``(7) RIGHTS OF RELIGIOUS CHILD CARE PROVIDERS.--Notwithstanding any other provision of law, a religious child care provider who receives funds under this Act may--

``(A) give preference in employment to individuals who--

``(i) participate on a regular basis in other activities of the organization which owns or operates such provider; or

``(ii) are members of a particular religious group; and

``(B) require that employees have adhered and do adhere to the religious tenets and teachings of such organization.

``(8) ELIGIBLE ENTITIES.--Entities eligible to receive funds under this section, and meet the requirement of subsection (c)(3)(F), shall include--

``(A) units of State and local governments, and elementary, secondary and post-secondary educational institutions;

``(B) nonprofit organizations under subsections (c) and (d) of section 501 of the Internal Revenue Code of 1986;

``(C) professional or employee associations;

``(D) consortia of small businesses; and

``(E) proprietary for-profit entities, child care providers, and any other entities that the State determines appropriate subject to approval of the Secretary.

``(9) PROHIBITED USES.--Any State which receives funds under this section may not use any of such funds--

``(A) to satisfy any State matching requirement imposed under any Federal grant;

``(B) for the purchase or improvement of land, or the purchase, construction, or permanent improvement (other than minor remodeling) of any building or other facility; or

``(C) to provide any service which the State makes generally available to the residents of the State without cost to such residents and without regard to the income of such residents.

``(e) REPORTING REQUIREMENTS.--

``(1) NOTICE TO SECRETARY OF UNEXPENDED FUNDS.--Each State which has not completely expended the funds received by the State under this section for a fiscal year in such fiscal year or the succeeding fiscal year shall notify the Secretary of any amount not so expended.

``(2) STATE REPORTS ON USE OF FUNDS.--Not later than 18 months after the date of the enactment of this section, and each year thereafter, the State shall prepare and submit to the Secretary, in such form as the Secretary shall prescribe, a report describing the State's use of funds received under this section, including--

``(A) the number, type, and distribution of services and programs under this section;

``(B) the average cost of child care, by type of provider;

``(C) the number of children served under this section;

``(D) the average income and distribution of incomes of the families being served;

``(E) efforts undertaken by the State pursuant to this section to promote and ensure health and safety and improve quality; and

``(F) such other information as the Secretary considers appropriate.

``(3) GUIDELINES FOR STATE REPORTS; COORDINATION WITH REPORTS UNDER SECTION 2006.--Within 6 months after the date of the enactment of this section, the Secretary shall establish guidelines for State reports under paragraph (2). To the extent feasible, the Secretary shall coordinate such reporting requirement with the reports required under section 2006 and, as the Secretary deems appropriate, with other reporting requirements placed on States as a condition of receipt of other Federal funds which support child care.

``(4) REPORTS BY THE SECRETARY.--

``(A) REPORTS TO THE CONGRESS OF SUMMARY OF STATE REPORTS.--The Secretary shall annually summarize the information reported to the Secretary pursuant to paragraph (2) and provide such summary to the Congress.

``(B) REPORTS TO THE STATES ON EFFECTIVE PRACTICES.--The Secretary shall annually provide the

States with a report on particularly effective practices and programs supported by funds received under this section, which ensure the health and safety of children in care, promote quality child care, and provide training to all types of providers.''.

(b) EFFECTIVE DATE.--The amendments made by subsection (a) shall take effect on October 1, 1990.

TITLE V--TAX CHANGES RELATING TO CHILD CARE

SEC. 501. EXPANSION OF EARNED INCOME TAX CREDIT.

(a) GENERAL RULE.--Subsections (a) and (b) of section 32 of the Internal Revenue Code of 1986 (relating to earned income tax credit) are amended to read as follows:

``(a) ALLOWANCE OF CREDIT.--

``(1) IN GENERAL.--In the case of an eligible individual, there shall be allowed as a credit against the tax imposed by this subtitle for the taxable year an amount equal to the credit percentage of so much of the earned income for the taxable year as does not exceed $5,714.

``(2) LIMITATION.--The amount of the credit allowable to a taxpayer under this subsection for any taxable year shall not exceed the excess (if any) of--

``(A) the credit percentage of $5,714, over

``(B) the phaseout percentage of so much of the adjusted gross income (or, if greater, the earned income) of the taxpayer for the taxable year as exceeds $9,000.

``(b) PERCENTAGES.--

``(1) IN GENERAL.--For purposes of subsection (a)--

``In the case of an eligible individual with:	The credit percentage is:	The phaseout percentage is:
1 qualifying child	17	12
2 qualifying children	21	15
3 or more qualifying children	25	18.

``(2) SUPPLEMENTAL YOUNG CHILD CREDIT.--In the case of a taxpayer with a qualifying child who has not attained age 6 as of the close of the calendar year in which or with which the taxable year of the taxpayer ends--

``(A) the credit percentage shall be increased by 6 percentage points, and

``(B) the phaseout percentage shall be increased by 4.25 percentage points.''.

(b) QUALIFYING CHILD DEFINED.--Subsection (c) of section 32 of such Code is amended by adding at the end thereof the following new paragraph:

``(3) QUALIFYING CHILD.--The term `qualifying child' means any child (within the meaning of section 151(c)(3)) of the eligible individual if--

``(A) such individual is entitled to a deduction under section 151 for such child (or would be so entitled but for paragraph (2) or (4) of section 152(e)), and

``(B) such child has the same principal place of abode as such individual for more than one-half of the taxable year.''.

(c) ADVANCE PAYMENT PROVISIONS.--

(1) PAYMENT BASED ON NUMBER OF QUALIFYING CHILDREN.--

(A) Subsection (b) of section 3507 of such Code is amended by striking ``and'' at the end of paragraph (2), by striking the period at the end of paragraph (3) and inserting ``, and'', and by inserting after paragraph (3) the following new paragraph:

``(4) states the number of qualifying children (as defined in section 32(c)(3)) of the employee for the taxable year and whether any such child is described in section 32(b)(2).''.

(B) Paragraph (2) of section 3507(c) of such Code is amended--

(i) by striking ``14 percent'' in subparagraphs (B)(i) and (C)(i) and inserting ``the credit percentage'',

(ii) by striking ``subsection (b)'' in subparagraph (B)(ii) and inserting ``subsection (a)(2)'', and

(iii) by adding at the end thereof the following new sentence:

``For purposes of this paragraph, the determination of the credit percentage under section 32(b), and the determination of the amounts referred to in subparagraph (B)(ii), shall be made on the basis of the information specified in the earned income eligibility certificate.''.

(C) Clause (i) of section 3507(e)(3)(A) of such Code is amended by inserting before ``, or'' the following: ``(or changing the percentages applicable to the employee under section 32(b) for the taxable year)''.

