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**Using Vouchers to Deliver  
Social Services:  
Learning from the Goals,  
Uses, and Key Elements  
of Existing Federal  
Voucher Programs**

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## I. INTRODUCTION

Vouchers have been a feature of federally funded programs for decades, but in recent years policymakers have given special emphasis to issues of individual choice and broad provider participation in these programs. In a variety of program areas—including nutrition, workforce development, child care, and others—funding services through vouchers has created the opportunity for clients to choose among a range of providers and allowed government agencies an alternative to direct service provision. In some cases, these providers include faith-based organizations, which face fewer restrictions on religious activities when they receive funding through vouchers. Proponents also argue that using vouchers can increase competition among providers and as a result help improve service quality and client satisfaction. These perceived advantages have encouraged continuing efforts to expand the use of vouchers in public service provision.

In the context of public services, the term “vouchers” encompasses a wide variety of practices and program arrangements. A voucher may be provided in the form of a subsidy; a coupon or electronic credit for a specific service or commodity; an account that is debited for the purchase of certain types of assistance or goods; or in other ways. Broadly speaking, vouchers provide benefits of a capped value and for a designated purpose, and they offer recipients some flexibility in choosing the provider of the good or service. The portability of vouchers ties benefits to an individual client. In this way, vouchers contrast with grants or contracts, which generally dedicate a set amount of government funding to a specific provider.

In response to growing interest among policymakers in maximizing client choice and expanding the service delivery network to include faith- and community-based organizations (FBCOs) among an array of providers, the U.S. Department of Health and Human Services (HHS), Office of the Assistant Secretary of Planning and Evaluation (ASPE) has contracted with Mathematica Policy Research, Inc. (MPR) to conduct a study of voucher use and provider choice for clients in HHS programs. The study will explore four main issues: (1) the goals and policy contexts that shape voucher strategies in human services programs; (2) the extent to which vouchers (and other indirect funding mechanisms) currently are used in select HHS programs; (3) how voucher systems are implemented and the advantages and challenges they pose; and (4) lessons learned about using vouchers to expand service options available to clients, including services provided through FBCOs. The study will focus on two programs, Temporary Assistance for Needy Families (TANF) and the Child Care and Development Fund (CCDF). Research will be conducted through discussions with policy experts and agency administrators at the state and federal levels, and through in-depth visits to several sites where HHS programs currently use indirect funding to deliver services.

This paper serves as a primer for understanding vouchers and their role in delivering social services. We begin by summarizing the reasons for considering the use of vouchers and the motivations for promoting their expansion (Section II). We then present an overview on how vouchers currently are used in public programs, with an emphasis on HHS programs (Section III). Next, we look to the experience of existing programs to provide lessons about the design and implementation of voucher programs, and assess what is known about their outcomes (Section IV). We conclude by outlining next steps for research on vouchers, particularly in the CCDF and TANF programs (Section V).

## II. WHY USE VOUCHERS TO DELIVER SOCIAL SERVICES?

While the purpose and mechanics of vouchers may differ among programs, there are common reasons that a voucher-based system might be used to provide benefits. In this section, we describe the policy goals and economic rationales often cited for voucher programs. We then summarize the current legal and policy framework for voucher use, particularly as it applies to government funding of faith-based organizations (FBOs) and the nature of the services they provide.

### A. Goals of Voucher Use

Policymakers have advanced a variety of reasons for using vouchers. Steuerle (2000) provides a valuable summary of these goals, which include the following.

**Promoting Client Choice.** Vouchers enable clients to take part in selecting their own service provider. By making benefits portable and engaging a variety of providers, voucher programs may facilitate clients' access to services that meet their individual preferences or needs. In some policy areas, vouchers are promoted as a means of achieving greater fairness through choice, especially by providing individuals an alternative to publicly provided services. For example, some advocates of school vouchers argue that they help redress inequalities between low-income and wealthy families by allowing low-income children who would otherwise attend low-performing public schools to select private schools instead.

**Promoting Competition and Service Quality.** By increasing the number of providers of a publicly financed service, voucher programs can generate competition among them for clients and funding. This competition may promote diversification of services and improvements in service quality as providers seek to be responsive to customer needs and distinguish themselves to attract voucher holders. Some voucher proponents argue that the benefits of competition can extend to public as well as private providers by encouraging government agencies to make improvements in their operations and services as they vie with private organizations for clients and funding.

**Focusing Purchasing Options.** Providing beneficiaries with cash benefits gives them the greatest flexibility in determining how to meet their own needs. However, publicly funded programs generally have a strong interest in helping beneficiaries access a particular good or service that the government deems appropriate to meet specific needs. Unlike benefits provided in cash, the purchasing power of vouchers can be restricted to certain goods or services. Benefits received through the Food Stamp Program, for instance, cannot be used toward the purchase of alcohol, hot foods, or nonfood items. Policymakers also may exercise some control over service delivery by establishing a list of authorized providers, or requiring that providers be approved by a government agency. Such requirements can help ensure that the services clients purchase meet certain quality standards.

**Controlling Program Expenditures.** Because vouchers typically have a maximum benefit amount, they can be a tool for limiting per-client program costs. Costs also can be controlled over time if the value of the voucher does not increase. Overall program expenditures may still rise, however, if there is no cap on the number of clients who receive

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the benefit. In addition, under certain circumstances, the introduction of vouchers may contribute to price increases by increasing demand for targeted goods or services.

**Replacing Other Methods of Providing Assistance.** Vouchers can facilitate a shift away from government provision of services and toward other methods. Giving clients access to private providers may reduce or eliminate the need for government to offer those services directly. For instance, housing assistance for low-income families is often provided now through subsidies rather than housing projects owned and operated by government agencies.

**Including Faith- and Community-Based Organizations in Service Delivery.**<sup>1</sup> In recent years, vouchers have been endorsed by some advocates and policymakers as a means of including more FBOs among the service providers available to clients and offering FBOs more flexibility in determining the character of services they deliver. When FBOs receive direct government funding for services (through contracts), they must segregate inherently religious activities from services supported with government funds. However, court rulings have affirmed that FBOs receiving federal funds through vouchers or other indirect funding mechanisms may provide services with religious content when clients also have a choice of a secular provider (as detailed below). For those who believe that faith-infused services offer advantages in such areas as substance abuse treatment, the opportunity for clients to choose sectarian providers makes voucher-based approaches attractive. In addition, using vouchers has the potential to help involve small, community-based organizations in the service delivery system. Organizations that lack the capacity to manage a large federal contract may be more willing to participate in a voucher-based system if the system's reporting and monitoring requirements appear to be less burdensome.

## **B. Legal and Policy Context**

The use of vouchers for some types of social services has been a subject of considerable debate. While issuing vouchers for commodities such as food and housing is widely accepted, other uses, such as subsidizing tuition at private primary and secondary schools, have been controversial. At the center of many of these debates are questions of the government's relationship with religious organizations, and the circumstances under which it is permissible for religious organizations to receive public funding. Recent federal policy initiatives have encouraged collaboration between government agencies and faith-based organizations. At the same time, the legal landscape governing voucher programs and faith-based providers differs at the federal and state levels.

### **1. Charitable Choice and the White House Faith-Based and Community Initiative**

Charitable Choice provisions and the White House Faith-Based and Community Initiative have encouraged the use of vouchers and other strategies to promote inclusion of FBOs among providers of services funded by the federal government. Charitable Choice

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<sup>1</sup> This motivation is not specifically mentioned in Steuerle (2000).

provisions initially were incorporated into the 1996 Personal Responsibility and Work Opportunity Reconciliation Act (PRWORA) to establish affirmative rules for the inclusion of FBOs as service providers in the TANF program and to allow participating FBOs to maintain their religious identity. Later legislation applied these rules to additional programs, such as the Substance Abuse Prevention and Treatment Block Grant (SAPT). Under Charitable Choice rules, states that receive block grant funds and use nongovernment organizations to provide services must ensure that FBOs are given an equal opportunity to compete for government funding and are treated in the same manner as secular organizations in the application process. The provisions also clarify that organizations receiving *direct* funding may not use these funds for such religious activities as worship or proselytizing. However, an organization that receives funds *indirectly* does not need to separate religious activities from government-funded services.

The Bush Administration's Faith-Based and Community Initiative has further promoted FBCOs as providers of federally funded services. This initiative aims to lower barriers to FBCO participation in federal grantmaking and encourages the creation of programs that provide opportunities for FBCOs to partner with government agencies in providing services. The administration launched its effort in 2001 with an executive order creating the White House Office of Faith-Based and Community Initiatives. Additional executive orders followed, creating Centers for Faith-Based and Community Initiatives in federal agencies and directing agencies to audit policies and practices that had the effect of discouraging or disadvantaging participation of FBCOs in providing federally funded services. In pursuing the goals of the initiative, the administration also has endorsed such voucher-based programs as HHS's Access to Recovery, which engages FBOs as providers of substance abuse treatment and recovery services and allows them to offer faith-infused services purchased through vouchers.