(2) EXPANDED PARTICIPATION IN ADVANCE PAYMENT PROGRAM.--Subsection (e) of section 3507 of such Code (relating to furnishing and taking effect of certificates) is amended by adding at the end thereof the following new paragraph:

``(6) EMPLOYERS REQUIRED TO COLLECT CERTIFICATE OR STATEMENT OF INELIGIBILITY, ETC.--On or before the date of commencement of employment with an employer, the employer shall require the employee to furnish to the employer a signed earned income eligibility certificate or a signed statement that such employee does not meet the requirements of paragraphs (1) and (2) of subsection (b). As of the beginning of each calendar year, the employer shall require each employee with respect to whom an earned income eligibility certificate is in effect to determine whether there has been a change in circumstances requiring a new certificate or revocation of such certificate.''.

(3) REPEAL OF CALENDAR YEAR LIMITATION ON EFFECTIVENESS OF CERTIFICATE.--

(A) Subparagraphs (A) and (B) of section 3507(e)(1) of such Code are each amended by striking ``had been in effect for the calendar year'' and inserting ``is in effect''.

(B) Paragraph (2) of section 3507(e) of such Code is amended--

(i) by striking ``for any calendar year'', and

(ii) by striking ``during such calendar year''.

(d) FEDERAL MEANS-TESTED TRANSFER PAYMENTS TREATED AS SUPPORT PROVIDED BY TAXPAYER.--Section 32 of such Code is amended by adding at the end thereof the following new subsection:

``(j) FEDERAL MEANS-TESTED TRANSFER PAYMENTS TREATED AS SUPPORT PROVIDED BY TAXPAYER.--Solely for purposes of determining whether any credit is allowable to an individual under this section (and the amount of credit so allowable), Federal means-tested payments shall be treated as support provided by such individual.''

(e) CONFORMING AMENDMENTS.--

(1) Paragraph (2) of section 32(f) of such Code is amended--

(A) by striking ``subsection (b)'' each place it appears in subparagraphs (A) and (B) and inserting ``subsection (a)(2)'', and

(B) by adding at the end thereof the following new sentence:

``Separate tables shall be prescribed for taxpayers with 1 qualifying child, 2 qualifying children, 3 or more qualifying children, and any qualifying child who has not attained age 6.''.

(2) Subparagraph (A) of section 32(i)(2) of such Code is amended by striking ``or (ii)'' in clause (i) and by striking ``clause (iii)'' in clause (ii) and inserting ``clause (ii)''.

(3) Subparagraph (B) of section 32(i)(2) of such Code is amended by striking clauses (i), (ii), and (iii) and inserting the following:

``(i) the $5,714 amounts contained in subsection (a), and ``(ii) the $9,000 amount contained in subsection (a)(2)(B).''.

(f) EFFECTIVE DATE.--The amendments made by this section shall apply to taxable years beginning after December 31, 1990.

(g) STUDY.--The Secretary of the Treasury or his delegate shall conduct a study of the changes made by this section in section 3507 of the Internal Revenue Code of 1986 to determine whether such changes have resulted in an undue administrative or paperwork burden on taxpayers or the Internal Revenue Service. Not later than 2 years after the date of the enactment of this Act, such Secretary shall submit to the Committee on Ways and Means of the House of Representatives a report of such study together with any recommendations such Secretary may have (including recommendations with respect to alternatives to such section 3507).

SEC. 502. PHASEOUT OF DEPENDENT CARE CREDIT AND EXCLUSION FOR DEPENDENT CARE ASSISTANCE.

(a) DEPENDENT CARE CREDIT.--Subsection (a) of section 21 of the Internal Revenue Code of 1986 is amended by adding at the end thereof the following new paragraph:

``(3) PHASEOUT OF CREDIT FOR TAXPAYERS WHOSE ADJUSTED GROSS INCOMES EXCEEDS $70,000.--If the taxpayer's adjusted gross income for the taxable year exceeds

$70,000, the applicable percentage shall be reduced (but not below zero) by 1 percentage point for each $1,000 of such excess.''

(b) EXCLUSION FOR DEPENDENT CARE ASSISTANCE.--Paragraph (2) of section 129(a) of such Code is amended by redesignating subparagraphs (B) and (C) as subparagraphs (C) and (D), respectively, and by inserting after subparagraph (A) the following new paragraph:

``(B) PHASEOUT OF EXCLUSION FOR TAXPAYERS WHOSE ADJUSTED GROSS INCOMES EXCEEDS $70,000.--If the taxpayer's adjusted gross income for the taxable year exceeds $70,000 ($35,000 in the case of a separate return by a married individual), the dollar amounts in subparagraph (A) shall be reduced (but not below zero) by $250 for each $1,000 of such excess.''

(c) EFFECTIVE DATE.--The amendments made by this section shall apply to taxable years beginning after December 31, 1990.

TITLE VI--CHILD CARE EARNINGS EXCLUDED FROM EXCESS EARNINGS TEST

SEC. 601. CHILD CARE EARNINGS EXCLUDED FROM WAGES AND SELF-EMPLOYMENT INCOME FOR EXCESS EARNINGS TEST.

(a) WAGES.--Section 203(f)(5)(C) of the Social Security Act (42 U.S.C. 403(f)(5)(C)) is amended--

(1) by striking out ``or'' at the end of clause (i),

(2) by striking out the period at the end of clause (ii) and inserting in lieu thereof ``, or'', and

(3) by adding at the end thereof the following new clause:

``(iii) the amount of any payment made to an employee who has attained retirement age (as defined in section 216(l)) by an employer for child care services (including indirect services) performed by such employee after the month in which such employee initially becomes entitled to insurance benefits under this title.''.

(b) SELF-EMPLOYMENT INCOME.--Section 203(f)(5)(D) of such Act (42 U.S.C. 403(f)(5)(D)) is amended--

(1) by striking out ``or'' at the end of clause (i),

(2) by adding ``or'' at the end of clause (ii),

(3) by inserting immediately after clause (ii) the following new clause:

``(iii) an individual who has attained retirement age (as defined in section 216(l)) who has become entitled to insurance benefits under this title, any income attributable to child care services (including indirect services) performed after the month in which such individual becomes entitled to such benefits,'', and

(4) by striking out ``royalties or other income'' and

inserting in lieu thereof ``royalties or income''.

(c) PAYMENTS OF CERTAIN RECOMPUTED BENEFITS DELAYED.--Section 215(f)(2) of the Social Security Act (42 U.S.C. 415(f)(2)) is amended by adding at the end thereof the following new subpargaraph:

``(E) Under regulations of the Secretary, monthly benefits increased as a result of a recomputation under this paragraph shall be further increased on an actuarial basis to include such benefits which would have otherwise been paid in a lump sum (determined from the recomputation date to the effective date of such recomputation as provided under subparagraph (D)) as exceed an amount equal to such additional benefits determined for a 13-month period beginning from such recomputation date.''.

(c) EFFECTIVE DATES.--

(1) The amendments made by subsections (a) and (b) shall apply to wages or income earned after the date of the enactment of this Act.