## **2. The Establishment Clause and Distinctions Between Direct and Indirect Funding**

Recent court rulings regarding government support for religious organizations have held that the way in which financing is provided to FBOs—directly or indirectly—is an important factor in determining the scope of activities that religious organizations are permitted to undertake with federal funding (Lupu and Tuttle 2005; Roundtable on Religion and Social Policy 2003). These rulings address the Establishment Clause of the First Amendment of the U.S. Constitution and its prohibition on laws “respecting the establishment of religion, or prohibiting the free exercise thereof.” Current constitutional law requires that any program or service directly supported by the government through grants or contracts must be free of religious content. However, this restriction does not apply to programs or services funded indirectly through such methods as vouchers.

In a 2002 case involving a Cleveland school voucher program, *Zelman v. Simmons-Harris*, the Supreme Court upheld the constitutionality of the program and affirmed that federal funds may support such inherently sectarian activities as religious instruction when financing occurs through beneficiary choice. The *Zelman* ruling held that indirect funding of providers offering faith-infused services is permissible as long as beneficiaries can freely choose among



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providers and have the option of selecting a secular provider. The program also must be neutral toward religion; that is, it must serve a secular purpose and define its providers and beneficiaries in nonreligious terms. For example, the government cannot provide education vouchers expressly for the purpose of expanding access to private Catholic schools.

Although *Zelman* established a standard permitting indirect funding of services that include inherently religious activities, questions remain regarding the application of this standard in other program contexts. A voucher program involving FBOs may raise constitutional concerns if it does not provide a true opportunity for beneficiaries to choose among secular and sectarian providers. This concern is likely to be less weighty in a program that involves a broad range of numerous providers, such as federal financial aid for postsecondary education. However, it may be relevant in a program where there are a limited number of providers that operate in a particular geographic area, and that must be authorized or accredited by a government agency (Roundtable on Religion and Social Policy 2003). In such contexts, the ability of beneficiaries to freely opt for equivalent services from a secular provider and the government's role in selecting eligible providers without respect to religion could come under scrutiny.

### **3. State-Level Policy and Blaine Amendments**

At the state level, the policy and legal environments for using vouchers vary, particularly regarding funding of FBOs. In cases where states administer federally funded programs, this distinct political and legal context may affect whether states use federal funds to pursue voucher-based programs that include FBOs. In addition, Charitable Choice provisions do not preempt state laws or constitutional provisions that restrict the provision of *state* funds for religious organizations. While many state governments have pursued collaboration with FBOs, in general the faith-based initiative has not progressed as rapidly at the state level as among federal agencies (Ragan 2005). Nevertheless, a recent survey of Charitable Choice contracting practices indicates that, as of 2004, a majority of state TANF and SAPT agencies had contracts with FBOs (Jacobson et al. 2005). According to the Roundtable on Religion and Social Policy's 2005 scan of state practices, about two-thirds of states now have individuals or offices that act as liaisons to FBOs, and more than half have taken significant steps to engage FBOs as service providers. Yet just 10 states were reported as having actually modified contract processes in order to engage smaller providers, including FBOs.

Some state constitutions impede government funding of FBOs, whether through direct or indirect methods. Thirty-seven state constitutions include provisions, known as "Blaine Amendments," which prohibit public funds from supporting sectarian schools, and court rulings have affirmed these provisions. Florida courts struck down a statewide school voucher program in 2006, declaring that the program was unconstitutional (although the Florida Supreme Court based its decision on constitutional provisions other than the state's Blaine Amendment). In addition, the U.S. Supreme Court's 2004 ruling in *Locke v. Davy* held that states may restrict public funding for religious activities to a greater extent than the U.S. Constitution requires. While the Blaine Amendments and these court cases specifically address tuition vouchers, it is possible that the principles expressed could apply to other social services as well (Lupu and Tuttle 2004; Lupu and Tuttle 2006).

Constitutional considerations notwithstanding, state agencies do use vouchers to provide public services, and some of those using indirect funding include FBOs among the service providers that beneficiaries may choose. As described in the next section, states have implemented a number of federally funded programs that primarily use vouchers to deliver services, including CCDF subsidies, Medicaid Cash and Counseling, and Individual Training Accounts (ITAs). In other areas—such as TANF and SAPT—the extent of voucher use and their specific purposes have not yet been measured or fully understood.

### **III. HOW ARE VOUCHERS CURRENTLY USED IN FEDERAL PROGRAMS?**

Among the longest running federal voucher programs are those that meet basic needs and those that support higher education. The current version of the Food Stamp Program was established in 1964, and the Section 8 Housing Assistance Program, in 1974. These programs were created mainly to help low-income families receive meet the basic expenses of daily life. In the case of housing, the introduction of the voucher approach also reflected a shift away from providing low-income housing assistance through government-built and -operated housing projects. Support for education has long been a basic tenet of American life, and the creation of Pell Grants in 1965 was a step toward providing greater access to postsecondary education. As described in Section II, later movements to introduce vouchers in additional program areas have been motivated in large part by such goals as promoting customer choice and expanding the subsidized service delivery network to include faith-based and community organizations, and informal providers. Informal providers include, for example, family members, neighbors, or friends who provide care for a child or for an elderly or disabled adult.

Today, vouchers are used across a range of publicly funded programs, as summarized in Table III.1 (see page 8). Our scan of current voucher programs includes only federally funded initiatives, and the program information in the table is organized by federal funding agency. The programs presented in our overview assist customers with expenses related to basic needs (food stamps and housing vouchers), education (Pell Grants and the DC Scholarship Program), training and employment services (ITAs, Personal Reemployment Accounts, and Ticket-to-Work), child care (CCDF), personal assistance services (Medicaid Cash and Counseling), and substance abuse treatment (Access to Recovery). In our discussion, we give particular attention to the current scope of voucher use in programs funded through HHS. (We do not include the TANF and SAPT programs in the table due to the limited information available on existing voucher initiatives in these programs.)

#### **A. Voucher Use in HHS Programs**

While this paper takes a broad look at federally funded voucher programs, its particular focus is to assess how vouchers may be used to maximize client choice in the delivery of social services and, more specifically, in programs under the auspices of the HHS. Current voucher use in HHS programs falls into three categories: (1) established voucher programs, (2) programs incorporating voucher strategies, and (3) voucher initiatives not yet implemented.

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**Established Voucher Programs.** These include the CCDF and the Medicaid Cash and Counseling program. Both programs were introduced in the 1990s and expanded client choice by broadening access to a range of providers, such as informal providers (in both programs), and family child care and faith-based providers (in CCDF). At this time, both programs have achieved a “steady state” in operations, although participation by states varies. Every state is required to provide child care vouchers under CCDF; 15 states now participate in the Cash and Counseling program.

**Programs Incorporating Voucher Strategies.** Like CCDF, TANF and SAPT funding is provided to states through block grants. Under both programs, the authority exists to use vouchers as a payment mechanism for services. Unlike CCDF, however, neither the TANF nor the SAPT block grants require states to use voucher strategies. At this time, little information is available to assess the extent of voucher use in these programs and, when used, what specific services they purchase. Some state and local TANF programs offer TANF recipients, or potential recipients, vouchers to support basic needs such as food, clothing, or shelter. These voucher programs often are targeted toward recipients who have immediate needs but who can be diverted from ongoing TANF assistance, who have reached TANF time limits without finding employment, or who have additional children while on TANF and do not qualify for more assistance under family cap provisions. Rather than broaden the service options available to clients, however, these uses often limit clients’ options because they generally replace cash assistance. They also are not primarily intended to help grow the service delivery network by including a broader array of service providers. In this study, we look to TANF voucher programs that expand client options for services such as intensive case management, job search assistance, or job skills training.

**Voucher Initiatives Not Yet Implemented.** Recent reauthorizations of the Promoting Safe and Stable Families Act and the Older Americans Act have included provisions for two additional voucher programs within HHS. The first program, Mentoring Children of Prisoners, provides funds to help link children of incarcerated parents with mentors who can provide positive adult role models and guidance. The program has existed since 2003 but will add a voucher demonstration program to its traditional grant-based model. Under the voucher demonstration, an intermediary organization will help match youth with mentoring programs and administer a stipend associated with each youth. The second program, Choices for Independence, is a demonstration promoting consumer choice of long-term care options. The program will give elderly beneficiaries the flexibility to use financial assistance they receive to access home- and community-based services, insurance, prevention and disease-management interventions, and other resources. Resource centers will help beneficiaries make informed decisions. It may be some time before the Mentoring Children of Prisoners and Choices for Independence programs actually begin administering vouchers, as both are in the early stages of planning and implementation.