(2) The amendment made by subsection (c) shall apply to recomputations made after the date of the enactment of this Act.

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
02. Memo	From Frederick McClure to John Sununu Re: Child Care Conferees (1 pp.)	5/4/90	~~P~~5	

Collection:

Record Group: Bush Presidential Records
Office: Chief of Staff, White House Office of
Series: Sununu, John, Files
Subseries: Issues Files
WHORM Cat.:
File Location: Child Care 1990 (1 of 2) [2]

Open on Expiration of PRA
(Document Follows)
By JF (NLGB) on 10/28/05

Date Closed:	12/17/2004	**OA/ID Number:**	29142-010
FOIA/SYS Case #:	1998-0004-F[1]	**Appeal Case #:**	
Re-review Case #:	2005-0426-S	**Appeal Disposition:**	
P-2/P-5 Review Case #:		**Disposition Date:**	
AR Case #:		**MR Case #:**	
AR Disposition:		**MR Disposition:**	
AR Disposition Date:		**MR Disposition Date:**	

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P-1 National Security Classified Information [(a)(1) of the PRA]
P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P-3 Release would violate a Federal statute [(a)(3) of the PRA]
P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

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Freedom of Information Act - [5 U.S.C. 552(b)]

(b)(1) National security classified information [(b)(1) of the FOIA]
(b)(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
(b)(3) Release would violate a Federal statute [(b)(3) of the FOIA]
(b)(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
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(b)(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
(b)(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
(b)(9) Release would disclose geological or geophysical information

THE WHITE HOUSE

WASHINGTON

May 4, 1990

THE CHIEF of STAFF
has seen

MEMORANDUM FOR JOHN SUNUNU

FROM: FRED McCLURE

SUBJECT: <u>Child Care Conferees</u>

The House will not appoint its conferees on Child Care until next Wednesday. However, Speaker Foley has decided that the conferee ratio on the Education and Labor provisions of the bill will be 16 Democrats and 9 Republicans from the Education and Labor Committee and 2 Democrats and 1 Republican from the Ways and Means Committee.

The numbers suggest that we may not do well on the ABC-type provisions of the bill. Ways and Means Chairman Rostenkowski is unhappy about the ratio and is actively supporting the Motion to Instruct Conferees to reject ABC-type provisions.

The Senate has appointed child care conferees:

Labor Committee		Finance Committee	
Kennedy	Hatch	Bentsen	Packwood
Dodd	Kassebaum	Moynihan	Dole
Pell	Jeffords	Baucus	Roth
Harkin	Coats	Mitchell	
Adams			
Mikulski			

Withdrawal/Redaction Sheet
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Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
03. Memo	From Hanns Kuttner to Roger Porter Re: AEI Conference on the EITC (4 pp.)	1/19/90	P/5	

Collection:

Record Group: Bush Presidential Records
Office: Chief of Staff, White House Office of
Series: Sununu, John, Files
Subseries: Issues Files
WHORM Cat.:
File Location: Child Care 1990 (1 of 2) [2]

Open on Expiration of PRA
(Document Follows)
By ___ (NLGB) on 10/28/05

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P-2/P-5 Review Case #:	**Disposition Date:**
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AR Disposition:	**MR Disposition:**
AR Disposition Date:	**MR Disposition Date:**

RESTRICTION CODES

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THE WHITE HOUSE

WASHINGTON

THE CHIEF of STAFF
has seen

January 19, 1990

MEMORANDUM FOR ROGER PORTER

FROM: HANNS KUTTNER
ANDY MITRUSI

SUBJECT: AEI Conference on the EITC

We both attended the half day conference which brought together Congressional staffers, Administration representatives and private sector experts to discuss the Earned Income Tax Credit. The private sector experts almost all had training as economists and thus a strong propensity to analyze policies as questions of welfare economics. The uselessness of this perspective to those who want to build new Federal programs could be seen in the departure of Sen. Dodd's staff person after the first panel.

Two important messages emerged from the conference. First, the issue of child care is not a pressing concern for most people outside the beltway. Second, if helping poor families is the objective, then the solution is not the tried and failed method of providing in-kind transfers. Although the solution was not explicitly stated, providing direct grants is the presumed alternative. The problem with in-kind transfer was seen to be that a multiplicity of credits for all kinds of favored consumption goods creates the very real problem of high marginal tax rates on wage income, an unambiguous work disincentive.

A number of issues were discussed that seemed relevant and new. However, for some reason the discussion at one point turned to desirability of extending the EITC to childless couples and even dependent teenagers as a method of encouraging work effort! Another foray into the bizarre occurred when the discussion turned to the effect of the EITC on the decision of parents to have children, whether empirical evidence existed on this effect and whether it was a good idea for the government to encourage large families for people who could not be expected to adequately care for them. Bel Sawhill of the Urban Institute advanced this proposition not as an empirical one, but as a question about the ethos created by the incentives implicit in the structure of federal programs.

<u>A history of the credit</u> indicates that the EITC was originally proposed by Senator Long as his answer to the Nixon-inspired debate about income support for the poor. The EITC concept played to Long's belief about the importance of work and was designed to offset the payroll tax for low-income workers.

Started in 1975 at a maximum credit of $400, the credit was steadily eroded by inflation until the latest tax reform when it was restored to roughly its original 1975 levels (Tab A). The big difference is that in 1975 the phase in rate was 10%, today it is 14%.

Gene Steuerle of the Urban Institute captured the issue very well with his "short tablecloth" metaphor, referring to a table set with a tablecloth insufficiently large to fit in front of everyone, and the response to the imperative of keeping a tablecloth under everyone's place setting is to move the tablecloth under the plate of whoever is eating at any point in time. Thus <u>the EITC gets trotted out for different purposes in different debates</u>. In the minimum wage debate it takes one role, in the child care debate another, in the debate about the regressivity of the payroll tax still another. Bel Sawhill was sharp in her criticism (the type that is easy for academics) that the political world hadn't decided to what goals it wanted to optimize the EITC.

The fact that the <u>EITC is not currently adjusted for family size</u> was discussed. Welfare payments, including AFDC, are generally adjusted for family size so that for large families there is a disproportionate disincentive to work. The most popular solution to this problem was to reform welfare rather than adjust the EITC for family size!

<u>The EITC participation rate is close to 100% for tax filers</u>. This is because the IRS automatically calculates the credit for those who fail to do so. However, there is no data available on those who do not have sufficient wage income to file a return, a new problem now that tax reform has removed millions of poor working families off the tax rolls. The law requires a Notice 797 (Tab B) to be provided by employers to their employees, yet the existence of this form, which describes the availability of the EITC, comes as a surprise even to us.

<u>Advanced payment of the EITC is used by only 10,000 filers</u>. In order to receive advance payment, the taxpayer has to fill out a Form 5 (Tab B). Unfortunately, the employer is not required to inform the employee of the need to fill out one of these forms. The form points out that if you guess wrong, you may owe the government money. In addition to ignorance, low usage of advance payment is also linked to fear of changing economic or family status. With the EITC, any change is likely to cause an increase in tax liability at year end, a situation which is very uncomfortable for those with low incomes. This problem is exacerbated when the size of the EITC is increased.