**Table III.1. Key Characteristics of Federally Funded Voucher Programs**

Program	Services Offered and Level of Administration	Timing of Voucher Implementation	Eligible Population
<b>Nutrition (U.S. Department of Agriculture)</b>			
Food Stamp Program	<p>Nutrition assistance to purchase household foods, or seeds and plants that produce foods.</p> <p>Administered at state level.</p>	<p>Since program establishment. Recipients initially purchased food stamps with the value of stamps exceeding their cost. Purchase requirement eliminated in 1977.</p>	<p>Households with incomes under 130 percent of the FPL and \$2,000 or less in countable resources (\$3,000 if a household member is over 60).</p>
<b>Housing (U.S. Department of Housing and Urban Development)</b>			
Housing Choice Vouchers (Section 8)	<p>Assistance with the lease or purchase of affordable privately-owned housing.<sup>a</sup></p> <p>Administered by local public housing authorities.</p>	<p>Established as a certificate program in 1974, to shift away from public provision of housing.</p> <p>Vouchers with no limits on rent ceilings introduced in 1987.</p> <p>Two programs merged in 1999.</p>	<p>75% of vouchers awarded to families with incomes below 30 % of area median; remainder awarded to families with incomes not exceeding 50% of area median.</p>
<b>Education (U.S. Department of Education)</b>			
Pell Grants	<p>Need-based grants for postsecondary education.</p> <p>Administered at federal level.</p>	<p>Federal scholarships for needy students established in 1965, with postsecondary institutions making award decisions. Government began making grants directly in 1972, offering recipients more choice of institution.</p>	<p>No absolute income threshold, but recipients are primarily low-income.</p>
District of Columbia Opportunity Scholarship Program	<p>Scholarships that cover tuition, fees, and transportation expenses to support attendance in non-public primary and secondary schools.</p> <p>Administered by the Washington Scholarship Fund, a nonprofit organization.</p>	<p>At program establishment in 2004.</p>	<p>Children currently attending public schools in families with incomes under 185% of FPL. Applications from students currently attending low-performing public schools receive priority.</p>

Table III.1 (continued)

Voucher Amount and Payment Mechanisms	Service Provider Requirements	Types of Participating Providers	Consumer Information/ Counseling
Benefits depend on household size. Average monthly benefit was \$200 in FY 2004.  Electronic Benefits Transfer cards.	Retailers must meet stock and inventory requirements.	Any licensed retail food store.	Some agencies provide nutrition education to participants.
Payments made directly to landlords at beginning of each month. Average monthly subsidy is \$500.  Recipients must pay at least 30% but not more than 40% of monthly income toward rent and utilities.	Units must meet requirements for health and safety, "reasonable" rent, and dwelling size.	Private landlords, private organizations that develop and manage housing, public housing authorities.	Agencies and organizations administering vouchers provide information on available rental units.
Maximum total value of \$4,050.  Funds paid prospectively to institutions, which then disburse them to students or credit students' accounts.	Institutions must be accredited and offer certificate and degree programs.	Approximately 5,400 postsecondary institutions, including public, private, and sectarian.	Materials available to help applicants choose postsecondary institutions and create plans to finance education.
Up to \$7,500 per academic year.  Funds paid to families and signed over to schools. Schools receive payments in three installments, after proof of student enrollment.	Schools must be located in the District of Columbia and approved for participation in the program.	Approximately 68 non-public primary and secondary schools in the District of Columbia, including both secular and sectarian schools.	Directory of participating schools includes information on location and special programs offered. Annual fair for parents to meet school representatives.

Table III.1 (continued)

Program	Services Offered and Level of Administration	Timing of Voucher Implementation	Eligible Population
<b>Employment/ Workforce Development (U.S. Department of Labor)</b>			
Individual Training Accounts	<p>Assistance with tuition, fees, books, and supplies for training programs.</p> <p>Administered by state workforce development agencies and local workforce investment boards.</p>	At program establishment in 1998.	<p>Dislocated workers or employed workers who need assistance to achieve self-sufficiency (as locally defined).</p> <p>Training limited to clients unable to meet employment goals through less intensive services.</p>
Personal Reemployment Accounts	<p>Broad range of reemployment services (career counseling, assessment, training, supportive) and/or bonuses for employment entry and retention.</p> <p>Administered by state workforce development agencies and local workforce investment boards in seven pilot states.</p>	At program establishment in 2005.	Unemployment Insurance recipients identified as likely to exhaust their benefits.
<b>Employment/ Disability Services (Social Security Administration)</b>			
Ticket-to-Work	<p>Purchase of employment services, vocational rehabilitation, and other support services to support a return to work.</p> <p>Administered at the federal level.</p>	At program establishment in 1999.	Disability Insurance and Supplemental Security Income recipients who voluntarily decide to pursue employment.

Table III.1 (continued)

Voucher Amount and Payment Mechanisms	Service Provider Requirements	Types of Participating Providers	Consumer Information/ Counseling
<p>Value varies by individual; typical amount is about \$3,000. State/ local discretion to establish caps and limit duration.</p> <p>Payments made prospectively to training providers by One-Stop Career Centers.</p>	<p>Providers must meet standards established by states to be placed on Eligible Training Provider list for selection. Some states require providers to offer programs leading to a certificate or degree.</p>	<p>Public and private nonprofit or for-profit training providers.</p>	<p>Sequence of service requirement that customers receive career counseling prior to approval and receipt of training voucher.</p>
<p>Capped accounts of \$3,000 fully available to the customer for one year.</p> <p>Mix of vendor payments and reimbursements to account holders for allowable expenses. Recipients who find employment by 13th week of UI benefits and retain employment for 6 months can “cash out” remaining account value.</p>	<p>No requirements for providers.</p>	<p>No restrictions on type or mix of providers; public (One-Stop Career Center), private, non-profits, including FBOs.</p>	<p>No counseling or consumer education.</p>
<p>Maximum value is \$19,680 (outcome only) or \$16,723 (outcome-milestone).</p> <p>Providers choose payment method: “outcome only” is one payment when the beneficiary gains employment and leaves the disability rolls or “outcome-milestone” that is multiple payments based on earnings increases and a final payment upon departure from disability rolls.</p>	<p>Providers may be any private entity, or state or local government agency that offers return-to-work services for people with disabilities.</p>	<p>State vocational rehabilitation agencies and a range of local and nationwide public and private providers.</p>	<p>Call center and website provide beneficiaries program and provider information.</p>

Table III.1 (continued)

Program	Services Offered and Level of Administration	Timing of Voucher Implementation	Eligible Population
<b>Social and Human Services (U.S. Department of Health and Human Services)</b>			
Child Care and Development Fund (Block grant)	Subsidies for child care to allow parents to work or attend school.  Administered at state level.	Specific authority for voucher use in Family Support Act of 1988, although some states made use of vouchers prior to 1988. Child Care Development block grant legislation in 1990 required the use of vouchers. CCDF created through welfare reform legislation in 1996.	Families with incomes up to 85% of state median in which the parents are working or in school. States have flexibility to set additional criteria to further restrict eligibility to targeted families.
Medicaid Cash and Counseling	Purchase of personal assistance services, including help with bathing, cooking, housekeeping and other needs.  Funded in conjunction with the Robert Wood Johnson Foundation. Active in 15 states, which administer the program.	At program establishment in 1998.	Varies among states. Includes Medicaid recipients eligible for personal services, elderly individuals eligible for state community care programs, adults with disabilities.
Access to Recovery	Purchase of substance abuse treatment and recovery support services.  Administered by 14 states and 1 tribal organization.	At program establishment in 2004.	Grantees establish eligibility criteria. Target populations include youth, drug court clients, probation clients, and others.

Sources: Posner et al. 2000; Thornton et al. 2004; Kirby 2006; U.S. Department of Agriculture; U.S. Department of Education; U.S. Department of Health and Human Services; U.S. Department of Housing and Urban Development; U.S. Department of Labor.

<sup>a</sup>In some cases, housing vouchers can be used toward monthly mortgage and homeownership expenses.

<sup>b</sup>Two- and three-party checks to providers and cash to beneficiaries also used in some states. Some child care subsidies are provided through direct contracts with providers. CCDF does not have to be a solely voucher-based program, even while it must offer vouchers to families who request them.

FPL = Federal poverty level.



Table III.1 (continued)

Voucher Amount and Payment Mechanisms	Service Provider Requirements	Types of Participating Providers	Consumer Information/ Counseling
<p>States have flexibility to set maximum reimbursement rates (based on market rate surveys) that vary by age of child and care setting. Family copays are based on family size and income and can be waived for families whose incomes are at or below the poverty level.</p> <p>Vendor direct payments based on certificates.<sup>b</sup></p>	<p>Parents can choose any legally operating child care provider. States establish basic health and safety standards for providers.</p>	<p>Child care centers, family home providers, informal care provided by friends/relatives/ other individuals in child's home or home of provider. Can include faith-based organizations, which may be exempt from state licensing rules.</p>	<p>Consumer education required by CCDF legislation. All states contract with public or private entities to provide resource and referral information to families.</p>
<p>Value varies according to individual beneficiary's monthly budget.</p> <p>Fiscal agents or beneficiaries (if able) make payments to providers after services delivered. Beneficiaries may be charged for service of the fiscal agent.</p>	<p>Must be U.S. citizens or legal aliens with a Social Security number. Must be able to communicate successfully with the participant.</p>	<p>Providers may be relatives (other than a guardian or spouse in some states), friends, or professional caregivers.</p>	<p>Counselors help beneficiaries create a spending plan. Assistance with fiscal services also available.</p>
<p>Amount depends on services required.</p> <p>Providers are paid by billing against electronic vouchers. Grantees may also establish financial incentives based on client outcomes.</p>	<p>State grantees determine provider eligibility criteria. Treatment providers generally required to be licensed or certified; recovery support providers are not.</p>	<p>Program requires involvement of faith-based and community-based organizations, along with other public and private providers.</p>	<p>Assessment agency or case manager may help beneficiaries choose services and providers.</p>

## B. Key Characteristics of Federal Voucher Programs

Voucher programs offer great flexibility in program design and administration. The policies and procedures defined for a particular program can help tailor it to reflect policymakers' priorities, and may have implications for the program's effectiveness (McConnell et al. 2005). Policymakers can shape a voucher program through decisions regarding several key elements. In this section, we present the key elements in voucher program design and administration and provide illustrative examples from existing voucher programs across federal agencies, drawing from information presented in Table III.1.

**Voucher Quantity and Value.** Program expenditures can be controlled and resources rationed by limiting the number of vouchers available and by managing the benefit amount. Among the considerations in determining the number of vouchers to offer may be the size of a program budget, policymakers' willingness to tolerate unmet demand and waiting lists in order to achieve cost savings, and the capacity of existing providers to serve additional voucher beneficiaries. A program may offer vouchers of the same value to all beneficiaries. For example, food stamps are provided at a set amount each month based on household size, and PRAs are capped accounts of \$3,000 available in full to all customers to support their reemployment needs for up to one year. While standardizing the value of the voucher simplifies program administration, it may come at the cost of focusing resources on those with greater need. A more common approach to vouchers is to set a ceiling amount, but attempt to tailor the value to an individual beneficiary's needs or proposed uses. The majority of the programs summarized in Table III.1 take this approach. The amount of the voucher provided to each customer depends on the cost of services provided and other financial resources available to the customer (e.g., Pell Grants and ITAs), or on the type of care selected, ideally based on some tie to market value (e.g., CCDF).

The Ticket-to-Work program has an unusual approach in setting the voucher amount and ultimate total value. Essentially, this program is a performance-based voucher program so that payments to providers are tied to customer outcomes, such as earnings increases and/or leaving the disability rolls. Performance-based contracting has become a popular route by which private providers can be held accountable in the provision of public services because payment points are tied with certain milestones, often related to program recruitment, participation, progress, and outcomes. While this payment structure helps to increase accountability for providers, when combined with a voucher approach it also may create an especially unstable payment stream for them. Under contracts, providers are typically assured of some referral or intake flow of customers to help ensure a base level of compensation; in contrast, vouchers are an inherently less stable funding source since there is no way to predict how many clients will choose specific providers.

**Payment Mechanisms.** There are two decisions policymakers must make about the method of payments under voucher programs: (1) the recipients of the payments—providers or beneficiaries and (2) the timing of the payments—before or after service receipt. The Food Stamp Program, for instance, provides resources directly to beneficiaries in the form of an electronic benefit transfer card. Beneficiaries receive the payment in advance for the purchase of food items throughout the month. This approach is well-suited for

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commodities or services that are widely accessible. Under the PRA, beneficiaries may receive direct payments based on invoices or receipts for services, or documentation of employment for a cash bonus. Rarely, however, is the full \$3,000 paid directly to the beneficiary at one time. Most federal voucher programs take the alternative approach, in which payments are directed to the provider of choice. Making payments to providers can be a way to reduce the potential for misuse of the vouchers, as clients do not actually handle or manage the funding, but fraud may still occur if providers do not bill accurately for their services (Posner et al. 2000). Still, there is variation in the timing of voucher payments. Housing and education and training vouchers are typically provided prospectively to meet housing expenses for the upcoming month, or to pay program tuition up front, respectively. These programs model the timing of payment after the private-pay market. Other programs rely predominantly on retrospective payments to providers for services rendered, as in Medicaid Cash and Counseling and Ticket-to-Work. The CCDF program is an example of a retrospective payment schedule that is in direct contrast to the practices of the private, nonsubsidized child care market, in which most parents must make payments in advance of receiving child care services.

**Provider Qualifications.** The standards that a program establishes for providers reflect a balancing of two objectives: ensuring the quality of services or goods accessed through the program, and promoting client choice. Setting a high standard for service providers may help to safeguard clients (for example, by preventing them from using vouchers to rent substandard housing). It may also increase the chances that government funds will be used for services that produce positive results (if a government agency only approves training providers that demonstrate an ability to help clients become employed, for instance). Yet these standards also may have the effect of limiting the supply of providers and services, and so constrain client choice. The presence or absence of an existing and adequate supply of providers thus may influence the stringency of requirements that program designers impose for participation.

Most of the programs summarized in Table III.1 set some criteria for provider participation. They often maintain a list of “approved” providers (e.g., the Eligible Training Provider list for ITAs) or follow state standards for licensing or registration of providers (e.g., for child care providers). However, there is substantial variation in provider requirements and minimum quality standards, both across and within programs. For example, state and local workforce agencies offering ITAs may choose to impose specific provider performance standards that determine providers’ eligibility for participation (although in practice few agencies do so) (D’Amico and Salzman 2004). Agencies also have the option of deciding whether or not to require providers to be licensed, a requirement that generally is imposed. One factor behind variation in provider requirements at the local level may be the supply of training programs and providers.

Provider qualifications for a voucher program may also be influenced by the breadth of the services offered and the formal versus informal nature of these services. For example, the PRA can be used for such a broad range of reemployment services that setting provider qualifications would be too onerous for program operators. Similarly, when services are provided more informally by an individual—such as a family member, friend, or other

person—in the home of the beneficiary or in the provider’s home, it can be difficult to set and monitor appropriate standards beyond basic health and safety. Informal providers in the Medicaid Cash and Counseling program and CCDF program may face limited requirements for participating in those voucher programs (although requirements can vary from state to state).

**Information and Counseling for Beneficiaries.** The expected advantages of vouchers rely on the premise that clients make informed choices among providers. Program designers must decide whether and how to assist beneficiaries in making these selections. Clients’ need for assistance generally depends on the characteristics of the good or service being provided. In choosing where to use food stamps, for instance, a beneficiary may require only a list of grocery stores in their area that accept the vouchers. To select a school or child care provider, however, clients need to know more detailed information about the relative advantages of different educational programs or types of child care settings for their specific family circumstances and child needs, and about the standards that define quality that are appropriate for the type of program or care setting they are considering.

Only a few of the federal voucher programs include a formal counseling or consumer education component; even so, the delivery of these services is not necessarily consistent within programs. Access to an ITA includes a “sequence of service” that requires some one-on-one career counseling prior to ITA approval. This counseling is intended to focus beneficiaries on training programs that will produce the highest return in terms of the cost of the program relative to potential employment and earnings. Program choice still falls largely to the beneficiary, but there is intent by the program to inform this choice. A recent study that rigorously tested different intensities in the counseling component found no significant differences in overall training and employment outcomes based on the approach (McConnell et al. 2006). Personal interest in and motivation for training may be important driving factors in and of themselves.