<u>There is no rigorous analysis of the work effects of the EITC, but no one seems to care</u>. Randal Weiss, formerly of the Joint Committee on Taxation, noted that the EITC has led a

charmed life compared to income maintenance programs. Marv Kosters of AEI tried to begin a debate on work effects of the EITC, but there seemed to be a consensus that the will to believe the EITC works overwhelms any inquisitiveness about any of its effects.

The EITC error rate appears to be large but the Treasury representative was very mum about specifics. No one objected to the speculation that the disappearance of 7,000,000 dependents after the tax return began to ask for social security numbers of dependents lowered the error rate. If the credit is expanded, then the problem with errors is likely to increase, making the high error rate a more visible problem. Currently, the IRS devotes almost no audit effort to low income returns because of the meager payback and because of adverse public relations implications of going after hard working poor people. There is a likelihood that the IRS will want (or be forced) to increase their audit rates if pending legislation increases the dollars at stake in the EITC.

An additional enforcement problem arises with any substantial increase in the EITC: there arises a strong incentive to over report wage income. Currently, the phase in rate at 14% is lower than the combined payroll tax of 15.3%, so there is little or no incentive to over report. But all the current EITC proposals and even the President's Child Credit would raise the phase in rate significantly above the 15.3% level. This means that taxpayers (dishonest ones) can make out like bandits simply by over reporting wage income. This would be especially simple for the self employed person.

Side issues:

- An interesting possible tradeoff that was discussed at the dinner table with Isabel Sawhill and Marina Weiss, the Senate Finance majority staff person for spending programs, is a reduction in the Social Security payroll tax for a cap on the deductibility of employer paid health insurance. This has attractive distributional consequences, could be made revenue neutral, would reduce price pressures on health services, would reduce economic distortions caused by the current tax code and would satisfy a huge constituency (all workers) at the expense of a small one (highly paid, overcompensated workers). Those at the dinner table thought this to be a good outcome, but did not believe it would be viable in the current political debate.

  The dinner table conversation also brought forth Senator Bentsen's intent to hold hearings on the Moynihan social security tax reduction, and Marina's speculation that its fate would be decided in the debate over Gramm-Rudman reform.

- Senator Bentsen's proposed health insurance credit found few supporters, yet Senator Cohen is expected to introduce an even more generous plan next week. A severe problem with health credits is that they are extremely leaky -- the beneficiary of the credit is likely to be the employer who will be in a good position to shift the cost of insurance to the employee and capture the benefits of the saving himself.

- In addition to the EITC, the Taxpayer Compliance Measurement Program's audits show that health insurance reporting is another area of large error rates. During the late 70s and early 80s, when the health expense deduction became exceeding complex, the error rate reached 70%.

FLAT SIZE: 3¾" x 7"
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F

Department of the Treasury
Internal Revenue Service

Notice 797

(Rev. April 1989)

Notice of a Possible Federal Tax Refund Due to the Earned Income Credit (EIC)

What Is the EIC?

The EIC is a tax credit for certain workers who have at least one child who lives with them in a home in the United States. (See the back of this notice for a definition of "child.") It is based on a percentage of your earned income. Even if you have no tax withheld from your pay or have no tax liability, you can benefit since any EIC that is more than your tax liability is refunded to you, but ONLY if you file a tax return. For example, if you have no tax withheld in 1989, have no tax liability and are eligible for a $300 EIC, you could get a $300 refund but only if you file a tax return. For 1989, the EIC can be as much as $910.

Am I Eligible for the EIC?

You may be able to take the EIC for 1989 if you work and meet all of the following conditions:

1. Your 1989 earned income and adjusted gross income must each be less than $19,340 ("adjusted gross income" generally means the total of your wages, interest, dividends, alimony received and certain other income minus the total of your allowable deductions for contributions to an IRA, alimony paid, reimbursed employee business expenses and certain other deductions).

2. You have a child who lived with you for more than 6 months during 1989 in a home in the United States. If your child was born or died in 1989, he or she is considered to have lived with you for all of 1989.

3. You must, generally, be able to claim the child as a dependent.

4. Your filing status on your return is married filing jointly, head of household, or qualifying widow(er) with dependent child.

5. You are not able to claim the foreign earned income or housing expense exclusion, or the foreign housing expense deduction.

The 1989 instructions for Forms 1040 and 1040A and Pub. 596, Earned Income Credit, explain in detail who may take the EIC. You can get the instructions and the publication from IRS offices or by calling the IRS toll-free telephone number 1-800-424-3676.

How Do I Claim the EIC?

If you are eligible, claim the EIC on your 1989 Form 1040 or 1040A. Use the EIC worksheet in the instructions to those forms to figure the EIC. If you choose, you can receive the EIC during the year in advance payments with your pay, rather than waiting to claim it on your tax return. To get advance payments, you will have to complete a Form W-5 (available from IRS offices or by calling toll free 1-800-424-3676) and give it to your employer.

Definition of Child.—In general, for purposes of the EIC, your child includes:

- Your son or daughter

  or

- Your stepchild or adopted child.

If your filing status is married filing jointly or qualifying widow(er) with dependent child, your child also includes a child placed with you by an authorized placement agency for adoption by you, or a foster child (any other child, such as your grandchild, whom you cared for as your own child for the whole year).

If your filing status is head of household, your child also includes a descendant of your son, daughter or adopted child.

Form **W-5**

Department of the Treasury
Internal Revenue Service

Earned Income Credit Advance Payment Certificate

1989

▶ **For Privacy Act notice, see back of form.**

Instructions

If you expect your 1989 earned income and adjusted gross income each to be less than $19,340, you may be eligible for the earned income credit. Please read these instructions carefully. (**Note:** *Your 1988 adjusted gross income was reported on Form 1040A, line 13, on Form 1040EZ, line 3, or on Form 1040, line 31.)*

What Does the Earned Income Credit Do?— It can provide payments of up to $910 to taxpayers who have incomes under $19,340 and have a child living with them. If you are eligible for the credit, you can get it even if you owe no tax.

Who Can Take the Earned Income Credit?— The checklist below will help you find out if you may be eligible for the credit. If you answer "Yes" to each question, you may be eligible for the credit. If you answer "No" to any question on the checklist, you are not eligible for the credit and should not fill in the certificate.

Also, you are not eligible for the credit if you expect to claim the foreign earned income or housing expense exclusion or the foreign housing expense deduction.

Advance Payment of the Earned Income Credit.—If you are eligible, you can choose to get the credit in advance with your pay instead of waiting until you file your tax return. You will get the credit on your annual tax return even if you do not complete this form.

To receive the credit in advance with your pay, fill in the bottom part of this form and give it to your employer. You may have only one certificate in effect with a current employer at one time. If you and your spouse are both employed, each of you should file a separate Form W-5.

If Your Status Changes.—If you file this form with your present employer and your status changes during 1989, you usually will have to fill out a new certificate.

If your status changes so that any answer in the earned income credit checklist becomes "No," or if you no longer want to receive advance payments, you must file a new certificate. Check the "No" box in question 1 on the new certificate to show that you are not qualified or no longer want to get advance payments.

If your status changes because your spouse files a certificate with his or her employer, you must file a new certificate with your employer showing in question 3 that your spouse has filed.

Additional Information

If you receive advance payments, you must file Form 1040 or Form 1040A for 1989.

If you receive advance payment of the earned income credit and later find out that you are not eligible, you will have to pay it back when you file your annual tax return.

This certificate expires on December 31, 1989. If you expect to qualify for the earned income credit in 1990, you must file a new certificate for 1990.

If you need more information, see **Publication 596**, Earned Income Credit, which is available at most IRS offices.

Earned Income Credit Checklist

To find out if you may be eligible for the earned income credit, please answer the questions below for 1989.

		Yes	No
A	Do you expect your earned income and adjusted gross income each to be less than $19,340 (including your spouse's income)?		
B	Do you expect to have a child live with you in the U.S. for more than half of 1989, or for all of 1989 if you are a qualifying widow(er)?*		
C	Check and answer (1), (2), or (3) below, whichever applies: (1) ☐ Married. Do you expect to file a joint return? (2) ☐ Married. Do you expect to qualify to file as head of household?** (3) ☐ Not married. Do you expect to pay more than half the cost of keeping up a household this year? ***		
D	Do you expect to be eligible to claim an exemption for a child who will live with you, OR do you expect to qualify as head of household because of an unmarried child who cannot be taken as an exemption? (If either answer is yes, check "Yes.") **Note:** *If you are a custodial parent and would have been eligible to claim an exemption for the child, except that you either signed a written declaration or have a pre-1985 divorce decree or separation agreement permitting the noncustodial parent to claim the exemption, check "Yes" for question D.*		

*The amount of time your child lives with you includes any time he or she may have spent away at school or on vacation. If you are married filing a joint return or are a qualifying widow(er), the term "child" includes your son, daughter, stepchild, adopted child, child placed with you by an authorized placement agency for adoption by you, or foster child (any other child, such as your grandchild, whom you care for as your own child for the whole year). If you are a head of household, the term "child" includes your son, daughter, stepchild, adopted child, or a descendant of your son, daughter, or adopted child.

**The instructions for filing Form 1040 and Form 1040A explain the conditions under which a married person can qualify to file as head of household.

***If you receive payments under the Aid to Families with Dependent Children (AFDC) program and use them to pay part of the cost of keeping up this home, you may not count these amounts as furnished by you.

▼ *Give the lower part of this form to your employer; keep the top part for your records* ▼

Detach along this line

Form **W-5**

Department of the Treasury
Internal Revenue Service

Earned Income Credit Advance Payment Certificate

1989

This certificate expires on December 31, 1989.

Type or print your full name | Your social security number

Home address (number and street or rural route)

City or town, state, and ZIP code

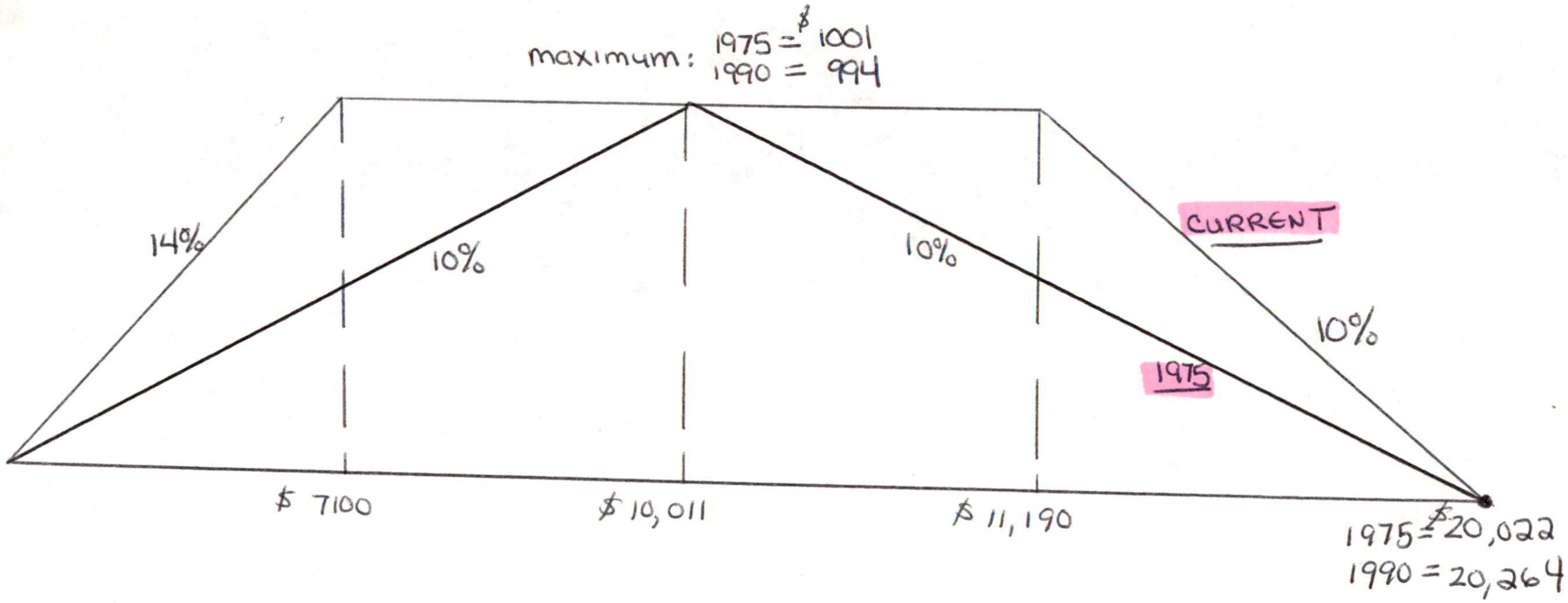
Note: *If you file Form W-5 with an employer to receive advance payments of the earned income credit for 1989, you must file Form 1040 or Form 1040A for 1989. If married, you must file a joint return (unless you qualify to file as head of household).*

		Yes	No
1	I expect to be eligible for the earned income credit for 1989, I have no other certificate in effect with any other current employer, and I choose to receive advance payment of the earned income credit		
2	Are you married?		
3	If you are married, does your spouse have a certificate in effect for 1989 with any employer?		

Under penalties of perjury, I declare that the information I have furnished above is, to the best of my knowledge, true, correct, and complete.