When services are provided to third-party beneficiaries who cannot make personal selections themselves, or in the context of a broader service plan, consumer guidance in selecting providers can be particularly important. For example, parents must make decisions about child care arrangements, but they do not experience the direct service themselves. They must rely on what they can learn about the program and their own perceptions. Of course, they also must weigh the importance of a range of other factors, including affordability and flexibility. Under CCDF, states are required to have procedures in place to provide consumer education and a network of Child Care Resource and Referral Agencies (CCR&Rs) is available to provide information to parents to inform child care decisions. Yet, given the broad discretion that States have to implement CCDF programs, there can be variation in the content and consistency of consumer education. In Access to Recovery programs, case managers or specialists typically guide clients in creating a substance abuse treatment and recovery plan, and then in selecting among available providers to address their specific needs. Medicaid Cash and Counseling also offers substantial support to clients in determining what personal assistance services are needed, and in creating a budget for those services.

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**Types of Providers.** Voucher programs intended to broaden the choices available to beneficiaries ideally will include a broad array of approved providers. These may include public providers (such as One-Stop Workforce Centers for the PRA or state vocational rehabilitation agencies for Ticket-to-Work employment services), private for-profit providers (such as grocery stores for food stamps, property management companies for housing vouchers, or child care centers under CCDF), private nonprofit organizations (such as postsecondary educational institutions receiving Pell Grants or ITAs, or private primary and secondary schools in the District of Columbia), and faith-based organizations (such as faith-affiliated child care centers or substance abuse treatment and recovery programs). Vouchers have the potential to expand the diversity of providers, specifically to informal providers, to faith-based organizations that include religious content in the delivery of services and to small, community-based organizations that may not have the capacity to manage a large government grant. The actual level of provider participation, however, may depend on the types of entities that already comprise the service delivery structure and the policies about reimbursement rates and qualifications that can make the voucher program more or less attractive to service providers. Section IV explores the experiences of various voucher programs in this regard.

#### **IV. WHAT ARE KEY IMPLEMENTATION EXPERIENCES AMONG VOUCHER PROGRAMS?**

Whether voucher programs operate successfully depends in large part on the ways they address design issues related to engaging service providers, informing clients, valuing and allocating vouchers, and managing payments. In describing implementation findings, we structure our observations around these issues. We first examine experiences in the CCDF program in order to provide context for the current study of vouchers in HHS programs. As a block grant program, CCDF provides flexibility to states to structure their own policies and procedures and there is a great deal of variation across the states in the many aspects of child care subsidy policy and administration, as well as provider and family experiences with the subsidized system. Nonetheless, there are some overarching issues and considerations regarding voucher use from the CCDF experience that can be helpful when thinking more broadly about the use of vouchers in delivering social services. We then draw lessons from studies of several other federally funded programs, including Medicaid Cash and Counseling, Ticket-to-Work, ITAs, and the DC Opportunity Scholarship program. Finally, we consider evidence on whether voucher programs help achieve goals related to client satisfaction, provider diversity, and service quality.

##### **A. Vouchers and Child Care Assistance**

Vouchers (or certificates) have been widely used to subsidize child care for low-income families since the early 1990s and longer in some states. Prior to 1988, child care assistance was provided to families on welfare through funds associated with the Aid to Families with Dependent Children program and primarily through the Social Services Block Grant for nonwelfare, low-income families. Under these funding sources, states had the flexibility to determine the payment mechanism to use in providing families with child care assistance. The Family Support Act of 1988 officially expanded child care assistance to families transitioning off of welfare (for up to 12 months) and encouraged states to use vouchers as a

payment mechanism to subsidize care. The Child Care and Development Block Grant legislation in 1990 specifically required that states establish voucher programs, but allowed states to maintain contracted slots as well. Voucher use has greatly expanded since that time, and now under the integrated child care subsidy system created with the CCDF in 1996, vouchers are the primary mechanism through which low-income families (on or off welfare) receive support to meet their child care expenses. In federal fiscal year 2005, 89 percent of children served through child care subsidies had their care supported through vouchers or cash rather than contracted slots (Child Care Bureau 2006).

The use of vouchers in child care provides particularly valuable lessons about their role in promoting customer choice and expanding the service delivery network to provide social services. Perhaps the main lesson we can derive from the child care arena is that the choice of a payment mechanism and the appropriateness of the use of vouchers is not a simple decision. First, there is a decision about the weight that customer choice carries in a particular service area. Second, there is a decision about how best to maximize choice, which is not always as straightforward as giving the customer the monetary means to select a provider. Below, we highlight lessons from the child care experience in five areas.

### **1. Assessing the “Fit” of Vouchers with Program Goals**

The goals of the child care subsidy system, as included in the CCDF law, are to promote informed parental choice; provide child care to parents trying to become independent of public assistance; and implement health, safety, licensing, and registration standards established in state regulations. To put it in simple and widely used terms, the goals are to promote choice, availability, affordability, and quality in the care of children in low-income families. However, achieving these goals is not simple at all. In fact, child care subsidy policy is complex because the pursuit of one goal often adversely affects another. For example, raising the subsidy (or reimbursement) rate that the government will pay to child care providers to increase the percentage of the market that low-income families can access (which supports choice) may result in the sacrifice of serving fewer families, thus decreasing the affordability of care for some.

Any social service program considering the use of vouchers will need to weigh the relative trade-offs between promoting customer choice and supporting other program goals. In subsidized child care, parental choice is an important and necessary goal, and vouchers are an integral component in achieving this goal. Family circumstances (e.g., number and age of children, family structure, and support networks), parental preferences for types of care, and work schedules all meld together in child care decisions to create wide variations in the arrangements families make. Vouchers provide families with the flexibility they need to select from a broad array of care settings and provider characteristics (including friends, relatives, centers, family home care, and religiously oriented programs). Also, their portability with the child allows for different care arrangements for different hours (e.g., extended hours or weekend care) and eases any transitions between types of care or specific providers.

Yet while the use of vouchers in providing child care assistance now goes without question, the extent of the role of vouchers in meeting program goals is still a matter of some debate. States have a great deal of flexibility in setting policy and determining program design under the CCDF and the extent of use of a particular payment mechanism is but one of the many ways that states vary in providing child care assistance to families. The majority of states (at least 32) have gone full-force with vouchers, using them alone or in combination with cash to pay for the care of all children in the subsidy system. Other states continue to use grants and/or contracts to subsidize care for specific groups of children, often targeted by age (e.g., infant/toddler care), geographic location (e.g., rural areas), or special needs (e.g., those in child protective services) (Schumacher et al. 2003). Vouchers as a funding mechanism may provide parental choice, but if the supply of child care services in a particular geographic area or for a targeted group is low, or the cost is prohibitive, then the actual range of choices available to low-income families may be limited. Under these circumstances, contracts can be used to increase the availability and/or affordability of child care and, in turn, increase the choices for families.

Some child development experts, child care researchers, and policymakers have concerns that the use of vouchers comes at the expense of quality in child care. In theory, vouchers should increase competition among providers and force them to be responsive to consumer demands in order to attract the maximum number of customers. In the case of child care, the consumer demand for quality depends on how much parents value quality over other factors in their child care decision (e.g., closeness to home, price of care, type of care), what they know about how to assess quality (e.g., consumer education), the time and resources they have to make this assessment (for entry) and to report lapses in quality (to support monitoring), and their ability to make transitions between providers to satisfy their quality demands. Some argue that shortfalls in these components prevent a reliance on market responses alone to uphold quality, thus making vouchers an inadequate mechanism for promoting quality by themselves. Regardless of the extent of reliance on vouchers that states select, federal CCDF requirements call for each state to spend at least four percent of their total CCDF allocation on activities that are designed to improve the quality and availability of child care and to increase parental choice.

While there is a delicate balance between the goals of the subsidized child care system, the bottom line is that the vast range in family needs and parental preferences makes customer choice, and therefore the use of vouchers, an important component of the system overall.

## **2. The Size and Diversity of the Service Delivery Structure**

The child care subsidy experience suggests that the suitability of voucher use and ease of implementation may depend on the size and diversity of the existing service delivery structure. Specifically, vouchers may not provide the stability of resources to assist in *creating* a service delivery structure, but they can ease the entry of providers to *diversify* the subsidized system.

Contracts can be thought of as “supply side” subsidies that build, reserve, and maintain capacity through stable funding streams to new providers, or to those that provide specialized or enhanced services (Lookner 1995). When service structures are lacking or incomplete, contracts can help to build the supply of services so that customers will have access to them and, ultimately, expanded choices. As the demand for child care services has increased over the last few decades to support the entry of larger numbers of women into the workforce, the market has responded and the number of child care providers also has increased. By the time vouchers were introduced into the child care subsidy program, the service delivery structure was relatively strong and diverse in that there was already a large number of child care providers overall (albeit some markets serving low-income families in particular were lacking, and still are) and a wide range in the characteristics of providers (e.g., small and large entities; profit or nonprofit; and religiously affiliated, etc.).

Vouchers are “demand side” subsidies that give families the decision-making authority in choosing child care. When the service delivery structure is diverse, vouchers can provide the flexibility and portability to respond to parental preferences for types of care settings and to the varied needs of children (Lookner 1995). Specifically, vouchers can open up access by families to a broader network of *existing* child care providers by bringing them into the subsidized system. For example, because of child care vouchers, for the first time parents received subsidies to use informal providers—friends or family members who cared for their child—and received expanded access to faith-affiliated child care centers. These forms of care already were established and in use, but were previously outside the bounds of the contract-based subsidy system. For example, in the late 1980s, 60 to 70 percent of low-income children were cared for by a member of their extended family while their mother worked and parents often paid for this care through cash transactions or noncash barter arrangements (Mitchell et al. 1992). Also, vouchers can promote a dynamic child care market for low-income families because, without the time-lock of contracts, they allow easier entry of existing child care centers into the subsidized system and they require that providers are responsive to community and/or family needs in order to attract families (Ross and Kerachsky 1996).

### **3. Provision and Content of Consumer Education**

Vouchers are most effective in promoting customer choice when the supply of services is available *and* customers are provided with the information that promotes an informed decision. The important role of consumer education in supporting choice in the subsidized child care system has always been recognized, and CCDF legislation and the resulting regulations specifically require states to provide consumer education to parents. The child care experience highlights that there are two important implementation components in providing consumer education. The first component is working out the mechanics of information delivery to all parents. The second is ensuring thorough coverage, accuracy and consistency in the content of information provided to parents.

The subsidized child care system relies largely on CCR&Rs to provide families with consumer education. Between 1990 and 1992, when voucher use was greatly expanded, the number of CCR&Rs increased nationwide by almost one-third (Ross and Kerachsky 1996).



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There are now 850 CCR&Rs covering every state and most communities across the country (NACCRRRA 2006). However, the roles and level of involvement of the CCR&Rs in the subsidized child care system vary widely, from administering the subsidy program (under contract with the state child care agency) and providing enhanced referral services to families to no specific connection to the system at all. Access to consumer education can be limited by (1) the inability of child care agencies and/or CCR&Rs to make contact with every family under constrained resources and high caseloads; (2) a reliance on printed information that will not be used by parents with low literacy rates; and (3) assumptions that families with providers selected at the time of subsidy application do not need, and therefore rarely receive, consumer education information. For example, in Massachusetts, 70 percent of parents have selected a provider by the time of their first contact with the subsidy system (Washington et al. 2006). Voucher systems that use one point of entry may be more effective at delivering consumer education to families (Ross and Kerachsky 1996). In addition, contracted partnerships with CCR&Rs to provide consumer education (particularly on-site) at the time of application for child care assistance seem to make the information most visible and accessible to parents (Kirby et al. 2001).

Consumer education for child care that supports informed choice and ensures a properly functioning market should focus on three aspects (Mitchell et al. 1992). First, there should be information about the subsidy system itself regarding the types of care covered, family copayment policies, and eligibility and redetermination procedures. Second, information is needed about the selection of a particular type of child care arrangement best suiting the family. This includes the types of care available in the geographic area; the relative advantages of each type of care; and the specific location, age groups served, and hours of operation that indicate the availability of each provider to meet individual family needs. Third, consumer information should assist the family in evaluating particular settings for quality. This includes information about registration or licensing standards, exemptions for particular providers, and accreditation as well as specific tips on what to look for and inquire about during on-site visits and provider interviews. Ideally, if parents know what to look for in terms of quality, and place these expectations on providers, providers will be forced to be responsive to parent demands and will comply with health, safety, and quality measures. Also, in a voucher system that includes a broad and diverse set of providers, but limited resources for closely monitoring all participating providers, agencies must rely on a partnership with parents to value and monitor quality in child care settings (HHS 1998).

In practice, there is a great deal of unevenness in the level of access to child care consumer education and in the type of information; this raises concerns about the extent to which parents' choices about child care are informed choices (Adams et al. 2006; Washington et al. 2006; Kirby et al. 2001). Even when delivery mechanisms and content are up to par, other factors can determine whether parents use the information when making child care selections. For example, if reimbursement rates are too low, parents will be unable to afford high-quality programs unless those programs have sufficient funding to offer discounted slots to low-income families. Also, a welfare system that encourages quick entry into work or work-related activities means that families and caseworkers may place more emphasis on arranging care quickly rather than taking time to explore and assess different options. In addition, parents may not feel that they have the additional resources (e.g.,

transportation) or time to put into a child care search (Adams et al. 2006; DHHS 1998; Mitchell et al. 1992).

#### **4. Policies and Procedures**

There are many aspects of the subsidized child care system that determine its effectiveness in serving families and children and providing choice that are not contingent upon the payment mechanism. For example, policies that predetermine the level of reimbursement rates can affect the number and characteristics of providers that are willing to participate in the subsidized system, the amount of family co-pays can affect the affordability of care, and the standards for licensing and regulation and their enforcement set a floor for quality of child care services; all of these are important under both contract- and voucher-based systems. There are nuances in the approaches to these policies that may differ between payment mechanisms, but here we focus on the trade-offs between contracts and vouchers from the perspectives of the child care agency, child care providers, and families, even when the underlying policies and procedures could be the same in both systems.

For the administering child care agency, there are different dimensions to the cost equation between contract- and voucher-based systems. Under contracts, agencies can control aggregate child care costs over a specified period of time through decisions about the number and size of contracts to award. On the other hand, while potentially more variable in the aggregate, vouchers provide state agencies with the ability to make rapid adjustments in the number of children served based on funding availability. Vouchers can, however, impact child care costs and budgets differently than contracts (Besharov and Samari 2000). First, by providing greater flexibility in choice, parents may be more satisfied with the available choices and make greater use of subsidies than under a potentially more restricted and less responsive contract system. Second, vouchers can present a “visibility” issue that can introduce pressure to increase child care budgets or spread available resources more thinly across families. Under contracts, waiting lists for child care assistance often are kept at the provider level. In contrast, under voucher systems, waiting lists are typically centralized within the administrative agency, and so the rationing of child care subsidies may become more visible.

Because a basic goal of using a voucher rather than a contract-based system is to maximize customer choice, it becomes imperative to ensure that provider reimbursement policies are attractive and provider enrollment and payment procedures are uncomplicated, so that providers are willing to accept subsidized families. Provider decisions to participate will depend largely on the reimbursement rate they can receive (i.e., is it adequate to cover the price of care?) and the procedures that determine their “burden” costs of participation. Due to variation in state policies and procedures, the access to and experience with the voucher system on the part of providers has been mixed. In some states and localities, child care providers report ease in entering the system and simplified paperwork for receiving payment; others report an excessive burden in preparing the paperwork required to become registered initially to receive payment; maintain participation; and document the specific

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hours, payment rates, and invoices to receive payment for multiple children in their care (Washington et al. 2006; Adams and Snyder 2003; DHHS 1998).

The often shared complaint from child care providers about vouchers, however, is the delay in initial payments and their retrospective nature. Due to initial authorization processes for both parents and providers, subsidies for the first weeks of care can be delayed for weeks or even months in some states (Adams and Snyder 2003). Only three states have reported making prospective payments (the payment procedure that providers use for private-paying families) rather than retrospective payments to subsidized child care providers (Adams and Snyder 2003; DHHS 1998). Receiving payments retrospectively presents financial challenges for some providers, especially new or smaller providers, who may lack sufficient capital resources. Also, voucher policies often limit payment to the actual hours of care provided—omitting any days the child is absent due to illness, holidays, or for other reasons. But, these payment policies are general to subsidized care—contracts and vouchers alike—in contrast to unsubsidized care (Schumacher et al. 2003). Such policies may discourage participation by providers that can enroll private pay customers who pay a set amount up front, regardless of attendance. Contracts potentially can offset the procedural inconveniences to participation by offering added benefits, such as the more reliable funding stream over time, and possibly the potential for providers to receive additional training and technical assistance. Vouchers, which lack these advantages, may be less attractive than contracts to providers who can fill their slots with private-paying customers.

The factors that affect family experiences with the subsidized child care system also tend to be the procedural details rather than differences between payment mechanisms. For example, the participation by families in the system, and their level of satisfaction, stems from their interactions with staff (in terms of both the number of staff and staff attitudes toward them), the amount of paperwork and the number of trips to the administering agency to apply for and maintain child care assistance, and the level of assistance they receive in completing paperwork and identifying a provider (Adams et al. 2002; Snyder et al. 2006; Kirby et al. 2001). However, all else being equal, vouchers tend to present an advantage to parents because their portability can ease a family's ability to maintain child care assistance when making transitions between providers.