Signature ▶ Date ▶

The EITC in 1975 v. 1990
in Constant 1990 Dollars



Note that the EITC is more generous today because the of the higher phase in rate and extended range of the maximum amount. In 1975 one had to earn exactly $4000 to get the full $400 credit (1975 dollars).

Comparison of Religious Provisions
in S-5 and Tentative Response to Democratic Offer
March 14, 1990

Senate Provision				Response Provision	
Author	Brief Title	Location	Description	Location	Description
Domenici	Mandatory Vouchers	Sec. 108(a)(4)	States must provide parents of eligible children with the option of a certificate (voucher)	(d)(6)	Option of certificate must be available for all parents; also, parents using vouchers cannot be disadvantaged relative to parents using grants or contracts with regard to length of waiting period or cost of care
Ford/ Durenberger	Vouchers Constitutional	Sec. 121(a)	If provider gets funds from certificates, sectarian activities are ok (the language actually removes a prohibition against sectarian activities)	(d)(4)	If parent uses certificate to select provider, religious activities are ok
Coates	Religious Tenents	Sec. 122(b)	A sectarian organization may require employees to adhere to religious tenets and teachings including drugs and alcohol	(d)(8)	A sectarian organization may require that employees have adhered and do adhere to religious tenets and teachings
-	Religious Preferences	Sec. 122(b)	Discrimination in employment and admission of children on basis of religion is prohibited except under certain circumstances; in general, if provider gets 80% or more of its funds from public sources, it cannot discriminate no matter what; even under 80%, religious facilities can only exercise a preference if applicants are equally qualified	(d)(8)	A sectarian organization may exercise preference in employment for members of their organization or members of a particular religious group

Draft Response
March 8, 1990

Title I: Head Start

1. Increase authorization by $500,000,000 in 1991; keep at new level for next four years (1992-95)

2. Longitudinal study; $1 million per year for 20 years

Title II: Small Business Involvement

1. $25 million per year grant program, 1991-95

2. Small businesses eligible

3. Apply to Secretary of HHS

4. Civil rights protections from Head Start Act

Title III: Tauke Abortion Neutral Language

1. Insures that child care providers offering health benefits to their employees are not required to include abortion services

Title IV: Expand Title XX

1. Creation of an automatic appropriation for new day care set-aside within Title XX: $200,000,000 for FY91; $350,000,000 for FY92; $400,000,000 for FY93 and years thereafter

2. State allotment formula (ratio of number of children under 13 in each state to total number of children under age 13 in the U.S.)

3. States have two years to spend each year's allotment; procedures are outlined for redistribution among the states of unused funds

4. States must identify a lead agency to administer funds and coordinate day care expenditures in the state

5. States must submit an annual plan to HHS that identifies the lead agency, describes how funds will be spent, assures that funds supplement not supplant state and local child care expenditures, assures that not more than 7% of funds are spent on Administration, assures that priority is given to low-income families, assures that child care providers meet state and local regulations,

provides that all public child care expenditures in the state will be coordinated by lead agency, establishes fiscal and accounting procedures

6. Enumeration of permitted uses of funds, with emphasis on parent choice; e.g., child care services, child care services for special needs and sick children, after and before school care, staff training, information and referral, insurance pools, activities to improve quality of child care; emphasis on expanding parent choices, creating new supply, and serving low-income families

7. Methods of funding: grants, contracts, certificates

8. Parental rights of choice: clarifies that parents who use certificates can select any type of day care, including religious care; if religious care is freely selected by parents using certificates, the constitutional prohibition on establishment of religion is not violated

9. Child Care Certificates:

   --Certificates are issued directly to parents or legal guardians

   --states cannot disadvantage parents using certificates by making them wait longer to receive services or by giving them a certificate of lower value, than parents using care funded by grants or contracts

   --states must offer the certificate program within 1 year

   --states can use Title XX funds to set-up their certificate program

   --parents must have the option of getting a certificate; they must be allowed to use the certificate in any facility that meets state law

10. Rights of Religious Providers: religious providers can give preference in employment to people who are members of their organization, are members of a particular group, or have adhered and do adhere to tenets and teachings of their organization

11. List of entities eligible to receive funds: units of state and local government, public schools, nonprofit organizations, professional and employee associations, consortia of small businesses, proprietary entities, and other entities approved by state and secretary

12. Prohibitions on use of funds for: federal matching requirements, purchase or improvement of land, construction, providing services generally available to state residents without costs

13. Reporting requirements:

    --unused funds reported to Secretary each fiscal year

    --States must submit an annual report containing at least the following information: number and type of services and programs, average cost per child by type of provider, number of children served, average income of families being served, efforts by states to promote and ensure health and safety and improve quality; also contains directions to Secretary to establish, within 6 months, guidelines for state reports

    --Secretary must send annual report to Congress containing summary of information collected from states

    --Secretary must send annual report to states of exemplary practices and innovative programs

<u>Title V: Tax Changes Relating to Child Care</u>

1. Increase in basic EITC to 17, 21, and 25 percent for families meeting income criteria with 1, 2, and 3 children respectively; phaseout percentages are 12, 15, and 18 percent respectively; details of phasein and phaseout

2. Supplemental young child credit of 6 percent, phaseout of 4.25 percent, for families meeting income criteria with child under age 6

3. Definition of qualifying child

4. Advance payment provisions; employers required to obtain certificate of eligibility for EITC from each employee each year (previous law says employers "shall" use advance payment for <u>all</u> eligible employees; see 3507(d)(4) of 1986 Tax Code); this provision insures that employers will know which of their employees is eligible for EITC and therefore for advance payment

5. Calendar year limitation on effectiveness of certificate; makes EITC eligibility certificate good until circumstances change

6. EITC and Federal means-tested payments: for purposes of computing whether a parent meets the EITC requirement that the parent provide at least half the child's support, all federal means-tested payments are treated as if they had been provided by the parent

7. Conforming amendments include directions to IRS to design new tables to show EITC benefits

8. Secretary of Treasury must conduct a study to determine whether the requirements of this Act have placed "undue" paperwork burdens on employers; must be completed and submitted to Ways and Means within 2 years

9. Phaseout of Dependent Care Credit and Section 129 exclusion ("Flexible Benefit Plans") for families with incomes between $70,000 and $90,000; cap both credits at $90,000

Title VI: Child Care Earnings Excluded from Social Security Excess Earnings Test

1. Earnings by a person over age 65 from child care are excluded from wages when computing income taxes

2. Applies to both earnings from a day care employer and from self-employment in providing day care services

Agenda
Child Care Group
March 14, 1990

1. Summary of Ongoing House Negotiations:

   --Democratic Leadership

   --Downey-Shaw-Stenholm (that's us)

   --Stenholm-Shaw II

2. Purpose of Meeting:

   Agree on response to Democratic offer of 2/22/90 (i.e., continue process intended to produce Downey-Shaw-Stenholm)

3. Issues:

   --Abortion neutral language (Title III)

   --Head Start
   a) full-day permissive
   b) nonpoor children ?
   c) funding level

   --Social Security earnings test

   --Title XX
   a) funding level
   b) language on school-based care permissive

   --EITC
   a) funding level
   b) new infant credit & double dip (Stenholm)

   --Dependent Care Tax Credit and Section 129

   --Religious language

   --Other issues

Draft Response
March 8, 1990

Title I: Head Start

1. Increase authorization by $500,000,000 in 1991; keep at new level for next four years (1992-95)

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Title II: Small Business Involvement

1. $25 million per year grant program, 1991-95

2. Small businesses eligible

3. Apply to Secretary of HHS

4. Civil rights protections from Head Start Act

Title IV: Expand Title XX

1. Creation of an automatic appropriation for new day care set-aside within Title XX: Automatic appropriation of $450 million per year, FY 91-FY95

2. State allotment formula (ratio of number of children under 13 in each state to total number of children under age 13 in the U.S.)