## **5. The Role of Faith-Based Organizations in Service Delivery**

Faith-based organizations (which are most often churches or synagogues, but can include schools) always have played a large role in providing child care services. These organizations often directly operate child care programs, but they also may house child care programs even when there is no direct affiliation between the program and the religious organization. In the 1980s, a study estimated that, as a group, congregation-based programs were the largest provider of center-based care in the nation (Bogle 2001).<sup>2</sup> A more recent survey estimated that one in every six child care centers is housed in a religious facility and

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<sup>2</sup> Congregation-based programs include any weekday child care programs that are provided in houses of worship regardless of whether or not they are operated by the congregation or by a separate entity.

that religious organizations will continue to be critical in meeting the demand for child care services (Neugebauer 2000). Specifically, the number of child care centers operated in religious facilities increased by more than 26 percent from 1997 to 1999, compared to a 19 percent growth across all center-based programs (Neugebauer 2000).

In addition, FBOs have participated in the subsidized child care system since the beginning, holding contracts to provide child care (without integrating religious instruction) under the Social Services Block Grant as early as the 1980s. Unfortunately, there are limited data to quantify the current level of participation by FBOs in the subsidized child care system, or to document how this participation has changed over time, and particularly since the introduction of vouchers. Even documenting the distinctions between programs that are *affiliated* with religious organizations versus those that are simply *housed* in them is difficult. In the 1980s, a study found that slightly more than half (53 percent) of all centers housed in religious facilities were operated by the congregation and more recent, although less detailed data, suggest an increased trend in this direction (Bogle 2001). Some states make efforts to encourage continuing growth in the supply of faith-affiliated child care programs. For example, as of 2005, child care centers that are directly operated by a religious organization received some exemption from licensing requirements in 15 states (NCCIC 2005).

The limited information that is available suggests that many faith-affiliated child care providers receive funding through vouchers, but they are less likely to participate in the subsidy system than secular nonprofits. One recent study, which examined five counties in four states, found that more than half of all faith-affiliated child centers cared for at least one child receiving a voucher subsidy and, in three of the five counties, at least two-thirds participated in the subsidy system (Adams et al. 2005). In two of the five counties, faith-affiliated centers were less likely to participate in the subsidy system than other non-faith affiliated centers. Other earlier studies found that FBOs were less likely than secular nonprofits to accept child care subsidies (Bogle 2001).

Reasons for nonparticipation in the subsidized system by FBOs are not widely documented. Respondents in the five-county study indicated that there were administrative capacity constraints and concerns about government intrusion; also, some FBOs may not consider services to low-income children as part of their main mission. All of these factors—rather than specific policies or barriers of the system itself—were presented as reasons not to participate (Adams et al. 2005). Other qualitative information similarly suggests that FBOs may be cautious about receiving government funding for fear of intrusion into curriculum development or hiring practices (Bogle 2001).

## **B. Vouchers in Other Program Areas**

The voucher experience in program areas other than child care offers additional insight into the implementation of vouchers. This experience also allows comparisons to be drawn between various approaches to providing vouchers and associated services. We look specifically at the areas of provider participation, beneficiary counseling, and program administration.

## 1. Facilitating Provider Participation

Vouchers create the opportunity for expanding the range of providers available to clients, but whether this goal is realized depends on context and program design. Having an established service delivery structure and low barriers to provider participation may increase the likelihood of an adequate and diverse supply. School voucher programs, for instance, can focus their provider outreach efforts on schools that already enroll students. In other program areas with a more limited supply of providers, part of the program goal may be to encourage organizations to begin offering a new service. Contrasting experiences in the Ticket-to-Work program and Medicaid Cash and Counseling illustrate how voucher program features and requirements can inhibit or facilitate access to new providers.

A performance-based payment structure appears to have stymied expansion of the service delivery network in the Ticket-to-Work program. A key objective of Ticket-to-Work is to increase the number of rehabilitation providers that help recipients of Social Security Disability Insurance and Supplemental Security Income move toward self-sufficiency. However, agencies operating the program have encountered challenges in engaging service providers. In addition, many providers that have officially enrolled have refused to accept “tickets” from beneficiaries (which is permitted), making the actual supply even smaller than it appears.

According to evaluation reports, a major reason for this circumstance is the program’s tying of provider compensation to beneficiaries’ success in achieving work and earnings. Under this structure, providers face substantial ambiguity regarding when they will be paid, if at all, given the difficulty of serving the program’s target population. These uncertainties make providers hesitant to actually expend resources by offering their services to ticket holders (Thornton et al. 2006).

The Medicaid Cash and Counseling program allows disabled beneficiaries to employ friends and relatives as in-home aides, tapping a previously inaccessible source of service providers. State Medicaid plans traditionally require beneficiaries to receive personal assistance from aides provided by licensed agencies. Cash and Counseling removes this restriction and offers participants the opportunity to hire their own service providers, either people they know or private agency employees. Beneficiaries usually did choose to take advantage of this flexibility, hiring friends or relatives rather than agency workers. Few beneficiaries had trouble identifying someone to provide services under the program.

One concern raised regarding this system was whether beneficiaries would be willing to fire a friend or relative if they were unhappy with the quality of services being provided. Terminating the arrangement can be difficult, given the personal relationship between provider and beneficiary. Evaluators report, however, that most participants who wanted to end the employment of a worker did so. In some cases, participants received advice from a program counselor on how to handle the termination (Phillips et al. 2003).

In other program contexts, lowering licensing requirements for providers may not be an attractive option. Education vouchers are not likely to be approved for use at unaccredited

schools, for instance. In this regard, program designers sometimes face a tradeoff between expanding access to a broader range of providers and maintaining quality standards.

## 2. Beneficiary Access and Response to Counseling

Many participants require counseling or other assistance to fully benefit from a voucher program (Posner et al. 2000). However, voucher programs vary in the accessibility, comprehensiveness, and perceived usefulness of the counseling offered to clients for selecting providers and managing their benefits. Assessments of ITAs and the DC Opportunity Scholarship Program suggest that voucher recipients are likely to have differing levels of need and interest in receiving counseling when choosing services or providers. Interestingly, the experience of at least one program, ITAs, reveals that clients are not always receptive to counseling assistance. A program's main obligation may be to make information and assistance available for those who desire it.

The ITA experiment provides insight into client responses when counseling is required as a condition of receiving a voucher. The experiment assessed eligible clients' responses to three options for receiving counseling on training choices. Clients were randomly assigned to one of the three options. Under two of the options, counseling was mandatory; the two options differed in how directive counselors could be in guiding clients' choices. Counseling was voluntary under the third option.

The results of the experiment suggest that *requiring* counseling in a voucher program can have the effect of discouraging participation without providing substantial program advantages. Evaluators found that clients assigned to the mandatory-counseling approaches were significantly less likely to attend orientations or use ITA-funded training (McConnell et al. 2005). They also noted that, even when counseling was provided, counselors were reluctant to be prescriptive about clients' training choices. In addition, training choices and eventual occupations were not substantially different for clients who received counseling and those who did not. This suggests that, given sufficient information about their options, clients in some programs can effectively identify their own needs and choose providers that address those needs.

In the DC Opportunity Scholarship Program, which offers low-income students vouchers to attend nonpublic primary and secondary schools, parents whose children received the vouchers in the program's first two years could access information about schools in several ways. They could talk with school representatives at a fair organized by the organization operating the voucher program; refer to a school directory that contained details such as a school's proximity to public transportation, special programs, and facilities; or visit school campuses. The program also produced a brochure to guide families in their choices by helping parents identify the school characteristics that were most important to them.

Even when information is available, choosing a provider can be daunting for voucher recipients. Some parents participating in the DC Opportunity Scholarship Program found the process of selecting a school confusing and unfamiliar, since they had no previous

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experience distinguishing among schools with varying educational missions and approaches (Brenna 2005). The parents made use of assistance provided by the program, including case managers in some instances, but also networked informally with other parents to share information about the non-public schools taking part in the program. Some parents also needed guidance on the school application process, which was administered by the individual schools, separate from the voucher program. In general, when making their choices, participating families accessed information and assistance from a variety of sources, including each other.

### **3. Managing Payments and Accounts**

Procedures for making and tracking voucher payments will differ in programs that disburse set amounts on a regular basis and those offering an “account” that can be spent with various service providers over time. Depending on a program’s complexity, it may need to create systems to handle variations in payment amounts over time and authorizations for multiple providers. Typically, the program also must develop systems for ensuring that a service purchased with vouchers is actually delivered.

In Medicaid Cash and Counseling programs, for example, planning for and administering benefits occurs through interactions between beneficiaries and program counselors. Counselors funded through the program help each beneficiary create a monthly budget to allocate the funds for which they are eligible. Counselors also are responsible for reviewing plans to ensure they include allowable items. Because program clients also act as employers of people providing personal care assistance, the fiscal tasks associated with the benefit can be quite complex, including such things as submitting payroll tax returns. Programs engage fiscal agents to help with such activities; in some states, beneficiaries pay for the services of a fiscal agent out of their allowance. Program staff or the fiscal agent monitor disbursements from the account by verifying a care provider’s timesheets and other expenditures against the spending plan created for the beneficiary (Phillips et al. 2003).

PRAs illustrate a relatively complex administrative process for vouchers. These accounts offer substantial flexibility to beneficiaries, but payments still must be reviewed and disbursed by workforce agency staff. Because these are capped accounts fully available to the account holder and the nature of purchased services can be quite diverse, staff often need to process multiple and potentially frequent payments (Kirby 2006). In addition, some payments for services are disbursed to vendors and some as reimbursements to account holders for expenses already incurred. It is also possible for account holders to receive cash disbursements as bonuses for employment outcomes (which must be verified). Administering this system requires substantial ongoing coordination and information management among staff within workforce agencies.

### **C. Outcomes of Voucher Programs**

Assessing the outcomes of voucher programs poses several broad challenges. Generally speaking, it is problematic to use the experience of a voucher program in one service area to anticipate outcomes for programs in other areas. Differences in program goals, structures,

and contexts may limit the usefulness of cross-comparisons. Also, it is not always feasible to distinguish the specific effects of adopting vouchers from other factors that may contribute to program outcomes. Finally, research on voucher use, even within a single program area, can produce inconclusive findings. The area of K-12 education offers a good example. Controversy over whether vouchers help improve student achievement is fueled by contradictory evaluation results, in some cases using data from the same program (Sawhill and Smith 2000). Still, it may be possible to draw inferences as to certain outcomes in voucher programs by comparing a voucher approach with other existing or previous approaches that do not use vouchers or emphasize client choice. With these caveats in mind, we offer observations on three types of program outcomes or effects: client satisfaction, the accessibility and diversity of service providers, and service quality.

**Client Satisfaction.** In some program contexts where client opinions have been studied, satisfaction with the voucher option has been high. Several evaluations of K-12 school voucher programs, for example, have found that parents of children receiving vouchers are much happier with their children's schools (Sawhill and Smith 2000). Another sign of parental satisfaction is that these programs often face excess demand for available vouchers, as is the case with the DC Opportunity Scholarship Program. A rigorous study of Medicaid Cash and Counseling demonstration programs also indicated high levels of satisfaction among voucher program participants. Compared to people who did not have access to the Cash and Counseling option, program participants were significantly more likely to be satisfied with their overall care arrangements and with the way they were spending their lives in general (Phillips et al. 2005). It is difficult to discern to what extent specific program arrangements or contexts contribute to these results; programs with more complex administrative procedures or those offering a different type of service may not engender similarly high levels of approval. However, the two examples presented do offer evidence suggesting the potential for voucher programs to enhance client satisfaction.

**Accessibility and Diversity of Service Providers.** By virtue of their design and approach, many voucher programs intentionally achieve the result of offering clients access to a wider array of service providers. In the child care area, for example, CCDF vouchers expand parents' options for subsidized care to include informal providers. Workforce investment programs such as ITAs and PRAs enhance clients' access to training providers who may not otherwise be easily accessible through the workforce system. As discussed above, voucher programs typically must enroll or approve providers for participation, and their ability to do so successfully is likely to depend on whether an existing market for such services exists, and whether providers perceive the balance of benefits and costs of participation to be favorable. It remains unclear whether vouchers promote the inclusion of FBOs among government-funded service providers to a greater extent than grants or contracts. While vouchers may allow FBOs to offer services of a more religious nature than they would under direct funding arrangements, FBOs still must consider whether to offer requested services (if they do not already do so), and whether participating in the voucher program is desirable. Evaluations of the Access to Recovery program and its efforts to enroll FBOs as recovery support services providers are likely to offer additional information to help address this question.



**Service Quality.** Determining whether vouchers influence service quality may be the most thorny aspect of assessing their effects. Quality of services will be defined differently in different program areas, and findings across program areas are not consistent. Examples from Moving to Opportunity (a housing voucher demonstration) and Medicaid Cash and Counseling offer evidence of positive effects on service quality. In the Moving to Opportunity demonstration (now concluded), participants receiving Section 8 vouchers were required to use them in neighborhoods without concentrated poverty. Compared to people who resided in public housing, or who used their vouchers in high-poverty areas, Moving to Opportunity participants secured housing of higher quality (Orr et al. 2003). The Cash and Counseling evaluation assessed service quality by determining whether beneficiaries encountered health problems associated with immobilization or inactivity. The evaluation found that participation in the voucher program did not increase the likelihood that beneficiaries would experience such problems. In some states, Cash and Counseling participants had significantly fewer problems than the comparison group.

Studies of education vouchers, in contrast, are inconclusive regarding service quality, defined as improved test scores in this context. While some programs have reported improved test scores for students receiving vouchers, others have demonstrated no effects. A recent study of a voucher program in New York City found no significant impact for the overall sample on math or reading scores. Researchers disagreed on impacts for subgroups of students, including African-Americans (Myers and Mayer 2003).

## V. NEXT STEPS IN ASSESSING THE USE OF VOUCHERS TO DELIVER SOCIAL SERVICES

Vouchers are not a new strategy in delivering public services, yet they have not been widely used to deliver social services. In recent years, a growing emphasis on issues of customer choice and an executive effort to increase the involvement of FBCOs in service delivery have given new momentum to voucher-based initiatives. Evaluation of the Access to Recovery program and the upcoming implementation of vouchers in the Choices for Independence and Mentoring Children of Prisoners programs will offer additional information on the potential advantages and challenges of using vouchers for social services. The study MPR is conducting for ASPE aims to enhance the knowledge base regarding voucher use in the CCDF and TANF programs.

**CCDF.** After many years of experience with vouchers, CCDF already has provided useful lessons about the circumstances that can ease the use of vouchers (for example, an emphasis on customer choice and a diverse service delivery structure), and about the supports that are needed to maximize client choice (such as consumer education and policies that encourage providers to accept subsidies). What we do not fully understand about CCDF is the degree of effort that states exert in continuing to expand the provider network and specifically to invite and encourage the participation of FBCOs. A priority for research in this area is the collection and analysis of reliable data on the types of entities (not just the types of care) that provide child care services and that participate in the child care subsidy system. While a complete analysis is beyond the scope of the current study, we will take a closer look at a handful of state practices intended to broaden the network of providers participating in the subsidy system and to improve on the provision and quality of consumer

education informing parent choices of care—both leading to the ultimate goal of maximizing customer choice.

This study also will examine the experiences of a few localities in providing child care services through vouchers, specifically looking at provider agreements and requirements for participation in the subsidy program, the level and nature of interactions between the administering agency and various types of provider entities, and the access to and content of consumer education information for parents. To the extent feasible, the study also will try to gain the perspective of FBCOs about their access to and interest in participating in the subsidy system. The qualitative findings from this study will help to identify the issues that either support or detract from expanding and diversifying the network of subsidized child care providers in support of increased choices for families.

**TANF.** The use of vouchers in the TANF program offers an interesting contrast to CCDF. For many state TANF programs, the questions of whether and how to use vouchers remain, particularly for services extending beyond basic needs. TANF's work requirements have increased the demand for services that help recipients become work-ready. As a result, some state and local TANF agencies have privatized employment services and have built networks of providers, which may include FBOs. For example, in the District of Columbia, employment services are contracted through nine vendors, including at least one FBO, but recipients are assigned to specific vendors. A further step toward client choice would be to provide clients with the freedom to select a provider. But unlike child care services, TANF services tend to be more specialized and often are not integrated into a delivery structure that serves both private-pay and subsidized customers. In such a scenario, there is a basic question about whether the service delivery network is of ample enough size and diversity to provide choices and support a voucher-based system.

This study will provide information about existing voucher strategies in TANF and will illuminate issues that surround decisions to proceed or not in using vouchers. It will examine how the service delivery network is structured in programs that offer clients a choice of provider; the features and value of different payment mechanisms and associated services for clients, such as counseling; and the degree of choice that is actually available, including whether FBCOs participate in the service delivery network. Ultimately, information from this study and others may help policymakers assess when voucher use is appropriate in the TANF context, for what services, and how it might be implemented by more state and local agencies as a strategy to promote customer choice.

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