3. States have two years to spend each year's allotment; procedures are outlined for redistribution among the states of unused funds

4. States must identify a lead agency to administer funds and coordinate day care expenditures in the state

5. States must submit an annual plan to HHS that identifies the lead agency, describes how funds will be spent, assures that funds supplement not supplant state and local child care expenditures, assures that not more than 7% of funds are spent on Administration, assures that priority is given to low-income families, assures that child care providers meet state and local regulations, provides that all public child care expenditures in the state will be coordinated by lead agency, establishes fiscal and accounting procedures

6. Enumeration of permitted uses of funds, with emphasis on parent choice; e.g., child care services, child care services for special needs and sick children, after and

before school care, staff training, information and referral, insurance pools, activities to improve quality of child care; emphasis on expanding parent choices, creating new supply, and serving low-income families

7. Methods of funding: grants, contracts, certificates

8. Parental rights of choice: clarifies that parents who use certificates can select any type of day care, including religious care; if religious care is freely selected by parents using certificates, the constitutional prohibition on establishment of religion is not violated

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--states cannot disadvantage parents using certificates by making them wait longer to receive services or by giving them a certificate of lower value, than parents using care funded by grants or contracts

--states must offer the certificate program within 1 year

REL. FREEDOM

1) USE VOUCH. FOR. #8 REL. BASE

--states can use Title XX funds to set-up their certificate program

2) FAITH PREF. FOR EMPLOY

--parents must have the option of getting a certificate; they must be allowed to use the certificate in any facility that meets state law

3) TENETS FOR MORALITY

10. Rights of ~~Religious~~ Providers: ~~religious~~ providers can give preference in employment to people who are members of their organization, are members of a particular group, or have adhered and do adhere to tenets and teachings of their organization

11. List of entities eligible to receive funds: units of state and local government, public schools, nonprofit organizations, professional and employee associations, consortia of small businesses, proprietary entities, and other entities approved by state and secretary

ONLY REF. TO SCHOOL BASED CARE

12. Prohibitions on use of funds for: federal matching requirements, purchase or improvement of land, construction, providing services generally available to state residents without costs

13. Reporting requirements:

--unused funds reported to Secretary each fiscal year

--States must submit an annual report containing at least the following information: number and type of services and programs, average cost per child by type of provider, number of children served, average income of families being served, efforts by states to promote and ensure health and safety and improve quality; also contains directions to Secretary to establish, within 6 months, guidelines for state reports

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6. EITC and Federal means-tested payments: for purposes of computing whether a parent meets the EITC requirement that the parent provide at least half the child's support, all federal means-tested payments are treated as if they had been provided by the parent

7. Conforming amendments include directions to IRS to design new tables to show EITC benefits

8. Secretary of Treasury must conduct a study to determine whether the requirements of this Act have placed "undue" paperwork burdens on employers; must be completed and submitted to Ways and Means within 2 years

9. Phaseout of Dependent Care Credit and Section 129 exclusion ("Flexible Benefit Plans") for families with incomes between $70,000 and $90,000; cap both credits at $90,000

<u>Title VI: Child Care Earnings Excluded from Social Security Excess Earnings Test</u>

1. Earnings by a person over age 65 from child care are excluded from wages when computing income taxes

2. Applies to both earnings from a day care employer and from self-employment in providing day care services

Child Care Alternative 3/15/90

(5 years, in $ billions)

	ALTERNATIVE	PROPOSAL	ORIG. W & M	ORIG. E & L
Title I -- **Head Start**				
$500 million per year, 5 yrs	2.5	1.9	2.6	1.9
Title II -- **School-Based Child Care**				
Strike	0	1.9	2.6	1.9
Title III -- **Title XX and EITC**	@ $450/YEAR -			
Proposal on EITC and Title XX needs clarification, especially on meaning of "modified standards". No mandates on states should be included.	2.25 14.4	1.75 13.5	1.75 13.5	2.6 -
Add new religious provisions on sense of Congress, mandatory vouchers, and religious tenets				
Title IV -- **Coordination and Infrastructure**				
Strike	0	.9	2.2	1.1
(Suggest to Downey that these activities be included under Title XX)				
Titles V & VI -- **Business and Incentive Grants**				
Include new version of Business Grant	.1	-	.5	.1
Additions to Tax provisions:				
Reduce Dependent Care Tax Credit and Section 129 between $70,000 and $90,000; cap at $90,000	(1.1)	-	-	-
Total (BAS/EA)	$18.15	19.95	23.2	7.6
Direct Spending	$15.55	15.25	15.25	-
Total (without Head Start)	$15.65			

Stenholm-Shaw Child Care Bill
Comparisons
3/14/90

(Descriptions of provisions below are of changes to 10/5/89 Stenholm-Shaw amendment.) (Title nos. correspond to HR 3.)

	(5 years, in BILLIONS) PROPOSAL for SS-II BILL	ORIG. STENHOLM -SHAW	ORIG. W & M	ORIG. E & L
TITLE I -- HEAD START INCREASE Rearrange same funding increase; $600 mil. in 1st year + "such sums".	$ 3.2	$ 3.2	$ 2.6*	$ 1.9*
TITLE II -- SCHOOL-BASED EARLY DEV'L & "LATCHKEY" PROGRAMS (No separate provisions; see HS & Ti.XX)	---	---	2.6*	1.9*
TITLE III -- **TITLE XX (E&L-ABC)** Instead of $200-350-400-400-400 mil, fund at $450 mil./year; Senate language requiring families have certificate option; certificates may be used with religions providers; Permit states adequate time & use of funds to set up certificate programs; Senate provision clarifying that religious providers may require employees to adhere to their teachings & tenets, incl. rules against drugs or alcohol.	2.25	1.75	1.75	2.6*
EITC ** Add infant (under 1) credit for families not claiming DCTC ($200-400); No repeal of EITC/AFDC disregard; Adopt W&M EITC/Welfare disregard.	14.9**	14.4**	14.4**	---
DCTC/FCA $70-90,000 PHASE-OUT	- 1.1	- 1.1	---	---
SOC. SECURITY EARNING TEST EXEMPTION	***	***	---	---
TITLE IV -- COORDINATION & INFRASTRUCTURE	---	---	2.2*	1.1*
TITLE V -- BUSINESS INVOLVEMENT	.1	.1	.1*	.1*
TITLE VI -- INCENTIVE GRANTS FOR STANDARDS	---	---	.4	---

HOLD TO ESSENTIAL

WEETOTS

TODLER TAX

COSTS:	PROPOSAL for SS-II BILL	ORIG. STENHOLM -SHAW	ORIG. W & M	ORIG. E & L
BA Subj. to Enacted Approp.	$ 3.3	$ 3.3	$ 7.9	$ 7.6
Direct Spending (Tax + Grants)	17.15**	16.15**	16.15**	---
TOTAL (Dir.+BA/SEA)	$19.55	$18.55	$23.15	$ 7.6
Offsetting Savings	- 1.1	- 1.1		
Assume EITC added to E&L pkg.				+14.4
Adj's for 5-th yr. Re-Auth.*			+ 2.06	+ 2.06
NET TOTALS (w/ 5th-yr. adj.)	$19.35	$18.35	$26.11	$24.06

Notes:
* These programs are authorized for only 4 years in HR 3; assuming they are renewed for a 5th year would add more than $2 BILLION in authorizations to the E&L and W&M spending totals.
** Adjusted for 3/12 Joint Tax Cmte. prelim. est. of FY 92-95 EITC Costs.
*** Less than $50 million.

Withdrawal/Redaction Sheet
(George Bush Library)

Document No. and Type	Subject/Title of Document	Date	Restriction	Class.
04. Report	Coalition-Building Concessions Made and Not Made in Proposed Stenholm-Shaw II Bill (1 pp.)	n.d.	~~P5~~	

Collection:

Record Group: Bush Presidential Records
Office: Chief of Staff, White House Office of
Series: Sununu, John, Files
Subseries: Issues Files
WHORM Cat.:
File Location: Child Care 1990 (1 of 2) [2]

Open on Expiration of PRA
(Document Follows)
By JF (NLGB) on 10/28/05

Date Closed:	12/17/2004	**OA/ID Number:**	29142-010
FOIA/SYS Case #:	1998-0004-F[1]	**Appeal Case #:**	
Re-review Case #:	2005-0426-S	**Appeal Disposition:**	
P-2/P-5 Review Case #:		**Disposition Date:**	
AR Case #:		**MR Case #:**	
AR Disposition:		**MR Disposition:**	
AR Disposition Date:		**MR Disposition Date:**	

RESTRICTION CODES

Presidential Records Act - [44 U.S.C. 2204(a)]

P-1 National Security Classified Information [(a)(1) of the PRA]
P-2 Relating to the appointment to Federal office [(a)(2) of the PRA]
P-3 Release would violate a Federal statute [(a)(3) of the PRA]
P-4 Release would disclose trade secrets or confidential commercial or financial information [(a)(4) of the PRA]
P-5 Release would disclose confidential advice between the President and his advisors, or between such advisors [a)(5) of the PRA]
P-6 Release would constitute a clearly unwarranted invasion of personal privacy [(a)(6) of the PRA]

C. Closed in accordance with restrictions contained in donor's deed of gift.

PRM. Removed as a personal record misfile.

Freedom of Information Act - [5 U.S.C. 552(b)]

(b)(1) National security classified information [(b)(1) of the FOIA]
(b)(2) Release would disclose internal personnel rules and practices of an agency [(b)(2) of the FOIA]
(b)(3) Release would violate a Federal statute [(b)(3) of the FOIA]
(b)(4) Release would disclose trade secrets or confidential or financial information [(b)(4) of the FOIA]
(b)(6) Release would constitute a clearly unwarranted invasion of personal privacy [(b)(6) of the FOIA]
(b)(7) Release would disclose information compiled for law enforcement purposes [(b)(7) of the FOIA]
(b)(8) Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
(b)(9) Release would disclose geological or geophysical information

Coalition-Building Concessions Made and Not Made
in Proposed Stenholm-Shaw II BILL
Family Choice and Child Care Improvement Act
March 13, 1990

CONCESSIONS MADE TO SOCIAL CONSERVATIVES:

Require states to have certificate (voucher) programs (also in S. 5).
Congressional affirmation that families may use certificates with child care providers that have sectarian activities (also in S. 5, SS-I (original, 10/5/89 Stenholm-Shaw amendment)).
Religious providers may require employee adherence to religious tenets or teachings (also in S. 5).
State exemption of religious providers from regulations would not affect those providers' receipt of federally funded payments (also in SS-I).
Phase out Dependent Care Tax Credit (DCTC) between $70,000 - 90,000 income (DCTC discriminates in favor of 2-income families)(also in SS-I).
Phasing out Flexible Spending Account (FSA) benefits (Dependent Care Assistance Programs, or DCAPs) between $70,000 - 90,000 income (to prevent upper-income taxpayers from replacing lost DCTC benefits with FSA benefits)(also in SS-I).
Supplemental infant (under 1) tax credit without double-dip with DCTC.
No new, freestanding grant programs that would limit family choice or discriminate against religious providers (e.g., public school-based, referral, "infrastructure (regulation)")(also in SS-I).
Overwhelming emphasis on tax credits (approx. 5/6 of package)(also in SS-I).

CONCESSIONS NOT MADE TO SOCIAL CONSERVATIVES:

Prohibition of double-dip in areas of EITC-DCTC overlap, other than new infant credit.
Tax credits for families with incomes above $22,000.
No federally-funded grants for formal day care (including earmark of Title XX).
Restraint from permitting federal day care grant money from going to public schools.
Guarantee that states must allow certificates to be used for care involving sectarian activities.
Explicit language allowing religious providers to refuse employment on the bases of infectious disease or conduct in violation of the organization's ethical/moral teachings (as opposed to "watered down" S. 5 language).
Guarantee that states must allow certificates to be used for care by grandparents.
Explicit allowance of preference in employment on the basis of religion. (Protections already exist under 2 provisions of 1964 Civil Rights Act Title VII & under S. 5 tenets language.)
Explicit allowance of preference in admissions of children on the basis of religion. (Convoluted S. 5 language allowing employment & admissions preference was compromise, due to original language in S. 5 prohibiting religions preferences.)

THE WHITE HOUSE

WASHINGTON

CHILD CARE MEETING

Wednesday, March 14, 1990
4:45 p.m.
Ways and Means Library
(1106 Longworth)

Congressional Participants:

Congressman Steve Bartlett
Congressman Mickey Edwards
Congressman Bill Goodling
Congressman Clyde Holloway
Congresswoman Nancy Johnson
Congressman Bob McEwen
Congressman Dick Schulze
Congressman Clay Shaw
Congressman Jim Slattery
Congressman Charlie Stenholm
Congressman Tom Tauke

Others:

Rod DeArment, Deputy Secretary of Labor